


Cabinet 8 January 2014	 TOWER HAMLETS
Report of: Chris Holme, Interim Corporate Director of Resources	Classification: Unrestricted
General Fund Capital and Revenue Budgets, Medium Term Financial Plan 2014-2017 and Strategic Plan 2014-15	

Lead Member	Cllr Alibor Choudhury (Cabinet Member for Resources)
Originating Officer(s)	Chris Holme, Interim Corporate Director of Resources Louise Russell, Service Head, Corporate Strategy and Equality
Wards affected	All
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

REASONS FOR URGENCY

The report was not published with the main agenda and arguably there were not five clear days between publication and the meeting. The item was, however, properly forward-planned for this meeting and the report was available for public inspection from the day it was added to the agenda and made available to members. The report was not published earlier as it was necessary to consider the Government's provisional 2014/15 Local Government Finance Settlement, which was announced by the Secretary of State on 18 December 2013. It is considered necessary for Cabinet to consider this report to ensure that the budget process goes ahead as planned and in time to have a budget in place for 2014/2015.

1. SUMMARY

1.1. This report sets out proposals which form part of the draft Medium Term Financial Plan (MTFP) covering the three year period from 2014-2015 to 2016-2017. It includes a revised assessment in each of the next three years of the General Fund, Dedicated Schools Grant (DSG), Housing Revenue Account (HRA) and the Capital Programme including:

- the financial resources available to the Council;
- the cost of providing existing services; and,

- the overall level of savings that have been and still need to be identified to give a balanced, sustainable budget over the medium term financial planning period.

A summary of the projected General Fund budget for each of the three years is shown in [Appendix 1](#) with a more detailed service analysis in [Appendix 2](#).

- 1.2. It also contains outline proposals for the 2014-2015 Strategic Plan which will be delivered within the resources identified for the 2014-2015 budget.
- 1.3. The latest version of the Council's MTFP was agreed by Cabinet at its meeting in October 2013 and considered the impact of the Spending Round announced by Government in June 2013.
- 1.4. The 2014-2015 local government provisional finance settlement was announced on the 18th December 2013 following the Chancellors Autumn Statement. The outcome of the settlement is reflected in the report.
- 1.5. Despite recent signs of a more positive economic position, the economic climate remains extremely challenging. Since the Spending Review by the Government in 2010, the Government has made it clear that their austerity programme is likely to continue until, at the least, the end of the decade. The United Kingdom's budget deficit will continue to exist regardless of the political party that is in power which will mean that local government budgets will continue to reduce for the foreseeable future. The Council forecasts that cuts to its grant, increases due to inflation and demographic pressures, over the next three year period from 2014-2015 to 2016-2017 will result in a budget shortfall of £67.176m.
- 1.6. As reported to Cabinet in October 2013, the savings agreed to date represent the largest reduction in spending ever experienced by this authority, some 24% and this has been achieved through a series of efficiencies with the aim of minimising impact on service delivery. The Council has continued to deliver on its priorities despite the achievement of significant savings. The Outline Strategic Plan 2014/15 appended to this report outlines how the council will continue to deliver on key priorities over the coming year.
- 1.7. The Mayor has set the following principles in this Medium Term Financial Plan, which builds on the priorities set in the previous three budgets:
 - Protecting the vulnerable and the services residents rely on
 - Reducing the cost of living for residents
 - Creating growth and regeneration
 - Be a lean, flexible and citizen centred Council

- 1.8. The MTFP, of necessity, includes a number of key planning assumptions which will need to be closely tracked as part of the Council's established financial and performance monitoring process. This will ensure that any significant variances are quickly identified together with appropriate mitigating actions

2. RECOMMENDATIONS

The Mayor in Cabinet is recommended to:

- 2.1. Agree a General Fund Revenue Budget of £294.663m together with the Outline Strategic Plan identifying the key priority activities which will be delivered within this budget and which will be further developed into the Council's Strategic Plan for 2014/2015.
- 2.2. Accept the Council Tax Free Grant available from the Department of Communities and Local Government for 2014/2015 and thereby agree to continue to freeze Council Tax (Band D) at £885.52 for the new financial year.
- 2.3. Agree to propose the items listed below for public consultation and consideration by the Overview & Scrutiny Committee in accordance with the Budget and Policy Framework (Section 16). A further report will then be submitted to the next Cabinet meeting in February detailing the results of consultations and inviting the Cabinet to recommend a Budget Requirement and Council Tax for 2014-15 to Full Council.
- 2.4. Agree to conduct the Budget consultation in line with Section 16 in the body of the report.
- 2.5. Consider and comment on the following matters -

a. Budget Consultation

The approach to the budget consultation with the community and Overview and Scrutiny Committee.

b. Funding

The funding available for 2014-2015 and the indications and forecasts for future years set out in Section 8.

c. Base Budget 2014-2015

The Base Budget for 2014-2015 as £295.732m as detailed in Appendix 1.

d. Growth and Inflation

The risks identified from potential inflation and committed growth arising in 2014-2015 and future years and as set out in Section 9 and in Appendix 3.

e. General Fund Revenue Budget and Medium Term Financial Plan 2014-2015 to 2016-2017

The initial budget proposal and Council Tax for 2014-2015 together with the Medium Term Financial Plan set out in Appendix 1 and the budget reductions arising.

f. Savings

Previously agreed savings items to be included in the budget for 2014-2015 and the strategic approach for future savings to be delivered are set out in Section 10, Appendix 4 and Paragraph 7.12 of the report.

g. Capital Programme

The capital programme to 2016-2017, including the proposed revisions to the current programme as set out in section 14 and detailed in Appendix 8 and Adopt a capital estimate to the value of £3.55m to facilitate Decent Homes Works on the Malmesbury Estate as set out in paragraph 14.6.

h. Dedicated Schools Grant

The position with regard to Dedicated Schools Grant as set out in Section 12 and Appendix 6.

i. Housing Revenue Account

The position with regard to the Housing Revenue Account as set out in Section 13 and Appendix 7.

j. Financial Risks: Reserves and Contingencies

Advise on strategic budget risks and opportunities as set out in Section 11 and Appendices 5.1, 5.2 and 5.3.

k. Reserves and Balances

The position in relation to reserves as set out in the report and further detailed in Appendices 5.1 and 5.3

l. Mayor Priorities

An initiative to be included in the budget for 2014-15 is set out in Section 8.29 of this report.

3. REASONS FOR THE DECISIONS

- 3.1. The Council is under an obligation to set a balanced budget for the forthcoming year and to set a Council Tax for the next financial year by 7th March 2014 at the latest. The setting of the budget is a decision reserved for Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Overview & Scrutiny Committee following this meeting to allow for due process.
- 3.2. The announcements that have been made about Government funding for the authority require a robust and timely response to enable a balanced budget to be set.
- 3.3. In deciding its budget, the Council needs to have regard to the key priority activities for delivery as set out in the outline Strategic Plan.

4. ALTERNATIVE OPTIONS

- 4.1. The authority is bound to respond to the budget reductions to Government funding of local authorities and to set an affordable Council Tax and a balanced budget, while meeting its duties to provide local services. This limits the options available to Members. Nevertheless, the authority can determine its priorities in terms of the services it seeks to preserve and protect where possible, and to a limited extent the services it aims to improve further, during the period of budget reductions.

5. BACKGROUND

- 5.1. The Council's integrated financial and business planning process is the key mechanism for reviewing plans and strategies to ensure priorities are being met and that resources are allocated effectively to underpin their achievement. The process culminates in changes to the budget and medium term financial strategy that delivers a revised Community Plan and Strategic Plan.
- 5.2. The refresh of the Medium Term Financial Plan (MTFP) presented to Cabinet on 9th October 2013 showed that the budget was balanced for 2014-2015. The report also projected forward a further two years and it indicated that further budget reductions were likely to be in the region of £71m for the period 2015-2016 – 2016-2017.
- 5.3. The main body of the report is in eleven Sections:
 - Strategic Approach (Section 6)
 - Medium Term Financial Plan & Proposed Budget (Section 7)
 - Financial Resources (Section 8)
 - Budget Growth Pressures (Section 9)
 - Budget Process and Savings Proposals (Section 10)
 - Risks and Opportunities (Section 11)

Schools Funding (Section 12)
Housing Revenue Account (Section 13)
Capital Programme (Section 14)
Treasury Management Strategy (Section 15)
Consultation (Section 16)

5.4. The key planning assumptions that support the draft MTFP are set out below and in the attached Appendices as listed in Section 24. Those planning assumptions have taken account of the Autumn Statement announced by the Chancellor of Exchequer in early December and the subsequent local government provisional finance settlement that was published on the 18th December 2013.

6. STRATEGIC APPROACH

6.1. The Council has a well-embedded approach to strategic and resource planning (SARP). Key priorities are agreed with residents and partners in the Community Plan 2020 and these are reflected in a set of strategic objectives in the Council's three year Strategic Plan, which is annually refreshed.

6.2. The Strategic Plan sets out the Council's approach to delivering the key Community Plan priorities of achieving:

- A Great Place to Live
- A Healthy and Supportive Community
- A Prosperous Community
- A Safe and Cohesive Community; and
- One Tower Hamlets

6.3. Notwithstanding the need to manage within a very challenging financial context, the Council remains focused on delivering these key priorities. Specifically the Mayor has made clear those priorities that he wishes to see reflected in the allocation of Council resources, namely:

- Improving the condition of social housing
- Increasing the supply of affordable social housing (particularly family sized housing)
- Maintaining the provision of services for young people
- Delivering programmes of skills development, employment and enterprise activity
- Maintaining support to vulnerable adults
- Minimising the impact on resident household budgets
- Protecting investment in activity that promotes community safety

6.4. In addition to this, the Mayor has also asked officers to fundamentally challenge how the council delivers its business so that the following principles are embedded in the way we work:

- Employ a workforce that fully reflects the community it serves
- Ensure its staff are never paid below the London living wage
- Minimise job losses and promote career development
- Fully open its supply chain to local suppliers
- Support the work of our community partners in the delivery of services

6.5. This year the Mayor has set the following principles, which builds on the priorities set in the previous three budgets:

- Protecting the vulnerable and the services residents rely on, through:
 - Maintaining all our children’s and youth centres
 - Delivering high quality day services and activities for older and disabled residents
 - Keeping our Libraries and Ideas Store open
 - Ensuring residents can access services through One Stop Shops, on the telephone and online
 - Creating enough schools places to meet the growing demand
- Reducing the cost of living for residents, through:
 - The ongoing freeze of Council Tax
 - Protecting the Council Tax Benefit Scheme
 - Continuing the Mayor’s Education Award and University Grant
 - The continued use of the Preventing Homelessness Fund and Mayor’s Temporary Accommodation support fund
 - Continuing to provide Free Home Care
 - Delivering the Tower Hamlets Energy Co-operative
- Creating Growth and regeneration, through:
 - Delivering the Whitechapel Vision, Ocean Estate and Robin Hood Regeneration Scheme

6.6. Key proposed activities for 2014/2015 include:

- Ongoing delivery of affordable family housing and decent Council homes
- Regeneration and improvement in Robin Hood Gardens, Whitechapel and Poplar
- Ensuring access to affordable fuel through the Tower Hamlets Energy co-operative
- Improving parks, open spaces, leisure centres and play facilities
- New initiatives to enhance resident engagement, particularly at local ward and neighbourhood level
- Expanding free early education for 2 year olds and raising attainment in early years
- Continuing to increase the number of young people getting 5 good GCSEs and going on to university

- Maintaining investment in youth services and provision for young people
- Maximising adoption opportunities for children in care
- Assisting more people into work, including through our in-house temporary agency and through use of our planning and procurement activity
- Working with partners to maintain and improve community safety and reduce anti-social behaviour
- Working with the health service to join up health and social care to improve outcomes for our most vulnerable residents
- Maximising incomes for local people through implementing key recommendations of the Fairness Commission and continuing to mitigate the impact of welfare reform
- Reducing the number of council homes that fall below a decent standard
- Increasing household waste sent for re-use, recycling and composting
- Supporting local businesses and further improving our markets and town centres
- Supporting sustainable local transport, including cycle improvements
- Working in partnership to improve our public realm

6.7. These are included within the Outline Strategic Plan presented with this report, demonstrating key activities to continue to drive forward the delivery of key priorities within the context of ongoing savings imperatives. The Outline Plan will be the subject of further development before the Strategic Plan is presented to Cabinet for approval in the new municipal year.

6.8. Since 2010-2011 the Council has used five key strands to deliver savings which have been developed through the budget process:

- A leaner workforce: with a particular focus on rationalising senior management; stripping out duplication and bureaucracy; and creating a flatter, more generic operational structure designed both to enable the progression of talented employees and to be more acutely focused on serving the needs of our residents.
- Smarter Working: with a particular focus on the vacation of Anchorage House in 2013; more localised patterns of working; better use of new technology to enable council officers to do their jobs more effectively and at less cost and; opening up opportunities for residents to access our services in ways that reflect the realities of their lives be that in their homes, on-line, over the phone or in our offices and one stop shops.
- Better utilisation of our assets: with a particular focus on underutilised buildings being put to better use and, where not possible, disposed of to support the council's capital programme and a root and branch review of our treasury management and capital planning arrangements.

- Income Optimisation: with a particular focus on ensuring that charges are set fairly and in a manner that protects our most vulnerable residents; ensuring money owed to us is collected in a timely and efficient manner; and on a review of our commercial charges.
- Better Buying: with a particular focus on supporting local businesses to access the council's supply chain, ensuring a continuing role for the third sector in the delivery of services and ensuring that private sector contractors give value for money and deliver efficiency savings where appropriate, whilst working within the values and ethos of the council.

6.9. A summary of the savings agreed to date through each of these streams is shown below:

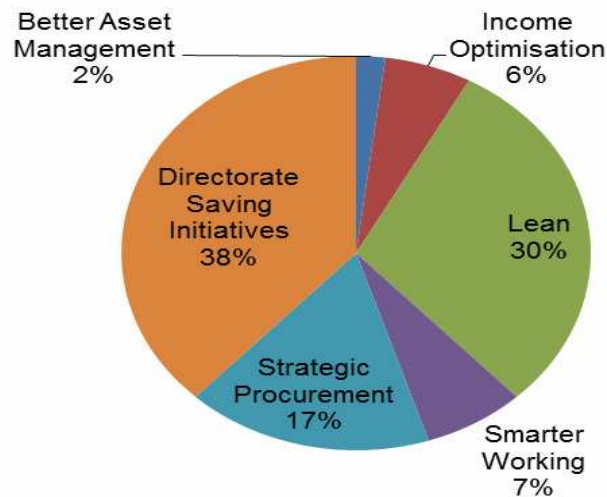


Chart 1 – Savings since 2010-2011 by theme

6.10. Given the scale of the financial challenge facing the Council in the coming years it has also been necessary to consider cost reduction and resource prioritisation proposals. This was and will continue to be done having regard to the needs of service users and residents more generally.

Accordingly public engagement and consultation will be undertaken so that views and opinions can be canvassed and debated and used to inform the final decisions of Council as detailed in Section 16 of this report.

7. MEDIUM TERM FINANCIAL PLAN & PROPOSED BUDGET

7.1. The revised Medium Term Financial Plan is set out at Appendix 1, and the detail by service area at Appendix 2. The detailed figures and assumptions

incorporated in these tables are explained in detail in this report. The figures assume a Council budget requirement of £294.663m for 2014-2015 and a Council Tax at Band D of £885.52.

Spending Round – June 2013

- 7.2. As reported to Cabinet in October 2013, following the Spending Round in June 2013 the Government's austerity programme will continue for the foreseeable future.
- 7.3. The 2013 Spending Round was announced on 26th June 2013 and set out expenditure limits for individual Government departments for 2015-2016. Subsequently a number of consultations have been issued by the Department for Communities and Local Government, providing further detail and clarity on a number of elements referred to in the announcement.
- 7.4. The announcement and subsequent consultations identify there will be a 9.8% reduction in the local government Revenue Distribution Expenditure Limit in 2015/2016 and not specifically from revenue support grant which was the expectation in the previous medium term financial plan. The revenue support grant decreases by 28.9% and although retained business rates increased by 1.0% the settlement funding assessment element of overall Revenue Distribution Expenditure Limit decreased by 14.6%.
- 7.5. Given that Tower Hamlets relies more on government funding, the cut in revenue support grant results in a 28.9% loss compared to 27.6% nationally. Revenue Support Grant will fall from approximately £150m in 2013/2014 to less than £90m from 2015.

Autumn Statement – December 2013

- 7.6. The Chancellor set out his Autumn Statement at the beginning of December and reaffirmed spending reduction assumptions for local authorities as outlined in the summer Spending Round. The Autumn Statement also confirmed that for 2015/16, £70m (approx. 35%) of New Homes Bonus will be transferred from London boroughs to the GLA. This is a London only transfer of grant. It was further announced that business rate increases would be capped at 2% rather than the September 2013 inflation rate of 3.2%.
- 7.7. Subsequent to this, on the 18th December the provisional 2014/15 Local Government Finance Settlement was announced by the Secretary of State, along with an "illustrative" local authority figures for 2015/16. This report incorporates officers' consideration of the provisional settlement implications for the Borough. Overall the position is broadly as outlined in the report to Cabinet in October.

Use of Reserves

- 7.8. The Council's strategy of using reserves to smooth the delivery of savings provides time to develop and implement savings proposals which will reduce costs while doing as much as possible to preserve services. This strategy needs to be kept under review but remains affordable. The MTFP set out in Appendix 1 assumes the use of general reserves over the review period 2014-2015 to 2016-2017 of £37.416m. Further detail on reserves can be found in Appendix 5.1.

The Updated Council's Medium Term Financial Plan

7.9. The Council's updated MTFP is summarised in the table below:

Summary Draft Medium Term Financial Plan 2013-18				
	2013-14	2014-15	2015-16	2016-17
	£'000	£'000	£'000	£'000
Net Service Costs	292,004	295,732	294,663	309,081
Growth (Incl Public Health)	40,566	4,805	3,881	7,619
CLG Grants transferring into baseline	23,717	0	0	0
Savings				
Approved	(26,029)	(6,692)	0	0
New		0	0	0
Inflation	5,760	4,842	5,500	5,500
Core Grants (incl Public Health)	(40,522)	(1,961)	4,305	3,124
Earmarked Reserves (Directorates)	(530)	(565)	0	0
Contribution to/from Reserves	766	(1,498)	732	0
Total Funding Requirement	295,732	294,663	309,081	325,324
Government Funding	(150,670)	(122,551)	(86,595)	(69,271)
Retained Business Rates	(100,800)	(102,816)	(104,872)	(106,970)
Council Tax	(63,343)	(66,396)	(67,392)	(68,402)
Collection Fund Surplus	(1,645)	0	0	
Total Funding	(316,458)	(291,763)	(258,859)	(244,643)
Budget Gap (excl use of Reserves)	(20,726)	2,900	50,222	80,680
Unallocated Contingencies		0	0	0
Budgeted Contributions to Reserves	(766)	(1,034)	0	0
General Fund Reserves	21,492	(1,866)	(22,046)	(13,504)
Unfunded Gap	0	0	28,176	67,176
Savings to be delivered in each year			(28,176)	(39,000)
	31/03/2014	31/03/2015	31/03/2016	31/03/2017
Balance on General Fund Reserves (£000s)	59,552	57,686	35,640	22,136

Table 1 – Summarised MTFP for 2014-2015 to 2016-2017

- 7.10. As set out in the table above and in detail in Appendix 2 the Council has a balanced budget in 2014-2015 which is in line with the planning assumption reported to the Budget Council in 2013. The MTFP identifies a budget shortfall of £28.176m and £39.000m to be achieved in 2015/2016 and 2016/2017 respectively.
- 7.11. There has been a movement in the MTFP presented to Cabinet in October 2013, due to:
- A review of growth and Inflation requirement
 - Update of the Council tax base assessment
 - Autumn statement update on settlement
 - Underspend in the corporate budget in 2012-13

Budget Reduction Opportunities for 2015-2016 Onwards

- 7.12. The Mayor is working with the Corporate Management Team to devise a strategy to manage the budget gap from 2015-2016 onwards. CMT has established a programme of work to review and consider future budget reduction opportunities. Work is progressing on three specific fronts. The focus of these will be through the following principles:
- Working up a set of proposals which build on the Lean, Flexible and Citizen Centred principles of our existing savings programme looking at how we can be more efficient in areas such as rationalisation and alignment of services and functions and further improving and consolidating procurement
 - Service by service challenge to ensure that each service is delivering or contributing to priority outcomes as effectively as possible; and
 - Establishment of a Think Tank to focus on longer term approaches which might enable the authority to continue to deliver key priorities for local people with a reduced budget.

Think Tank approach

The Think Tank has established a broad framework for thinking about opportunities to maintain our priorities and deliver for local people, maintaining our commitment to One Tower Hamlets and reducing inequality, with reduced funding.

Within this broad framework, the Think Tank is progressing a number of work streams as follows:

- *Understanding and projecting the local population* – Gain a better understanding of what services our local residents will require from us going forward, how and whether demographic change will impact on need and expectations.
- *Harnessing economic growth* – assessing the contribution that economic growth within the borough might make towards offsetting the savings target, particularly in the light of business rate retention, Council Tax growth, the New Homes Bonus and Community Infrastructure Levy - plus the potential for increased private sector funding or upfront investment to fund social outcomes.
- *Prevention and Meeting Needs* - considering how new targeted investment in key preventative services could reduce the need for intensive, more expensive care and support.
- *Resident-centred Service Re-design* – considering how we re-design and streamline how we serve residents.
- *New Delivery Models* – following on from the above themes, which will help provide greater focus on **what** the Council will deliver, this theme will consider in more detail alternative, more cost-effective ways of delivering this, where there are clear savings and this does not undermine the ability to deliver core outcome objectives.
- *Asset Management* – progressing current work on the corporate landlord model, driving out duplication and greater potential for efficiencies including updating the asset management strategy, clarifying the buildings we need and costs and opportunities for more efficient use or disposal.
- *Workforce efficiency* - In addition, underpinning these themes of work, the Think Tank is exploring how we best deploy our valuable workforce resource. This includes the potential to offer staff more flexible working options including the opportunity to take voluntary redundancy, retire early, retire flexibly through working reduced hours in the last years of employment, and work more flexibly in terms of different hours and develop their careers more easily through greater generic working and competency based approaches to recruitment and promotion. We are, for example, looking at the Timewise model, promoted by the Timewise Foundation and currently being adopted by some other London Boroughs which seeks to enable organisations to offer more flexible working options to employees and to yield social, economic and business benefits as a result.

7.13. Officers will undertake the work bearing in mind the priorities and principles established by the Mayor and these will be developed over the coming months

with a view of being presented in sufficient time to ensure that officers are able to put in place the necessary arrangements to meet the budget shortfall of £28.176m for 2015/2016 on the 1st April 2015.

8. **FINANCIAL RESOURCES**

8.1. Financial resources are continuing to reduce year-on-year as a result of Government austerity measures.

8.2. The Council has five main streams of financial resources:

- Retained Business Rates and Revenue Support Grant (RSG)
- Core Grants
- Council Tax
- Fees and Charges
- One-off use of Reserves

Retained Business Rates and RSG

8.3. As outlined in the budget report for 2013/2014, the needs-related Formula Grant, which was the main non-ringfenced grant supporting the General Fund, was abolished from 1st April 2013. In its place, the Local Government Finance Act 2012 introduced a system whereby future increases in funding will be governed by the Council's own performance in generating business rates income.

8.4. The current MTFP assumes that income over the next three year period through RSG and retained business rates will be as follows:

8.5.

	2014/2015	2015/2016	2016/2017	Total
	£'m	£'m	£'m	£'m
Revenue Support Grant	122.551	86.595	69.271	278.417
Retained Business Rates	102.816	104.872	106.970	314.658

Table 2 – Assumed RSG and retained business rates income from 2014-2015 to 2016-2017

8.6. It is estimated that by the end of the current financial year the Council will have received £100.800m through business rates which is in line with the budget set by Council for 2013/2014. For 2014/15, a 2% cap has been assumed as per recent government announcements.

- 8.7. The variance over each of the next three years between the Government assumed business rate income versus the projected income by the Council is summarised in the table below:

	2014/2015 £'m	2015/2016 £'m	2016/2017 £'m	Total £'m
Government Estimate of Retained Business Rates Income for LBTH	99.321	102.062	104.879	306.262
Forecast Retained Business Rates Income	102.816	104.872	106.970	314.658
Variance	(3.495)	(2.810)	(2.091)	(8.396)

Table 3 – Variance between Government estimated retained business rates income for LBTH against assumed retained income in the MTFP

- 8.8. Clearly the surplus income of £8.396m is not guaranteed and depends upon collection performance, economic conditions and decisions of the Valuation Office, but provision for these risks have been factored into the calculation. In the longer term, it is hoped that significant development, including in Canary Wharf, City Fringe and Spitalfields, Blackwall Reach and the Lea Valley will continue to give us a larger share of the money that was available than Formula Grant would have done. The next revaluation by the Valuation Office is due to take place in 2017.
- 8.9. However the Department of Communities and Local Government will review and reset the base line funding for the business rates retention scheme in 2020 for all local authorities. At this time the government estimate of retained business rates for the Council will be reviewed and is likely to be more aligned with the actual level of business rates being received.

Core Grants

- 8.10. The Council will be in receipt of a number of specific or special grants in addition to main funding allocation. These are categorised between those which are ring-fenced and those that can be used to fund any Council Service. For the most part, the Council accounts for service specific grants on the expectation that any movements in this grant funding are either applied or mitigated by the service concerned. Table 2 previously sets out the Core Grants and the projected level of funding over the next three years.

Residual Core Grants - Non Ringfenced

- 8.11. The following table sets out the remaining non-ringfenced core grants the Council is expected to receive in 2014/2015, together with forecast figures for later years.

Non-ringfenced grants are those that the authority can apply to any purpose within the General Fund and, sometimes, more widely than that.

	2013/14 Allocation £'m	2014/15 Indicative £'m	2015/16 Indicative £'m	2016/17 Indicative £'m
Council Tax Freeze Grant	0.846	0.846	0.846	-
New Homes Bonus	16.070	19.070	15.070	18.070
Local Lead Flood	0.128	0.128	TBC	TBC
Council Tax Support – one off implementation grant	0.540	-	-	-
Housing Benefits Administration	4.012	3.514	3.514	3.514
TOTAL NON-RINGFENCED	21,596	23,558	19,430	21,584

Table 4 – Non Ringfenced Grants

Council Tax Freeze Grant

- 8.12. For the last three financial years the Council has accepted the Government's Council Tax freeze grant which was equivalent to a 1% Council tax increase in each of the years and therefore hasn't increased Council tax during these years. For 2014-2015 the Council will receive £0.846m which is equivalent to a 1% Council tax rise. The table below summarises the Council tax freeze grant received since 2012/2013 with a forecast for 2014/2015:

	2012/2013 Actual £'m	2013/2014 Actual £'m	2014/2015 Forecast £'m	Total £'m
Council Tax Freeze Grant 2012-2013	1.968	0.846	0.846	3.660

Table 5 – Council Tax Freeze Grant received since 2012-2013 and forecast for 2014/2015

New Homes Bonus (NHB)

- 8.13. The principle behind the New Homes Bonus is to reward those authorities who increase the housing stock either through new build or bringing empty properties back into use. Each additional band D equivalent property attracts grant funding equivalent to the band D tax rate and the funding lasts for six years.

- 8.14. The MTFP formerly assumed additional grant of £3.000m per annum from 2014-2015 onwards over and above the 2013-2014 allocation of £19.070m.
- 8.15. As part of the 2013 Spending Round the Government have stated that the NHB national funding pot will be top sliced by 35% in 2015/2016, with the money being channelled through regional and sub-regional Local Enterprise Partnerships as part of the Single Local Growth Fund, for reinvestment at a regional level. This was unexpected and means that the Council is likely to lose 35% of its whole allocation from 2015 onwards - a loss of £7.000m of grant per annum. The decrease in NHB could have a greater adverse impact on Tower Hamlets than any other local authority in the country given the Borough's continued success in delivery new homes.
- 8.16. The updated MTFP assumes NHB receivable for 2014-2015 to 2016-2017 of £52.210m. The table below summarised the movement from the former to the current MTFP:

	2014/2015 £'m	2015/2016 £'m	2016/2017 £'m	Total £'m
Previous MTFP	19.070	22.070	25.070	66.210
Revised MTFP	19.070	15.070	18.070	52.210
Movement	-	(7.000)	(7.000)	(14.000)

Table 6 – Movement in New Homes Bonus

- 8.17. Members have previously set aside £11.000m of NHB received by the Authority to support investment in the Decent Homes Backlog Programme. The balance of the anticipated and received to date NHB supports the ongoing delivery of general fund services.

Residual Core Grants – Ringfenced

- 8.18. In addition there are a number of remaining ringfenced grants which the Government has retained. These are normally announced one year at a time.

	2013/2014 Allocation £'m	2014/2015 Indicative £'m
Support for Social Care Benefiting Health (from the NHS)	5.243	5.500
Integration Transition Fund Planning		1.200
Public Health	31.382	32.261
Dedicated Schools Grant	312.124	314,183
TOTAL RINGFENCED	348.749	353.144

Table 7 – Ringfenced Grants

NHS Integration Transformation Fund (ITF)

- 8.19. The Spending Round in June 2013 announced an investment of £3.8bn to provide better integration of funding between health and social care. The funding is an opportunity to improve the lives of some of the most vulnerable people in our society, providing them with control by placing them at the centre of their own care and support, therefore providing them with a better service and better quality of life.
- 8.20. The ITF will include funding to be transferred to Local Authorities from existing NHS funds and also replace a number of funding streams that are already in existence between health and social care. The investment will be utilising the following existing funding streams which equate to £3.800bn:
- £1,880m – Existing funding already allocated across NHS and Social Care for integration
 - £900m – General Section 256 Funding
 - £200m – Integration Transformation Funding
 - £130m – Carers Breaks
 - £300m – Clinical Commissioning Group Reablement Funding
 - £130m – Social Care Capital
 - £220m – Disabled Facilities Grant Capital
 - £1,900m – Additional Funding from NHS Allocations
 - £1,000m – Performance Related
 - £900m – Demographic Pressure and Care Bill Costs
- 8.21. The existing funding streams include funding to support demographic pressures in adult social care and some of the costs associated with the Care Bill. £1bn of this funding will be performance related to meet local and national targets.
- 8.22. Of the existing funding streams none are currently funding recurring expenditure and therefore there is limited risk to the MTFP. Due consideration will need to be made to the non-recurrent activities funded through these sources if funding isn't invested in these areas in future years.
- 8.23. The Council's share of the national allocation of £3.8bn and the full detail of how the funding will work in practice is yet to be received from the Government or NHS England. However, we are developing a local plan which will be finalised by March 2014. The plan will need to set out how the funding will be used and the ways in which national and local targets for the performance related funding will

be met. The plan will set out how any transitional funding will be utilised for 2014/2015.

- 8.24. Plans for the funds are currently being developed by the Council in partnership with the Clinical Commissioning Group. They will need to be signed off by the Health and Wellbeing Board and will also be subject to an assurance review by NHS England. The Health and Wellbeing Board are due to consider the 2014/15 plan in February 2014.'
- 8.25. There may be opportunities to utilise a proportion of the Tower Hamlets allocation to redistribute existing mainstream funding and this will be considered during 2014-2015. The MTFP does not currently make any assumptions regarding this.

Public Health

- 8.26. A ring-fenced grant of £31.382m was provided to fund activities in 2013/14 following the transfer of the Public Health function to the local authority from the NHS on the 1st April 2013. In the long term the MTFP has been constructed on the basis that the costs of public health services will be contained within that sum. In 2013/2014 £3.1m of the grant was earmarked to cover commitments with the free school meals initiative (£1.3m) and any risk associated with volume driven contract/services.
- 8.27. In the long term it is hoped that there will be on-going financial benefits to the transfer of public health, but the scale of this will only become clear with time and will be reviewed and ascertained during 2014-2015.
- 8.28. The grant settlement that was announced was for two years and it is not known what the longer term prospects for funding will look like. The grant allocation for 2014/2015 is £32.261m and it is anticipated that £2.7m of this allocation will be held to cover risk contingencies as in 2013/2014.
- 8.29. In September 2013, the government announced that free school meals will be provided for all children in the first three years of primary school from September 2014. The mechanism for how this funding will be made available is still yet to be announced. As a result of this announcement, Assumptions are being made to reinvest this allocation to the mayoral priority for 2014-15.

Budget Growth Opportunities for 2014/15: Women into Work and Health Agenda

- 8.30. In accordance with the principles, set out in paragraph 6.5, the Mayor has proposed to allocate additional funding to the following initiative in the year 2014/15

- 8.31. Following the government's announcement in September 2013 that they will fund Free School Meals for Key Stage 1, the £1.3m public health funding set aside to fund Free School Meals in 2014/15 is no longer required
- 8.32. The terms of the public health grant require investment whose primary purpose is to improve the health and wellbeing of the local population. The findings of the Tower Hamlets Joint Strategic Needs Assessment highlight the importance of early years for future health and relatively poorer health of 0-5 year olds in the borough. This age group have amongst the highest levels of obesity by age 5, higher levels of tooth decay, a lower proportion have good levels of cognitive development and a higher proportion of babies have low birth weight. We know there are issues around smoking in pregnancy, maintaining breast feeding and healthy weaning. It is a major priority of the Health and Wellbeing Strategy to address health in early years.
- 8.33. In order to build on existing work in these areas, the Mayor proposes to use this money to create a programme to identify and train local women in the skills required to support the health and wellbeing of 0-5 years as an opportunity to pursue future careers in public health and healthcare. . This will develop and support the creation of local skilled and available workforce that can have a significant impact in addressing the health needs of young children. The roles will included support to the work of local public health and health care professional working in early years and could lead to professional career pathways including health visiting, child care, midwifery, nursing, and social care.
- 8.34. The programme will be targeted at women over 25, with qualifications below degree level, who are not eligible for either Council nor central government apprenticeship or training. These may be women with caring responsibilities or those returning to the workplace
- 8.35. The programme will fund the equivalent of 50 full time roles or 100 part time roles, but with an emphasis on part time and flexible work and training hours, as well as the opportunity to undertake the programme over a two year period.
- 8.36. This will work towards the council's programme to improve the support for women into employment and mitigate the impact of welfare reform, as well as towards our key public health outcomes of improving maternal and early years' health.
- 8.37. Officers from Economic Development and Public Health have been tasked to develop a full proposal to be considered in February Cabinet

Dedicated Schools Grant

- 8.38. The largest single grant received by the authority is Dedicated Schools Grant (DSG), which is ringfenced to fund school budgets and services that directly support schooling. Further detail on the DSG is set out in Section 12 below.

Reserves

8.39. The Council holds a number of reserves which can be categorised as follows:

- General (Non-earmarked) Reserve - these are held to cover the net impact of risks and opportunities and other unforeseen emergencies
- Earmarked (Specific) Reserves - these are held to cover specific known or predicted financial liabilities.
- Other Reserves - these are reserves which relate to ring-fenced accounts which cannot be used for general fund purposes (e.g. Housing Revenue Account and Schools)

8.40. A summary of the Council's reserves and associated risk analysis is attached at Appendix 5. This also shows the projected movement on the reserves for both the current financial year 2013/2014 and then 2014/2015 to 2016/2017.

8.41. It is projected that the Council will have non-earmarked General Fund Reserves of £59.552m as at 31st March 2014. This is greater than projected in the Medium Term Financial Plan previously reported due to budget contingencies not being required in 2013/2014 to cover off additional spending, and a net overspend on Directorate budgets as reported in the quarter two monitoring report (£0.151m).

8.42. The level of General Fund Reserves over the 2014/2015 to 2016/2017 will reduce to £22.136m. The strategy established in previous budget years has been to utilise general reserves to smooth the impact of savings remains valid, subject to the level of reserves never falling below the minimum level. The MTFP has been designed to achieve this but spending and income levels will need to be constantly scrutinised to ensure this strategy remains achievable.

8.43. There are no budgeted contributions to reserves from 2014/2015 onwards and therefore all risks and costs arising will to be met from existing reserves or from approved budgets. This position will need to be kept under review as we move forward and it is possible that officers will recommend further allocations to reserves if budget risks increase. In the event that General Fund Reserves fall below the recommended minimum value, prompt action would be required to increase the level of reserves to a safe level. This will need to be kept under review.

9. **BUDGET PRESSURES**

Service Demand and Unit Cost Pressures

- 9.1. The Council's budget monitoring reports over the first six months of 2013/2014 have highlighted a net overspend on Directorate budgets of £0.151m. This is predominantly due to the non-closure of one of the Council's One Stop Shops which was approved as a saving in a previous budget setting period. Unless the decision is taken to proceed with the closure, a budget pressure of £0.252m will continue over the financial planning period and therefore need to be reflected in the new base budgets against which savings decisions will be considered.
- 9.2. A schedule detailing the budget pressures in each service area is attached as Appendix 3. Over the three year planning period the growth pressures excluding inflation total some £14.847m. The pressures for 2014/2015 which are in line with those highlighted in the previous budget setting process are as follows:
- Demographic Pressures in Adult Social Care (£1.4m) – a higher demand for services, including in learning disabilities with children transitioning into adult social care.
 - Communities, Localities and Culture (£1.03m) – resulting from the increased cost of waste disposal to landfill sites and the escalating cost of the government's Freedom Pass Scheme.
 - Investment Income (£0.8m) – reflecting a reduction in investment income due to lower interest rates and a projected reduction in cash balances going forward.
- 9.3. Additional budget pressures which will need to be reviewed and costed once further detail is available include:
- Care and Support Bill, including the introduction of a cap on contributions toward care costs and assessments and services for carers. It is proposed that the NHS Integration Fund (see Section 8.18) will support this in part or full.
 - Children and Families Bill, expected to become law in 2014 and will extend the Local Authority's responsibility to ensure access to education for young people with special education needs (SEN), from the current age limit of 19, up to the age of 25.
 - New government guidance being consulted on in early 2014 regarding parking enforcement changes may have a negative impact on revenue collected.

Inflation

- 9.4. In addition to the specific service demand pressures the other single most significant financial risk facing the Council is the impact of inflation.
- 9.5. The Government's projections for Consumer Price Index (CPI) inflation which are reflected in the MTFP is 2.0% throughout the review period. Most of the Council's contracts for goods and services which span more than one year contain inflation clauses and although service directorates have been successful in negotiating annual increases which are below inflation this will be a difficult position to maintain, especially if inflation remains at its current level for a long period.
- 9.6. The inflation budget for 2013/2014 was set at £5.760m, which was split 30% for pay inflation and 70% for non-pay inflation.

Pay Inflation

- 9.7. The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. For 2013/2014 a 1% pay award was agreed with effect from 1st April 2013, this was not agreed for senior officers on chief officer pay scales. The MTFP anticipates that staffing costs will increase by 1% in each year of the three year plan. Provision has been made for the payment of the London Living Wage to Council staff.

10. SAVINGS

- 10.1. In previous years' budget processes the Council has already approved a number of revenue investments and savings for 2013/14 and 2014/15 sufficient to balance the budget in these two financial years. These total £33.4m. Schedule of the savings approved by Full Council in February 2012 and March 2013 is detailed in Appendix 4.

11. RISKS AND OPPORTUNITIES

- 11.1. When setting the draft MTFP, Service Directors have provided their best estimate of their service costs and income based on the information currently available. However there will always be factors outside of the Council's direct control which will vary the key planning assumptions that underpin those estimates.
- 11.2. There are a number of significant risks that could affect either the level of service demand (and therefore service delivery costs) or its main sources of funding. In addition there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services.

11.3. Similarly there are opportunities either to reduce costs or increase income which will not, as yet, have been fully factored into the planning assumptions. The main risks and opportunities are summarised below.

Risks

General Economic Factors

- Higher than projected levels of inflation
- A general reduction in debt recovery levels
- Lower than planned investment income
- Further reductions in Third Party Funding
- Further reductions in grant income
- Reductions in the level of income generated through fees and charges
- Increase in fraud

Increases in Service Demand

- Children's Service including an increase in the number of looked after children
- Housing (and homelessness in particular)
- General demographic trends
- Impact of changes to Welfare Benefits
- Support to people trying to get back into employment

Efficiencies and Savings Programme

- Impact of the governments' Local Government Resource Review
- Slippage in the savings programme
- Non-delivery of some proposals

Opportunities

- New freedoms and flexibilities
- Public Health (see Section 8.25)
- NHS Integration Fund (see Section 8.18)
- Growth in local Taxbase for both housing and businesses

11.4. In addition to the above there is a risk that the combined impact of some of these factors will adversely impact on service standards and performance.

11.5. An assessment of the possible impact of these risks and opportunities is shown in the risk analysis in [Appendix 5](#). This will form the basis of an on-going review of Reserves and Contingencies and indicates a net financial impact between £20m and £39m over the planning period. This has therefore been reflected in the recommended level of unearmarked General Fund Reserves that need to be

maintained and equates to between 5% and 7.5% of gross expenditure (excluding schools and housing benefit payments).

12. SCHOOLS FUNDING

- 12.1. Schools funding is principally provided via Dedicated Schools Grant, Education Funding Agency (EFA) grant to post 16 and Pupil Premium. Funding is ringfenced to schools and its allocation is largely based on the decisions of the Schools Forum. Appendix 6 sets out the details of the expected schools settlement for 2014/2015.

13. HOUSING REVENUE ACCOUNT

- 13.1. HRA Self-Financing has now been in force since April 2012, when £236.200m of our housing debt was redeemed. Under Self-Financing, we now retain all rental income, but must finance all costs relating to council housing – both revenue and capital.
- 13.2. Indicative modelling of the HRA over 30 years indicates that the Authority will be able to finance the projected capital programme - including Decent Homes - but will need to borrow up to its debt cap of £184m, and use the revenue surpluses forecast to be generated in the early years of Self-Financing.
- 13.3. When valuing each authority's housing business prior to the start of Self-Financing, the government assumed that authorities would continue with rent restructuring, aiming to achieve rent convergence in 2015-2016. It was also assumed that post 2015/2016, authorities would increase rents by RPI + 0.5% each year.
- 13.4. In October 2013, the government issued a consultation entitled 'Rents for Social Housing from 2015-2016' which proposed to move from rent increases of RPI + 0.5% to increases of CPI + 1% and end rent convergence a year early. The consultation also clarified that the proposed rent policy does not apply to social tenant households with an income of over £60,000. Further details are provided in the HRA First Budget report elsewhere on this agenda.
- 13.5. There are a number of risks to the HRA in the short to medium term; the reinvigorated Right to Buy (RTB) scheme has led to an increased number of applications and sales; since the changes were made in April 2012 there have been 35 sales, and over 1,000 applications have been made. Although the Authority retains part of each RTB sale receipt, on its own this is insufficient to replace the number of properties sold. In addition, there is a risk to rental income from the various forthcoming Welfare Reforms, although some of the implementation dates have slipped so the effect may be later than previously anticipated. The HRA First Budget report elsewhere on this agenda provides

more details on these risks, and the HRA Second Budget report will provide details of the 2014/15 HRA budget.

- 13.6. Appendix 7 shows an indicative summary HRA medium-term financial plan for 2014/2015 to 2016/2017. A more detailed report on the 2014/2015 HRA budget will be provided to Cabinet in February.

14. CAPITAL PROGRAMME

Civic Centre

- 14.1. The current capital programme is set out at Appendix 8. The programme has been amended during the year to take account of decisions taken by the Council, Mayor and officers, including the application of additional grant resources that have become available.
- 14.2. During the coming financial year, the Council through its Asset Management Board will review the asset and capital strategy in the context of significant demographic, service and financial changes that are likely between now and 2020. The capital strategy was last updated in February 2011 and sets out priorities and objectives for using capital resources in the context of rapid population growth but in an environment of reducing resources. Increasingly all capital investment decisions are reliant on the local funding, be that through generation of capital receipts, prudential borrowing (funded through local taxes and rents) or development agreements, as government grants reduce.
- 14.3. A key driver of any revised asset strategy is a requirement to consider the long term location of the Town Hall. The current Town Hall is not owned by the Council and costs around £6m a year in rent and service charges. The current lease will expire in March 2020 and officers have for some time been reviewing possible options for the Council at termination with regard to remaining in place or moving to a new Civic Centre. Furthermore the landlord has been consulting on outline plans for redevelopment of the East India Dock Estate. This could mean that the Council will have no choice other than to relocate come September 2019.
- 14.4. In December Cabinet 2013 the Council adopted the Whitechapel Vision Supplementary Planning Document, which identified the following key benefits to be delivered through the Masterplan: 3,500 new homes by 2025, including substantial numbers of local family and affordable homes; 5,000 new jobs; the transformation of Whitechapel Road; 7 new public squares and open spaces.

The Vision document also identified the old Royal London Site as ideally suited for the development of a new Civic Centre for Tower Hamlets. It could enable the Council to capitalise on the arrival of Crossrail in 2018, bring the new Civic Centre in the heart of the borough and create a catalyst for the regeneration of the Whitechapel area.

This proposed new Civic Centre is an Invest to Save opportunity for the Council which will create an asset owned by the Council and residents of Tower Hamlets, able to serve the borough for many years.

- 14.5. The Council is now in negotiations with Barts Health Trust to secure the site. In order to progress these negotiations it is proposed that capital programme provision, using unallocated prudential borrowing, agreed in 2012 be allocated for the purchase of this site. Any further costs would be dependent on disposal of Business planning and feasibility demonstrate that once acquired a new Civic Centre would be more affordable to the Council and result in a reduction in ongoing costs. Officers are preparing a full briefing on the business case and feasibility study to be presented at February Cabinet.

Adoption of a Capital Estimate

- 14.6. The report seeks approval for the adoption of a capital estimate of £3.55m to include the Malmesbury Estate within the Decent Homes Programme
- 14.7. The Council undertook a Master Planning process in 2009 which investigated the possibility of building of new Affordable Rent homes, shared ownership and private sale units, new shops and a new community centre - the latter effectively cross-subsidising the new affordable units, the Decent Homes works, and Public Realm improvements.
- 14.8. Pivotal to the project was the ability to deliver a mixed tenure scheme with cross subsidy, but no agreement could be reached to secure the land rights across the site that would facilitate the Masterplan scheme. Consequently, Council and Tower Hamlets Homes officers embarked on a project exploring the feasibility of delivering Decent Homes works on Malmesbury Estate utilising the existing framework for the mainstream Decent Homes programme.
- 14.9. It is proposed that a capital estimate of £3.55m is adopted to allow works to be undertaken to provide internal Decent Homes works to 322 properties and external works to a total of 603 properties.
- 14.10. Funding will be met from uncommitted HRA mainstream capital resources that were approved as part of the 2013-14 budget process, but which have yet to be applied to specific schemes. The expenditure need and the resources have been included within the HRA financial modelling.
- 14.11. Elements of the external works will be rechargeable to leaseholders. A total capital estimate of £181.37 million has been approved for the overall Decent Homes programme (Cabinet – 8 May 2013). If any savings arise from this ongoing programme they will be applied towards the funding of the Malmesbury Estate works.

15. TREASURY MANAGEMENT STRATEGY

- 15.1. The Treasury Management Strategy Statement was recently revised by Audit Committee and Full Council in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements. .
- 15.2. The key factor underpinning the current strategy is that short term interest rates are expected to remain very low for at least the next twelve months in contrast to medium and long term rates. This means that there will be a “cost of carry” if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council anticipates continuing to run a strategy of keeping cash balances low and investing short term, so only borrowing when required.
- 15.3. Some limited amendments to the Council’s lending limits, the period over which monies could be placed on deposit and the type of investment ‘product’ that can be used were agreed in order to provide some further investment capacity and increase the return on investment without any increase in risk. These proposals were put forward having taken advice from the Council’s treasury management advisers and were deemed prudent enough to ensure the credit rating of approved counterparties are commensurate with the level and term of investments
- 15.4. The proposed prudential indicators set out in the Treasury Management Strategy are based on the capital programme as detailed in Section 14 above and Appendix 8. Prudential indicators may need to be revisited subject to Government capital funding announcements and decisions relating to the capital programme and if necessary revised. Any revisions to the indicators will need to be approved by Full Council.

16. CONSULTATION

- 16.1. It is a statutory requirement, and good practice, to consult and engage service users, residents, staff, unions and elected council members during the Council’s budget setting process. Elected council members are consulted and engaged in line with the Council’s Budget and Policy Framework and through the work of the Overview and Scrutiny Committee.

Public and Partnership Consultation

- 16.2. The views of local partners are key elements to include when seeking to deliver a budget that meets the needs and aspirations of Tower Hamlets. A Budget congress will be held with local partners and the outcome will be reported to the next cabinet meeting.

Resident Engagement

- 16.3. Residents will be offered an opportunity to engage in the budget setting process through two public events which have already and will continue to be communicated through the Council's communication routes. The first is on Tuesday 21st January 2014 at Whitechapel Idea Store and the second on Monday 27th January 2014 at Chrisp Street Idea Store.
- 16.4. The event which has been promoted via My Tower Hamlets, engaging in the region of 7000 residents; Twitter which has approximately 4,300 followers and will be advertised in East End Life, East London Advertiser and the Council's website.
- 16.5. The purpose of the events are to engage residents in the budget setting process for 2014-2015 by providing an overview of the Council's medium term financial plan and saving opportunities being considered. The feedback of the consultation will be reported to Cabinet on the 5th February 2014 and subsequently to Full Council.
- 16.6. The events will be presented by the Mayor and/or Lead Member for Resources along with the Corporate Director of Resources and appropriate Service Head.

Budget and Policy Framework

- 16.7. The Council's Budget and Policy Framework, as set out in its constitution, requires the Cabinet to submit initial budget proposals to the Chair of Overview and Scrutiny Committee and to allow 10 working days for a response before considering final proposals.
- 16.8. The decisions taken by Cabinet will constitute its initial proposals. These will be considered by the Overview and Scrutiny Committee before the Council meets to consider the Mayor's final budget proposals.
- 16.9. Any further results of consultation or feedback will be reported to the Council meeting.

17. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 17.1. The comments of the Chief Financial Officer have been incorporated into this report of which he is the author.

18. LEGAL COMMENTS

- 18.1. The Council is required each year to set an amount of council tax. The obligation arises under section 30 of the Local Government Finance Act 1992 ("the 1992 Act") and must be done by 11 March each year for the following year. In order to set council tax, the Council must calculate the budget requirement in accordance

with section 32 of the 1992 Act. This requires consideration of estimated revenue expenditure in carrying out Council functions, estimated payments into the general fund, allowances for contingencies and required financial reserves, amongst other things.

- 18.2. Both the setting of council tax for a financial year and calculation of the budget requirement are matters that may only be discharged by the full council. This is specified in section 67 of the 1992 Act. The Council's Constitution reflects the statutory requirement. Article 4 of the Council's Constitution specifies that approving or adopting the budget is a matter for Full Council. The Budget and Policy Framework Procedure Rules in Part 4 of the Constitution specify the procedure to be followed in developing the budget.
- 18.3. Before calculating the budget requirement, the Council is required by section 65 of the 1992 Act to consult with persons or bodies who the Council considers representative of persons who are required to pay non-domestic rates under the Local Government Finance Act 1988. The procedure in the Budget and Policy Framework Procedure Rules requires the Executive to publish its timetable for making proposals for adoption of the budget and its arrangements for consultation. There must be consultation with the Overview and Scrutiny Committee. The report sets out proposals for the budget consultation for consideration by the Mayor in Cabinet.
- 18.4. In circumstances where the Council is calculating the budget requirement, the chief finance officer (the Corporate Director of Resources) is required by section 25 of the Local Government Act 2003 to report on the following matters: the robustness of the estimates made for the purposes of the calculations; and the adequacy of the proposed financial reserves. The Council is required to have regard to the chief finance officer's report before calculating the budget requirement. This report provides information from the chief finance officer about these matters.
- 18.5. The Council is obliged by section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan. The medium term financial plan informs the budget process and may be viewed as a related function.
- 18.6. The report provides information about risks associated with the medium term financial plan and the budget. This is consistent with the Council's obligation to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit (England) Regulations 2011 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information

about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

- 18.7. The report provides details of the revised capital programme. The capital program does not form part of the determination of the budget requirement for the purposes of section 32 of the Local Government Finance Act 1992, but is nevertheless a closely related matter and it is appropriate for information to be provided about it at this time. Before the capital programme is agreed, there will be a need to ensure that projects are capable of being carried out within the Council's statutory functions and that any required capital finance will meet the requirements of Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.
- 18.8. The report deals with the application of the dedicated schools grant (DSG). The financing of maintained schools is dealt with in Chapter IV of Part II of the School Standards and Framework Act 1998. The Council is required to allocate a budget share to every maintained school and this is progressively calculated by a prescribed process that requires determination of the LEA budget, the Council's schools budget, the individual schools budget and the maintained schools' budget share. For the financial year commencing 1 April 2014, detailed provision is to be made in new Regulations dealing with School and Early Years Finance ("the 2014 Regulations"). At the date of preparing this report, the 2014 Regulations had been the subject of consultation, but had not yet been made. Officers will need to ensure that the proposed application of the DSG complies with the 2014 Regulations when made.
- 18.9. The report proposes that the Mayor in Cabinet adopts an outline strategic plan, which is set out in Appendix 9. It is understood that the outline plan would be the subject of later development to create the Council's Strategic Plan, which would be brought forward for adoption by Cabinet in the new municipal year. The Council's Strategic Plan is closely aligned with the Community Plan, which sets out the Council's sustainable community strategy within the meaning of section 4 of the Local Government Act 2000. The Strategic Plan will specify how the Council will prioritise delivery of its functions and thus ranges across the council's statutory powers and duties. The development of the Strategic Plan, delivery of the Plan and monitoring should help the Council to discharge its best value duty under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness".
- 18.10. The Equality Act 2010 requires the council in the exercise of its functions to have due regard to the need to avoid discrimination and other unlawful conduct under the Act, the need to promote equality of opportunity and the need to foster good relations between people who share a protected characteristic and those who do not. The report proposes that the council's Single Equality Framework will be incorporated into the Strategic Plan which the medium term financial plan and budget will help to deliver. It is also relevant to consider that the Community Plan

was the subject of equality analysis during its preparation. Further equality analysis will likely be required in the preparation of the final Strategic Plan and for delivery of actions under the Strategic Plan to ensure the council complies with its equality duty. The budget is proposed to be the subject of consultation and further equality analysis prior to presentation to Full Council.

19. ONE TOWER HAMLETS CONSIDERATIONS

19.1. The Mayor's priorities to support vulnerable people; delayer management; develop a workforce that more closely reflects our community and; tackle the issues which drive inequality in the Borough, including poor housing, employment and community safety, have shaped the approach officers have taken to identifying the saving principles. Throughout the process of developing saving principles, officers have and will continue to assess the potential for these proposals to affect equality between people, both residents and staff, through:

- Completing an initial screening assessment of all savings proposals to identify those which are likely to have a direct impact on services received by residents or on the number or grade of staff in a specific service
- Undertaking an equality analysis of those savings proposals which the screening suggested could have an impact on residents or staff to identify the effect of the proposed changes on equality between people from different backgrounds

19.2. The steps outlined above have been adopted to ensure that the Council's commitment to tackling inequality informs decision making throughout the budget review process and to support transparency.

19.3. The Outline Strategic Plan indicates how the Council's Single Equality Framework will be incorporated into the final Strategic Plan. It demonstrates how equality objectives consistent with the Council's public sector equality duty will be built into the day to day work of the Council. This may be the subject of further development and analysis prior to adoption of the Strategic Plan in the new municipal year.

20. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

20.1. The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.

21. RISK MANAGEMENT IMPLICATIONS

- 21.1. Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks are set out in Section 10 of this report.

22. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 22.1. The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.

23. EFFICIENCY STATEMENT

- 23.1. The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved. The information provided by officers on committed growth and budget options assists Members in these judgments.

24. **APPENDICES**

Appendix 1	Summary of the Medium Term Financial Plan
Appendix 2	Detailed analysis of the Medium Term Financial Plan by Service Area
Appendix 3	Detailed analysis of projected budget revenue growth resulting from increased service demand and higher unit costs
Appendix 4	Approved savings schedule 2013-15
Appendix 5.1	Reserves and Balances
Appendix 5.2	Risk Evaluation
Appendix 5.3	Projected Movement in Reserves
Appendix 6.1	Schools Funding Report
Appendix 6.2	Schools Budget Allocation (2014-15)
Appendix 7	The Housing Revenue Account Medium Term Strategy
Appendix 8.1	Current Capital Programme (2013-14 to 2015-16)
Appendix 8.2	Indicative schemes to be funded from external sources 2014-15 to 2016-17
Appendix 8.3	Summary of Proposed Capital Programme 2013-14 to 2016-17
Appendix 9	Outline Strategic Priorities 2014-15

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

LIST OF “BACKGROUND PAPERS” USED IN THE PREPARATION OF THIS REPORT

Brief description of “Background Paper”

None	Chris Holme, London E14, 2BG. 0207 7364	4262
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