

Cabinet 31 October 2018	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	Classification: Unrestricted
Budget and Medium Term Financial Strategy 2019-22	

Lead Member	Councillor Ronald, Cabinet Member for Resources and the Voluntary Sector
Originating Officer(s)	Neville Murton (Divisional Director, Finance Procurement and Audit)
Wards affected	All
Key Decision?	No
Community Plan Theme	All themes

Executive Summary

In February 2018 the Council agreed its budget for 2018-19 and set out a Medium Term Financial Strategy (MTFS) covering the period 2018-2021. This included additional savings of £10.788m to be delivered over the extended MTFS period thereby setting a balanced budget for 3 years with a requirement of £6.102m being required from general fund reserves. The Council's Capital Programme was also reviewed and updated taking into account decisions made during the year; it identified a number of new schemes and began the process of delivering a 10 year capital programme by extending the programme to 2027-28.

The Council continues to implement an Outcomes Based approach to deliver its MTFS. At the heart of its financial planning and decision making process, the Council aims to link its financial resources to Member's Strategic Priority Outcomes.

This report aims to update Cabinet on the progress to date since the MTFS was agreed in February 2018, highlight any new developments and government announcements since then; and summarises the next steps to update the MTFS by extending it to 2021-22 and agree a final budget for 2019-20. An estimated gap of £44m is highlighted together with the approach and framework being adopted to close that gap and set a balanced budget over the whole of the MTFS period.

As in previous years this will also include proposals relating to the Council's Housing Revenue Account (HRA) and the Dedicated Schools Budget (DSB) strategy.

Formal budget consultation with residents, businesses and other key stakeholders has now started and the report sets out a timeframe for completing the remaining items that will lead to the conclusion of the budget setting process and culminate in the setting of the Council Tax for 2019-20.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the changes to the draft budget position for 2019-20.
2. Note the need to make further savings of £44m over the MTFS period.
3. Note the issues and actions set out in this report which are informing the development of the Council's MTFS for 2019 – 2022;
4. Note the commencement of formal budget consultation with residents, businesses and other key stakeholders and to receive feedback on the consultation at Cabinet in December.

In relation to the Housing Revenue Account, the Mayor in Cabinet is recommended to:-

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 2019. This equates to an average rent reduction of £1.08 per week for 2019/20.

1. REASONS FOR THE DECISIONS

- 1.1. The Council is under a duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities.
- 1.2. 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.
- 1.3. Statutory budget consultation is required with business ratepayers however, a broader consultation with all residents and other relevant stakeholders is considered to represent best practice.

2. ALTERNATIVE OPTIONS

- 2.1. Whilst the Council will adopt a number of approaches to the identification of measures aimed at delivering its MTFS there is no alternative other than to set a legal and balanced budget and agree its Council tax before the statutory deadline.
- 2.2. In relation to the HRA, section 23 of the Welfare Reform and Work Act 2016 required that, from April 2016, social rents must be cut by 1% for four years. As this requirement is enshrined in legislation, if the Authority did not comply it would risk legal challenge.
- 2.3. A number of decisions in relation to the use of the Dedicated Schools Grant are the responsibility of the Schools Forum and the Council therefore has no option to vary that decision; however in some cases, such as in respect to changes to the School's funding formula, the Council makes the final decision having received recommendations from the Schools Forum.

3. DETAILS OF REPORT

3.1. Background

- 3.2. The medium term financial planning process is an essential part of the Council's resource allocation and strategic service planning framework. The Medium Term Financial Strategy (MTFS) integrates strategic and financial planning over a three year period. It translates the Strategic Plan priorities into a financial framework that enables the Mayor and officers to ensure policy initiatives can be delivered within available resources, and can be aligned to priority outcomes.

3.3. The drivers for the Council's financial strategy are:

- To set a balanced budget over the life of the MTFS whilst protecting residents from excessive Council Tax increases, as defined by the government, through the legislative framework covering Council tax referenda.
- To fund priorities agreed within the Strategic Plan, ensuring that service and financial planning delivers these priorities.
- To deliver a programme of planned reviews and savings initiatives designed to keep reductions to service outcomes for residents to a minimum.
- To maintain and strengthen the Council's financial position so that it has sufficient contingency sums, reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents.
- Ensuring the Council maximises the impact of its spend to deliver priority outcomes in the context or reducing resources.

3.3.1. Since 2011/12 in the face of unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council's financial planning process.

3.3.2. In February 2018 the Council agreed a balanced budget for 2018/19 and a Medium Term Financial Strategy (MTFS) to 2020-21 identifying further savings of £10.788m to be delivered over that period and a requirement to use £6.102m of general fund reserves.

3.3.3. This report begins to explore the challenges facing the Council in the context of a number of forthcoming fundamental changes to the financial environment in which Local Authorities operate. In particular it outlines a process that will deliver a balanced budget position over the course of the MTFS period; taking into account the views of residents, business rate payers and other interested stakeholders.

3.4. Strategic Approach

3.4.1. The Council has a sound approach to strategic and resource planning. The 2018/19 Strategic Plan has been developed using the Outcome Based Accountability (OBA) Framework to enable us to understand the impact our services are having and link this to the resources used to deliver those activities

3.4.2. The Strategic Plan focuses on the three priority outcomes set out below; within each outcome a number of objectives describe how services will be delivered.

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

- People access a range of education, training, and employment opportunities
- Children and young people are protected so they can realise their potential

- People access joined-up services when they need them and feel healthier and more independent

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

- Inequality is reduced and people feel that they fairly share the benefits from growth
- People live in a borough that is clean and green
- People live in good quality and affordable homes and well-designed neighbourhoods
- People feel safer in their neighbourhoods and anti-social behaviour is tackled
- People feel they are part of a cohesive and vibrant community

Priority 3 - A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough

- The Council is open and transparent putting residents at the heart of everything we do
- The Council works collaboratively across boundaries in strong and effective partnerships to achieve the best outcomes for residents
- The Council continuously seeks innovation and strives for excellence to embed a culture of sustainable improvement

3.5. Outcome Based Budgeting

3.5.1. Outcome Based Budgeting (OBB) aims to directly link how resources are allocated against the strategic priorities of the Council as a means of informing decision making and outcome monitoring.

3.5.2. The Council's Medium Term Financial Strategy (MTFS) 2018-2021 was prepared using these principles and this will ensure that the Council is delivering the Council's priority outcomes, as set out in the Strategic Plan, while making savings through planned budget reductions rather than cutting costs on a service by service basis.

3.5.3. We intend to continue with this approach going forward with a series of budget meetings between officers, the Mayor and Cabinet which are taking place during October and November and which will consider a number of key issues including:

- A review of savings and growth proposals including high level business cases.
- Extending the MTFS by a further year to cover the period 2019-2022; identifying the gap arising from recent funding announcements and the council's options for managing these strategic issues;
- A review of the current Capital Strategy; the governance arrangements for capital projects and programmes, resource prioritisation, funding sources and strategies and consideration of any new projects and programme.

- Consideration of the impact of the Fair Funding Review due to be implemented from April 2020;
- Consideration of any proposals for the continuation of the London Business Rates pilot in 2019/20; the potential benefits from Business rates income; and the strategic investment pot; and
- A new income generation strategy.

3.6. Future Outlook for the Council's Finances

Government Funding

- 3.6.1. The council agreed to participate in the government's guaranteed funding settlement which, for the period to 2020, indicates that Government grant in the form of Revenue Support Grant (RSG) will continue to diminish, decreasing from around £54m in 2017/18 to around £33m in 2019/20.
- 3.6.2. The 4 year settlement ends after 2019/20 after which there is significant uncertainty from the 2019 Spending Review, changes from the introduction of new formula for distributing resources following the Fair Funding review, and changes to the national business rate retention scheme.
- 3.6.3. The 2019 Spending Review (SR19) will confirm overall Local Government resourcing from 2020/21 and will provide the financial backdrop to significant reform in Local Government finance systems including what the government say will be an updated, robust and transparent distribution methodology to set the baseline funding levels, the resetting of business rates baselines and the proposed introduced of further reforms to the business rates retention scheme. It is considered highly likely that any resulting funding redistribution will impact negatively upon Tower Hamlets.

LG Settlement 2019-20 – Technical Consultation

- 3.6.4. On the 24th July, the government published a technical consultation on the 2019/20 funding settlement. The consultation paper sets out the government's intended approach for the final year of the multi-year local government finance settlement and includes:
- arrangements for those who accepted the offer and arrangements for those who did not
 - The governments proposed position on the New Homes Bonus Threshold
 - Council tax referendum principles for 2019/20
 - Proposals for dealing with negative RSG (although this is not an issue for Tower Hamlets directly).
- 3.6.5. The government proposes to allocate funding in 2019/20 in accordance with the agreed methodology announced by the Secretary of State in 2016/17, which ensures councils delivering similar services receive a similar percentage change in core funding for those services.
- 3.6.6. The consultation concluded on the 18th September and the outcome will be published later this year.

National Non Domestic Rates - Business Rates

- 3.6.7. An increasing proportion of the Council's services are funded through locally generated resources such as Business Rates and Council Tax.
- 3.6.8. Business Rates income in Tower Hamlets is expected to increase from £131m in 2017/18 to around £140m by 2020/21.
- 3.6.9. In the autumn 2017 budget the Government formally confirmed its agreement to establishing a 100% business rate retention pilot in London from April 2018. This was agreed through 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.
- 3.6.10. The Council agreed to participate in the London pool during 2018/19 and, based on London wide estimates of business rate growth additional income of £10.4m, above that which would have been received had the Council not participated in the scheme, is expected for 2018/19.
- 3.6.11. London Government submitted an initial written proposal for extending the London pilot to MHCLG by the deadline of 25 September. Discussions have since been held with London Councils' elected officers and more widely with Leaders' Committee on 9 October which provided a steer for the negotiations with MHCLG and the Treasury that will now follow. If the pilot is agreed it will be confirmed in the provisional Local Government Finance settlement in December.

Current arrangements (100% BR Pilot)

- 3.6.12. The 2018/19 London pilot scheme required participation from all 33 London Boroughs and the Mayor of London to pool income from business rates.
- 3.6.13. A no detriment guarantee from the Treasury meant that no authority could be worse off than under the previous 67% scheme but would retain a share of any aggregate growth across London in excess of the baseline. In the event significant anticipated growth was forecast resulting in the distribution of an additional £300m across London authorities. This strongly suggests that the 2019/20 position will again be in excess of the baseline and, as in 2018/19, the guarantee will not be a relevant consideration.
- 3.6.14. Whilst the proposal submitted is based on the continuation of a 100% scheme in London it is understood that a 75% retention scheme is preferred by the government; this would clearly limit the estimated additional resources retained by London authorities.

Distributing the benefits of pooling

- 3.6.15. The current pooling agreement sets out the principles and method for distributing any net financial benefits that may be generated. The principles are based on four objectives agreed by Leaders and the London Mayor:

Incentivising growth (15%) by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool

Recognising the contribution of all boroughs (35%) through a per capita allocation

Recognising need (35%) through the needs assessment formula; and

Facilitating collective investment (15%) through the strategic investment pot designed to promote economic growth and lever additional investment funding from other sources.

Strategic Improvement Pot (SIP)

- 3.6.16. A bidding process was agreed and put in place to access funding from the SIP. Bids were invited in April 2018 with a deadline at the end of May. A total of 22 bids were received for a total of £123.4m; the available resources for distribution were estimated at £52m and proposals for £47m have now been agreed. All London authorities were represented on at least one bid and a maximum of seven; and bids were received from all sub-regions. Tower Hamlets submitted one direct bid and was included in another joint bid with a number of adjoining authorities led by Hackney Council.
- 3.6.17. A shortlist of successful bids was circulated in August for consultation and agreement by all London authorities. The mixture of successful bids will directly grow London's business rates by providing new or refurbished commercial space, as well as ones which will indirectly generate growth by providing transport and digital infrastructure, supporting employment and businesses, and creating frameworks for development.
- 3.6.18. Tower Hamlets welcomed the criteria and approach adopted in respect of allocating funds through the SIP and it has now been confirmed that the Council will benefit from a £7m income to deliver the South Dock bridge project.

Previous Scheme (67% BRR)

- 3.6.19. Under previous arrangements London Boroughs and the Greater London Authority collectively retained 67% of the business rates yield with Central Government retaining the remaining 33%.
- 3.6.20. The Baseline Funding Level is the share of the Settlement Funding Assessment (SFA) that the Ministry of Housing Communities and Local Government (MHCLG) intends to be funded via locally retained business rates (with the remainder coming from RSG).
- 3.6.21. Baseline Business Rates are MHCLG's projection of retained business rates based on the position at the start of the scheme and increasing each year in line with the small business rate multiplier.
- 3.6.22. A Levy Rate is applied to growth in an authority's business rate revenue which exceeds its Baseline Business Rates. The figures below show illustrative figures for Tower Hamlets should there be a reversion to the scheme that operated prior to the 100% Business Rate Pilot

Table 1- Current NNDR Income assumptions for 2019-20

NNDR Income	2019/20 £m
Baseline Funding level	109.655
Baseline Business Rates	115.58
Top up or (Tariff)	(5.925)
Levy Rate (pence in the £)	0.05
	£m
Retained Business Rates income	147.200
Top up or (Tariff)	(5.925)
Levy	(1.621)
Revised Business Rates	139.654

Council Tax

- 3.6.23. Council Tax also continues to be an important source of revenue for the Council with £98m estimated from that source in 2019/20. At the time of the provisional settlement in 2017, the government announced changes to the Adult Social Care (ASC) precept. Local authorities could increase the ASC precept by up to 3% per annum. However, authorities are only permitted to go ahead with a maximum of 3% increase each year provided that the total increase over the three-year period 2017-2020 does not exceed 6%.
- 3.6.24. However, in the context of the need for savings being front loaded and the significant cost pressures being seen in ASC services, the Council considered it appropriate to phase the 6% rise in the precept over the period to 2020 on the basis of increases of 3%, 2%, and 1% with the 1% rise being attributable to 2019/20. This was agreed in principle and there appears to be no financial reason to vary this.
- 3.6.25. No updated view has yet been taken on the potential for increases to the Council tax level over the MTFS period as this consideration will be guided by the outcome of the budget consultation and the development of other budget options. It is anticipated that the Council taxbase could rise by up to 3%.
- 3.6.26. Referendum levels are currently set at 'no more than 3%' (excluding ASC Precept) and any proposals to increase Council Tax levels beyond this will require a referendum. This reflects the government's determination of excessive Council tax increase based on, amongst other things, their assessment of inflationary pressures in the Local Government sector.

Core Grants

- 3.6.27. In addition to Revenue Support Grant, the Council is in receipt of a number of other grants to support specific service priorities. Current assumptions for each of these are summarised in the table below:

Table 2 - Summary of Core Grants 2019-22

Core Grants	2019-20 £m	2020-21 £m	2021-22 £m
New Homes Bonus	19.914	16.521	11.098
Improved Better care Grant	14.851	12.777	12.773
Public Health Grant	34.319	34.319	34.319
Strategic School Improvement	0.200	0.200	0.200
Local Lead Flood	0.036	0.000	0.000
Total	69.320	63.817	58.390

New Homes Bonus

- 3.6.28. This scheme was introduced in 2011/12 with the intent to reward authorities who increased their housing stock either through new build or by bringing empty property back into use.
- 3.6.29. In December 2016, the government announced it was changing how the New Homes Bonus would be calculated and for how long it would be paid. This saw a phased reduction from 6 to 4 years. For 2017/18 and 2018/19, a deadweight of 0.4% was also set meaning only authorities with growth above 0.4% received an in-year allocation.
- 3.6.30. The settlement consultation document suggests in order for the scheme not to overspend in 2019/20, the deadweight will need to be increased. It also suggests for 2020/21 onwards, the government intends to explore how to best incentivise housing growth most effectively.

Improved Better Care Fund

- 3.6.31. As part of the government's 2015 Spending review, an initial tranche of Improved Better Care Fund was allocated; with another tranche in the Chancellors 2017 Spring Budget. This funding has been utilised to support continued investment in adult social care.
- 3.6.32. The future of this fund and its treatment under the Fair Funding review is not known. The MTFs assumes funding for 2020/21 and 2021/22 will remain at the level of the initial IBCF allocation in 2019/20 which assumes continuation in some form and is therefore a potential risk due to uncertainty.

Adult Social Care funding for Winter pressures

- 3.6.33. The Government has recently announced that the social care sector will receive £240m in 2018/19 to better cope with winter pressures. The

additional funding is being made available to ensure that those who are medically fit can quickly be discharged from hospital and return home, and to avoid older people unnecessarily ending up in hospital.

- 3.6.34. Recent announcement has clarified that this will mean an additional £1.5m in 2018/19 for Tower Hamlets although any conditions have yet to be announced. However, the fact that this is one off resources limits Councils' ability to plan and use the funding as effectively. For Tower Hamlets the latest budget monitoring information identifies Adult Social care pressures of at least £1.7m after the recognition of the ASC precept and other growth resources made available in 2018/19.

Fair Funding Review

- 3.6.35. The government has committed to reforming the way local authorities are funded through its fair funding review which is aiming to introduce a new funding formula from April 2020.

- 3.6.36. The government has said that its Fair Funding Review will:

- Set new baseline funding allocations for local authorities
- deliver an up-to-date assessment of the relative needs of local authorities
- examine the relative resources of local authorities
- focus initially on the services currently funded through the local government finance settlement; and
- be developed through close collaboration with local government to seek views on the right approach.

- 3.6.37. The initial consultation was published by the DCLG on the 19th December 2017. This was a technical consultation on relative need and focussed specifically on potential approaches that have been identified to measure the relative needs of local authorities.

- 3.6.38. The consultation closed on 12 March 2018 and feedback indicates;

- Broad support for a having a single foundation formula that determines the overall funding allocation and maintaining a smaller number of service specific formulas
- Mixed views regarding use of the key cost drivers; population, deprivation and rurality

- 3.6.39. Changes in population, levels of deprivation together with allowances for area cost adjustments are significant factors in Tower Hamlets and how they are used in the new formula could have a material impact on Council funding under the new arrangements.

- 3.6.40. Whilst the council's Medium Term Financial Strategy (MTFS) has been produced on a best estimate basis it is clear that there is significant uncertainty relating to the 2020 financial year onwards. However, it is also probable that whatever changes are introduced there will be associated transitional mechanisms put in place to ensure that the financial impact on an individual authority is not unmanageable.

- 3.6.41. The next government consultation on relative needs, resources and principles for transitional arrangements is planned for the 'autumn' but no publication date has been set yet.

3.7. Growth and Inflation

- 3.7.1. Within the MTFS, officers have made a number of assumptions concerning the impact of demographic growth pressures and inflation for all of the years covered by the MTFS.
- 3.7.2. Following a review to update the MTFS for the period 2019 - 2022, additional growth arising from demographic changes, funding reductions, new requirements or responsibilities has been identified.
- 3.7.3. In addition to these demographic and responsibility changes, the MTFS assumes additional inflation requirement both in respect of pay and other non-pay costs which are estimated to amount to £6.5m in 2021-22.
- 3.7.4. In total additional growth and inflation requirements over the MTFS period are estimated at £20.2m. Appendix 1 summarises the current planning assumptions and impact.

3.8. Savings Programme

- 3.8.1. Full council have approved previously savings of £14.7m (2019-20) and £9.0m (2020-21). Additional growth means that there is a need to identify further savings of £20.2m over the MTFP period to 2021/22. The total savings required over the MTFS period to 2019-22 are therefore **£44m**.
- 3.8.2. A number of Budget meetings have been held in August through to October, which have allowed officers, in discussion with lead Cabinet members and the Mayor to consider their approach to the upcoming budget. As a result a thematic approach is being applied to continue to support the Council's transformation programme – Smarter Together.

The Smarter Together Themes

- Centralised enabling services - consolidation to reduce costs and adopt a more systematic and joined up approach.
- Digital first – maximisation the use of digital solutions in the way we do business
- Data analytics - developing and strengthening our analytical capability to ensure the better targeting of need.
- Alternative Delivery Options – the development of alternative delivery models for council services based on the experience of others.
- Asset management – making the best use of our assets
- Contract management - Centralise, strengthen and streamline contract management.
- Community assets and resources - Develop the utilisation of existing assets

- Build independence and resilience - Intervening at the earliest opportunity to avoid costs later.

3.8.3. Additional savings proposals continue to be identified for 2019/20. Officers are developing detailed business cases which will be available for consultation with all relevant stakeholders during November and December. This will not obviate the need for further detailed consultation where there are service implications.

3.9. Income Strategy

3.9.1. The Council has needed to deliver savings of approximately £15m to £20m per year for a number of years and current indications are that savings of this magnitude will continue to be required to ensure services can continue to be provided to the most vulnerable in our communities.

3.9.2. With greater powers to charge for services and the continued budget gap, the Council will need to take a more strategic approach to income generation. To ensure that we only develop proposals that are appropriate for Tower Hamlets, whilst looking to and learning from what others do, we will develop a comprehensive income generation strategy.

3.9.3. This work will be in addition to a continued focus on existing fees and charges levied by the Council for services where it is permissible to make charges; this will ensure that costs are fully recovered and remain competitive where markets exist.

3.9.4. Work is being undertaken to review opportunities across all Council services, using information from work done by the Association of Public Excellence (APSE) on commercialisation and income generation as well as what other local authorities have done, to develop a tailored income strategy for the Council.

3.10. Capital Strategy and Programme 2018/19 onwards

3.10.1. 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.

3.10.2. The current programme 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 through its Transformation Programme (Smarter Together) which also underpinned the approach to its Medium Term Financial Strategy for revenue expenditure.

Governance Arrangements

3.10.3. The current capital governance arrangements have been reviewed in order to create a more streamlined process that enables decisions to be made in a timely manner for the efficient delivery of an ambitious capital programme.

3.10.4. Prioritised programmes which meet the council's objectives will progress through a revised governance structure to the Capital Board where

funding and scheduling will be discussed and agreed. The new structure will enable funding to be available as required to ensure delivery and allow for pro-active treasury management.

- 3.10.5. A number of sessions are being arranged to take place from October to December to allow officers and members the opportunity to review the current capital programme, identify future investment needs aligned with the councils strategic priorities, and scrutinise investment to maximise funding and deliver the council's longer term objectives.
- 3.10.6. A revised capital programme will be presented to Cabinet at its meeting on the 9th January 2019 alongside an updated capital strategy document.

3.11. The Housing Revenue Account (HRA) and Rent Setting

- 3.11.1. The Welfare Reform and Work Act 2016 includes the requirement that rents on social housing properties must be reduced by 1% a year for four years from 2016/17. In line with this legislation, the Mayor in Cabinet is asked to approve the reduction that will apply to the Authority's rents in 2019/20 in order for the Council to comply with its statutory duty to notify tenants. Consideration of any proposed changes to service charges will be proposed later in the budget setting process following discussion with the Cabinet.
- 3.11.2. The HRA relates to the activities of the Council as landlord of its dwelling stock. Since 1st April 1990 the Housing Revenue Account has been "ring-fenced". This means that deficits on the Housing Revenue Account cannot be met from the General Fund and the HRA must remain in balance.
- 3.11.3. From April 2012, HRA Subsidy was abolished and replaced by self-financing, under which local authorities retain their rental income, but are responsible for meeting all costs relating to council housing.
- 3.11.4. Under HRA Self-Financing, local authorities were able to decide on the level of rental increase that they 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

- 3.11.5. 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. The Authority must therefore implement a rent reduction of 1% in 2019/20. This equates to an average weekly rent reduction of £1.08.
- 3.11.6. The current year's budget for rents is £64.6 million. As a result of the rent reduction and the movements in stock arising from current year property acquisitions and disposals (including right to buy sales), the 2019/20 budget is estimated at approximately £63.8 million. This figure will continue to be reviewed as further stock movements occur during this financial year, with the final estimate being incorporated into the budget report that will be considered by the Mayor in Cabinet in January 2019.

Social Rent policy post 2019/20

- 3.11.7. On September 13th 2018 the government published a consultation 'Rents for social housing from 2020/21' in which the government set out its proposals in relation to social rent policy from 2020/21.
- 3.11.8. In the consultation the government is proposing that the Regulator of Social Housing's rent standard will permit Registered Providers (RPs) to increase their rents by a maximum of CPI + 1% for at least five years and that this will also now apply to Local Authorities
- 3.11.9. If the government's proposals are implemented then this would mean that in future local authorities would have less discretion over their rent policy and would have to adhere to the Regulator's rent standard.
- 3.11.10. Historically local authorities have been able to make decisions on their rent policy with the only control mechanism being the annual 'Limit Rent', used to control Housing Benefit grant paid to the Authority by the Government.
- 3.11.11. With the introduction of HRA Self-Financing in April 2012, in return for being responsible for all items of expenditure within the HRA, local authorities were meant to have discretion over their rent policy. As rent is the largest income stream within the HRA, having discretion over rent levels is crucial in terms of running the HRA as a 'business'.
- 3.11.12. However, since 2012, the government has – in relation to rents -:
- ended their rent restructuring policy a year early;
 - implemented legislation to impose a 1% rent cut for four years;
 - is now proposing that the Regulator's rent standard will apply to local authorities (as well as RPs) so that annual rent increases will be set out by the Regulator
- 3.11.13. Until the government publishes its final proposals the impact on the HRA cannot be definitively quantified, however, the most recent HRA 30 year financial modelling already assumes that after the four years of 1% rent cuts, HRA rents will increase by CPI + 1% for five years, and then by CPI only.

3.12. The Dedicated Schools Budget Strategy

- 3.12.1. The Dedicated Schools Grant (DSG) is a ring-fenced grant used to fund pupil-led education spending. The initial notification of the value of the grant is received in the December preceding the financial year in question and updated at various stages as new data becomes available. As a ring-fenced grant any under or overspends are carried forward into future years.
- 3.12.2. The grant is split into four blocks:
- The Schools Block (SB). The SB is fully allocated to schools through the Schools Funding Formula, except for the Growth Fund of £2.471m which is distributed to schools during the course of the year. The SB includes funding for local academies and free schools; the formula allocations for these are removed (recouped) from the DSG and paid

directly to the institutions by the Education and Skills Funding Agency (ESFA).

- Central Schools Services Block (CSSB). This is to fund ongoing central services such as Admissions and a reducing level of historical commitments. The CSSB is reducing annually as the Block is moved to a formulaic distribution.
- High Needs Block (HNB). This funds the additional cost of pupils with high needs. It includes the funding of places in special schools, alternative provision and Private, Voluntary and Independent (PVI) provision. It also provides top-up funding for pupils with special needs in mainstream provision. The HNB covers students in further education to the age of 25. The ESFA recoups funding in respect of academies and other direct payments.
- Early Years Block (EYB). The majority of this is delegated to maintained schools, nursery schools and providers in the PVI sector. It covers the statutory universal provision of part-time education to all three and four year olds, the provision of full-time education for three and four year olds with working parents and the provision of part-time education to eligible two-year olds. The Local Authority (LA) can retain 5% of three and four year old funding to provide central services, the use of which requires Forum permission

DSG 2019-20.

- 3.12.3. The indicative DSG allocation based on October 2017 pupil numbers and the guaranteed Primary and Secondary Units of funding (PUF and SUF) for 2019-20 was issued in July. This will be updated in mid-December when the October 2018 census data becomes available. Both the HNB and the PUF and SUF have been uplifted to include the 0.5% per-pupil increase agreed by the Government, in the case of the SUF the increase is 0.7%. Table 3 sets out the indicative allocation.
- 3.12.4. In September 2017, the Department for Education confirmed the introduction of the national funding formula for schools, high needs and central services for 2018-19 and 2019-20. The DFE has also confirmed in order to support a smooth transition, local authorities will continue to determine local formulae in 2020-21.
- 3.12.5. The Schools Forum which is a statutory consultative body in respect of some matters and the decision making body in respect of other matters relating to the DSG will continue to receive reports relating to the 2019-20 DSG strategy.

Table 3: Indicative DSG Allocation 2019-20.

Block	2019-20	2018-19	Change
	£m	£m	£m
Schools Block	260.193	259.176	1.017
CSSB	4.798	4.851	(0.053)
High Needs Block	49.574	49.058	0.516
Early Years Block	29.528	29.528	0.0
Total	344.093	342.613	1.480

Note: The EYB will not be updated from 2018-19 until the January 2019 census is available.

3.13. Next Steps

- 3.13.1. A further report will be brought to the January Cabinet which will provide a detailed update of the financial planning assumptions underpinning the current MTFS. The outcome of this will be a confirmation of the estimated funding gap over the period to 2022.
- 3.13.2. In the January Cabinet report, Members will be presented with updated information relating to our assumptions for Council tax and Business Rates and any impact those changes have on the MTFS.
- 3.13.3. The report will also bring forward the response to the Council's budget consultation processes and seek to finalise draft savings and investment proposals, covering in full the medium term planning period to 2022 alongside a strategy that fully meets the identified funding gap.
- 3.13.4. The draft timetable for the budget setting process is as follows:

Activity	Date
Capital Strategy and Long term capital programme	October – December 2018
Budget Gap and proposals to close Income generation strategies	
Fair Funding review update post consultation	
Future of Business rates pool and Impact on the MTFP	
Budget consultation	
Review of the Existing MTFS in light of the settlement.	9 th and 30 th January Cabinet
Capital Strategy & programme.	
Identification of potential gap and options to close the gap	
Agree Final budget and setting of the Council Tax	By 1 st March 2019 Full Council

3.14. Budget Consultation and Scrutiny Process 2019-22

- 3.14.1. The council must undertake statutory budget consultation with Business Rate payers in the borough and it is also good practice to consult with Council Tax payers and a broad range of other stakeholders. In addition, meaningful consultation must take place with service users before any changes to service provision are implemented. Furthermore, the Councils budget framework sets out the need for the Overview and Scrutiny committee to be fully involved in the setting of the councils budget.
- 3.14.2. This report will be presented to the Overview and Scrutiny Committee to keep them informed of the progress against confirming the budget gap and towards developing proposals aimed at bridging the funding gap over the MTFs planning period to 2022. The Cabinet are also asked to note that the Council's budget consultation will commence on 29 October 2018 and will run until 10 December; a period of six weeks.
- 3.14.3. The Overview and Scrutiny Committee are able to review and comment on the principles set out in this report including specifically the broad range of themes being developed at this early stage as described in Section 3.8. This is in advance of their detailed scrutiny of proposals once they have reached the point where Cabinet will be asked to consider their final budget proposals.
- 3.14.4. The scrutiny and consultation processes will recognise that developing proposals over a three year period means that business cases will be more fully developed for proposals in the early years but that others will continue to be developed later on. The on-going role of the Overview and Scrutiny Committee in scrutinising developed business cases and undertaking targeted reviews in a number of key areas identified by them is key to maintaining the rigour of budget scrutiny of the Medium Term Financial Strategy (MTFS).
- 3.14.5. This report will initiate public consultation on the broad areas of the developing themes and other key considerations such as any changes to the level of the Council tax.
- 3.14.6. In addition to the scrutiny of relevant revenue savings and investment proposals the O&S Committee will undertake similar scrutiny of capital programme proposals. They will also have an overview of the Medium Term Financial proposals being considered for approval by the Board of Tower Hamlets Homes (THH), and also the budget strategy for the Dedicated Schools Budget (DSB) which will be proposed for approval by the Cabinet, from the Schools Forum.

Activity	Date	Outcome
Budget Consultation	6 weeks (November to December 2018)	Outcome reported to OSC, Cabinet and reflected in detailed budget proposals.
Budget and Policy Framework – Budget Scrutiny meeting	14th & 28th January 2019 4th February 2019 (if there are any changes to budget following Cabinet on 30th Jan)	Review final Cabinet budget proposals and provide comments for consideration by Cabinet and Full Council.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1. This report is primarily financial in nature and reflects the advice of the Council's Chief Financial Officer. No additional comments are required.

5. LEGAL COMMENTS

- 5.1. The report proposes consideration of a revised medium term financial plan. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan.
- 5.2. The report provides information about risks associated with the medium term financial plan and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 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.
- 5.3. The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is required 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 setting of a medium term financial plan is one of the ways in which the Council can achieve best value.
- 5.4. The Council is required to consult for the purposes of deciding how to fulfil its best value duty. It must consult with representatives of council tax payer, business rates payers, persons likely to use services and persons appearing to have an interest in any area within which the Council carries out functions.

As the adoption of a medium term financial plan is one of the Council's existing arrangements, it is arguable that consultation is not required prior to its amendment. However, best value consultation will likely be required at the time of preparing the 2019/2020 budget.

- 5.5. When considering the medium term financial plan, any savings proposals and the strategic plan, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate level of equality analysis is required to inform the consideration required by the public sector equality duty. To the extent that savings proposals involve service changes which impact on individuals, consultation may be required to understand the impacts on those people.
- 5.6. Any consultation carried out for the purposes of either the best value duty or the public sector equality duty will need to comply with the following requirements: (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.

6. EQUALITIES IMPLICATIONS

- 6.1. Strategic budget implications in respect of the Council's available funding and budget risks will tend to apply equally across all groups with protected characteristics or otherwise. This is because with few exceptions funding resources are un-hypothecated.
- 6.2. The Adult Social Care precept must be allocated to expenditure on ASC services, the HRA and DSG are ring-fenced funding allocations with prescriptions governing their use. In addition a number of grants received by the Council can only be used in accordance with specified conditions.
- 6.3. The Council must maintain a Local Council Tax Reduction Scheme which will prescribe those individuals that can gain relief from the full cost of their Council tax bill. Government legislation also preserves some historic protections for other groups such as those not of working age.
- 6.4. Individual budget proposals will also be subject to consultation which will consider specifically the impact on groups with protected characteristics and where appropriate put in place mitigation measures.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1. The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that

resources are allocated in accordance with priorities and that best value is achieved.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1. The sustainable action for a greener environment implications of individual proposals in the budget will be 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 will be reported to Cabinet as the budget process develops.
- 9.2. In addition the Council will maintain a range of budget provision (contingency) earmarked reserves for specific risks and general reserves for unforeseen events and risks.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

11. SAFEGUARDING IMPLICATIONS

- 11.1. The safeguarding implications of individual proposals in the budget will be set out in the papers relating to those proposals.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

Appendix 1 – Summary MTFS Position 2019 – 2022

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

- None.

Officer contact details for documents:

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Summary MTFS Position 2019 – 2022

MTFS Summary 2019-2022				
	2019-20	2020-21	2021-22	Total 2019-2022
	£'000	£'000	£'000	£'000
Agreed MTFS (Feb 2018)	331,895	329,422	0	
Additional Budget Requirement	5,222	(2,327)	13,371	16,266
Revised Budget Requirement	337,117	332,317	345,688	16,266
Funding Assumptions	(331,032)	(329,753)	(327,388)	
Changes in Funding		2,034	1,724	3,758
Planned Use of Reserves/ Transfer into	(863)	331	532	0
Total Funding	(331,895)	(327,388)	(325,664)	3,758
Budget Gap	5,222	4,929	20,024	20,024