Cabinet 30th January 2018	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
The Council's 2018-19 Budget Report and Medium Term Financial Strategy 2018-21	

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

EXECUTIVE SUMMARY

In February 2017, and following a rigorous process to establish the options for closing an estimated £58m budget gap, the Council agreed a 3 year budget and Medium Term Financial Strategy (MTFS) for the period 2017-2020, which included specific actions and approval for agreed 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 the resources the Council receives through Revenue Support Grant and Business Rates and this change for 2018-19 is considered in this report.

In addition, further 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 22nd November 2017 and the 2018-19 provisional local government finance settlement which followed on the 19th December 2017 are also considered in this report. However, it should be noted that the final settlement is

expected to be announced shortly and therefore the figures and assumptions within the report could be subject to change and may need to be updated before being submitted for Full Council approval on the 21st February.

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), Housing Revenue Account (HRA) and a 10 year Capital programme.

RECOMMENDATIONS

The Mayor in Cabinet is recommended to :

1. Agree a General Fund Revenue Budget of £343.703m subject to any changes arising from the Final Local Government Finance Settlement.
2. Agree the Council Tax (Band D) at £986.14 for 2018-19 to be referred to Full Council for consideration.
3. To authorise the Corporate Director, Resources after consultation with the Mayor and Lead Member of Resources to make any changes required to the budget following the final settlement announcement in February.
4. Approve the revised Capital Programme for the period to 2027-28; as detailed in Appendix 9A-D and adopt the associated capital estimates.
5. Approve the draft 2018-19 Housing Revenue Account budget as set out in Appendix 8A
6. Approve the draft 2018-19 Management Fee payable to Tower Hamlets Homes (THH) of £30.979m as set out in Table 4.
7. Note that under the Management Agreement between the Council and THH, THH manages delegated income and expenditure budgets on behalf of the Council. In 2018-19, THH will manage delegated income budgets totaling £87.101m and delegated expenditure budgets of £25.829m.
8. Note the refreshed strategic priorities and outcomes (Paragraph 3.2.4) for the final year of the three year Strategic Plan agreed by Cabinet in April 2016.
9. 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.

Note the decision made by the Mayor in Cabinet to participate in the London Wide Business Rates Retention pilot scheme and also reflecting the Mayor's instruction that the case for greater local retention must be vigorously pursued.

Note the decision of the Mayor in Cabinet to increase the Council Tax empty homes premium from 50% to 100%. These changes will require primary legislation in parliament to amend section 11b of the Local Government Finance Act 1992 and will not be completed for the 2018-19 financial year.

Budget Consultation

The outcome of consultation so far with business ratepayers, residents and other stakeholders is set out in Section 3.13 and Appendix 10.

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 position of the Housing Revenue Account as set out in Section 3.10 and Appendix 8A and B

Capital Programme

The Capital Programme to 2027-28; including proposed revisions to the current programme as set out in Section 3.11 and detailed in Appendix 9A-D.

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 11th 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.

1.5 The Mayor is required by the Local Government and Housing Act 1989 to determine a balanced Housing Revenue Account (HRA) budget prior to the start of the new financial year. The Council must also approve the Management Fee payable to Tower Hamlets Homes (THH) so that it can fulfil its obligations under the Management Agreement to manage the housing stock on behalf of the Council.

1.6 In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme, and capital estimates adopted prior to any expenditure being incurred. This report seeks the adoption of the necessary capital estimates for various schemes in order that they can be progressed.

2 ALTERNATIVE OPTIONS

1.1 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, in the context of its understanding of need and inequality and to the extent permitted by its resources, those services it wishes to prioritise through investment, during a continued period of budget reductions.

1.2 The Council has a statutory duty to set a balanced HRA and provide THH with the resources to fulfil its obligations under the Management Agreement. Whilst there may be other ways of delivering a balanced HRA, the proposals contained in this report are considered the most effective, in realising all the council's statutory duties having regard to the matters set out in the report.

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 strategic priorities and outcomes are set out below:

Priority 1: People are aspirational, independent and have equal access to opportunities	
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

Priority 2: A borough that our residents are proud of and love to live in	
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

Priority 3: A focussed and efficient Council co-producing excellent services	
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

Priority Area	2017-18 Budget £m
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
Net General Fund Budget	**345.913**

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 equality needs, 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 significant inequalities and longer term challenges as identified in the borough equality assessment which include:

- 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 £343.703m for 2018-19; a Council Tax at Band D of £986.14 and a requirement of £5.763m 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

Council Tax

3.4.1 At its meeting on 9th January 2018, the Mayor in Cabinet agreed the council's 2018-19 taxbase at 95,095 Band D equivalent properties and this has been used in the MTFS projections.

3.4.2 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.

3.4.3 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.

3.4.4 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.

3.4.5 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.

3.4.6 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.

3.4.7 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.

3.4.8 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

3.4.9 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.

3.4.10 The Mayor in Cabinet considered and agreed a report on the 9th January 2018 which proposed no changes to the 2017-18 Local Council Tax Reduction Scheme (LCTRS).

Settlement Funding Assessment (SFA)

3.4.11 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.

3.4.12 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.

3.4.13 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).

3.4.14 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 2017 - 2020

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

Revenue Support Grant (RSG)

3.4.15 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).

3.4.16 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.

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

3.4.17 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.

3.4.18 In October 2017, Cabinet agreed in principle that the Council would participate in pooling arrangements across London and the Mayor in Cabinet agreed on the 9th January to formally confirm its participation in the scheme.

3.4.19 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 3.5.9 and Appendix 3B.

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

- From the 1st 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.

Core Grants

3.4.21 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

Core Grants	2018-19 £m	2019-20 £m	2020-21 £m
New Home Bonus	20.749	19.914	16.521
Improved Better Care Fund	11.907	14.851	12.777
Public Health Grant	35.049	34.319	34.319
Strategic School Improvement	0.200	0.200	0.200
Local Lead Flood Grant	0.034	0.036	0.000
Total	**67.939**	**69.320**	**63.817**

New Homes Bonus

3.4.22 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.

3.4.23 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.

3.4.24 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

3.4.25 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.

3.4.26 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

3.4.27 The Public Health Grant allocation for Tower Hamlets in 2018-19 has now been confirmed as £35.049m which represents a decrease of 0.925m from the 2017-18 grant allocation; this reduction has also been accommodated within the relevant budget provision

3.4.28 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.

3.4.29 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

3.4.30 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.

3.4.31 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

Budget pressures

3.5.1 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.

3.5.2 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.

Inflation

3.5.3 In addition to the budget pressures identified above a further financial risk facing the Council is the impact of inflation.

3.5.4 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.

3.5.5 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.

3.5.6 The estimated impact of inflation is also set out in Appendix 3A.

Mayoral Priorities

3.5.7 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.

3.5.8 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.

3.5.9 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.

3.5.10 In addition to this, on the 19th September 2017 Cabinet agreed to invest £1m per year for three years on additional policing across the borough. This has been incorporated into the Council's MTFS and will also be funded through reserves. Further details on the scheme can be found within the 19th September cabinet report.

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. This supports the council's approach to reducing inequality by focussing on the differences in outcomes for different equality groups. 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 equality 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. The proposals have been subject to an equalities analysis screening exercise to review the impacts identified to date and to determine the next steps for further equality analysis that will be undertaken as part of the decision making process governing these proposals.

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 commercial approaches.

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;

Schools Forum Summary		**2018-19 £000**
1.0 Schools Block		271,305
1.1 De-delegated items (Schools Block)		864
1.2 High Needs Block		44,386
1.3 Early Years Block		28,280
1.4 Central Schools Service Block		4,851
Total Schools Budget	**Expenditure 2017-18**	**349,686**
Schools Forum Summary		**2018-19 £000**
1.7.1 DSG		-285,502
1.7.2 DSG B/F		
1.7.3 EFA Grants Post 16		-12,896
1.7.5 Academy Recoupment		-51,288
Total funding	**Income 2017-18**	**-349,686**

3.9.9 In addition the Council receives, and passports fully to schools, funding for the pupil premium (£23.3m) and 6th form funding (£12.9m). 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 £349.7m for 2018-19 at their January 2018 meeting, £336.8m of which will be funded through the Dedicated Schools Grant from the DfE with the remainder being funded through EFA grants.

3.10 HOUSING REVENUE ACCOUNT (HRA)

3.10.1 The HRA relates to the activities of the Council as landlord of its dwelling stock, and the items to be credited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents and service charges, and expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock.

3.10.2 Since 1990 the HRA has been "ring-fenced"; this was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services. This means that the HRA cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise cannot be met from or transferred to the General Fund. In addition, the HRA must remain in balance.

3.10.3 In April 2012, HRA Self-Financing was introduced to replace the national HRA subsidy system. Under Self-Financing, local authorities retain all income but are responsible for all expenditure relating to their housing stock; with local authorities able to make decisions about their stock and engage in long-term planning. Recent policies introduced or announced by the government have substantially reduced the discretion that local authorities are able to exercise, for example in relation to rent setting, tenancy types and asset management.

DRAFT BUDGET 2018-19

Rent Reduction

3.10.4 On 9th January 2018, the Mayor in Cabinet noted that the 1% annual rent reduction introduced by the government which came into effect in 2016-17 continues for four years until 2019-20. This equates to approximately £0.650m in reduced rental income. The effect of this reduction has been incorporated into the 2018-19 budgets in Appendix 8A.

Tenant Service Charges

3.10.5 On 9th January 2018, the Mayor in Cabinet agreed an increase in tenant service charges of 4% per week from April 2018. This equates to an average of £0.31 per week. This is reflected in the 2018-19 budget in Appendix 8A.

Repairs and Maintenance

3.10.6 The Repairs and Maintenance budget for 2018-19 has been increased by £0.301m, to reflect contractual uplifts. A contingency of £0.5m has been incorporated into the budget. This will only be made available once a satisfactory business case for its use has been considered and agreed by the

Council.

Savings

3.10.7 At its meeting on July 26th 2016, the Mayor in Cabinet agreed a HRA medium- term savings target of £6m. In 2018-19 savings of £746,000 have been made within the Tower Hamlets Homes (THH) management fee (see Table 4 below), and a £426,000 reduction across the delegated budgets. However, as well as these savings there are also elements of growth requested within the 2018-19 management fee – these are outlined in the following section.

Management Fee

3.10.8 In February 2017, The Mayor in Cabinet approved the 2017-18 Management Fee payable to THH for services provided to the Council. At £31.946m, the Management Fee represents the largest single expenditure element of the HRA budget. In July 2017, an additional £0.350m was approved to finance ongoing fire safety works, in addition to a 'one-off' allocation of £0.075m. The total revised 2017-18 Management Fee is therefore £32.371m.

3.10.9 The table below shows the calculation of the proposed 2018-19 Management Fee payable to THH. For 2018-19 and future years the treatment of capitalised fees and salaries has been amended so that they will be charged directly to the capital programme rather than included within the THH Management Fee. The effects of this are incorporated in the table below, and in the proposed Management Fee of £30.979m

Table 4 – Calculation of 2018-19 Management Fee

Description	Total £m
2017-18 Base Management Fee	31.946
Mayoral Decision July 2017 – Additional Fire Safety Works	0.350
2017-18 Revised Base Management Fee	32.296
Mayoral Decision July 2017 – Fire Safety Funding ('One-Off')	0.075
Management Fee 2017-18	**32.371**
2018-19 Base Management Fee	32.296
Base Budget Growth - Fire and Other Safety	0.599
Base Budget Growth - Other	0.944
Base Budget Savings	-0.746
Removal of Capital Fees	-2.668
Revised Base Management Fee 2018-19	30.425
'One-Off' Growth - Fire and Other Safety	0.050
'One-Off' Growth - Other	0.504
Management Fee 2018-19	**30.979**

3.10.10 At this stage, the proposed management fee does not include an inflationary increase in relation to a pay award. Salary costs represent approximately £20.0m of the management fee, resulting in an increase in employee costs of approximately £400,000 if a pay award of 2% is agreed. These costs are built into the HRA MTFP but will only be released to THH once the pay award is formally agreed.

Savings

3.10.11 Tower Hamlets Homes has achieved savings of £746,000 from its base budget, mainly resulting from its relocation from Jack Dash House which takes effect in April 2018.

Base Budget Growth

3.10.12 The proposed 2018-19 base budget incorporates £599,000 of growth in respect of fire and other safety measures, particularly relating to the expansion of THH's safety compliance teams.

3.10.13 Other growth of £744,000 is proposed to the base budget. This includes the effect of increases in the cost of services provided to THH by the Council under Service Level Agreements (SLAs) - £191,000 of the increase relates to base budget increases in the SLAs for Procurement and ICT; the continuation of a previously trialled graduate trainee programme to facilitate succession planning (£152,000); and strengthening the leasehold enforcement service to ensure that lease terms are complied with (£185,000). In addition to the SLA increase, on-going THH procurement costs are estimated at an additional £350,000 with additional 'one-off costs' included separately.

3.10.14 Growth of £66,000 has also been included to finance the appointment of a commercial manager to contract manage the repairs contracts. This is a 'spend to save' activity which it is anticipated will lead to savings on the repairs and maintenance budgets. The R&M budget therefore incorporates a reduction of £132,000.

One-off Growth Items

3.10.15 The 2018-19 management fee incorporates other one-off growth of £504,000. This reflects THH procurement costs of £213,000 and increased council procurement support costs of £91,000 (via the SLA) that are necessary until the new repairs framework contracts are in place, including additional procurement support in relation to the management of fire safety contracts. In addition growth of £200,000 is required to ensure compliance with the new General Data Protection Regulations that come into force in May 2018, and to support the introduction of new HR management systems and processes.

MEDIUM TERM FINANCIAL PLAN

3.10.16 Appendix 8A shows the HRA Medium Term Financial Plan (MTFP) for the period 2018-19 to 2022-23.

Overall position on the HRA

3.10.17 The MTFP incorporates various income and expenditure assumptions and includes changes that will affect the budget, for example changes to stock numbers due to assumed Right to Buy sales and new supply resulting from agreed regeneration schemes.

3.10.18 The latest HRA MTFP is shown at Appendix 8A. The revised MTFP shows that, on current projections, the HRA reserve will reduce over the next few years, but will remain above the assumed minimum balance of £15m.

3.10.19 The level of bad debt provision is £600,000 in 2018-19 as the implementation dates for Universal Credit and direct payments have slipped, but the provision is forecast to rise to £700,000 in 2019-20. As the various reforms take effect, this assumption will be reviewed.

Capital Programme and Stock Needs

3.10.20 The current stock condition survey provides an updated view of the needs of the Council's stock over the next 30 years.

3.10.21 On current projections the capital programme outlined is fully funded, although it is essential that before future capital estimates are formally adopted, schemes are assessed in light of their affordability within the HRA.

HRA Savings

3.10.22 The 2018-19 budget reflects gross savings of £1.172m, of which £746,000 is within the management fee (see table above), and £426,000 of which is reflected in the delegated budgets. The MTFP at Appendix 8A reflects an additional £360,000 of savings over the rest of the MTFP period

RISKS

Sale of Higher Value vacant stock

3.10.23 Under this policy local authorities will be required to make a payment to the government based on the market value of the authority's higher value housing stock that is likely to become vacant during that year. This money is to be used to extend the Right to Buy to housing association tenants.

3.10.24 As a result of the government's announcement that no levy will be payable on high value voids until April 2019 at the earliest, the HRA medium-term financial projections have been updated to move the introduction of a levy of £8.4m to 2019-20, continuing for a period of five years. The medium-term financial projections still assume that no asset sales will take place in response to the levy other than the current maximum of five disposals per year. It must be stressed that the sum of £8.4m is an estimate as the government has not provided any indication as to the size of the levy that will be payable. These assumptions will need to be re-visited once details are published by the government.

Welfare Reform

3.10.25 The main changes that will affect Council tenants are:

1) Benefit Cap
2) Universal Credit and Direct Payments

3.10.26 The cumulative impact on the HRA will not be clear until the various reforms all take effect. Provision was made in the 2016-17 budget for an anticipated increase in the amount of bad debts, but due to the delay in implementing the changes this has not been necessary over the past few years. The budget continues to include a provision for bad debts of £600,000 in 2018-19, rising to £700,000 in 2019-20. This level of provision will be kept under review.

HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES TO BE ADOPTED

3.10.27 The Council's projected capital programme is included within this report and incorporates indicative funding for the Housing Revenue Account element of the capital programme over the five year period from 2018-19 to 2022-23. Separately, Appendix 8B provides details of the THH Housing Capital Programme.

3.10.28 Tower Hamlets Homes has prepared its five year indicative capital programme, showing the forecast required expenditure on the Council's existing stock (attached at Appendix 8B). The level of spend required over the next five years is anticipated to be in excess of £170m, however for the purposes of cashflow management a 30% over-programming factor has been assumed within the capital section of this report.

3.10.29 Appendix 8B shows an outline of the proposed THH capital programme over the next five years. The total THH projected capital programme in 2018-19 is £36.446m, and includes investment of £7.265m in fire safety works. Over the course of the five year capital programme, budgetary provision for fire safety works totals £26.8m.

Aids and Adaptations and Capitalisation of Voids - total £1.950m

3.10.30 The programme also includes capital estimates for Aids and Adaptations (£500,000) and the capitalisation of the major costs involved in bringing void properties back into use (£1.450m). Works to void properties will include undertaking residual internal works e.g. replacing kitchens and bathrooms to properties where access was not gained during the Decent Homes programme.

Capitalisation of Fees and Salaries - £3.636m

3.10.31 The programme includes project management fees associated with the delivery of the capital programme. Previously an element of these fees was included within the THH management fee, however in future these costs will be charged directly to the relevant capital project.

Contingency - £500,000

3.10.32 The annual capital programme includes a £500,000 contingency budget, the use of which will be subject to the approval of the Corporate Director, Place.

3.10.33 Schemes within the HRA capital programme which involve works to existing properties will have an impact on leaseholders who are required to contribute towards capital works to external or communal areas.

Removal of Capital estimate for Right To Buy Buybacks

3.10.34 The Council adopted a capital estimate of £27.3m on October 6th 2015 to finance the purchase of up to a maximum of 85 former social housing leasehold and/or freehold units of stock within the borough. The scheme was funded from retained capital receipts of £8.18m with the balance of £19.1m to be financed from HRA capital resources.

3.10.35 Although 49 properties have been repurchased, only two have been used for HRA purposes, with the rest being held within the General Fund for use as temporary accommodation. This report proposes in principle that the remaining uncommitted budget of £26.2m currently within the HRA capital programme be ended, with acquisitions of property to be used for Temporary Accommodation continuing within the General Fund. This would enable HRA resources of £18.34m (representing the 70% Council contribution required to support the use of retained receipts towards funding of the scheme) to be used to finance other HRA initiatives; either capital works to the Council's existing dwelling stock or the development of new supply.

HOUSING GENERAL FUND CAPITAL ESTIMATES TO BE ADOPTED

Local Affordable Housing Grant Programme

3.10.36 The Mayor in Cabinet has previously agreed that funding of £7.06m be allocated for the creation of a Local Affordable Housing Grant Programme, targeted at Registered Providers (RPs.). This is fully funded from retained one for one right to buy receipts and represents a 30% contribution towards RP schemes and therefore contributes towards a total of £23.550m of replacement social housing.

3.10.37 This report seeks approval to extend this scheme by a further £5m again fully funded from retained one for one receipts. The extension of the scheme will also require the approval of the Grants Determination Sub-Committee.

3.10.38 Even if the Council plans to pass one for one receipts to a third party the responsibility to spend the required amount on replacement social housing remains with the Council. In the event that RPs within the borough fail to spend sufficient sums, or do not spend by the required deadlines, the Authority will be liable for any interest arising from a failure to spend in line with the Right to Buy agreement.

3.11 CAPITAL

3.11.1 In February 2017 the council approved a capital strategy setting out the intention to ensure that capital expenditure was clearly focussed on its strategic objectives. It described adopting a longer term planning horizon and developing financing strategies and governance arrangements that would underpin this new approach.

3.11.2 Further work has taken place with Members during 2017-18 to identify those projects and areas for investment that reflect their ambition and priorities for capital investment and to establish a programme that is both realistic and affordable.

3.11.3 The broad approach to revised governance arrangements, which are designed to ensure the development and delivery of approved schemes and the financial implications of proposed investments, are set out below for approval. Detailed arrangements to support this process will be developed during 2018 and will include a streamlined gateway approval process for projects.

3.11.4 The previous capital programme, approved alongside the council's capital strategy spanned the period 2016 to 2022 and set out the estimated costs of existing approved schemes amounting to £411m. Further indicative schemes of £241m were also identified. In total this programme of £652m was fully financed from a range of sources including £126m of Prudential Borrowing.

3.11.5 The programme now proposed covers an extended planning period to 2028, amounts to some £574m and identifies the Council's investment in priority areas as a means of supporting the council's Community Plan together with its Transformation Programme (Smarter Together) which underpinned the approach to its three year Medium Term Financial Strategy for revenue expenditure. This represents the intended programme and adoption of it and the associated capital estimates allows the Council to proceed within this overall envelope. Performance will be closely monitored in the quarterly budget monitoring process and the arrangements being developed will enable schemes within the overall programme to be re-profiled where delivery can be accelerated.

3.11.6 For those schemes approved in previous years', revised budget provision covering the years 2017 to 2028 is set out in detail in Appendices 9A and 9B. The extent to which all capital schemes align with the Council's Strategic Priorities can also be seen in Appendix 9C.

3.11.7 Particular emphasis has been given to proposing realistic provisions in the earlier years recognising that capital cashflow is a significant contributor to optimising Treasury Management returns; this approach is closely aligned to the 2018-19 revenue budget proposal to achieve an additional £1.4m through a longer term investment approach. However, the financing strategy will also remain flexible enough to accommodate project acceleration if required.

3.11.8 Budget provision in 2017-18 that remains unspent will, subject to a detailed review and approval by the Mayor in Cabinet through the budget monitoring process, be carried forward and added to the 2018-19 programme. Current indications from the capital budget monitoring process is that this could add up to a further £30m to the 2018-19 programme.

3.11.9 A number of new schemes have also been identified based on the Council's priorities; these amount to almost £400m over the 10 year period to 2028 and are summarised against priorities in Appendix 9D; subject to their approval at Full Council in February they will be developed through the proposed governance arrangements.

3.11.10 To support the development of new schemes broad provisions have been included in the 2018-19 programme for feasibility study and business case development (£1.5m). Also, in order to allow for some of those schemes to progress to implementation and to allow scope for other works to be undertaken an unallocated provision of £15m (16%) has been included in the 2018-19 budget. The method for accessing these funds will form part of the new governance arrangements described below and will include all schemes including those that come from the Council's Infrastructure Development Plan evidence base.

Programme Governance

3.11.11 Projects including those of a capital nature are one of the key ways that the council delivers its strategic aims and priorities. The council is committed to ensuring that projects are delivered efficiently and that the best use is made of the resources available to the organisation.

3.11.12 Currently strategic programme governance is managed via the asset management and Capital Working Group and Board, with a number of related and other boards that address thematic areas such as early years groups, S106 and CIL, housing investment, ICT, Highways and Civic Centre Project.

3.11.13 A revised approach will be developed to consider and ensure that the key functions set out below are undertaken effectively across all elements of the capital programme, taking into account the strengths from existing approaches. The key functions for which this corporate approach is required are:

- Developing a Capital Strategy;
- Identifying and developing schemes that deliver value for money and are consistent with the strategy and Members' priorities;
- Prioritising capital schemes taking into account outcomes and resources;
- Financing the overall programme;
- Managing and delivering approved programmes and projects;
- Monitoring and reporting progress; and
- Post implementation review.

3.11.14 There are also clear linkages across these various functions relating to the overall management of the Council's asset base including in particular asset management, asset acquisition and disposal. The current corporate approach to the centralisation of relevant functions will assist with ensuring that a single and consistent approach is developed across these key areas.

3.11.15 At this stage it is important to ensure that the role of officers and members is clear and supported by the Council's constitution, financial regulations such that governance can be exercised effectively. Further work on those arrangements will be undertaken during 2018 as the corporate restructures are developed and implemented.

3.11.16 All projects that require capital expenditure must be identified in departmental service plans. Approval of the Capital Programme and associated capital estimates is the responsibility of the Full Council who will receive proposals through a new senior officer level Capital Board, the Mayor's Advisory Board (MAB) will have the power to review individual projects, and the Mayor in Cabinet, who will consider the overall programme of project activity and its funding.

3.11.17 Project proposals are made in conjunction with the relevant Lead Member. The Mayor in Cabinet will periodically (Quarterly) receive programme update reports on capital schemes as part of the council's budget monitoring report and can 'call in' any project at any stage of the approval process when it is considered appropriate to do so. The Overview and Scrutiny Committee's review of the quarterly budget management report will afford a similar opportunity to scrutinise progress and performance of individual projects.

3.11.18 The Capital Delivery Team will deliver, project manage and own the progress of relevant projects from start to finish. This includes the provision of programme and individual project reports, financial monitoring against budgets, procurement risks and documentation.

3.11.19 The Mayor in Cabinet on the advice of the Capital Board will propose the budget to be set aside for capital for the forthcoming financial year. That sum will be included in the Council's annual budget agreed by Full Council budget setting meeting in February/ March each year.

3.11.20 New projects may enter the Gateway Approval Process at any time during the year, but should be already planned in a department's service plan.

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.

3.13 BUDGET CONSULTATION

3.13.1 The Council launched its 2018-19 budget consultation with residents, local businesses and other stakeholders on 12th December 2017 and this is due to conclude on the 22nd January 2018.

3.13.2 The consultation, which sought residents' and businesses' views about the priorities the council should focus on as it plans for future service delivery, was carried out through the publication of a range of questions on the Council's website. Participation and stakeholder engagement was then promoted through e-newsletters distributed to over 19,000 residents, adverts in the Our East End newspaper distributed to over 120,000 households, press releases and media briefings securing coverage through the East London Advertiser, Channel S, ATM Bangla.

3.13.3 A total of fifty responses to the consultation have been received as of 18th January 2018. Initial analysis of the consultation responses indicate:

- Most respondents agree with the approach of a three year budget as a way of protecting frontline services;
- Almost half of respondents prefer that the council protects frontline services, rather than continue to invest resources in services that are council priorities, or reduce budgets across all services by the same proportion;
- More than half of respondents support a 2% increase in council tax in 2018-19 to support adult social care services, and almost half of respondents support the proposal not to implement any additional inflationary increase in council tax above the adult social care precept of 2%.

3.13.4 The Council's proposed MTFS assumes most of the views of respondents to the consultation. A further update will be provided once consultation closes on the 22nd January.

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 Local Government Finance Act 1992 requires the Council to calculate for each financial year the basic amount of its council tax. This calculation is in accordance with prescribed formulas and the Council is required to submit its council tax base to the GLA between 1st December and 31st January in the financial year preceding the financial year for which the calculation of council tax base is made. If the Council does not do so then the GLA is required to determine the calculation for itself.

5.2 Whilst the making of the calculation is for Council, the preparation of the estimates for consideration is a function of the Executive. This is as per Article 4 of the Constitution. The Budget and Policy Framework Procedure Rules specify the procedure to be followed in developing the budget.

5.3 Before calculating the budget requirement, the Council is required to consult with persons or bodies who the Council considers representative of persons who are required to pay non-domestic rates. Appended to this Report is a budget consultation summary for consideration. This consultation complies with the both the Council's statutory and common law duties regarding consultation.

5.4 As part of calculating the budget requirement, the Chief Finance Officer is required 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 must have regard to this Officer's report before calculating the budget requirement. This report contains that Officer's report.

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 for the Council to adopt and monitor a Medium Term Financial Strategy as this informs the budget process and is 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 Strategy as part of the budget setting process assists to ensure compliance with this duty.

5.7 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 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, 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 statutory requirements.

5.9 The report provides information about a variety of grant funding, the application of which is governed by agreement or legislation. 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 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 <u>ONE TOWER HAMLETS CONSIDERATIONS</u>

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 ongoing equality analyses in policy making, initiating service changes, making investments or undergoing a savings proposal as part of having due regard and in meeting our public sector equality duty. The equality analysis tools which includes checklists and detailed impact assessments enable us to identify the potential implications of our decision on services users and staff and to understand potential adverse impacts on one or more of the nine protected characteristics, as well as identify active mitigation where necessary. The council also undertakes periodic reviews of inequality through the borough equality assessment (BEA) which was last completed in early 2017.

6.2 From the BEA and other sources we know that the borough is the 10th most deprived local authority in England, although there are now fewer of the most highly deprived areas in England than before and at the same time is characterised by some of the highest average earnings. This is evident in the gap in earnings between residents and workers which is the largest in London. There are also high levels of worklessness amongst BME women, BME groups generally and disabled groups. White British attainment remains low in comparison to all other. Healthy life expectancy is significantly lower than national averages for men and women. The borough has the highest rate of pensioner poverty with half of all residents aged 60 and over living below the poverty line, more than three times the rate nationally. 42% of children live in families below the poverty line and almost four in five children in the borough live in families reliant on tax credits. This is the highest rate in Great Britain and nearly double the proportion who are technically below the poverty line. Six in ten tax credit families are in work. We also know that around four in ten households in Tower Hamlets are living below the poverty line, after housing costs are taken into account. This is the highest poverty rate across all local authorities in England and Wales, and almost double the national average. Another indicator of the impact of Welfare Reform and the pressures on households is evident in the rise in the percentage of (working age) Housing Benefit claimants who are in employment which rose from 21% to 45% between 2009 and 2016.

6.3 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.

6.4 As part of last year's budget setting process for 2017-18 to 2019-20 all savings proposals agreed were subject to equalities impact screening to determine the extent to which an equalities impact is expected. For those projects that were identified as having a potential equalities impact, detailed Equalities Assessments have been or will be carried out prior to implementation.

6.5 The current budget setting process for 2018-19 to 2020-21 has identified additional 19 savings proposals. Two of these proposals will be implemented in 2018-19 with the remaining 17 being implemented in 2020-21. Equalities impact screening has been carried out on all new proposals and the outcome of the screening is included in Appendix 4 of the report. Neither of the two proposals to be implemented in 2018-19 have an equalities impact. Of those proposals to be implemented in 2020-21, only three are expected to have an equalities impact and will need to be subject to full Equalities Impact Assessments and resident/user consultation prior to a decision to implement.

6.6 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.

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.

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 8A Draft Housing Revenue Account Medium Term Financial Strategy 2018-2023
- Appendix 8B Indicative THH Housing Capital Programme 2018-2023

- Appendix 9A	Current Capital programme 2017-2028
- Appendix 9B	Increases to Existing Schemes & New Schemes 2018-2028
- Appendix 9C	Summary of Proposed Capital Programme 2017-2028
- Appendix 9D	Proposed New Schemes 2018-2028
- Appendix 10	Budget Consultation Feedback

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

Paul Leeson, Finance Business Partner, 020 7364 4995

Hannah Katakwe, Interim Senior Accountant (HRA), 020 7364 0997