ANNEX 2

Cabinet 2nd February 2016	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
General Fund Revenue and Capital Budgets, Medium Term Financial Plan 2016-20	

Lead Member	**Councillor David Edgar, Cabinet Member for Resources**
Originating Officer(s)	Barry Scarr
Wards affected	All wards
Key Decision?	Yes
Community Plan Theme	**One Tower Hamlets**

REASONS FOR URGENCY

EXECUTIVE SUMMARY

This report sets out proposals which form part of the draft Medium Term Financial Plan (MTFP) covering the four year period from 2016-17 to 2019-20.

It includes a revised assessment in each of the next four 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 four years is shown in Appendix 1 with a more detailed service analysis in Appendix 2.

The 2016-17 local government provisional finance settlement was announced on the 17th December 2015 following the Chancellor's Autumn Statement. The outcome of the settlement is reflected in this report.

Since the Spending Review was announced in November, the Government has made it clear that their austerity programme is likely to continue until at least 2019-20.

The pace at which austerity is implemented and further cuts to public spending will be dictated by the strength of the economy. Spending cuts have already been extended by one year, and the current plan to eliminate the deficit is reliant on £27bn projected future tax revenues.

The council forecasts that cuts to its grant, increases due to inflation and demographic pressures over the next four year period from 2016-17 to 2019-20 will result in a budget shortfall of £59.077m.

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.

It should also be noted that the final settlement is expected during the first week of February. The figures and assumptions contained within this report are therefore still subject to change and may need to be updated for the February Full Council report.

RECOMMENDATIONS

The Mayor in Cabinet is recommended to:

1. Agree a General Fund Revenue Budget of £358.313m subject to any changes that may be required following the final settlement in February 2016.
2. Agree the Council tax (Band D) at £920.85 for 2016-17 be referred to Full Council for consideration
3. To authorise the Corporate Director, Resources in consultation with the Mayor and Lead Member of Resources to make the required changes to the budget following the final settlement announcement in February.
4. Consider and comment on the following matters:

   Budget Consultation

   The outcome of consultation with residents and the Overview and Scrutiny Committee on the budget and savings proposals as detailed in section 3.12 and Appendix 9 and 10.

   Funding

   The funding available for 2016-17 and the indications and forecasts for future years set out in Section 3.4.

   Base Budget 2016-17

   The Base Budget for 2016-17 as £350.346m as detailed in Appendix 1.

   Growth and Inflation

   The risks identified from potential growth and inflation commitments arising in 2016-17 and future years and as set out in Section 3.5 and in Appendix 3.

   General Fund Revenue Budget for 2016-17 and Medium Term Financial Plan 2016-17 to 2019-20

   The initial budget proposal and Council Tax for 2016-17 together with the Medium Term Financial Plan set out in Appendix 1.

Savings

New savings items to be included in the budget for 2016-17 and the strategic approach for future savings to be delivered are set out in Section 3.6, Appendix 4.1 and 4.2 of the report.

Capital Programme

The capital programme to 2018-19; including the proposed revisions to the current programme as set out in section 3.10 and detailed in Appendices 8.1, 8.2 & 8.3, and the proposed refresh of the council's capital strategy during 2016-17.

To adopt a capital estimate for Communities, Localities & Culture TFL LIP schemes (2016-17) totalling £2.487m & S106 schemes totalling £0.276m as detailed in Appendices 8.1 & 8.2.

Dedicated Schools Grant

The position with regards to the Dedicated Schools Grant as set out in Section 3.8 and Appendices 6.1 & 6.2.

Housing Revenue Account

The position with regards to the Housing Revenue Account as set out in Section 3.9 and Appendix 7.

Financial Risks: Reserves and Contingencies

The strategic budget risks and opportunities as set out in Section 3.7 and Appendix 5.2.

Reserves and Balances

New schemes being funded from general fund reserves in 2016-17.

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

1 REASONS FOR THE DECISIONS

1.1 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 11th March 2016 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.

1.2 The announcements that have been made about Government funding for the council require a robust and timely response to enable a balanced budget to be set.

2 ALTERNATIVE OPTIONS

2.1 The council is required to respond to the budget reductions in 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 council 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 continuing budget reductions.

3 DETAILS OF REPORT

3.1 BACKGROUND

3.1.1 The council's integrated financial and business planning process is the key mechanism for reviewing plans and strategies to ensure priorities are being delivered and that resources are allocated effectively to underpin their achievement. The process culminates in changes to the budget and medium term financial strategy that reflect the Mayor's priorities, the Community Plan and Strategic Plan objectives.

3.1.2 The refresh of the Medium Term Financial Plan (MTFP) presented to Cabinet on 28th July 2015 showed that the economic base of the council, which comprises of income through council tax and business rates is growing and identified the savings requirement 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 2019-20 to align with the government's spending review period with a profile on future savings requirements.

3.1.3 The main body of the report is in ten sections:

Strategic Approach (Section 3.2)

Medium Term Financial Plan & Proposed Budget (Section 3.3)

Financial Resources (Section 3.4)

Budget Pressures and Growth Allocations (Section 3.5)

Savings Proposals (Section 3.6)

Risks and Opportunities (Section 3.7)

Schools' Funding (Section 3.8)

Housing Revenue Account (Section 3.9)

Capital Programme (Section 3.10)

Treasury Management Strategy (Section 3.11)

Budget Consultation (Section 3.12)

3.1.4 The key planning assumptions that support the draft MTFP are set out below and in the attached appendices listed. Those planning assumptions have taken account of the Autumn Statement announced by the Chancellor of the Exchequer on the 25th November and the subsequent local government provisional finance settlement that was published on the 17th December 2015.

3.2 STRATEGIC APPROACH

3.2.1 The council has a well-embedded approach to strategic and financial planning. The development of the Medium Term Financial Strategy has been informed by an understanding of the opportunities and potential in the borough. This includes:

- Ongoing economic growth and a rising employment rate
- A vibrant population with a high proportion of young people
- An active voluntary and community sector, and
- A partnership committed to collaborative working around priority outcomes.

3.2.2 It also recognised that there are some long term and emerging challenges, including:

- Growth and development impacting on local infrastructure and services
- Low employment levels, particularly for women and some ethnic minorities
- Significant child poverty and the impact of welfare benefit reductions
- Local people priced out by spiralling housing prices, and the danger of a polarised community
- Low levels of health and life expectancy
- The need to be vigilant and tackle the potential for radicalisation and extremism.

3.2.3 Against this backdrop, a Strategic Framework has been developed informed by an understanding of the local community, its views and the opportunities and challenges the council faces. The Framework sets out key priorities that the Medium Term Financial Strategy will help deliver and are based around two Priority Outcomes. Each Priority Outcome is supported by a number of Strategic Objectives. These are as follows:

Priority Outcome 1: **Creating opportunity by supporting aspiration and tackling poverty**

1.1 A dynamic local economy, with high levels of growth benefiting us

1.2 More residents in good-quality, well-paid jobs

1.3 Young people realising their potential

1.4 More people living healthily and independently for longer

1.5 Reducing inequality and embracing diversity

Priority Outcome 2: **Creating and maintaining a vibrant, successful place**

2.1 An improved local environment

2.2 Better quality homes for all

2.3 Less crime and anti-social behaviour

2.4 Engaged, resilient and cohesive communities

3.2.4 To complement and ensure delivery of these priorities and outcomes, the Framework sets out an Enabling Objective of a Transformed Council, making best use of resources and with an outward facing culture. An Outline Strategic Plan which provides further detail of the council's key priorities, supporting activities and transformation principles is being considered elsewhere on the agenda..

3.3 MEDIUM TERM FINANCIAL PLAN & PROPOSED BUDGET

3.3.1 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 more fully in this report. The figures assume a council budget requirement of £358.313 for 2016-17 and a Council Tax at Band D of £920.85.

Spending Review and Autumn Statement – November 2015

3.3.2 The Chancellor of the Exchequer published the government's joint Spending Review 2015 and Autumn Statement on 25th November 2015, setting out public expenditure plans for 2016-17 to 2019-20.

3.3.3 The changes to the underlying Office of Budget Responsibility (OBR) forecasts since July 2015 showed a £27bn improvement in the level of public finances. This is based on the underlying forecast for tax receipts being stronger and lower debt interest.

3.3.4 The improvements to the OBR forecast since Summer Budget 2015 mean that the remaining budgetary consolidation now required is £18bn. Spending Review 2015 (SR15) is intended to deliver £12bn of savings to the overall Resource Departmental Expenditure Limit (DEL) spending. In addition, an apprenticeship levy will raise £3bn and the remaining £3bn is being delivered through reforms such as Making Tax Digital and further measures to tackle tax avoidance.

3.3.5 The government has protected a number of core priorities from the spending reductions and these include:

- Spending 2% of Gross Domestic Product (GDP) on defence for the rest of this decade;

- Spending 0.7% of Gross National Income on overseas aid;
- Providing the NHS in England with £10bn per year more in real terms by 2020-21 than in 2014-15;
- Increasing the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week;
- Protecting schools' funding in England in real terms over the Spending Review period;
- Protecting overall police spending in real terms over the Spending Review period;
- Maintaining funding for the arts, national museums and galleries in cash terms over this Parliament.

3.3.6 Despite the improved forecasts, Local Government was hit particularly hard in the spending review. Total funding is set to reduce by £6.1bn, equivalent to a 56% reduction in revenue support grant, or 27.5% reduction in Settlement Funding Assessment (SFA), which is explained further in 3.4.6. In addition, councils will also be subject to the apprenticeship levy on larger employers announced from April 2017 onwards. It will be set at a rate of 0.5% of an employer's pay bill. Employers will receive an allowance of £15,000 to offset against their levy payment.

3.3.7 The government will allow local authorities with adult social care responsibilities the power to raise an additional 2% through council tax to fund adult social care. The 2% is in addition to the council tax referendum limit and needs to be used for adult social care only. It should be noted that the government has included the assumption that councils will increase council tax by 2% per year in this finance settlement. This is expected to raise an additional £2bn nationally per annum by 2019-20

3.3.8 The government also announced that £1.5bn will be made available to local authorities to add to the Better Care Fund by 2019-20. However, the £1.5bn will be part funded by a £800m top-slice to New Homes Bonus. In addition, New Homes Bonus could move from a 6 year funding period to a 4 year funding period, and proposals introduced to 'sharpen the incentives'.

3.3.9 The SR reported that there will be savings made to Public Health Funding, with 3.9% average real terms saving per annum over the next five years (and that the ring fence will be maintained for 2016-17 and 2017-18. The government are also planning to consult on moving the funding from the current grant-based system to being funded from retained business rates.

3.3.10 The Chancellor re-iterated previous announcements regarding the move to 100% business rates retention by the end of this Parliament. Key features of the move to 100% business rates retention will include the ability for directly elected Mayors to increase the local rate for specific infrastructure projects and the ability for local authorities to be able to reduce rates locally. The SR report included reference to the additional responsibilities that 100% business rates retention may bring. It suggested that the government would consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Public Health funding.

3.3.11 The government confirmed that the current review of business rates will report at Budget 2016 and it will be fiscally neutral (it remains to be seen if this is neutral nationally, or at an individual council level).

3.3.12 The Spending Review protected the core schools' budget in real terms, enabling the per pupil rate for the Dedicated Schools Grant to be protected in cash terms.

3.3.13 The government will introduce the first national funding formula for schools, high needs and early years, with a detailed consultation in 2016 and the implementation of the new formulae from 2017-18.

3.3.14 There will be investment of £3bn over the Parliament to open 500 free schools and provide 600,000 additional school places, rebuild and refurbish over 500 schools and address maintenance need.

3.3.15 The government plans to extend Academies and, in doing so, to save up to £600m on the Education Services Grant.

Local Government Finance Settlement

3.3.16 On the 17th December 2015, the provisional 2016-17 Local Government Finance Settlement was announced by the Secretary of State. The announcement provided illustrative figures for 2016-17, and an offer of four years guaranteed funding, with caveats.

3.3.17 The settlement is the first that incorporates the changes introduced in the spending review, and was published on the very last day of parliamentary business before the Christmas break. A number of areas have yet to be clarified, and other areas are subject to consultation. This report incorporates consideration of the provisional settlement implications for the Borough. Where details have not yet been finalised by the government, or are dependent on the results of consultation, underlying assumptions are made clear in the report.

3.3.18 The final settlement is expected during the first week of February. There is a possibility that some changes may need to be made to the report to Full Council to take account of any material changes that result from the final local government settlement.

The Updated Council’s Medium Term Financial Plan

3.3.19 The Council’s updated MTFP is summarised in the table below:

Summary Draft Medium Term Financial Plan 2015-2020					
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Net Service Costs	355,585	350,346	358,313	346,914	355,865
Growth (Incl Public Health)	14,442	23,890	(16,899)	3,451	3,400
Savings					
Approved	(22,421)	(4,000)	0	0	0
New	(200)	(17,423)	0	0	0
Inflation	2,940	5,500	5,500	5,500	5,500
Total Funding Requirement	**350,346**	**358,313**	**346,914**	**355,865**	**364,765**
Government Funding	(88,693)	(73,094)	(58,474)	(48,444)	(38,079)
Retained Business Rates	(117,960)	(120,344)	(126,750)	(131,731)	(137,172)
Council Tax	(69,815)	(76,884)	(80,775)	(84,862)	(89,156)
Collection Fund Surplus					
Council Tax	(2,131)	(1,278)	0	0	0
Retained Business Rates	(4,922)	(2,597)	0	0	0
Core Grants	(57,151)	(58,626)	(48,392)	(41,245)	(41,281)
Earmarked Reserves (Directorates)	(1,833)	(2,080)	(370)	(370)	0
Total Funding	**(342,505)**	**(334,903)**	**(314,761)**	**(306,653)**	**(305,689)**
Budget Gap (excl use of Reserves)	7,841	23,410	32,153	49,213	59,077
Unallocated Contingencies	0	0	0	0	0
Budgeted Contributions to Reserves	0	0	0	0	0
General Fund Reserves	(7,841)	(23,410)	(2,153)	(1,213)	(1,077)
Unfunded Gap	0	0	30,000	48,000	58,000
Savings to be delivered in each year	(0)	0	(30,000)	(18,000)	(10,000)
	31/03/2016	**31/03/2017**	**31/03/2018**	**31/03/2019**	**31/03/2019**
Balance on General Fund Reserves (£000s)	63,616	40,206	38,053	36,841	35,764

Table1 – Summarised MTFP for 2016-17 to 2019-20

3.3.20 As set out in the table above and in detail in Appendix 2 the council has a balanced budget in 2016-17. The MTFP identifies a budget shortfall of £58m over the remaining MTFP to 2019-20. To manage these budget gaps, after use of reserves, the council will have to save £30m, £18m and £10m in these 3 financial years.

3.3.21 Savings targets for 2017-18 onwards are subject to more volatility than usual. These figures represent a prudent approach to defining the budget gap and subsequent savings to be delivered.

3.3.22 There has been a movement in the MTFP presented to Council in March 2015, due to:

- A review of growth and inflation requirements
- A recalculation of the Council Tax base
- Realignment of business rates income with economic growth
- The Autumn Statement and Local Government Finance Settlement
- Adjustments to reserves as a result of the 2015-16 outturn position
- In year budget adjustments – July Cabinet 2015

3.3.23 There have also been a number of changes made to the report considered by the Mayor in Cabinet in January 2016 and these include:

- Approved growth and inflation requirement for 2015-16 awarded to directorates
- Cabinet Decision not to progress savings – January 2016

3.4 FINANCIAL RESOURCES

3.4.1 The Council has the following main sources of funding:

- Retained Business Rates
- Revenue Support Grant (RSG)
- New Homes Bonus
- Better Care Fund
- Public Health
- Other Grants
- Council Tax
- One-off Use of Reserves

3.4.2 This section will also set out and analyse the government's proposal for a four year guaranteed settlement.

Retained Business Rates

3.4.3 The Local Government Finance Act 2012 introduced a system whereby councils were allowed to retain an element of Business Rate income. An initial baseline exercise established that Tower Hamlets Business Rates were not at a sufficient level to cover its 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 council, there is no upper limit to the amount of business rates that can be retained.

3.4.4 The current MTFP assumes that income over the next four years through Retained Business Rates will be as follows:

	2016-17 £m	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**	**Total £m**
Retained Business Rates	120.344	126.750	131.731	137.172	515.997

Table 2 – Assumed retained business rates income from 2016-17 to 2019-20

3.4.5 This represents an increase of £2.4m compared to 2015-16, based on known business developments that will be coming on stream during the year.

3.4.6 The figures published by the government in the four year settlement offer are based on SFA, i.e. the government's estimate of the council's baseline business rates when the system was set in 2013. This ignores the planned revaluation in 2017 of properties based on 2015 prices (the current system is based on 2010 values), when it is possible that the council will move to be a tariff council rather than the current top up situation. Under this scenario, the council would receive more business rates as a result of the revaluation, but would be required to pay an excess to the government. It would also mean that the levy would apply to retained business rates, i.e. the council would no longer keep 100% of the income generated above the new baseline.

3.4.7 Early modeling of the effects of the 2017 revaluation show that the council would gain via a higher business rates baseline, but would potentially lose due to the levy and a high level of appeals. The current MTFP assumes that the effects of the revaluation will be broadly neutral until further details are announced.

3.4.8 The business rates figure in 2015-16 included a grant awarded for a 2% cap on the national multiplier applied to business rates. The MTFP assumes that this grant (£1.4m) will continue for the next four years; however this is yet to be confirmed.

3.4.9 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 2016-17 compared to 2015-16. However, this does introduce an additional risk of non-achievement of income targets.

3.4.10 There will be an extension to the doubling of small business rate relief (SBRR) in England for 12 months to April 2017. The figures reflect the implementation of this relief, and the council will be compensated by a revenue (Section 31) grant.

Revenue Support Grant

3.4.11 The July Cabinet report included Revenue Support Grant (RSG) of £64m, in line with the indicative 2016-17 figures.

3.4.12 The 2015-16 MTFP report identified that the coalition government had introduced dramatic changes to Revenue Support Grant; it was no longer mainly allocated on the basis of need, which meant that councils with relatively high indices of deprivation, like Tower Hamlets, were disproportionately affected by funding cuts.

3.4.13 The provisional settlement has introduced a new methodology for allocating revenue support grant. Rather than applying the same percentage cut to all authorities which was thought to be the planned approach, the new approach takes into account individual authorities' council tax raising ability and the type of services provided. This would appear to favour upper tier authorities, with significantly larger funding reductions for district councils. This change has had a significant impact on Tower Hamlets as an illustration, the table below shows the highest and lowest reductions to Settlement Funding Assessment (SFA) over the life of the spending review:

Council	Adjusted 2015-16	2019-20	% Change
	£m	£m	
10 highest % reductions			
East Dorset	2.2	0.4	-83%
Elmbridge	4.0	0.8	-79%
Reigate and Banstead	3.8	0.8	-79%
Mole Valley	2.1	0.5	-78%
Surrey Heath	2.5	0.6	-75%
Chiltern	2.5	0.6	-75%
Wokingham	26.7	6.9	-74%
Tandridge	2.6	0.7	-72%
Maidstone	5.2	1.6	-69%
Sevenoaks	3.7	1.2	-67%
10 Lowest % Reductions			
Birmingham	611.9	464.9	-24%
Liverpool	299.2	227.5	-24%
Southwark	197.9	150.7	-24%
Wandsworth	126.2	96.4	-24%
Tower Hamlets	***187.9***	***143.8***	***-23%***
Manchester	305.0	234.3	-23%
Knowsley	107.8	83.2	-23%
Hackney	187.3	144.9	-23%
Westminster	154.1	119.2	-23%
Newham	189.3	146.7	-22%

Table 3 - 10 highest and lowest % reductions in SFA

3.4.14 The table shows that Tower Hamlets has the 6th lowest cut in SFA out of over 400 Local Authorities in the UK, and that there has been a transfer of funding to authorities with upper tier services such as adult social care.

London Boroughs in particular have benefitted from this change to the methodology; over the cumulative four year period, London boroughs will receive the lowest percentage cut of all types of regions (for councils only), and the second lowest in terms of council type (only metropolitan districts will receive a lower cut). Shire counties and districts will see the largest percentage cuts to SFA.

3.4.15 As a result of these changes, the provisional local government finance settlement announced that RSG in 2016/17 would be £68.66m for the council, £3.86m more than expected and previously reported.

New Homes Bonus

3.4.16 The principle behind New Homes Bonus (NHB) 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.

3.4.17 When the government first introduced NHB in 2011-12, it was fully funded. From 2013-14 onwards, NHB was top-sliced from Revenue Support Grant (RSG) – in effect, all councils would lose a proportion of RSG, which would then be recycled back as NHB. Those councils that increased the housing stock in the area would be proportionately better off than those who hadn't.

3.4.18 Tower Hamlets is a high growth area, and has accumulated the highest level of NHB in the country. The estimated gross NHB for Tower Hamlets in 2016-17 is £28.6m, with 2016-17 being the first year of the full 6 year cumulative allocations. Because NHB is in effect recycled RSG, the funding has been used to balance the budget and MTFP over the last five years. However, the scale of the grant has produced a dependency in the MTFP, and exposure to risk and volatility if the funding regime changes.

3.4.19 In 2015-16 New Homes Bonus funding for London Boroughs was top-sliced in order to fund Local Enterprise Partnership priorities via the GLA as part of the Growth Deal for London announced by the Chancellor in the 2014 Autumn Statement. As a result, Tower Hamlet's New Homes Bonus allocation was reduced from a gross amount of £25.2m to £18.1m in the MTFP, a reduction of £7.024m. The MTFP approved by Council in March 2015 assumed that the top slice would continue over the life of the plan.

3.4.20 In the autumn statement, the Chancellor announced the government will consult on reforms including 'sharpening the incentive' to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. A consultation on 'sharpening the incentives' was published on 17th December 2015, with the following key features:

- The government proposes to reduce the number of years payments are received from 6 to 4 years. This would be effective from 2017-18, with the 2012-13 payment only having 5 annual payments and the 2013-14 (and future years' payments) only having 4.
- Withholding new allocations in areas where no local plan has been produced in accordance with the Planning and Compulsory Purchase Act 2004;

- Reducing payments for homes built on appeal; and
- Only making payments for delivery above a baseline representing 'deadweight' (houses that would have been built regardless of NHB), set at 0.25% of the base

3.4.21 If implemented, this would have the effect of reducing the national level of New Homes Bonus from £1.485bn in 2016-17 to £900m in 2019-20.

3.4.22 Given the high level of NHB allocated to Tower Hamlets, changes to the funding is a key risk that could have a significant impact. The proposed MTFP manages the risk by reducing the council's reliance on NHB in balancing the budget. A proportion of the NHB received has been included in the MTFP in the table below. Additional allocations above this will be set aside to support the council's capital programme for affordable housing and infrastructure. This reduced reliance on NHB in the MTFP will be reflected in the council's refreshed capital strategy. This approach produces the following profile for New Homes Bonus over the four year period:

Year	**£m**
2016-17	21.6
2017-18	12.3
2018-19	3.9
2019-20	3.1

Table 4 – 4 year new homes bonus allocations

The Better Care Fund

3.4.23 The Better Care fund (BCF) was announced as part of the 2013-14 spending review. The Fund is a pooled budget, bringing together local council and NHS funding to create a £3.8bn national pot designed to integrate care and health services.

3.4.24 The Tower Hamlets Better Care Fund is applied to a series of projects and work streams, to be jointly agreed with the NHS via the Clinical Commissioning Group (CCG). The 2016-17 totals have yet to be announced, but the impact on the MTFP is neutral, as the fund was not a grant, and did not impact the funding requirement of the council.

3.4.25 The representation of the fund by national government has been contentious – it was included in previous calculations of local government 'spending power' (although councils had no direct control over it), and was also included in NHS spending totals. It appeared to be double counted. The government has responded to representations from the sector and removed BCF from the calculation of 'core spending power'. The revised calculation, which forms part of the guaranteed 4 year settlement, does include an 'improved better care fund', to be allocated to local authorities from 2017-18 onwards. An additional £1.5bn by 2019-20 has been allocated to local authorities with social care responsibilities. As with the allocation of Revenue Support Grant, this funding takes into account local authorities' ability to raise resources locally. In this instance, it factors in the amount that each council can raise from the 2% social care precept on Council Tax. The in-year national allocations are:

- 2017-18 £105m
- 2018-19 £825m
- 2019-20 £1,500m

The provisional figures for Tower Hamlets are as follows:

Year	**£m**
2017-18	1.6
2018-19	7.7
2019-20	12.8

Table 5 – improved better care fund provisional allocations

3.4.26 The exact way in which the fund will operate has yet to be announced. The government calculations of how ‘core spending power’ will change over the four year period include the improved better care fund (IBCF), but also include reductions in New Homes Bonus. Table 4 shows a £8.5m reduction (after setting aside £10m for capital purposes) in budgeted NHB by 2019-20, with table 5 showing an increased £12.8m allocation from the improved better care fund. If this new fund is ring fenced, i.e. can only be spent on NHS integration or new services, then it will in effect be forcing the council to remove funding from discretionary services funded by NHB to statutory services funded by IBCF. In the absence of any firm details, the MTFP reflects a prudent assumption that 50% of the funding will be used on integration and additional services, while 50% will be used for existing costs and pressures in adult social care. This assumption will be updated once further information is provided by the government.

Public Health

3.4.27 The original 2015-16 ring-fenced grant of £32.261m was reduced in year by the government by £2m as part of the Summer Budget.

3.4.28 In addition, the Spending Review Report in November 2015 state that there will be savings made to Public Health Funding, with 3.9% average real terms saving per annum over the next five years and that the ring fence will be maintained for 2016-17 and 2017-18. The year on year reductions are as follows:

Year	**£m**
2016-17	0.666
2017-18	0.740
2018-19	0.750
2019-20	0.730

Table 6 - reductions in public health grant

3.4.29 The revised Public Health Grant allocation for 2016-17 is £29.595m which represents a decrease of £0.666m from the 2015-16 grant allocation. In the long term the MTFP has been constructed on the basis that the costs of public health services will have to be contained within the reduced amounts as per the spending review.

3.4.30 Public Health funding and commissioning responsibility for 0-5 year olds was transferred to Local Government in October 2015. The 2015-16 Tower Hamlets figure for 6 months (October to March) was £3.616m; the full year grant for 2016-17 for this function on the same basis should be £7.078m after taking account of the 2.2% reduction announced.

3.4.31 The government are also planning to consult on moving the funding from the current grant-based system to being funded from retained business rates. As a result, the MTFP model now shows Public Health as part of the council's funding requirement, with the grant identified as a funding source.

3.4.32 The provision for free school meals over and above current government policy will continue to be made from the public health grant, to ensure that all children in primary schools receive free school meals. £2.675m has been included in the MTFP to be funded from the PH grant.

Other Grants

Education Services Grant

3.4.33 Education Services Grant (ESG) replaced the former Local Council Central Spend Equivalent Grant (LACSEG) in 2013-14. 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 of Academy conversions would lose substantial amounts of grant as a result.

3.4.34 Academy conversion levels in Tower Hamlets are currently relatively low, and the council has not seen significant grant reductions as a result. However, in the autumn statement, the Chancellor announced this grant will be cut by £600m as part of plans to "reduce the local council role in running schools and remove a number of statutory duties" and turning all schools into academies.

3.4.35 As a result of these policy changes, the MTFP assumes that ESG will reduce from a total of £3.8m in 2016-17 down to £720k in 2019-20. The policy of academisation and the removal of education functions from local authorities will have a major impact on the resource base, but as there are no firm announcements from government as to how this will operate in practice, no assumptions have been made at this point regarding parallel savings or cost pressures as ESG declines.

Dedicated Schools Grant

3.4.36 The largest single grant received by the council 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 3.8.

3.4.37 In the autumn statement, the Chancellor announced the government will introduce the first national funding formula for schools, high needs and early years. The government will launch a detailed consultation in 2016 and implement the new formulae from 2017-18. This is likely to have significant implications for the council and the borough's schools.

Council Tax

3.4.38 As announced at SR2015, the government has confirmed that there will be a 2% social care 'precept'. Those authorities with Adult Social Care responsibilities will be required to provide certain information and undertake a number of actions if they choose to apply the 2% 'precept'. The Secretary of State will take account of the authorities' actions when setting referendum principles in future years.

3.4.39 Guidance is provided on the new flexibility. This includes:

- There will be a requirement for Section 151 officers in these authorities to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. This must be done within 7 days of their council setting its budget and council tax for 2016-17. In subsequent years of the Parliament, Section 151 officers will be required to confirm that this additional council tax continues to be allocated to adult social care.
- These authorities must confirm the level of their average Band D (excluding parish precepts) council tax increase for 2016-17, and the proportion of it attributable to funding for adult social care on the Council Tax Requirement form that must be returned to DCLG within 7 days of their council tax having been set. The data provided will form part of the annual statistical release on council tax levels, which is usually published annually in March.
- The amounts allocated to adult social care must be reflected in Revenue Account returns sent to DCLG in April/May 2016; and in the Revenue Outturn forms which will be submitted to DCLG in May 2017. The above information will be required each year that the scheme is in operation. From 2017-18 onwards, the requirement will also encompass the cumulative year-on-year revenue being allocated to adult social care.
- Tax payers must be informed on the face of the council tax bill and in the information supplied with it about the part of the increase that is being used to fund adult social care.

3.4.40 Authorities were invited to give their views on the operation of this new flexibility and section 151 officers in these authorities were requested to indicate whether their council is minded to take up the 2% flexibility (in full or in part), by 5pm on 15th January 2016. In line with this requirement the section 151 officer has notified the DCLG of the Council's intentions to take up this flexibility, subject to Full Council approval.

3.4.41 The guidance also suggests that authorities setting a council tax increase which does not make use of the additional flexibility in any year will still be asked to comply with some of the steps outlined in relation to any increases in council tax that will be used to fund adult social care services.

3.4.42 The Secretary of State will monitor the use of the additional flexibility and will take authorities' actions into account when determining referendum principles each year.

3.4.43 The provisional settlement also confirmed that Council Tax Freeze Grant will not be available for 2016-17. The council has utilised this grant in the past to keep council tax levels low, but in the absence of such funding, it is proposed that Council Tax is increased by 1.99% in 2016-17.

3.4.44 Allowing for a 1.99% increase, a 2% increase for the social care precept, and the revised base to be approved by Cabinet, revenue through council tax income is estimated at £76.884m for 2016-17. For future years, the figures currently assume a 2% rise for the social care precept, but no further ongoing general increase in Council Tax.

Local Council Tax Support Scheme

3.4.45 The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB) and replaced it with the Local Council Tax Support Scheme (LCTSS) under the Local Government Finance Act.

3.4.46 There is a statutory requirement to approve the new Local Council Tax Support Scheme (LCTSS) by Council before 31st January each year. Full council approved the new Local Council Tax Support Scheme for 2016-17 at its meeting on the 20th January 2016.

Reserves

3.4.47 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).

3.4.48 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 the current financial year, 2016-17 and then 2017-18 to 2019-20.

3.4.49 It is projected that the council will have non-earmarked General Fund Reserves of £63.6m as at 31st March 2016. This is greater than projected in the Medium Term Financial Plan previously reported due to budget contingencies not being required.

3.4.50 The level of General Fund Reserves over the 2016-17 to 2019-20 is expected to reduce to £35.764m. 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 continuously scrutinised on an on-going basis to ensure this strategy is achieved.

3.4.51 There are no budgeted contributions to reserves from 2016-17 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 over the plan period 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.

3.4.52 The detail of specific schemes and initiatives being funded from reserves are set out below and in Appendix 3 of the report.

- Planned Maintenance (Corporate Buildings) - £0.523m
- Security and Associated costs on the Royal London site - £0.140m
- Educational Maintenance Allowance - £1.110m
- Impact of welfare reform changes - £1m
- New Civic Centre - £20m
- Support for Higher Education (formerly Higher Education Bursary) - £0.600m

Proposed four year settlement

3.4.53 Since 2010 Local Government has been subject to annual finance settlements whilst trying to plan strategic savings programmes over the medium term. Representations have been made to provide a multi-year settlement, and the government has responded with a provisional four year settlement deal from 2016-17 to 2019-20.

3.4.54 The four year settlement focusses on core spending power, and for Tower Hamlets, the figures are as follows:

Core Spending Power of Local Government;					
Tower Hamlets	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	187.9	170.7	158.0	150.9	143.8
Council Tax of which;	69.8	75.7	82.5	90.0	98.3
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*69.8*	*74.2*	*79.4*	*84.9*	*90.9*
Additional revenue from 2% referendum principle for social care	-	*1.5*	*3.2*	*5.1*	*7.4*
Improved Better Care Fund	-	-	*1.6*	*7.7*	*12.8*
New Homes Bonus and returned funding	25.2	*28.6*	*29.0*	*18.2*	*17.5*
Core Spending Power	**282.9**	**275.0**	**271.2**	**266.9**	**272.4**
Change over the Spending Review period (£ millions)					-10.5
Change over the Spending Review period (% change)					-3.7%

3.4.55 The figures imply that Tower Hamlets would face a £10.5m cut in core spending by 2019-20, a 3.7% reduction, assuming that the 2% social care levy is implemented, and that the Council Tax base grows. It also ignores the GLA top slice for New Homes Bonus, the 2017 revaluation of business rates, and the potential for discretionary spending to be squeezed by a ring fenced improved better care fund.

3.4.56 Government has stated that it will offer any council that wishes to take it up a four year funding settlement to 2019-20. Councils will need to request this and have an efficiency plan in place, although the government has not yet provided any detail regarding what will be required within such a plan. It is considered likely that the plan will include the need to demonstrate that reserves are being utilised effectively.

3.4.57 There are also a number of caveats and/or unknowns associated with the offer:

- The final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rates multiplier changes and for future changes such as transfer of functions, mergers etc.
- The government also says future years could change owing to unforeseen events but does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets for a budget surplus;
- The government has not indicated what the formal process for this request is; who from a council should request the future years' settlement; what the timetable for the request is; what approval process is required in a council; whether a request can be rescinded if there is political change at a local council.

3.5 BUDGET PRESSURES AND GROWTH ALLOCATIONS

Service Demand

3.5.1 The council's budget monitoring reports over the first six months of 2015-16 show a break-even position. This provides reassurance that the council is successfully delivering the 2015-16 savings target of £27m and managing to contain growth and inflation pressures within the budget allocation awarded as part of the 2015-16 funding envelope.

3.5.2 A review of new and emerging growth pressures was undertaken and a schedule detailing new budget pressures in each service area is attached as Appendix 3. Over the four year planning period the growth pressures excluding inflation total some £17.269m. The pressures for 2016-17 are summarised below:

- Adult Services (£3.304m) – resulting from increased costs relating to demographic pressures in adult social care and Implementation of the Ethical Care Charter.
- Communities, Localities and Culture (£0.965m) – resulting from the

increased cost of waste disposal to landfill sites and replacement of street lighting.

- Development & Renewal (£0.663m) – resulting from the need to meet one off pressures around planned maintenance and security of council buildings.
- Introduction of the Single Tier State Pension (£1.800m) and the Apprenticeship Levy (April 2017) (£0.800m) – These amounts are required to fund the additional cost to the council for increased employers' national insurance contributions and estimated contribution to the government's new apprenticeship programme.

3.5.3 In addition to the service pressures and allocations identified above, the following service priorities are being awarded growth allocations:

- The scheme to replace Educational Maintenance allowance which provides much needed support to young people in the borough will continue in each year of the MTFP. £0.370m has been included in the growth figures above for this initiative.
- Support for Higher Education (formerly known as Higher Education Bursary) which provides support to students for the cost of attending university will continue in 2016-17. £0.600m has been included in the growth figures for this initiative.
- £1.0m has been set aside to tackle anti-social behaviour and improve street cleanliness around the borough.
- The provision of free school meals to ensure all children in primary schools receive free school meals will continue over the MTFP period. £2.675m has been included in the MTFP and will be funded from the Public Health grant.
- £0.725m was allocated in the MTFP in 2015-16 to mitigate against the impact of welfare reform changes, particularly in relation to housing and benefits. Further welfare changes are expected to have an even greater impact on these services for residents in 2016-17. A further £1m provision has therefore been made in the MTFP. A review of the use of the funding currently provided and the on-going ability to cover the shortfalls arising from the impact of welfare reform will be undertaken during 2016-17.

3.5.4 Provision for growth is generally held centrally and only released once it has materialised and is evidenced.

Inflation

3.5.5 In addition to the specific service demand pressures the other single most significant financial risk facing the Council is the impact of inflation.

3.5.6 The Government's projections for Retail Price Index (RPI) inflation which is reflected in the MTFP is 1.0% 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

3.5.7 The inflation budget for 2016-17 is set at £5.500m, split 29% for pay inflation and 71% for non-pay inflation.

Pay Inflation

3.5.8 The council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The MTFP anticipates that staffing costs will increase by 1% in each year of the four year plan. Provision has been made for the payment of the London Living Wage to Council staff.

3.6 SAVINGS PROPOSALS

3.6.1 As part of the 2015-16 financial and business planning process, a number of savings opportunities have been identified for 2016-17. All savings have been through the consultation process and were presented to Cabinet as part of the budget setting process in January 2016. Savings totaling £17.423m are due to be delivered in 2016-17. The schedule of savings, proformas and equality analysis is detailed in Appendix 4.1and 4.2.

3.6.2 A £2m provision has been set aside from prior year unallocated growth to allow for longer lead times for some of the savings as consultation requirements mean that some savings will be delivered part year in 2016-17 rather than full year. The full year effect will be seen in 2017-18 onwards. Non delivery of savings is a key risk to the Council and will be closely monitored during the year.

3.6.3 The savings proposal for early years currently includes an assumption regarding the use of DSG funding. Given the planned consultation on national formula funding for schools, which is likely to change the level and distribution of DSG, the service directorate has highlighted the need to develop potential alternative savings to minimise the risk of non-delivery of these savings.

3.7 RISKS AND OPPORTUNITIES

3.7.1 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.

3.7.2 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.

3.7.3 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
- Changes to pace and severity of austerity

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 (including impact of an ageing population)
- Impact of changes to Welfare Benefits

Efficiencies and Savings Programme

- Slippage in the expected delivery of the savings programme
- Non-delivery of some savings proposals

Opportunities

- Growth in local Taxbase for both housing and businesses
- Potential for multi-year settlements based on an efficiency plan
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs
- Income generation opportunities

3.7.4 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.

3.7.5 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 £42.6m 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).

3.8 SCHOOLS FUNDING

3.8.1 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 2016-17.

3.9 HOUSING REVENUE ACCOUNT

3.9.1 HRA Self-Financing has been in effect from April 2012, when £236.200m of the Council's housing debt was redeemed. Under Self-Financing, the Council retains all rental income, but must finance all revenue and capital costs relating to its council housing stock.

3.9.2 Indicative modelling of the HRA over a 30 year period indicated that the council would be able to finance the projected capital needs - including the Decent Homes programme - but would need to borrow up to its statutory debt cap of £184m, and use the revenue surpluses forecast to be generated in the early years of Self-Financing.

3.9.3 However, a number of changes to government policy that have come into force since the start of Self-Financing, or have recently been announced, will have a substantial impact on the HRA and – unless mitigated – are likely to lead to a situation whereby there will be insufficient HRA resources to fully fund the projected capital programme over the next 30 years.

3.9.4 The Welfare Reform and Work Bill is currently being considered by Parliament. This legislation will require local authorities to implement a 1% rent cut for each of the next four years, starting in 2016-17. The estimated cumulative impact of this in terms of the loss of rental income over the next four years is estimated to be in the region of £24m.

3.9.5 The Housing and Planning Bill is also being considered by Parliament. This legislation will introduce a compulsory 'Pay to Stay' scheme from 2017-18, whereby social tenant households with incomes of £40,000 or more will be charged a higher rent – possibly up to market rent. The extra rent will be payable to the government, with the local council making an upfront payment of the assumed level of additional rent payable. At the moment there is no further detail known about the way in which the scheme will work.

3.9.6 The Housing and Planning Bill will also require local authorities to consider selling their high-value stock when it becomes vacant. Local authorities will make an annual upfront payment to the government based on assumptions about their stock values and void rates, with the money being used to compensate housing associations for the Right to Buy discount offered to their tenants. There are currently no further details of how the scheme will operate and what the cost implications will be.

3.9.7 Since the re-invigoration of the Right to Buy (RTB) scheme in April 2012, there have been almost 2,800 applications received, with 527 sales completed to the end of November 2015. Although the council 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 restrictions on the use of the receipts, including 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, meaning that the council must fund the remaining 70% from other resources. The HRA report elsewhere on this agenda provides more details on these risks.

3.9.8 Appendix 7 shows a summary of the HRA medium-term financial plan for 2016-17 to 2020-21, although this is indicative at this stage given the uncertainties around the new policies detailed above. A report outlining the 2016-17 HRA budget is being considered elsewhere on this agenda.

3.10 CAPITAL PROGRAMME

3.10.1 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 as and when appropriate.

3.10.2 During the coming financial year, the council 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.

3.10.3 The refresh of the capital strategy will ensure that the council has a consolidated strategy and capital programme based on a corporate approach to the prioritisation of all capital resources which is aligned to the Community and Strategic Plan priorities.

Below is an analysis of the key capital projects in the capital programme.

Civic Centre

3.10.4 In January 2015 the council acquired the freehold of the former Royal London Hospital site in Whitechapel, and in November 2015 the Mayor in Cabinet reaffirmed that site as the preferred location for a new civic centre.

3.10.5 In conjunction with this decision, it was agreed that various sites would be disposed of, namely, Cheviot House, Southern Grove, Commercial Road, LEB, Jack Dash House and Albert Jacob House, with the resulting capital receipts being ring-fenced towards the financing of the new civic centre. John Onslow House will be retained and refurbished as part of the civic centre programme. The individual disposal proposals for these sites will be considered by the Mayor.

3.10.6 Development proposals for the civic centre are now being progressed to RIBA stage 3 planning level, with a full business case being completed. In addition to the use of capital receipts, there will be a significant borrowing requirement in order to finance the redevelopment, and this will be reflected in future reports to both Cabinet and Council that will seek the adoption of a capital estimate for the full scheme.

3.10.7 The MTFP is proposing to “earmark” £20m from reserves towards the costs of the civic centre to reduce the borrowing requirement.

229 Bethnal Green Rd

3.10.8 The site at 229 Bethnal Green Road is now used as the Professional Development Centre. Tower Hamlets College (THC) occupied part of the site when further education colleges became independent of councils. THC retained its right to occupy the property. By agreement a number of years ago, THC vacated the building. LBTH and THC entered into an agreement for a lease which preserved the College’s rights to the occupation of 49% of the building. This agreement also includes a mechanism for the council to buy out the College’s interest if the College chose not to return. The agreement sets the method of assessing the value of the compensation to be paid. THC has confirmed that it does not wish to return to the site and £1m has been set aside from reserves to allow the council proceed with the negotiations to agree the compensation.

Underground Refuse Service

3.10.9 A decision was made by the Mayor in Cabinet to transfer the existing Underground Refuse and Recycling Service to the Municipal Waste (Cleansing) Contract due to the growing demands for the service. It was identified at that time that the underground service would need investment to maintain the current level of service and to provide additional capacity in the future.

3.10.10 Two of the existing vehicles are now at the end of their useful life and will need to be replaced by the council. Due to the specialist nature of the vehicles, £0.500m has been set aside in Reserves in 2017-18 to fund the replacement (£0.250m per vehicle).

Community Infrastructure Levy and Infrastructure Delivery

3.10.11 The Community Infrastructure Levy (CIL) system came into effect in April 2015, and replaced certain elements of the previous Section 106 planning process which still continues in a reduced capacity. The council has historically generated substantial resources via the Section 106 system, and this will continue under the CIL, with the first receipts now starting to be received.

3.10.12 On 5 January 2016, the Mayor in Cabinet approved the proposals for the introduction of an Infrastructure Delivery Framework (IDF). This replaces the current Planning Contributions Overview Panel allocation process.

3.10.13 The IDF will take effect from April 2016, and will involve an officer ‘Infrastructure Delivery Steering Group’ providing recommendations to an ‘Infrastructure Delivery Board’. This in turn will propose funding allocations for ultimate approval by the Mayor in Cabinet. Funding recommendations will be made in accordance with polices and guidelines.

3.10.14 The payment of both CIL and Section 106 contributions is linked to the development build process and wider economic considerations which are outside the control of the Council. The amounts receivable are difficult to estimate, however, using existing projections it is estimated that annual receipts could be in the region of £25-35m.

3.10.15 In order that spending decisions on can be made during the financial year by the Infrastructure Delivery Board and the Mayor in Cabinet, it is proposed that a total provision of £30 million is incorporated within the 2016-17 capital programme for Infrastructure Delivery.

3.11 TREASURY MANAGEMENT STRATEGY

3.11.1 The Treasury Management Strategy Statement will be revised and presented to Cabinet and Full Council in February 2016 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.

3.11.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the capital programme as detailed in Section 3.10 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.

3.12 BUDGET CONSULTATION

3.12.1 A budget consultation exercise was undertaken to seek residents' views on the savings proposals for 2016-17.

3.12.2 The Your Borough Your Voice public consultation campaign gave residents and service users the opportunity to comment on and feedback on the savings proposals put forward by the council to balance the budget for 2016-17.

3.12.3 The consultation was designed to meet statutory and best practice consultation guidance by providing an opportunity for residents and stakeholders to give their views on perceived impacts that the proposals could have; identify the groups that could be affected by the proposals and set out any potential risks or benefits to the proposals.

3.12.4 The consultation with residents included:

- General public consultation facilitated through the council website. This was for all proposals where an equality screening exercise indicated that a group or groups with protected characteristics may be affected by the proposed changes. These were designated as level 1.
- Direct service user consultation through face to face meetings and engagement with service user groups or related forums. This was for proposals where an equality screening exercise indicated a clear

potential impact on specific group or groups of protected characteristics resulting from a significant change to a service. These were designated level 2 consultations.

3.12.5 The consultation included a parallel programme for consulting staff this year, building on lessons learned and feedback from the 2015-16 savings consultation.

3.12.6 The consultations on the savings proposal ran from 12 October to 9 November 2015. It used a range of methods to capture feedback, including web-based options, face to face discussions with service user groups, and specific interest groups. A summary of the key methods of consultation are set out in Appendix 9.

3.12.7 The findings of the consultation have been used to further assess the equality impact of the savings proposals and full Equality Assessments are presented with the draft budget proposals to inform final decisions.

3.12.8 In response to the feedback, the Mayor announced a number of changes to savings proposals at January Cabinet which have been incorporated into the revised budget. The changes are as follows:

- The proposal to save £93k by Reducing or Stopping Sunday Idea Store opening will not be progressed.
- The proposal to reduce the Corporate match funding budget by £246k will also not be progressed.
- The saving of £241k from the Review Day Services for Older People will only be progressed once suitable alternative to current provision has been found for any service users affected

4 COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 Section 25 of the Local Government Act 2003 requires the Councils Chief Finance Officer (The Corporate Director of Resources) to report on the robustness of the estimates made for the purposes of the final budget calculations, and the adequacy of the proposed financial reserves.

Robustness of estimates

4.2 The council has an embedded strategic approach to managing the budget gap over a number of years. This allows proposals to be developed that prioritise front line and key service areas. The Cabinet’s budget proposals are consistent with this overall strategic approach.

4.3 The council enjoys a high measure of financial stability and has over a number of years managed its finances well. Since the introduction of large scale reductions in Local Government funding, the council has managed its spending within agreed budgets and is on track to do so in 2015-16.

4.4 Contingency levels have been reviewed as part of the budget process, and the proposals for 2016-17 include a designated £3.1m contingency sum. This contingency will be adequate to cover any potential costs arising from government directions.

4.5 Inevitably there are several risks to the budget and these have been set out in the Cabinet report, including the challenges around delivery of savings proposals and the measures in place to mitigate these risks.

4.6 The budget proposals have been subject to scrutiny and the Mayor has also undertaken consultation with residents and businesses.

4.7 Accordingly, the Corporate Director of Resources is satisfied that the arrangements set out above constitute a robust process for the budget calculations underpinning the Cabinet's proposals for the 2016-17 budget.

Adequacy of Reserves

4.8 It is projected that the council will have un-earmarked General Reserves of approximately £63.6m as at 31st March 2016, a reduction compared to the 31st March 2015 level. The final position will be dependent on the council's financial outturn 2015-16 to be reported in June 2016.

4.9 The MTFP has an agreed strategy of utilising general reserves to minimise the impact of government funding cuts, until they reach a minimum level of £20m. Appendix 5 of the Cabinet budget report confirms the calculation of the £20m minimum level, and current resource projections are well within these boundaries.

4.10 Accordingly the Corporate Director of Resources is satisfied that the proposed levels of general reserves are judged to be adequate within the meaning of the 2003 Act.

5 LEGAL COMMENTS

5.1 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.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

5.6 The Council has a 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" (the best value duty"). The preparation and consideration of a Medium Term Financial Plan as part of the budget setting process may assist to ensure compliance with the best value duty.

5.7 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.

5.8 The report provides details of the revised capital programme. The capital programme 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.

5.9 The report provides information about a variety of grant funding, the application of which may be governed by agreement or legislation. The application of dedicated schools grant, for example, is governed by the

School Standards and Framework Act 1998 and the School and Early Years Finance (England) Regulations 2014 made under that Act. The report outlines in broad terms the different limitations on grant funding and the Council will have to ensure that it complies with the relevant agreement or legislative requirement, as the case may be, in respect of each grant. It will be for officers to ensure this is the case.

5.10 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.

5.11 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 public sector equality duty). A proportionate level of equality analysis is required in order to enable the Council properly discharge this duty and in some cases, such as where savings are made which impact on service users, consultation will be required to inform the equality analysis.

5.12 Where consultation is carried out for the purposes of assessing budget impacts it should comply with the following criteria: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives, including other areas in which savings may be made.

6 ONE TOWER HAMLETS CONSIDERATIONS

6.1 The Medium Term financial plan has been developed in line with the Mayor's priorities, the Community Plan and Strategic Plan objectives to ensure that the council's resources are aligned to its key priorities and service delivery objectives and achieve value for money for council tax and business rates payers.

6.2 The actions outlined below 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.

- 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.

7 BEST VALUE (BV) IMPLICATIONS

7.1 The preparation of the MTFP has taken account of the council's obligations in relation to its Best Value duty. The budget proposals are based on securing best value within the context of continuing reductions in council funding and service demand pressures.

8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9 RISK MANAGEMENT IMPLICATIONS

9.1 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 3.7 of this report.

10 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

11 SAFEGUARDING IMPLICATIONS

11.1 Any safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.

LINKED REPORTS, APPENDICES AND BACKGROUND DOCUMENTS

Linked Report

- Draft Medium Term Financial Plan report to Cabinet on 5 January 2016

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 4.1 — Savings 2016/17 – Summary
- Appendix 4.2 — Savings 2016/17 – Detail Proforma and Equality Analysis
- 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 (2016-17)
- Appendix 7 — The Housing Revenue Account Medium Term Strategy
- Appendix 8.1 — Current Capital Programme (2015-16 to 2017-18)
- Appendix 8.2 — Indicative schemes 2016-17 to 2018-19
- Appendix 8.3 — Summary of Proposed Capital Programme 2015-16 to 2018-19
- Appendix 9 — Public Consultation Feedback
- Appendix 10 — Budget Consultation Feedback, Overview and Scrutiny Committee

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- Ekbal Hussain, Head of Financial Planning & Corporate Finance Partner
  020 7364 4737
- Ruth Ebaretonbofa-Morah, Deputy Financial Planning Manager
  020 7364 1698