


<b>Cabinet</b>  9 January 2018	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>The Council's 2018-19 Budget Report and Medium Term Financial Strategy 2018-21</b>	

<b>Lead Member</b>	<b>Councillor David Edgar, Cabinet Member for Resources</b>
Originating Officer(s)	Neville Murton, Divisional Director, Finance, Procurement & Audit
Wards affected	All wards
Key Decision?	Yes
<b>Community Plan Theme</b>	<b>One Tower Hamlets</b>

## EXECUTIVE SUMMARY

In February 2017 the Council agreed a 3 year budget and Medium Term Financial Strategy (MTFS) for the period 2017-2020, including savings of £52m that would need to be delivered to achieve a balanced budget over that period.

As part of the Council's annual budget cycle, this report reviews and updates the assumptions made in that report for the years 2018-2020 and incorporates a new year, 2020-21, to maintain the Council's three year MTFS.

The assumptions set out in last year's MTFS for 2018-19 have been specifically reviewed to allow members to agree a balanced budget and Council tax requirement for that year.

Whilst 2018-19 is the third year of the government's four year guaranteed funding settlement, the introduction of a London-wide business rates retention pilot scheme and the Councils decision to participate will have an impact on those resources the Council receives from Revenue Support Grant and Business Rates and this change for 2018-19 is considered in this report

In additional, demographic and inflationary budget pressures together with mayoral priority growth proposals have also been identified and the action that is needed to meet these additional commitments over the existing MTFS assumptions are presented in this report.

The impact on the Council's MTFS of the Chancellors Autumn Statement that was announced on the 22<sup>nd</sup> November 2017 and the 2018-19 provisional local government finance settlement which followed on the 19<sup>th</sup> December 2017 are also considered in this report.

A summary of the projected General Fund budget for each of the three years 2018 -

2021 is shown in [Appendix 1A](#) with a more detailed service analysis in [Appendix 1B](#).

The report also includes revised assessments of the Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA).

The Councils capital programme is currently being finalised and will be presented to Cabinet on the 30<sup>th</sup> January.

## **RECOMMENDATIONS**

The Mayor in Cabinet is recommended to propose the draft budget proposals set out in this report for consultation with the Overview and Scrutiny Committee in accordance with the Council's Budget and Policy Framework. A further report will be submitted to the next Cabinet meeting on the 30<sup>th</sup> January detailing feedback from Overview and Scrutiny committee alongside the results from the Council's budget consultation exercise; inviting The Mayor in Cabinet to recommend a Budget Requirement and Council Tax for 2018-19 to Full Council.

The Mayor in Cabinet is therefore asked to:

1. Propose a draft General Fund Revenue Funding Requirement of £344.299m subject to any changes arising from the Final Local Government Finance Settlement.
2. Propose a Band D Council Tax of £986.14 for 2018-19 to be referred to Full Council for consideration.
3. Agree to increase the Council Tax empty homes premium from 50% to 100%
4. Confirm the Council's decision to be included in the London-wide business rates retention pilot from the 1st April 2018.
5. Note that, under section 23 of the Welfare Reform and Work Act 2016 the Authority must implement a rent reduction of 1% for four years starting in 2016-17, and consequently to agree an average weekly rent reduction of 1% to take effect from the first rent week of April 2018. This equates to an average rent reduction of £1.14 per week for 2018-19.
6. Agree that the average weekly tenanted service charge will increase by 4% from the first rent week in April 2018.
7. Note the refreshed priorities and outcomes (Paragraph 3.2.4) for the final year of the three year Strategic Plan agreed by Cabinet in April 2016.
8. Consider and comment on the following matters:

### **General Fund Revenue Budget for 2018-19 and Medium Term Financial Strategy 2018-19 to 2020-21**

The initial budget proposal and Council Tax for 2018-19 together with the Medium Term Financial Strategy set out in Appendix 1A.

### **Budget Consultation**

The outcome of consultation with business ratepayers, residents and other stakeholders will be reported to Cabinet on the 30<sup>th</sup> January 2018.

## **Funding**

The funding available for 2018-19 and the indications and forecasts for future years as set out in Section 3.4.

## **Growth and Inflation**

The risks identified from potential growth and inflation commitments arising in 2018-19 and future years together with new initiatives identified as Mayoral Priority Growth as set out in Section 3.5 and Appendix 3.

## **Savings**

New proposed saving items to be delivered in 2018-19 and 2020-21 as set out in Section 3.6 and Appendix 4 of the report.

## **Financial Risks: Reserves and Contingencies**

The strategic budget risks and opportunities as set out in Section 3.7 and the assessment of risk as detailed in Appendix 6.

## **Reserves and Balances**

The proposed approach to the strategic use of reserves as set out in Section 3.8 and the projected movement in Reserves as detailed Appendix 7.

## **Schools Funding**

The position for schools' funding including the Dedicated Schools Grant as set out in Section 3.9.

## **Housing Revenue Account**

The proposals for Rent and Tenanted Service Charge Setting – 2018-19 and Equalities impact assessment set out in Section 3.10 and Appendix 8

## **1 REASONS FOR THE DECISIONS**

- 1.1 The Council is under an obligation to set a balanced and sustainable budget and to set the Council tax Levels for the next financial year by 11<sup>th</sup> March 2018 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 to allow for their comments to be considered before the final budget proposals are made to Full Council.
- 1.2 The announcements that have been made about Government funding for the Council in the Autumn Statement and the Provisional Local Government Finance Settlement require a robust and timely response to enable a balanced budget to be set.
- 1.3 The Council is in the third year of the 4 year 'guaranteed settlement' from the government. A Medium Term Financial Strategy (MTFS) covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty.
- 1.4 As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFS; in particular as the Council becomes ever more dependent on locally raised sources of income through the Council Tax and retained business rates these elements become fundamental elements of its approach and strategies.

## **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 the extent permitted by its resources, those services it wishes to prioritise through investment, during a continued period of budget reductions.

## **3 DETAILS OF REPORT**

### **3.1 BACKGROUND**

- 3.1.1 In February 2017 the Council agreed a balanced budget for 2017-18 and a Medium Term Financial Plan (MTFP) to 2019-20 identifying savings of £52m to be delivered over the medium term period and a requirement to use £2.8m of general fund reserves. This was done in the context of some certainty over government grant funding levels afforded by signing up to the four year guaranteed funding settlement covering 2016-20.

- 3.1.2 Following this and as we enter into the third year of the 4 year funding deal, there have been a small number of changes including the chancellors autumn statement and provisional settlement announcement, the agreement by the government to the introduction of a London-wide business rates retention pilot, the addition of a further year to maintain a three year MTFs and revised assessments of growth, inflation and corresponding action that is required to maintain a balanced budget.
- 3.1.3 This report updates members on the impact of all of these changes, and identifies the additional proposals that will inform consideration of the budget package by the Overview and Scrutiny Committee.
- 3.1.4 The main body of the report is in eleven sections:
- Strategic Approach (Section 3.2)
  - Medium Term Financial Strategy & 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)
  - Reserves (Section 3.8)
  - Schools' Funding (Section 3.9)
  - Housing Revenue Account (Section 3.10)
  - Capital (Section 3.11)
  - Treasury Management Strategy (Section 3.12)
- 3.1.5 The key planning assumptions that support the draft budget proposals are set out below and in the attached appendices.
- 3.1.6 In developing these proposals the Council has taken account of the government's measure of the total resources that it believes are available to each Council. This is known as Core Spending Power (CSP) and reflects the government's assumptions for a number of key grants, retained business rates and Council Tax.
- 3.1.7 The Council's CSP calculation is attached as Appendix 2; the most recent calculation reflects the following changes:
- The impact of changing the New Homes Bonus methodology;
  - The additional announcement of the improved better care fund to support increased pressures in social care; and
  - Revised assumptions on the level of assumed Council Tax increases for inflationary purposes.

## **3.2 Strategic Approach**

- 3.2.1 The Council continues to implement an Outcomes Based Budgeting approach to delivering its MTFs for the period 2018 to 2021. This approach puts the Councils Strategic Priorities and outcomes for its residents at the heart of financial planning and decision making and aims to directly link how resources are allocated through budgeting mapped to the strategic priorities of the Council.

3.2.2 An outcomes based approach considers the efficiency and effectiveness of the Council's services by evaluating comparable information such as financial benchmarking and outcome performance measures. This information provides the starting point for critically reviewing the Council's relative performance and provides the basis and evidence for its budget decisions.

**Strategic Plan 2016-19**

3.2.3 In April 2016 Cabinet agreed a three year Strategic Plan focusing on improving outcomes for local people, shaping the borough and delivering sustainable improvements in the way the Council operates. The Plan is refreshed annually to ensure it is aligned with emerging priorities for the organisation and borough. As part of the annual review Cabinet agreed a refreshed plan and delivery plan in April 2017. The Council's strategic approach is to focus on improving outcomes which means the final year Strategic Plan will be developed along the Outcomes Based Accountability framework. This will strengthen the organisation's ability to assess the impact of resources on delivering outcomes. The Council will review the strategic activities and performance measures and ensure there is alignment with the emerging themes of the borough-wide Community Plan that is being developed by the Tower Hamlets Strategic Partnership. The Council's Strategic Plan accompanied by a Delivery Plan and refined Strategic Measures will be reported in March 2018 and ensure the organisation's business planning and performance management and accountability framework reflect the revised approach.

3.2.4 In line with this approach the revised priorities and outcomes are set out below:

<b>Priority 1: People are aspirational, independent and have equal access to opportunities</b>	
Outcomes we want to achieve	Children and young people feel they are protected and get the best start in life and realise their potential
	People access a range of education, training, and employment opportunities and feel they share the benefits from growth
	People access joined-up services when they need them and feel healthier and independent
	Inequality is reduced and people live in a cohesive community

<b>Priority 2: A borough that our residents are proud of and love to live in</b>	
Outcomes we want to achieve	People live in a borough that is clean and green
	People live in good quality and affordable homes and neighbourhoods
	People live in safer neighbourhoods and anti-social behaviour is tackled

<b>Priority 3: A focussed and efficient Council co-producing excellent services</b>	
Outcomes we want to achieve	The Council is open and transparent putting residents at the heart everything we do
	The Council works collaboratively across boundaries in strong and effective partnerships to achieve the best outcomes for our residents
	The Council continuously seek innovation and strives for excellence to embed a culture of sustainable improvement

3.2.5 An analysis of the Councils net expenditure in 2017-18 against each of these strategic priority areas is presented in Table 1 below. However, in developing its budget proposals the Council has recognised that it is equally important to consider both the gross expenditure and income components of the budget when reviewing outcomes and performance.

**Table 1 – Net Expenditure 2017-18 – Priority Analysis**

<b>Priority Area</b>	<b>2017-18 Budget £m</b>
Children and young people feel they are protected and get the best start in life and realise their potential	68.965
People access a range of education, training, and employment opportunities and feel they share the benefits from growth	3.440
People access joined-up services when they need them and feel healthier and independent	144.250
Inequality is reduced and people live in a cohesive community	12.827
People live in a borough that is clean and green	40.099
People live in good quality and affordable homes and neighbourhoods	5.305
People live in safer neighbourhoods and anti-social behaviour is tackled	6.213
A focussed and efficient Council co-producing excellent services	40.044
No Strong alignment	24.769
<b>Net General Fund Budget</b>	<b>345,913</b>

3.2.6 The Council's approach to delivering services going forward are underpinned by the following transformation principles;

- Achieve the best outcomes for our residents by integrating services across the council and partners to make the most of the money we have.

- Become a modern council with new ways of working and an agile workforce that is supported by the necessary infrastructure now and at our new home in Whitechapel
- Use technology and information to provide better services and empower our citizens so they take a more active role in their area, co-design services and become less reliant on the council
- Reduce future demand on the council through measures including better forecasting of need, supporting independent living and providing early intervention to prevent problems escalating in later life
- Harness economic growth that benefits our residents by making it simple for businesses to set up and invest in our borough

3.2.7 The Council's approach to strategic and financial planning 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.

3.2.8 It also recognises that there are longer term challenges emerging which include:

- Growth and development impacting on local infrastructure and services;
- Lower 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; and
- The need to be vigilant and tackle the potential for radicalisation and extremism.

### **3.3 MEDIUM TERM FINANCIAL STRATEGY & PROPOSED BUDGET**

3.3.1 The revised Medium Term Financial Strategy is set out at Appendix 1a, and the detail by service area at Appendix 1b. The detailed figures and assumptions incorporated in these tables are explained more fully in this report. The figures assume a council budget requirement of £344.299m for 2018-19; a Council Tax at Band D of £986.14 and a requirement of £6.690m from reserves over the MTFS period to 2020-21.

#### **Autumn Budget (Chancellors Statement) – November 2017**

3.3.2 The Chancellor's autumn statement in November included a number key announcement's that effect local government.



- 3.3.3 There were a number of changes to business rates which include:
- The indexation rate used to set the national non domestic rate multiplier will be based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from April 2018. With CPI being generally lower than RPI, the impact is a potential loss in revenue.
  - The £1k discount to business rates bills for pubs with a rateable value of less than £100k will be extended for another year.
- 3.3.4 Both of these changes will reduce the level of business rates income and the government has said that local authorities will be compensated through additional grant. Therefore the impact will be neutral for local authorities in 2018-19 and 2019-20. However, if this is not compensated for at the time of any business rate re-basing exercise the Council's business rate baseline will be lower; resulting in an on-going loss of resources. In the provisional local government finance settlement the government confirmed a reset of business rates will take place in 2020-21
- 3.3.5 The government also confirmed that a London-wide business rates retention pilot will go ahead for 2018-19. The Council in October agreed in principle to participate in that Pool and this report sets out the formal decisions necessary to put in place that arrangement.
- 3.3.6 The plans announced in the Autumn Statement allow Council's to charge 100% extra Council tax on properties that have been empty for 2 or more years. This is currently set at 50%.
- 3.3.7 This change has been introduced to incentivise the reuse of empty properties which could not only help with the housing crisis but also increase funding through the New Homes Bonus scheme by reducing the number of long term empty properties.
- 3.3.8 In the current year the Council has 73 long term empty properties subject to the current provisions generating approximately £40k of levy charge. If the levy were to be increased from 50% to 100% this would therefore generate an additional £40k providing the numbers remained consistent.
- 3.3.9 The Government also announced a number of changes to boost Housing Growth including plans to increase the numbers of new homes being built to 300,000 per annum by the middle of the 2020s through a range of initiatives:
- The government will provide £1.1bn for a new Land Assembly Fund; a further £2.7bn to the competitively allocated Housing Infrastructure Fund (HIF) in England and a further £630m through the NPIF to accelerate the building of homes on small, stalled sites, by funding on-site infrastructure and land remediation.
  - Housing Revenue Account borrowing caps for councils in areas of high affordability pressure can be lifted so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1bn by the end of 2021-22.
  - The Department for Communities and Local Government (DCLG) is to launch a consultation with detailed proposals on reforms to the CIL.

3.3.10 A number of changes to Welfare reform were also announced:

- A package of measures to support the continued roll out of Universal Credit (UC) including removal of the 7-day waiting period for UC claimants and new assistance to support people during the 6-weeks before the first payment.
- A Targeted Affordability Fund that will increase Local Housing Allowance (LHA) rates for certain properties in areas of high private rented sector rents.
- A national living wage of £7.83 from April 2018

## **3.4 FINANCIAL RESOURCES**

### **3.4.1 Council Tax**

3.4.1.1 Council Tax income is a key source of funding for Council Services. The amount generated through Council Tax is principally determined by the Council Tax Base (the number of properties adjusted for exemptions and discounts) and the rate of charge per property.

3.4.1.2 The borough has seen year on year increase in the number of new homes over the last few years and this continues to be a key priority area for growth for both central government and the Council. Previous trends coupled with current projections for growth means that the Council Tax Base is expected to be higher in 2018-19 than previously forecast.

3.4.1.3 The Mayor in Cabinet has been asked separately on this agenda to approve a Council tax base of 95,095 (Band D equivalent properties) for 2018-19 and this has been used in the projections included within this report.

3.4.1.4 The Council can, subject to legislative constraints, increase its Council tax rate through two mechanisms; the Adult Social Care precept and through a general inflationary increase. Each 1% increase in the Council Tax rate generates around £919k per annum, which equates to approximately 19 pence per week. In the provisional settlement, the Chancellor announced that in line with inflation, the referendum limit has been increased from 2% in 2017-18 to 3% in 2018-19.

3.4.1.5 In 2016-17 and for the remainder of the Spending Review period, the government introduced an Adult Social Care (ASC) precept to allow local authorities to raise additional council tax to help in addressing the growing adult social care funding crisis. In 2017-18 the precept was limited to a maximum of 3% in any one year and to a maximum of 6% over the three year period 2017 – 2020.

3.4.1.6 In February 2017, the Council agreed, in respect of the ASC precept, to implement increases of 3%, 2%, and 1% respectively for the years 2017-18 to 2019-20; there were no general inflationary increases proposed for 2018-19.

3.4.1.7 Based on the current position there are no proposals to change the assumptions agreed in February 2017 and as a result Council Tax rates will only increase in 2018-19 by the 2% ASC Precept previously agreed, which equates to an increase of 37 pence per week.

3.4.1.8 Currently Tower Hamlets has one of the lowest Council Tax levels across the 33 London Boroughs. It is likely that even after implementing the proposed increase for the ASC precept this year, the Council would continue to have one of the lowest Council Tax rates in London.

#### **Local Council Tax Reduction Scheme**

3.4.1.9 In April 2013 the Government replaced the national Council Tax Benefit scheme, which was supported through a grant, with a requirement for each Local Authority to develop its own Local Council Tax Reduction Scheme (LCTRS). At the same time, the Government reduced its funding contribution to Local Authorities nationally by 10% and put in place mandatory protections for some groups of recipients such as pensioners.

3.4.1.10 A separate report outlining the scheme for 2018-19 proposing no changes to the scheme adopted in 2017-18 is included elsewhere on the agenda.

#### **3.4.2 Settlement Funding Assessment (SFA)**

3.4.2.1 Settlement Funding Assessment (SFA) reflects the government's current approach to funding most local authorities through Revenue Support Grant (RSG) and retained business rates. However, the proposed London-wide Business Rates Retention pilot will alter the way that the Council receives its resources and in particular will lead to the replacement of RSG by retained business rates.

3.4.2.2 The approach for the London pilot scheme is considered further below although as one of the underpinning principles of the pilot scheme is that no authority will be worse off under the proposed pilot scheme than under the existing arrangements, the method for determining the amount of Revenue Support Grant is set out below for information.

3.4.2.3 Each authority's SFA is based on a needs assessment established at the beginning of the funding arrangements and thereafter reflecting the impact primarily of government funding reductions. The Baseline Funding Level represents the amount of retained business rates that the government expects each local authority to generate assuming no increase in the tax base since the scheme inception (i.e. it continues to increase only in line with the increase in the relevant business rate multiplier).

3.4.2.4 The difference between SFA and the Baseline Funding Level is the amount of RSG an authority receives. For Tower Hamlets this calculation is shown below.

**Table 2 – Settlement Funding Assessment 2016 - 2020**

£m	2017-18	2018-19	2019-20
<b>Settlement Funding Assessment</b>	<b>158.105</b>	<b>151.071</b>	<b>142.935</b>
Revenue Support Grant	53.958	43.795	33.281
Baseline Funding Level	104.147	107.276	109.655
<i>Change in SFA:</i>			
<i>Annual change</i>		-4.4%	-5.4%
<i>Cumulative change</i>		-4.4%	-9.6%

### 3.4.3 Revenue Support Grant (RSG)

3.4.3.1 As previously reported the Council was accepted for the government's guaranteed multi-year settlement for RSG. However, participating in the London Business Rates Pooling Pilot means that the Council will be retaining additional business rates equivalent to the value of RSG in 2018-19 rather than receiving grant payments from the Department for Communities and Local Government (DCLG).

3.4.3.2 At the time of the Provisional Settlement the government confirmed its intention to review the methodology for distribution resources on a needs-led basis; this will be achieved through their Fair Funding review for which consultation will commence from late 2018 in time for implementation in the 2020-21 settlement.

### 3.4.4 Retained Business Rates (London-wide Pilot pooling 2018-19)

3.4.4.1 The Government formally confirmed its commitment to establishing a 100% business rate retention pilot in London from April 2018 in the Autumn Budget. This was agreed by a memorandum of understanding (MOU) signed by the Chair of London Councils, the Mayor of London, the Minister for London and the Secretary of State for Communities and Local Government.

3.4.4.2 In October 2017, Cabinet agreed in principle that the Council would participate in pooling arrangements across London and the Mayor in Cabinet is now required to formally confirm that decision in line with the requirements of the MOU.

3.4.4.3 It is estimated that the Council could receive an additional £8m through the pooling arrangements in 2018-19 and plans to use this for specific strategic priorities have been incorporated into the MTFs as detailed in section 3.5.3.

3.4.4.4 The key principles of the pooling arrangement are summarised below;

- From the 1<sup>st</sup> April 2018 London Authorities will retain 100% of the Business Rates Income. London will not retain 100% of total rates collected, as it will

continue to pay an aggregate tariff to government. The overall level of collected rates that will be retained is around 64% after the tariff is paid.

- London authorities will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.
- The London pool will retain 100% of any growth in business rate income above baselines, and will pay no levy on that growth; it is from receiving a share of this growth (last estimated at £240m) that the Council estimates to receive an additional amount of around £8m.
- Revenue Support Grant (RSG) will no longer be paid to the London authorities in 2018-19. Funding baselines will be increased by the equivalent amount to reflect this transfer of RSG; which will be £43.8m for Tower Hamlets as set out in the above section on the SFA.
- London authorities will not be subject to more onerous rules or constraints under the 100% rates retention pilot, than they would have been if they had remained subject to the existing “67% scheme” in place in 2017-18.
- No “new burdens” will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.
- In the event that London’s business rates income fell, the pool will have a higher “safety net” threshold – 97% rather than 92.5% of the overall baseline funding level – than in the existing system, reflecting the greater reliance local authorities will have on business rates within the pilot.
- The Government will undertake a qualitative evaluation of the progress of the pilot based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision making process, and the scale of resources dedicated to strategic investment.
- The MOU between London Government and the Government only commits to the pilot operating for one year. However, subject to the evaluation of the pilot, it also commits the Government to working with London authorities to explore: future options for grants including, but not limited to, Public Health Grant and the Improved Better Care Fund; the potential for transferring properties on the central list in London to the local list where appropriate; and legislative changes needed to develop a Joint Committee model for future governance of a London pool.

### 3.4.5 Core Grants

3.4.5.1 In addition to Revenue Support Grant (RSG), the Council receives a number of other grants to support specific service priorities. These are summarised in the table below and further details on how they have been treated in the MTFs are provided in the sections that follow.

**Table 3 – Summary Core Grants 2018-21**

<b>Core Grants</b>	<b>2018-19 £m</b>	<b>2019-20 £m</b>	<b>2020-21 £m</b>
New Home Bonus	20.749	19.914	16.521
Improved Better Care Fund	11.907	14.851	12.777
Public Health Grant	35.393	34.663	34.663
Strategic School Improvement	0.200	0.200	0.200
Local Lead Flood Grant	0.034	0.036	0.000
<b>Total</b>	<b>68.283</b>	<b>69.664</b>	<b>64.161</b>

#### **New Homes Bonus**

- 3.4.5.2 The New Homes Bonus (NHB) scheme was introduced in 2011-12 as a means to help tackle the national housing shortage. The scheme was designed to reward those authorities who increased their housing stock either through new build or by bringing empty properties back into use.
- 3.4.5.3 Tower Hamlets is a high growth area, and has attracted the highest level of NHB in the country. In the most recent provisional settlement the Government confirmed that the NHB payments to councils will be reduced from five years to four years in 2018-19.
- 3.4.5.4 The Council had already started to reduce its reliance on NHB as a funding source in support of its revenue budget from 2016-17 instead choosing to provide for increasing capital investment on affordable housing and infrastructure in line with its strategic priority of better quality homes for all. It has only assumed using £3.9m in 2018-19 – below the level of the revised 2018-19 NHB provisional settlement.

#### **The Improved Better Care Fund**

- 3.4.5.5 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 national pot designed to integrate care and health services.
- 3.4.5.6 In addition to this, an Improved Better Care Fund (IBCF) was announced in the 2016-17 budget to support local authorities deal with the growing health and social care pressures during the period 2017-20. This funding takes into account local authorities' ability to raise resources locally through the Adult Social Care precept.

## **Public Health Grant**

- 3.4.5.7 The Public Health Grant allocation for Tower Hamlets in 2018-19 has not been confirmed as this funding source does not form part of the government's four year guarantee. The MTFS continues to assume the levels announced for 2018-19 and 2019-20 as set out in the 2016-17 final settlement.
- 3.4.5.8 The government has previously indicated its intention to move the funding for the Public Health Grant from the current system to being funded from within the proposed 100% retained business rates scheme; although it was initially considered that this grant would form part of the London-wide business rate pilot scheme it has not been included in the final prospectus.
- 3.4.5.9 The provision for free school meals to all primary aged children over and above the current government policy of funding for Key Stage 1 pupils will continue to be partly supported from the public health grant. The total cost to the Council is estimated to be approximately £3.300m per annum and £1.000m has been included in the MTFS to be funded from the Public Health grant with the balance to be funded from a specific general fund reserve in line with the Councils strategic priorities around getting it right for our young people.

## **Strategic School Improvement Fund**

- 3.4.5.10 In November 2016, the government announced a £50 million fund for local authorities to "continue to monitor and commission school improvement for low-performing maintained schools". This will be allocated to local authorities on the basis of the number of maintained schools, an area cost adjustment and top-up to ensure each local authority receives a minimum. The Council has successfully secured £0.200m for 2017-18 and assumes the same level of funding in the MTFS for 2018-19 onwards.
- 3.4.5.11 However, this replaces the former Education Services Grant which previously secured the authority £3.8m in 2016-17 and £2.7m in 2017-18. This change represents a further reduction in government grant funding.

## **3.5 BUDGET PRESSURES, GROWTH AND INFLATION**

### **3.5.1 Budget pressures**

- 3.5.1.1 A key part of the annual budget setting process is the review of budget demands across the medium term financial planning period arising from demographic changes, new requirements or responsibilities or inflationary pressures.
- 3.5.1.2 In February 2017, Council approved unavoidable growth of £6.944m over the period 2018 - 2020, £2.444m for 2018-19 and an additional £4.500m for 2019-20. Following a review as part of updating the MTFS for the period 2018 - 2021, additional growth arising from demographic changes, new requirements or responsibilities has been identified. These items are set out in Appendix 3A.

### **3.5.2 Inflation**

- 3.5.2.1 In addition to the budget pressures identified above (para 3.5.1) a further financial risk facing the Council is the impact of inflation.
- 3.5.2.2 The Government's target projection for inflation which is reflected in the MTFS is 2.9% (CPI) 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.
- 3.5.2.3 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The MTFS anticipates that staffing costs will increase by 2% in each year of the three year plan. Provision has also been made for the payment of the London Living Wage to Council staff.
- 3.5.2.4 The estimated impact of inflation is also set out in Appendix 3A.

### **3.5.3 Mayoral Priorities**

- 3.5.3.1 The Mayor has also identified a number of key priority areas, consistent with the Council's Strategic Plan objectives, where it is proposed to target resources in order to improve specific outcomes for residents and businesses.
- 3.5.3.2 This includes a range of initiatives to maximise residents' access to jobs and training, supporting people in overcoming barriers to employment, including specific measures for enabling parents to move into childcare roles. The proposals also allow for the continuation of measures, adopted in 2017-18, to extend the provision of free school meals to all primary age pupils and initiatives designed to assist with the impact of welfare reform through the tackling poverty fund.
- 3.5.3.3 These investment proposals are detailed in Appendix 3B and will be funded principally from the additionally retained business rates income that the authority expects to receive through participating in the London-wide business rates pilot.

## **3.6 SAVINGS PROPOSALS**

- 3.6.1 The Council continues to implement an Outcomes Based Budgeting approach to delivering its MTFS for the period 2018 to 2021. In 2017-18 the Council approved appropriate savings covering the whole of the period of the MTFS which ensured that a balanced budget for 2018-19 and 2019-20 was already in place. Detailed consultation and impact assessments will continue to be undertaken as the proposals agreed previously are taken through to implementation.
- 3.6.2 Whilst there have been a number of changes necessary to the 2018-19 budget, largely as a result of needing to revisit assumptions around demographic growth and inflation, the Council will be able to meet the estimated gap through the additional Treasury Management savings and additional parks income identified.
- 3.6.3 For 2020-21 a number of high level saving areas have also been identified



that will be developed over the next 9 – 12 months; the detail of which will be brought back for approval by the Cabinet and Council in due course. The high level summary of the proposed saving areas are detailed in Appendix 4.

### **3.7 RISKS AND OPPORTUNITIES**

- 3.7.1 When setting the draft MTFs, 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 have the potential to 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**

##### **Regulatory Risk**

- Business Rates – Impact of abolition of the 'staircase tax'

##### **General Economic Factors**

- Impact of decision to leave European Union
- 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

##### **Increases in Service Demand**

- Children's Social Care including an increase in the number of looked after children, unaccompanied asylum seekers or those with no recourse to public funds
- 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
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs
- Income generation opportunities including through a more commercial approach.

- 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 6. This will form the basis of an on-going review of Reserves and Contingencies. This illustrates that there are a range of risk outcomes at medium and high level ranging from £22m to £42m. The Chief Financial Officer has concluded that, based on the level of contingencies, earmarked and general reserves, that there is sufficient cover to accommodate this level of risk.

### **3.8 Reserves**

- 3.8.1 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its financial standing and resilience.
- 3.8.2 The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- 3.8.3 There are two main types of reserves:
- Earmarked Reserves – which are held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year(s); and
  - General Reserves – these are held for 'unforeseen' events
- 3.8.4 The Council maintains reserves both for its General Fund activities and in respect of its Housing Revenue Account (HRA). In addition it accounts for the reserves of schools.
- 3.8.5 The amount of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained, and the Council's potential financial exposure to risks. A Reserves Policy is included as Appendix 5.
- 3.8.6 The Council holds reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax. Capital reserves play a similar role in funding the Council's capital investment strategy.
- 3.8.7 The Council also relies on interest earned through holding reserves to support its general spending plans.
- 3.8.8 Reserves are one-off money. The Council aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long term future planning.

- 3.8.9 Reserves are therefore held for the following purposes, some of which may overlap:
- Providing a working balance i.e. Housing Revenue Account and General Fund.
  - Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying forward expenditure between years.
  - Holding funds for future spending plans e.g. Capital Expenditure plans, and for the renewal of operational assets e.g. Information Technology renewal.
  - Meeting future costs and liabilities where an accounting 'provision' cannot be justified.
  - Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
  - To provide resilience against future risks.
  - To create policy capacity in a context of forecast declining future external resources.
- 3.8.10 All earmarked reserves are held for a specific purpose. A summary on the movement on each reserve is published annually, to accompany the annual Statement of Accounts.
- 3.8.11 The use of some reserves is limited by regulation e.g. reserves established through the Housing Revenue Account can only be applied within that account and the Car Parking reserve can only be used to fund specific transport related expenditure. Schools reserves are also ring-fenced for their use.

### **3.9 Schools' Funding**

- 3.9.1 The largest single grant received by the Council is the Dedicated Schools Grant (DSG), which is ring-fenced to fund school budgets and services that directly support the education of pupils.
- 3.9.2 There are a number of pressures, specifically in relation to the High Needs Block which is managed by the Council for those pupils with needs that cannot be fully met from schools' individual budgets. The Government has extended the scope of the High Needs funding to cover educational costs of children and young people up to the age of 25. This expansion of the age range, coupled by an increase in the number of children who are applying for Education, Health and Care plans is placing significant pressure on both the retained budget and schools' own budgets.
- 3.9.3 In January 2017 the Department for Education (DfE) issued a consultation document outlining proposals for a new national funding formula (NFF) for schools to be implemented in 2018-19. Following that consultation the government issued a policy document on a national funding formula for schools and high needs on 14 September 2017. The government also issued operational guidance for schools revenue funding in 2018-19.
- 3.9.4 Local Authorities are required use the operational guidance in the setting of local formulae for 2018-19. The proposals include a 2 year period in which a "soft" formula will be operated. Under the soft formula local authorities will

receive funding on the basis of the NFF but will continue to use their own locally agreed formula.

- 3.9.5 It is intended that from April 2020 a “hard” formula will be implemented under which schools will receive their funding directly from the Education and Skills Funding Agency (ESFA) according to a single national formula.
- 3.9.6 From April 2018, the Dedicated Schools Grant will be allocated in four blocks (schools, high needs, early years and central schools services). Each will be calculated on the basis of a different formula. Within the Schools and High Need Blocks, the Government will provide for at least a 0.5% per pupil increase in 2018-19 and 2019-20 through the national funding formula. Schools can also, through the Schools Forum, agree to de-delegate some of their Schools Block resources for certain specific services such as to fund release time for trade union duties and allow the Local Authority to fund them centrally on behalf of all schools.
- 3.9.7 A new Central Schools Services Block (CSSB) is being introduced in 2018-19 to fund LAs for their statutory duties relating to maintained schools and academies. The CSSB brings together funding previously allocated through the retained duties element of the Education Services Grant; funding for ongoing central functions e.g. admissions; and funding for historic commitments e.g. items previously agreed locally such as combined budgets.
- 3.9.8 The table below sets out the estimated DSG deployment over the funding blocks for 2018-19;

<b>Schools Forum Summary</b>		<b>2018-19 £</b>
1.0 Schools Block		265,134
1.1 De-delegated items (Schools Block)		3,226
1.2 High Needs Block		48,863
1.3 Early Years Block		28,130
1.4 Central Schools Service Block		4,828
Total Schools Budget	<b>Expenditure 2017-18</b>	<b>350,180</b>
<b>Schools Forum Summary</b>		<b>2018-19 £</b>
1.7.1 DSG		-275,840
1.7.2 DSG B/F		
1.7.3 EFA Grants Post 16		-13,100
1.7.5 Academy Recoupment		-61,240
Total funding	<b>Income 2017-18</b>	<b>-350,180</b>

- 3.9.9 In addition the Council receives, and passports fully to schools, funding for the pupil premium (£20.3m) and 6th form funding (£13.1m). Final allocations for the pupil premium are confirmed in July 2018 and 6th form funding in March 2018.

3.9.10 Schools Forum will be asked to agree the total schools budget of £350m for 2018-19 at their January 2018 meeting, £337m of which will be funded through the Dedicated Schools Grant from the DfE with the remainder being funded through EFA grants.

### **3.10 HRA Rent and Tenanted Service Charge Setting 2018-19**

3.10.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock. Since April 1990 the HRA has been “ring-fenced”. This means that any surplus or deficit on the Housing Revenue Account cannot be transferred to the General Fund. The HRA must also remain in balance.

3.10.2 From April 2012, the HRA subsidy grant was abolished and replaced by self-financing, under which local authorities retain all rental income, but are responsible for meeting all costs relating to council housing.

3.10.3 Under HRA self-financing, local authorities were able to decide on the level of rent increase that was implemented each year, and although they were expected to have regard to government guidance on the matter, this was not compulsory. Previously, government guidance had suggested increases of 1% above the Consumer Price Index measure of inflation. However, with the publication of the Welfare Reform and Work Act, the discretion that local authorities previously had in this matter was removed for four years, starting in 2016-17.

#### **1% Rent Reduction for Four Years**

3.10.4 Section 23 of the Welfare Reform and Work Act 2016 provides that social rents will be subject to a 1% reduction for four years, starting in April 2016. A very limited number of exemptions to this requirement are available, but these do not apply to the Council’s HRA tenanted stock. The Authority must therefore implement a rent reduction of 1% in 2018-19. This equates to an average weekly rent reduction of £1.14.

3.10.5 The current year’s budget for rents is £65.601m. As a result of the rent reduction and the movements in stock arising from property acquisitions and disposals (including right to buy sales), the 2018-19 budget is estimated at £64.633m. The effects of the four year reduction in rental income were included in the financial modelling that was undertaken for the 2017-18 HRA budget report and have been incorporated into the HRA Medium Term Financial Plan projections.

#### **Increase in Tenanted Service Charges 2018-19**

3.10.6 It is proposed that tenanted service charges be increased by 4.0%. This is consistent with the previously adopted Government rent policy which increased rents in accordance with the previous year’s September Consumer Price Index +1%. In this case, the September 2017 CPI was 3%, which will lead to an average weekly increase in tenanted service charges of approximately £0.31. It should be noted that energy charges are billed separately based on actual costs incurred.

3.10.7 The current year’s budget for tenanted service charges is £4.697m. As a result of the proposed increase in charges and the movements in stock arising from property acquisitions and disposals (including right to buy sales), the 2018-19 budget is estimated at £4.775m.

3.10.8 The Housing Revenue Account budget for 2018-19 will be incorporated within the second budget report that will be considered by the Mayor in Cabinet on 30th January 2018. This will include proposals that have been submitted by the Board of Tower Hamlets Homes in relation to proposed amendments to the THH management fee.

### **3.11 CAPITAL**

3.11.1 The Council's capital programme amounts to £650m over the period 2017-2023. Additional investment priorities in excess of £500m have also been identified through a review of the Council's capital strategy and service needs analysis.

3.11.2 The scale of the programme, which is expected to exceed £1.2bn, and the Council's delivery capacity and risk associated mean that proposals to extend the programme over a 10 year period are being considered and project are being prioritized to ensure we have an annual programme that is both deliverable and aligned to strategic priorities.

3.11.3 Details of the extended capital programme are being finalised and will be presented to cabinet on the 30<sup>th</sup> January.

### **3.12 TREASURY MANAGEMENT STRATEGY**

3.12.1 The Treasury Management Strategy Statement will be revised and presented to Full Council in February 2018 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.

3.12.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the capital programme above in Section 3.11 once finalised.

## **4 COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 As this report is primarily financial in nature the comments of the Chief Financial Officer have been incorporated throughout this report.

## **5 LEGAL COMMENTS**

5.1 The Council is required by section 31A of the Local Government Finance Act 1992 ("the Act") to calculate for each financial year the basic amount of its council tax. The basic amount of council tax must be calculated according to a prescribed formula that uses the amount which is calculated by the Council as its council tax base. The council tax base is in turn calculated by reference to a formula prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 ("the Tax Base Regulations").

5.2 The Council is required to submit its council tax base to the major precepting authority, namely the Greater London Authority ("GLA") between 1<sup>st</sup> December and 31<sup>st</sup> January in the financial year preceding the financial year for which the calculation of council tax base is made. If the Council does not submit its

council tax base to the GLA, then the GLA is required to determine the calculation for itself, in the manner prescribed in the Tax Base Regulations.

- 5.3 Whilst the making of a calculation in accordance with section 31A of the Act is for Council, the preparation of estimates of the amounts to be aggregated in making the calculation or of other amounts to be used for the purposes of the calculation and estimates of the calculation for consideration is the function of the Executive as per regulations 4(9) to 4(11) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended).
- 5.4 The calculation of the budget requirement is a matter that may only be discharged by Council. The Council's Constitution reflects the statutory requirement. Article 4 specifies that approving or adopting the budget is a matter for Council. The Budget and Policy Framework Procedure Rules in Part 4 of the Constitution specify the procedure to be followed in developing the budget.
- 5.5 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.
- 5.6 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.
- 5.7 In circumstances where the Council is calculating the budget requirement, the Chief Finance Officer (the Corporate Director, 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.
- 5.8 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 Strategy. The Medium Term Financial Strategy informs the budget process and may be viewed as a related function.

- 5.9 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 Strategy as part of the budget setting process may assist to ensure compliance with the best value duty.
- 5.10 The report provides information about risks associated with the Medium Term Financial Strategy 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 Regulations 2015 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.
- 5.11 The report provides details of the revised capital programme. The capital programme does not form part of the determination of the budget requirement, 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.
- 5.12 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.
- 5.13 The Care Act 2014 created 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.
- 5.14 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.



## **6 ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The Equality Act 2010 and the Public Sector Equality Duty that is part of it incorporates previous anti-discrimination laws into one act and places a duty to embed equality considerations into the day to day work of public bodies, so that they tackle discrimination and inequality and contribute to making society fairer. The PSED requires that public bodies have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity between people from different groups; and foster good relations between people from different groups. As a Council we undertake equality analyses in policy making, initiating service change or undergoing a savings proposal as part of having due regard and in meeting our public sector equality duty. An equality analysis is a useful tool to enable us to assess the implications of our decision on services users and staff and to highlight any adverse impacts on one or more of the nine protected characteristics, as well as identify any active mitigation.
- 6.2 The borough is characterised by some of the highest average earnings in the country alongside extensive levels of deprivation with Two thirds of the borough's wards (13 out of 20) being in the most deprived ten per cent of wards in England.
- 6.3 Whilst there have been improvements in the most acute levels of deprivation with no areas being in the 5% most severely deprived areas, Tower Hamlets still has the highest levels of child poverty (42% of all children) and the highest levels of pensioner poverty (50%) in the country. We also know that the borough is very diverse, ranked as the 16th most diverse local authority in England alongside high levels of unemployment and worklessness, particularly within some of these BME groups. With many public services responding to needs of children and young people, older people and minority groups savings to budgets and therefore changes to services targeting these groups are very likely to impact on protected characteristic groups across these cohorts. In developing the budget the Council has undertaken equality impact screening exercises as part of the development of business cases for savings proposals.
- 6.4 Where proposals have a direct impact on service users and are scheduled to take effect from April 2018 services are undertaking direct service user engagement to consult on proposals and the anticipated impacts will be set out in the full EAs. Where proposals are likely to have a direct impact on service users but are scheduled to take effect in 2019/20 and in 2020/21 which are years 2 and 3 of the period covered by the Medium Term Financial Strategy, these proposals will be further developed including analysis of impact on equality groups and will be reviewed for final decision before the proposal is agreed for implementation.
- 6.5 Proposals which are related to support functions and will have impacts on staffing and expected redundancies the profile of potential and actual redundancies will be kept under review to assess the impact on equality groups within the Council's staff. Some proposals are not expected to have a direct impact on service users, the resident and business engagement on the budget priorities have helped to shape the proposed MTFs.

## **7 BEST VALUE (BV) IMPLICATIONS**

- 7.1 The preparation of the MTFS 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.

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## **Linked Reports, Appendices and Background Documents**

### **Appendices**

- Appendix 1A Summary of the Medium Term Financial Strategy
- Appendix 1B Detailed analysis of the Medium Term Financial Strategy by Service Area
- Appendix 2 Tower Hamlets Core Spending Power
- Appendix 3 New growth proposals 2018- 2021
- Appendix 4 New Savings proposals 2018- 2021
- Appendix 5 Reserves Policy
- Appendix 6 Risk Evaluation
- Appendix 7 Projected Movement in Reserves
- Appendix 8 Rent Report Equalities Impact Assessment

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

- None

### **Officer contact details for documents:**

Ekbal Hussain Financial Planning Manager 020 7364 4737

Ruth Ebaretonbofa-Morah, Deputy Financial Planning Manager, 020 7364 1698