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| <b>Cabinet</b><br>7 <sup>th</sup> January 2015   | <br><b>TOWER HAMLETS</b> |
| Report of:<br><b>Chris Holme, Interim Corporate Director of Resources</b>  | Classification:<br>Unrestricted   |
| <b>General Fund Capital and Revenue Budgets, Medium Term Financial Plan 2015-2018 and Strategic Plan 2015-16</b> |   |

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

## **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 2015/16 Local Government Finance Settlement, which was announced by the Secretary of State on 18 December 2014. 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 2015/2016.

## **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 2015-2016 to 2017-2018. 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 The report also contains outline proposals for the 2015-2016 Strategic Plan which will be delivered within the resources identified for the 2015-2016 budget.
- 1.3 The 2015-2016 local government provisional finance settlement was announced on the 18 December 2014 following the Chancellor's Autumn Statement. The outcome of the settlement is reflected in the report.
- 1.4 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.
- 1.5 The pace at which austerity measures and further cuts to public spending continue will be dictated by the general election in May 2015. All main political parties are planning to reduce the deficit, but the pace of reduction, and the mix of expenditure cuts and taxation levels could be different depending on the result.
- 1.6 The Council forecasts that cuts to its grant, increases due to inflation and demographic pressures, over the next three year period from 2015-2016 to 2017-2018 will result in a budget shortfall of £49.9m.
- 1.7 The savings agreed to date represents the largest reduction in spending ever experienced by this authority, 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 unprecedented reductions in government funding. The Outline Strategic Plan 2015-2016 appended to this report outlines how the council will continue to deliver on key priorities over the coming year.
- 1.8 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
- 1.9 The MTFP 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 £290.569m 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 2015-2016.
- 2.2 Accept the Council Tax Freeze Grant available from the Department of Communities and Local Government for 2015-2016 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 2015-2016 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 2015-2016 and the indications and forecasts for future years set out in Section 8.
  - c. **Base Budget 2015-2016**

The Base Budget for 2015-2016 as £293.933m as detailed in [Appendix 1](#).
  - d. **Growth and Inflation**

The risks identified from potential inflation and committed growth arising in 2015-2016 and future years and as set out in Section 9 and in [Appendix 3](#).
  - e. **General Fund Revenue Budget and Medium Term Financial Plan 2015-2016 to 2017-2018**

The initial budget proposal and Council Tax for 2015-2016 together with the Medium Term Financial Plan set out in [Appendix 1](#) and the budget reductions arising.
  - f. **Savings**

Previously agreed and New savings items to be included in the budget for 2015-2016 and the strategic approach for future savings to be delivered are set out in Section 10, Appendix 4.1 and 4.2 of the report.

**g. Capital Programme**

The capital programme to 2017-2018; including the proposed revisions to the current programme as set out in section 14 and detailed in Appendices 8.1, 8.2 & 8.3.

**h. Dedicated Schools Grant**

The position with regard to Dedicated Schools Grant as set out in Section 12 and Appendices 6.1 & 6.2.

**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's Priorities**

Initiatives proposed by the Mayor are set out in Section 9.9 to 9.14.

**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 6<sup>th</sup> March 2015 at the latest. The setting of the budget is a decision reserved for Full 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 3<sup>rd</sup> December 2014 showed that the economic base of the Council is growing, and identified a package of savings designed to deliver a balanced budget. This report provides updates on the Local Government Finance Settlement, revisions to savings proposals, growth and investment proposals, and any further changes to resource assumptions. The MTFP is also projected forward to the financial year 2017-2018, with analysis on future savings requirements.
- 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 listed in Section 24. Those planning assumptions have taken account of the Autumn Statement announced by the Chancellor of the Exchequer in early December and the subsequent local government provisional finance settlement that was published on the 18 December 2014.

## **6 STRATEGIC APPROACH**

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

- 6.2 The Strategic Plan sets out the Council's approach to delivering the key Community Plan aims of achieving:
- A Great Place to Live
  - A Prosperous Community
  - A Safe and Cohesive Community
  - A Healthy and Supportive 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 aims. 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 negative impacts on residents' household budgets
  - Protecting investment in activity that promotes community safety
  - Work in partnership to improve our Public Realm
- 6.4 In addition to this, the Mayor has maintained his commitment to the following Council principles:
- Employ a workforce that fully reflects the community it serves
  - Ensure staff are never paid below the London living wage
  - Minimise job losses and promote career development
  - Fully open supply chains 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 four budgets:
- Protecting the vulnerable and the services residents rely on, through:
    - o Keeping our Libraries and Ideas Store open
    - o Ensuring residents can access services through One Stop Shops, on the telephone and online
    - o Creating enough schools places to meet the growing demand

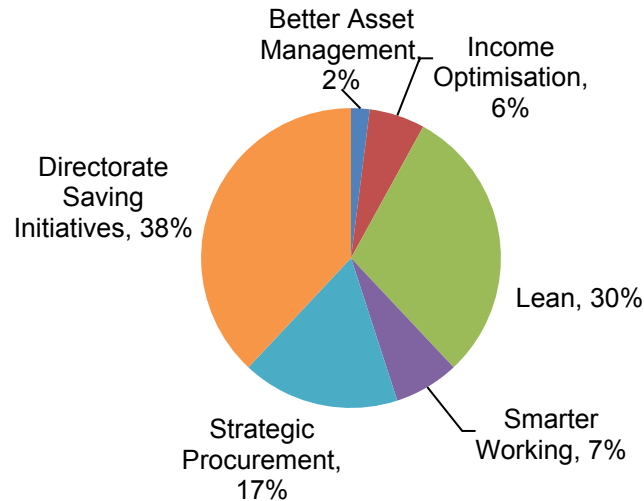
- o Providing excellent services for children and young people
- o Delivering high quality provision and activities for older and disabled residents
- Reducing the cost of living for residents, through:
  - o The ongoing freeze of Council Tax
  - o Continuing the Mayor's Education Award and University Grant
  - o Delivering free school meals for all primary pupils in the borough
  - o Offering affordable fuel options through the Energy Co-operative
  - o Continuing to provide free homecare
- Creating growth and regeneration, through:
  - o Delivering the Whitechapel Vision
  - o Supporting Regeneration at Blackwall Reach and the Ocean Estate
  - o Increasing the pace of regeneration in Poplar
  - o Supporting local businesses

6.6 Key proposed activities within the Outline Strategic Plan for 2015-2016 include:

- Delivering a programme of new build Council housing
- Increasing the availability of affordable family housing
- Delivering housing, a leisure centre and community facilities at Poplar Baths / Dame Colet House
- Reducing the number of Council homes that fall below a decent standard
- Working in partnership to improve our public realm
- Maintaining investment in youth services and provision for young people
- Embedding a Child Rights approach in all our commissioning
- Increasing the number of young people getting 5 good GCSEs
- Assisting more people into further education and university
- Supporting residents into jobs through employment and skills programmes
- Ensuring integrated local support for the roll out of Universal Credit
- Delivering the 'Violence Against Women and Girls' programme
- Improving the responsiveness and visibility of our ASB services
- Investing in the borough's leisure centres and playing pitches
- Building mental health resilience within the community
- Improving support to carers and implementing the Care Act

- Responding to the Best Value Inspection’s findings and working with appointed commissioners
  - Improving customer satisfaction when residents contact the Council
- 6.7 The inclusion of such activities demonstrates that the delivery of key priorities continues in the context of reduced resources. The Outline Strategic Plan will be further developed before the Strategic Plan Action 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 reducing the number of administrative buildings; 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.
- 6.11 Accordingly public engagement and consultation have been 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 £290.569m for 2015-2016 and a Council Tax at Band D of £885.52.

### **Spending Round – June 2013**

- 7.2 The 2013 Spending Round was announced on 26<sup>th</sup> June 2013 and set out expenditure limits for individual Government departments for 2015-2016.
- 7.3 The draft 2015-2016 settlement figures, issued as part of the 2014-2015 settlement, showed a £36m reduction in Government funding for Tower Hamlets as a result of these announcements.

### **Autumn Statement – December 2014**

- 7.4 The Chancellor of the Exchequer announced his Autumn statement on the 3<sup>rd</sup> December 2014. The forward projections showed that Public expenditure is set to fall at the same rate as between 2010-2011 and 2014-2015 until 2018. However, these projections are based on current government policy, and will undoubtedly change after the general election in May 2015. Early indications are that each main political party will have a different approach to the scale and pace of

spending cuts, and also the use of taxation to raise extra revenue as a proportion of deficit reduction. The main points specifically affecting Local Government were:

- The government will carry out a review on the future structure of business rates, to report in the next parliament. The review is intended to be revenue neutral, and 'consistent with the government's financing of local authorities'.
- The doubling of small business relief will continue, as will the discount to retailers. The 2% on the business rates multiplier will also be repeated in 2015-2016. These should be cost neutral, with any shortfalls in revenue funded through section 31 grant.
- Rules will be changed so that alterations to rateable value can only be backdated to 2010 for appeals made before 1 April 2015, with VOA cases resolved before 1 April 2016.

7.5 Subsequent to this, on the 18 December 2014 the provisional 2015-2016 Local Government Finance Settlement was announced by the Secretary of State. This report incorporates officers' consideration of the provisional settlement implications for the Borough.

#### **Use of Reserves**

7.6 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 recommended level of general fund reserves that need to be maintained equates to between 5% and 7.5% of gross expenditure excluding schools and housing benefit payments. The MTFP set out in Appendix 1 assumes the use of general reserves over the review period 2015-2016 to 2017-2018 of 24.8m. Further detail on reserves can be found in Appendix 5.1.

## The Updated Council's Medium Term Financial Plan

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

| Summary Draft Medium Term Financial Plan 2014-18 |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2014-15           | 2015-16           | 2016-17           | 2017-18           |
|  | £'000             | £'000             | £'000             | £'000             |
| <b>Net Service Costs</b>                         | 295,732           | 293,933           | 290,569           | 296,652           |
| <b>Growth (Incl Public Health)</b>               | 6,619             | 7,386             | 8,678             | 3,070             |
| <b>Savings</b>                                   |                   |                   |                   |                   |
| <b>Approved</b>                                  | (6,692)           | (20,391)          | (4,000)           | 0                 |
| <b>New</b>                                       | 0                 | (1,430)           | 0                 | 0                 |
| <b>Inflation</b>                                 | 4,842             | 5,500             | 5,500             | 5,500             |
| <b>Core Grants (incl Public Health)</b>          | (4,266)           | 3,742             | (3,764)           | (713)             |
| <b>Earmarked Reserves (Directorates)</b>         | (804)             | 1,829             | (331)             | 0                 |
| <b>Contribution to/from Reserves</b>             | (1,498)           | 0                 | 0                 | 0                 |
| <b>Total Funding Requirement</b>                 | 293,933           | 290,569           | 296,652           | 304,509           |
| <b>Government Funding</b>                        | (122,580)         | (87,981)          | (66,879)          | (48,947)          |
| <b>Retained Business Rates</b>                   | (105,566)         | (117,544)         | (125,767)         | (131,597)         |
| <b>Council Tax</b>                               | (66,396)          | (69,815)          | (71,909)          | (74,066)          |
| <b>Collection Fund Surplus</b>                   |                   |                   |                   |                   |
| <b>Council Tax</b>                               | 0                 | (2,524)           | 0                 | 0                 |
| <b>Retained Business Rates</b>                   | 0                 | (4,922)           | 0                 | 0                 |
| <b>Total Funding</b>                             | (294,541)         | (282,786)         | (264,555)         | (254,611)         |
| <b>Budget Gap (excl use of Reserves)</b>         | (608)             | 7,783             | 32,097            | 49,898            |
| <b>Unallocated Contingencies</b>                 | 0                 | 0                 | 0                 | 0                 |
| <b>Budgeted Contributions to Reserves</b>        | (1,034)           | 0                 | 0                 | 0                 |
| <b>General Fund Reserves</b>                     | 1,642             | (7,783)           | (7,097)           | (9,899)           |
| <b>Unfunded Gap</b>                              | 0                 | (0)               | 25,000            | 39,999            |
| Savings to be delivered in each year             |                   | 0                 | (25,000)          | (15,000)          |
|  |                   |                   |                   |                   |
|  | <b>31/03/2015</b> | <b>31/03/2016</b> | <b>31/03/2017</b> | <b>31/03/2018</b> |
| Balance on General Fund Reserves (£000s)         | 66,631            | 58,848            | 51,751            | 41,853            |

Table 1 – Summarised MTFP for 2015-2016 to 2017-2018

- 7.8 As set out in the table above and in detail in Appendix 2 the Council has a balanced budget in 2015-2016. The MTFP identifies a budget shortfall of £32.1m and £49.9m to be achieved in 2016-2017 and 2017-2018 respectively. After use of reserves, the Council will have to save £25m and £15m in these 2 financial years.
- 7.9 Savings targets for 2016-2017 onwards are subject to more volatility than usual. Spending limits will be set in the next parliament, and spending projections used by the Office of Budget Responsibility in the Autumn Statement 2014 may well change if there is a change in government. These figures represent a prudent approach to defining the budget gap and subsequent savings to be delivered.
- 7.10 There has been a movement in the MTFP presented to Council in March 2014, due to:
- A review of growth and Inflation requirements
  - A recalculation of the Council tax base
  - Increased economic growth resulting in additional Business Rates income
  - The Autumn Statement and Local Government Finance Settlement
  - Adjustments to reserves as a result of the 2013-2014 out-turn position

#### **Budget Reduction Opportunities for 2016-2017 Onwards**

- 7.11 The Mayor is working with the Corporate Management Team to devise a strategy to manage the budget gap from 2016-2017 onwards. CMT has established a programme of work to review and consider future budget reduction opportunities. 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 cost effectively as possible; and
  - Establishment of an approach to focus on longer term transformation opportunities designed to enable the authority to continue to deliver key priorities for local people with a reduced budget.

#### **Strategic approach 2016-2017 onwards**

- 7.12 The work on budget reduction proposals 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.
- 7.13 Within this broad framework, a number of work streams are being developed 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, considering in more detail alternative, more cost-effective ways of delivering this, where there are clear savings and they do 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, further 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.

7.14 Officers will undertake the work bearing in mind the priorities and principles established by the Mayor. These will be developed over the coming months with a view of being presented in sufficient time to ensure officers are able to put in place the necessary arrangements to meet the budget shortfall of £32.1m with an associated savings target of £25m for 2016-2017 on the 1<sup>st</sup> April 2016.

## **8 FINANCIAL RESOURCES**

8.1 The Council has five main streams of financial resources:

- Retained Business Rates
- Revenue Support Grant (RSG)

- Core Grants
- Council Tax
- Fees and Charges
- One-off use of Reserves

### **Retained Business Rates**

- 8.2 The Local Government Finance Act 2012 introduced a system whereby Councils were allowed to retain an element of Business Rate income; previously it had been passed to the Government who then redistributed the national amount as Formula Grant. An initial baseline exercise established that Tower Hamlets Business Rates were not at a sufficient level to cover resource requirement, so the Council is therefore subject to a government top-up. The Business Rates collected in a financial year are split between the government (50%), the GLA (20%) and the Council (30%). Any increases in the business rates total will be retained by the Council, subject to the above ratios. As the Council is a top-up authority, there is no upper limit to the amount of business rates that can be retained.
- 8.3 The strategic approach referred to in section 7 has a key work stream relating to harnessing economic growth. Officers have been actively modelling new business development, and as economic growth has started to develop in the UK over the past 2 years, business rates have also increased.
- 8.4 As part of the 2014-2015 budget, the Council estimated that £102m in Business Rates would be received. During the year, the gross rate total increased by over £30m, which means that the Council achieved an £8m surplus. This was reported at December Cabinet. The December Cabinet report also noted that the exact mix of collection fund and general fund elements of this surplus was to be determined. Revised estimates now show that £3m will be in the General Fund as Section 31 grant in 2014-2015, and a 2014-2015 collection fund surplus relating to Business Rates will be utilised in 2015-2016.
- 8.5 The current MTFP assumes that income over the next three year period through Retained business rates will be as follows:

|                         | 2015-16<br>£m | 2016-17<br>£m | 2017-18<br>£m | Total<br>£m |
|-------------------------|---------------|---------------|---------------|-------------|
| Retained Business Rates | 117.544       | 125.767       | 131.597       | 374.908     |

*Table 2 – Assumed retained business rates income from 2015-2016 to 2017-2018*

- 8.6 This represents an increase over and above the 2015-2016 levels reported in December Cabinet (£113.637m), based on known business developments that will be coming on stream during the year, for example Crossrail. The saving proposal of £1.3m relating to addition rateable value has also been include in the 2015-2016 figures, therefore the figure has increased by £2.607m since December Cabinet.
- 8.7 During times of restricted economic growth, the Council has taken a prudent

approach to estimating business rates. The UK economy is now growing, and the above analysis reflects a similar growth pattern in 2015-2016 compared to 2014-2015, i.e. circa £30m growth in gross rates. However, this does introduce an additional risk of non-achievement of income targets.

- 8.8 The Autumn Statement announced that any backdated appeals for rate reductions would have to be submitted by March 2015. It also committed to all appeals being heard by March 2016. The figures for 2016-2017 show an increase of circa £3m as a result of reduced provisions for appeals at that time. An allowance for 1% growth has been made from 2016-2017 onwards based on previous performance. This will be continually reviewed by the working group examining the potential for harnessing economic growth.
- 8.9 Some uncertainty has also been introduced by the announcement in the Autumn Statement that the whole business rates system will be reviewed by the Government, although there are assurances that it will be consistent with the current financial regime.
- 8.10 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.
- 8.11 The Local Government Finance Settlement confirmed that a cap on the national multiplier of 2% would continue into 2015-2016. Previous projections had assumed RPI increases. The Council will receive Section 31 grant as compensation for loss of revenue. This grant will cover loss of income as a result of the cap in both years (2014-2015 and 2015-2016).

### **Revenue Support Grant**

- 8.12 The December Cabinet report included Revenue Support Grant (RSG) of £82m, in line with the indicative 2015-2016 figures published as part of the 2014-2015 settlement.
- 8.13 The provisional local government finance settlement announced that RSG would be £83.6m. Allowing for elements that have been rolled in to the grant, including 2014-2015 Council Tax Freeze Grant, the total is more or less in line with expectations.
- 8.14 The current government has introduced dramatic changes to Revenue Support grant; it is no longer mainly allocated on the basis of need, which means that Councils with relatively high indices of deprivation, like Tower Hamlets, are disproportionately affected by funding cuts. The 'rolling in' of previously ring-fenced and core grants has also meant that RSG is now split between a fixed element and a variable element. The figures for Tower Hamlets are as follows:

|   |               |
|---|---------------|
|   | £m            |
| Council Tax Freeze Grant                    | 3.670         |
| Early Intervention Grant                    | 12.632        |
| Homelessness Prevention Grant               | 1.707         |
| Learning Disability and Health Reform Grant | 1.899         |
| Local Lead Flood Grant                      | 0.144         |
| Revenue Support                             | 63.536        |
| <b>Total</b>                                | <b>83.588</b> |

Table3 - RSG

8.15 Early Intervention Grant and Learning Disability Grant are in DfE and DoH control totals, not DCLG. These figures could be changed or even withdrawn by the sponsoring Government departments. Current modeling shows a reduction of £46m over the lifetime of the MTFP, which equates to a 61% reduction in core RSG provided by DCLG.

### Core Grants

8.16 The Council will be in receipt of a number of specific 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 4 sets out the Core Grants and the projected level of funding over the next three years.

#### Residual Core Grants - Non Ringfenced

The table below 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 utilise on any purpose within the General Fund.

|                          | 2014-15<br>£'m | 2015-16<br>£'m | 2016-17<br>£'m | 2017-18<br>£'m |
|--------------------------|----------------|----------------|----------------|----------------|
| New Homes Bonus          | 19.819         | 17.813         | 22.813         | 23.526         |
| Local Lead Flood         | 0.128          | 0.085          | 0.085          | 0.085          |
| Local Welfare Provision  | 1.724          | 0              | 0              | 0              |
| Education Services Grant | 5.131          | 4.140          | 4.140          | 4.140          |
| Housing Benefits Admin   | 4.210          | 3.705          | 3.455          | 3.205          |
| <b>TOTAL</b>             | <b>31.012</b>  | <b>25.743</b>  | <b>30.493</b>  | <b>30.956</b>  |

Table 4 – Non Ringfenced Grants



- 8.17 The Local Welfare Provision grant was unilaterally cut by the government as part of the 2014-2015 settlement. This was enacted without any consultation, and the government has indicated, despite intensive lobbying, that it will no longer provide funding for this service to vulnerable people. The Council will work closely with its partners and the community to manage the impact of this cut, utilising any underspent grant brought forward. The Authority is currently consulting on a proposal to discontinue the council's crisis and support grant scheme as a result of the withdrawal of Government funding.
- 8.18 The Government has also changed the way in which grant for administering benefits is allocated, along with a late announced 10% 'efficiency reduction'. This has meant a cut of £500k to the Council's funding. Future year projections also assume that the level of grant will be reduced as further efficiency savings are demanded.

*Council Tax Freeze Grant*

- 8.19 For the last four 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 2015-2016 the Council will receive £0.907m which is equivalent to a 1% rise in Council tax. The table below summarises the Council tax freeze grant received since 2013-2014 with a forecast for 2015-2016:

|                          | 2013-14<br>Actual<br>£m | 2014-15<br>Actual<br>£m | 2015-16<br>Provisional<br>£'m | Total<br>£'m |
|--------------------------|-------------------------|-------------------------|-------------------------------|--------------|
| Council Tax Freeze Grant | 0.846                   | 0.884                   | 0.907                         | 2.637        |

*Table 5 – Council Tax Freeze Grant received since 2013-2014 and forecast for 2015-2016*

*New Homes Bonus (NHB)*

- 8.20 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 national average band D tax rate and the funding lasts for six years.
- 8.21 In December 2013, the Chancellor announced that London boroughs will be required to transfer a proportion of their New Homes Bonus (NHB) to the GLA, for the funding of the London Enterprise Panel (LEP). This topslice of NHB does not apply to any Local Authorities outside of London. This will equate to £70 million in 2015-2016. This means that the Council will lose 23.8% of its allocation from 2015-2016 onwards - a loss of £7.024m of grant per annum. The topslice explains why the NHB figure has reduced for 2015-2016 in Table 4 – had it not been applied, the Council's share of NHB would have been 24.838m. This decrease in NHB has 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. The 'spending power' calculation published by the Government assumes that the Council will receive that full amount of NHB, which is patently not the case.

- 8.22 The updated MTFP assumes NHB receivable for 2015-2016 to 2017-2018 of £64.152m. The table below summarised the movement from the former to the current MTFP: The amount represents a small (£335k) increase over the amount estimated for 2015-2016 in the December Cabinet report, mainly due to the affordable homes element which is calculated separately.

|                  | <b>2015-16</b><br>£'m | <b>2016-17</b><br>£'m | <b>2017-18</b><br>£'m | <b>Total</b><br>£'m |
|------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Previous MTFP    | 15.478                | 20.478                | 21.191                | 57.147              |
| December Cabinet | 17.478                | 22.478                | 23.191                | 63.147              |
| Revised MTFP     | 17.813                | 22.813                | 23.526                | 64.152              |

*Table 6 – Movement in New Homes Bonus*

#### *Education Services Grant*

- 8.23 Education Services Grant (ESG) replaced the former Local Authority Central Spend Equivalent Grant (LACSEG) in 2013-2014. The major change was that grant which had formerly been paid to Local Authorities for service provision to schools is now paid direct to academies. Those Councils with high levels or Academy conversions would lose substantial amounts of grant as a result.
- 8.24 Academy conversion levels in Tower Hamlets are relatively low, and the Council has not seen significant grant reductions as a result. However, the 2013 spending round identified that DfE had offered up £200m savings in ESG as part of their public spending reduction targets. The exact way in which this reduction would be allocated was subject to consultation in July 2014, and the result has been exemplified in the provisional settlement for 2015-2016. The Council has received a grant reduction of £991k.

#### *Residual Core Grants – Ringfenced*

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

|  | <b>2014-15</b><br>£'m | <b>2015-16</b><br>£'m |
|--|-----------------------|-----------------------|
| Support for Social Care Benefiting Health (from the NHS) | 5.500                 | 4.934                 |
| Integration Transition Fund Planning                     | 1.200                 | 1.096                 |
| Better Care Fund   | 8.314                 | 9.092                 |
| Public Health  | 32.261                | 32.261                |
| Dedicated Schools Grant                                  | 298.542               | 295.841               |
| <b>TOTAL RINGFENCED</b>                                  | <b>345.817</b>        | <b>343.224</b>        |

*Table 7 – Ringfenced Grants*

*NHS Better Care Fund (BCF)*

- 8.26 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.
- 8.27 The BCF 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
- 8.28 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.
- 8.29 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 given to the non-recurrent activities funded through these sources if funding is not invested in these areas in future years.
- 8.30 In 2015-2016 Tower Hamlets share of the national allocation of £3.8bn is £20.367m. This will be shared between the Council and the CCG and based on previous allocations the Council's share is expected to be approximately £9.092m. Projects requiring funding from this allocation have been agreed with CCG and submitted to central government. Currently a S75 document is being prepared which will be presented to Health and Wellbeing Board in January 2015. The

project plan sets out how the funding will be used. The 2014-2015 transitional funding has been used as per the plans approved.

- 8.31 There may be opportunities to utilise a proportion of the Tower Hamlets allocation to redistribute existing mainstream funding and this will be considered as plans are further developed. The MTFP does not currently make any assumptions regarding this.

#### *Public Health*

- 8.32 A ring-fenced grant of £32.261m has been provided to fund activities in 2015-2016. In the long term the MTFP has been constructed on the basis that the costs of public health services will be contained within this sum.
- 8.33 In the long term it is hoped that there will be on-going financial benefits from the transfer of public health.
- 8.34 In addition, Public Health funding and commissioning responsibility for 0-5 year olds will transfer to Local Government in October 2015. A baseline exercise has been carried out, and is currently subject to consultation. The indicative 2015-2016 Tower Hamlets figure for 6 months (October to March) is £3.540m, which implies a full year figure of just over £7m. The grant and associated expenditure have not been included in the MTFP, as it is still subject to consultation and negotiation. Members will be updated during 2015-2016 when the final details are agreed.

#### *Dedicated Schools Grant*

- 8.35 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.

#### **Council Tax**

- 8.36 The December Cabinet report estimated that Council Tax receipts would be £68.744m for 2015-2016. A savings target of £335k relating to optimising income collection was also approved. Table 1 shows an estimated £69.815m for Council Tax, including the savings target. This is £721k more than the December figure, mainly due to revised growth estimates based on known developments.

#### **Reserves**

- 8.37 The Council holds a number of reserves which can be categorised as follows:
- General (Non-earmarked) Reserves - 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)

- 8.38 A summary of the Council's reserves and associated risk analysis is attached in appendices 5.1, 5.2 & 5.3. This also shows the projected movement on the reserves for both the current financial year 2015-2016 and then 2016-2017 to 2018-2019.
- 8.39 It is projected that the Council will have non-earmarked General Fund Reserves of £66.631m as at 31<sup>st</sup> March 2015. This is greater than projected in the Medium Term Financial Plan previously reported due to budget contingencies not being required and additional business rates income in 2014-2015 to cover off additional spending. A net overspend on Directorate budgets of £1.841m is being reported in the quarter two monitoring return.
- 8.40 The level of General Fund Reserves over the 2015-2016 to 2017-2018 will reduce to £20m. It is proposed that the strategy established in previous years to utilise general reserves to smooth the impact of savings remains, subject to the level of reserves never falling below the minimum level of £20m. 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.
- 8.41 There are no budgeted contributions to reserves from 2015-2016 onwards and therefore all risks and costs arising will need 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 AND INVESTMENT**

### **Service Demand and Unit Cost Pressures**

- 9.1 The Council's budget monitoring reports over the first six months of 2014-2015 have highlighted a net overspend on Directorate budgets of £1.841m. This is predominantly due to the financial pressures on the Adult Social Care packages which have insufficient grants and reserves to cover the forecast spend. This will continue to be reviewed over the financial planning period and the impact will be reflected in the new base budgets.
- 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 £18.980m. The pressures for 2015-2016 which are in line with those highlighted in the previous budget setting process are as follows:
- Demographic Pressures in Adult Social Care (£1.5m) – a higher demand for services, including in learning disabilities with children transitioning into adult social care.
  - Communities, Localities and Culture (£1.96m) – resulting from the increased cost of waste disposal to landfill sites and the escalating cost of the government's Freedom Pass Scheme.

- Investment in Street lighting & the New Civic Centre (£1.5m)
  - Rising costs of Housing Benefit for homelessness and temporary accommodation (£2.6m)
  - A one off provision for planned maintenance (£803k)
- 9.3 Provision for growth is generally held centrally and only released once it has materialised and is evidenced.
- 9.4 Additional budget pressures which will need to be reviewed and costed once further detail is available include:
- The Care Act 2014 will come into force in phases, including the introduction of assessments and services for carers from April 2015 and a new cap on contributions toward care costs from April 2016. In respect of the cost of the changes to the care caps, the Government initially announced £1bn of funding nationally to meet the cost of this from 2016/17 onwards, but there is no clarity on how this will be identified or allocated as it is in the next parliament and spending round.
  - The Children and Families Act became law in 2014 and extended 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.
  - The introduction Single Tier State Pension in 2016-2017 will mean that the Council will have to pay increased employers national insurance contributions, estimated to cost £3m.

### **Inflation**

- 9.5 In addition to the specific service demand pressures the other single most significant financial risk facing the Council is the impact of inflation.
- 9.6 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.
- 9.7 The inflation budget for 2014-2015 was set at £4.842m, which was split 35% for pay inflation and 65% for non-pay inflation.

### *Pay Inflation*

- 9.8 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. For 2014-2015, a 2.2% pay award was agreed with effect from 1<sup>st</sup> January 2015, 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.

## **Budget growth to deliver priorities**

- 9.9 To deliver the Mayor's manifesto commitment and in accordance with the principles set out in paragraph 6.5, the Mayor is proposing to allocate additional funding to the following priority initiatives in 2015-2016:
- 9.10 The Mayor's Higher Education Bursary and the Mayor's Education Allowance, which provides much needed support to children in the Borough who are moving into higher education. £1m has been allocated in the MTFP to support these initiatives.
- 9.11 The Mayor continues to support the provision of free school meals over and above current government policy, to ensure that all children in primary schools receive free school meals. £2.675m has been included in the growth proposals to deliver this priority.
- 9.12 Community Safety is a high priority for the Mayor, and £615k has been allocated as an ongoing resource to employ Tower Hamlets Enforcement Officers (THEO's) to continue excellent community safety support.
- 9.13 The Stairway to Heaven project at Bethnal Green commemorates those who died in the Tube Station tragedy during the Second World War. The Mayor is committed to supporting this project, and £25k has been set aside as match funding in the MTFP.
- 9.14 Welfare Reform Measures to protect vulnerable residents will support the continued provision of suitable, in-borough accommodation for residents impacted by Welfare Reform. .

## **10 SAVINGS**

- 10.1 As part of the 2014-2015 financial and business planning process, December Cabinet approved a number of savings opportunities which will have an impact on the draft MTFP. These savings totalling £20.391m are due to be delivered in 2015-2016. The schedule of savings is detailed in Appendix 4.1 of the report and also accompanied by relevant equality analysis in appendix 4.3.
- 10.2 The figure includes a £4m provision for slippage, as consultation means that some savings will be delivered part year in 2015-2016 rather than full year. The savings have been included as full year figures from 2015-2016 onwards. Non delivery of savings is a key risk to the Council and will be monitored during the year.
- 10.3 New savings totalling £1.430m are tabled in Appendix 4.2 of the report

## **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**

- Low level of inflation and/or deflation
- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- 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
- Pace and severity of austerity is increased after the general election

### **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 (see paragraph 10.2)
- Non-delivery of some proposals

### **Opportunities**

- New freedoms and flexibilities
- Public Health (see Section 8.)
- NHS Better Care Fund (see Section 8.)
- Growth in local Taxbase for both housing and businesses
- Potential for multi-year settlements after the general election



- 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 5.2. This will form the basis of an on-going review of Reserves and Contingencies and indicates a net financial impact between £20m and £39.5m over the planning period. This has therefore been reflected in the recommended level of 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. Appendices 6.1 & 6.2 set out the details of the predicted schools settlement for 2015-2016

## **13 HOUSING REVENUE ACCOUNT**

- 13.1 HRA Self-Financing has been in force since April 2012, when £236.200m of our housing debt was redeemed. Under Self-Financing, we retain all rental income, but must finance all revenue and capital costs relating to our council house stock.
- 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 £192m, and use the revenue surpluses forecast to be generated in the early years of Self-Financing.
- 13.3 Prior to the start of HRA Self-Financing, the government assumed that authorities would continue with rent restructuring and aim to achieve rent convergence in 2015-2016, and it was also assumed that after 2015-2016, authorities would increase rents by RPI + 0.5% each year. The government has recently issued its updated 'Guidance on Rents for Social Housing' which outlines a number of changes to rent policy, the main change is that the guidance states that from 2015-2016 rents should increase by CPI + 1%, so in effect rent convergence has ended a year early. Further details are provided in the HRA report elsewhere on this agenda.
- 13.4 There are a number of risks to the HRA in the short to medium term; since the Right to Buy (RTB) scheme was reinvigorated in April 2012 over 2,000 applications have been made and there have been 262 sales. Although the Authority retains part of each RTB receipt to be spent on replacement social housing, this is insufficient to replace the number of properties sold. In addition, there are a number of restrictions on the use of these receipts, such as having to spend them within three years, not being allowed to use them in conjunction with HCA/ GLA funding, and the fact that the receipts cannot constitute more than 30% of the cost of replacement social housing, so that the Council must fund the remaining 70% from other resources. 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 report elsewhere on this agenda provides more details on these risks.

- 13.5 Appendix 7 shows an indicative summary of the HRA medium-term financial plan for 2015-2016 to 2017-2018. A report outlining the 2015-2016 rent increase is being considered elsewhere on this agenda and the 2015-2016 HRA budget will be considered by 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. Appendix 8.2 includes a list of indicative schemes which will be subject to further approval through a directorate specific report.
- 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 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.
- 14.5 The Vision document also identified the old Royal London Hospital 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 into the heart of the borough and create a catalyst for the regeneration of the Whitechapel area.

- 14.6 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 to come. The terms of the purchase has now been agreed with NHS Barts.
- 14.7 The Council will exchange contracts to purchase the site in January 2015. 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 surplus assets.
- 14.8 Business planning and feasibility work demonstrate that once acquired, a new Civic Centre would be more affordable to the Council and result in an overall reduction in ongoing costs. Officers have prepared a separate report to be presented to this Cabinet meeting.

#### **Other**

- 14.9 The Watts Grove site has been identified as a key affordable housing priority. This has meant existing depot facilities will be decanted during the year, and the revised programme includes a provision for refurbishment of depot sites in order to allow the transfer of the Watts Grove operations.

### **15 TREASURY MANAGEMENT STRATEGY**

- 15.1 The Treasury Management Strategy Statement will be revised and presented to Full Council in February 2015 in accordance with the CIPFA Treasury Management Code of Practice. The Statement will set out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.
- 15.2 The proposed prudential indicators set out in the Treasury Management Strategy will be 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 Over a six week period from 10th September the Council sought local residents' views on specific savings proposals which identified a particular impact on service delivery or users. As part of the Your Borough Your Voice engagement campaign, seeking feedback from residents about local priorities and budget decisions, we sought views on 25 specific proposals.
- 16.2 The consultation was carried out using a wide range of methods to ensure as many opportunities as possible for people to take part. These included a web-based survey publicised online, in East End Life and at local events and stalls. In addition, there were also a range of awareness raising events in the community,

face to face discussions with specific service user groups and consultation with groups with specific needs. Consultation activity included:

- Publication of each of the 25 proposals on a dedicated web page. This was advertised on the Council's website, through weekly updates in East End Life and through leaflets and materials distributed at the events below. If people had difficulty accessing these online, help was offered to support them to respond;
- Raising awareness of the consultation through local events and stalls at market locations throughout the Borough;
- Discussion with Local Ward Forums and Community Champion Coordinators: and
- Consultation meetings with service user groups and representative forums, as well as with voluntary and community sector organisations. These included, for example, the Local Voices steering group of disabled residents, the Learning Disabilities Partnership Board and the Carers Forum.

16.3 451 surveys were completed as part of the consultation by 166 individual respondents. In addition around 800 more people attended local groups and service user events. Many proposals received both positive comments as well as identifying concerns about particular impacts. The feedback provided has been used to assist in understanding and responding to the impact of the proposals and is reflected in the equality analyses presented in Appendix 4.3 to ensure that Cabinet is able to give due regard to the possible impact on groups with protected characteristics in taking final decisions.

16.4 Cabinet agreed in October to extend the deadline by two weeks to ensure the consultation process was fair and rigorous. At November Cabinet, the Mayor announced a number of changes to proposals made in response to feedback, and to protect particular groups. Other proposals have also been subject to review. The changes include:

- The proposal to mainstream social work support for the Children and Adolescent Mental Health Service has been withdrawn;
- The proposal to close 4 local authority nurseries has been withdrawn;
- The proposal to extend controlled parking zone has been withdrawn to enable further consultation;
- Proposals regarding the Muslim and African Families service have been reviewed and amended;
- Proposals for the reconfiguration of Children's centres have been amended;
- The proposal to review day services for older people has been deferred; and

- The proposal relating to Public Health Drug Service Commissioning has been reviewed and amended.

- 16.5 In addition, where feedback indicated that there would be an adverse impact on any particular equality group as a result of the proposal, the accompanying Equality Analysis indicates the mitigating action which is proposed to address this.
- 16.6 A full response to all consultation issues raised have been published on the Council's website
- 16.7 The consultation on budget and savings proposals will continue to engage local people as the 2015-2016 budget is finalized at a time when difficult choices need to be made. Further resident engagement is already underway including an independent face to face survey, which is also available online, and a series of more in depth workshops with sample groups of residents. Further opportunities for residents to feedback on all aspects of the budget proposals and equality analyses set out in this report are planned before the budget is presented to Full Council in February. There will also be the opportunity to explore and feedback on budget priorities more generally through an online budget simulator.

## **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 Care Act 2014 (coming into effect on 1 April 2015) creates a general duty on the council to promote an individual's well-being when exercising a function under that Act. Well-being is defined as including protection from abuse, participation in work and suitability of accommodation. The well-being principle should inform the delivery of universal services which are provided to all people in the local population as well as being considered when assessing those with individual eligible needs.
- 18.11 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 has been the subject of consultation which is to be reported in an addendum and should address whether any further equality analysis is required 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 |



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| Appendix 3   | Detailed analysis of projected budget revenue growth resulting from increased service demand and higher unit costs |
| Appendix 4.1 | Approved savings schedule 2015-16  |
| Appendix 4.2 | New Savings 2015-16  |
| Appendix 4.3 | Cumulative Equalities Analysis Budget 2015   |
| 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 (2015-16)  |
| Appendix 7   | The Housing Revenue Account Medium Term Strategy   |
| Appendix 8.1 | Current Capital Programme (2014-15 to 2016-17)   |
| Appendix 8.2 | Indicative schemes to be funded from external sources 2015-16 to 2017-18   |
| Appendix 8.3 | Summary of Proposed Capital Programme 2014-15 to 2017-18   |
| Appendix 9   | Outline Strategic Priorities 2015-16   |

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

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