


Cabinet 31 July 2019	 TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources	Classification: Unrestricted
Medium Term Financial Strategy Refresh and 2020-21 Budget Planning	

Lead Member	Councillor Ronald, Cabinet Member for Resources and the Voluntary Sector
Originating Officer(s)	Kevin Bartle (Divisional Director, Finance Procurement and Audit)
Wards affected	All wards
Key Decision?	No
Forward Plan Notice Published	20/06/2019
Reason for Key Decision	N/A
Strategic Plan Priority / Outcome	1. People are aspirational, independent and have equal access to opportunities; 2. A borough that our residents are proud of and love to live in; 3. A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.

Executive Summary

In February 2019 the Council agreed its budget for 2019-20 and set out a Medium Term Financial Strategy (MTFS) covering the period 2019-2022. This included additional savings of £15.390m to be delivered over the extended MTFS period thereby setting a balanced budget for 3 years with £1.026m being added into 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 2028-29.

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 2019, highlight any new developments and government announcements since then; and summarises the next steps to update the MTFS by extending it to 2022-23 and agree a final budget for 2020-21. A potential budget gap of £8m for 2022-23 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 will be required and the report sets out a timeframe for this consultation that will lead to the conclusion of the budget setting process and culminate in the setting of the Council Tax for 2020-21.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the updated draft budget position for 2020-21.
2. Note the need to set a balanced budget over the whole of 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 2020-23.
4. Note the indicative timeline of formal budget consultation with residents, businesses and other key stakeholders and to receive feedback on the consultation at Cabinet in November.

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

5. Note the most recent HRA 30 year financial modelling assumes that from 2020-21 HRA rents will increase by CPI + 1% for five years, and then by CPI only.

In relation to the Local Council Tax Reduction Scheme (LCTRS), the Mayor in Cabinet is recommended to:-

6. Maintain the existing 100% Local Council Tax Reduction Scheme for 2020-21 protecting our residents on low incomes.

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, on 26th February 2019 the government confirmed that it is directing the Regulator of Social Housing to include local authority registered providers within the scope of the Regulator's Rent Standard from April 2020 and has issued a policy statement for social housing rents from 2020. This confirms that registered providers will be permitted to increase rents on social rent and affordable rent properties by up to CPI+1% each year from 2020. Therefore the Council can decrease HRA rents or increase HRA rents up to a maximum of CPI + 1%.
- 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 THE REPORT

3.1. Background

3.1.1. 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.

3.1.2. 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.

3.1.3. 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.

3.1.4. In February 2019 the Council agreed a balanced budget for 2019-20 and a Medium Term Financial Strategy (MTFS) to 2021-22 identifying further savings of £15.390m to be delivered over that period and adding £1.026m into general fund reserves.

3.1.5. 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.

3.2. Strategic Approach

3.2.1. The Council has a sound approach to strategic and resource planning. The 2019-20 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

3.2.2. 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.

Table 1 – Strategic Priority Outcomes

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

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 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	
Outcomes we want to achieve	People say we are open and transparent putting residents at the heart of everything we do.
	People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.
	People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

3.3. Outcome Based Budgeting

3.3.1. 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.

3.3.2. The Council's Medium Term Financial Strategy (MTFS) 2019-2022 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.

3.3.3. We intend to continue with this approach going forward with a series of budget meetings between officers, the Mayor and Cabinet which will take place over the summer 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 2020-2023; 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 the impact of any national Business Rates retention scheme in 2020-21 including any proposals for a continuation of pooling within London.

3.4. Future Outlook for the Council's Finances

Government Funding

- 3.4.1. 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, which has decreased from around £54m in 2017-18 to around £33m in 2019-20.
- 3.4.2. 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.
- 3.4.3. 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 introduction 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.
- 3.4.4. However, given current political uncertainty, the 2019 Comprehensive Spending Review (CSR) may be delayed. In the event, an additional one-year settlement for 2020-21 is likely to be announced. The MTFS would, in that case, be updated accordingly.

Business Rates Retention Scheme

- 3.4.5. An increasing proportion of the Council's services are funded through locally generated resources such as Business Rates and Council Tax.
- 3.4.6. In 2018-19, the Council participated in the 100% London-wide Business Rates Pilot and gained a one off sum of £10.4m reflecting its share of the growth in business rates income. For 2019-20, the Secretary of State confirmed a 75% Business Rates Pilot for London in the provisional settlement. The Council is estimated to receive a further one off sum of £4m in 2019-20 for its share of the growth. This is in addition to the sum of £139.555m built into the budget for the Council's share of core Business Rates income.

Consultation paper

- 3.4.7. The government has completed its consultation on "Sharing risk and reward, managing volatility and setting up the reformed system", a technical consultation which sought views on proposals for sharing risk

and reward, managing volatility in income and setting up the reformed business rates retention system. The outcome of the consultation is yet to be determined.

Strategic Improvement Pot (SIP)

- 3.4.8. Under the agreed terms of the London 75% Business Rates Retention Pilot Pool, 15% of the net financial benefit of pooling – currently estimated at c.£25.7 million – is reserved for the Strategic Investment Pot. In addition, funds unallocated in 2018-19 estimated at £12.8m are also available for allocation, to be spent on projects that:
- contribute to the sustainable growth of London’s economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
 - leverage additional investment funding from other private or public sources;
 - have broad support across London government in accordance with the agreed governance process. Generally, this will mean a preference for collaborative bids over broader areas than just a single borough.
- 3.4.9. In addition, the Mayor of London is committed to spend the GLA’s share of any additional net financial benefit from the pilot on strategic investment projects. As previously agreed, decisions on the allocation of the GLA’s share will be made by the Mayor of London. Overall, it is anticipated that approximately 50% of net additional benefits arising from the pilot pool will be spent on strategic investment projects.
- 3.4.10. The Government’s evaluation of the London pilot pool will include assessment of the extent to which this expectation is met, and the effectiveness of the collective decision-making arrangements in agreeing suitable investment projects.
- 3.4.11. Decisions regarding the Strategic Investment Pot will be taken formally in November 2019 by the City of London Corporation – as the Lead Authority – in consultation with all member authorities.

Council Tax and Local Council Tax Reduction Scheme (LCTRS)

- 3.4.12. Council Tax continues to be an important source of revenue for the Council with £106m estimated from that source in 2020-21. The government has not announced any indication of an Adult Social Care (ASC) precept for 2020-21.
- 3.4.13. The Council continues to face a number of financial challenges, including demographic growth and inflationary pressures, and the continuing effect of reductions in government support. Therefore there is a need to increase the income generated from local sources including Council Tax.
- 3.4.14. The revised assumption included in the MTFs is that Council Tax will be increased up to the government imposed referendum level (currently expected to be at 3%). As well as this 2.99% assumed increase in Council Tax, the MTFs also assumes an increase in the tax base of 3%.

No assumption has been made regarding any Adult Social Care precept for 2020-21.

- 3.4.15. For the 2019-20 year, the Council made minor changes to the operation of the Local Council Tax Reduction Scheme (LCTRS) whilst maintaining the 100% benefit of the scheme for those on low incomes. A period of stability to the scheme is desirable, however the level of support could be considered for review due to the significant additional resources that would result.
- 3.4.16. If the Council was to change the LCTRS, this would require full consultation on any proposed changes. To meet the necessary timeline for any changes to be effective from April 2020, consultation would need to begin immediately for Council decision by the end of January.

Core Grants

- 3.4.17. 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 2019-23

Core Grants	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
New Homes Bonus	19.202	16.521	16.521	13.339
Improved Better Care Fund	14.851	12.777	12.777	12.777
Public Health Grant	34.124	33.237	32.373	31.531
School Improvement Monitoring and Brokering Grant	0.200	0.350	0.350	0.350
Local Lead Flood Grant	0.036	0	0	0
Winter Pressures Grant	1.465	0	0	0
Social Care Support Grant	2.535	0	0	0
Total Core Grants	72.413	62.885	62.021	57.997
NHB allocated for Capital Investment	(16.020)	(13.339)	(13.339)	(13.339)
Total Core Grants (Revenue)	56.393	49.546	48.682	44.658

New Homes Bonus

- 3.4.18. 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.
- 3.4.19. Tower Hamlets is a high growth area, and has attracted the highest level of NHB in the country. The technical consultation on the 2019-20 Local Government Finance Settlement published in September 2018, suggested there would be an increase to the deadweight for the 2019-20 “in-year” allocations. However, through an additional £18m added to the funding of the scheme, no increase to the deadweight has been necessary.
- 3.4.20. 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. Of the £16.5m NHB the Council expects to receive in 2020-21 only £3.2m will be used support the revenue budget and the balance will be used for capital investments in housing and infrastructure

Improved Better Care Fund

- 3.4.21. 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.
- 3.4.22. The future of this fund and its treatment under the Fair Funding review is not known. The MTFS assumes funding up to 2022-23 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.
- 3.4.23. Similarly, the MTFS assumes the level of Better Care Fund monies to remain at current levels up to 2022-23, supporting Adult Social Care in partnership with health services.

Public Health Grant

- 3.4.24. The previous three year allocation of the Public Health grant was for the period 2017-18 to 2019-20. During that period, the Public Health grant reduced by 2.6% per year. There has been no confirmation of future allocations from the Department of Health.
- 3.4.25. The current estimate of the grant for 2020-21 is £33.2m, which assumes a further decrease of 2.6%.

School Improvement Monitoring and Brokering Grant

- 3.4.26. The grant has been allocated to local authorities since September 2017 to allow them to continue to monitor performance of maintained schools, broker school improvement provision, and intervene as appropriate.

3.4.27. The grant has been confirmed to August 2019. The medium term financial strategy currently estimates the grant to be £0.350m from 2020-21.

Fair Funding Review

3.4.28. 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.

3.4.29. 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.

3.4.30. 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.

3.4.31. 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

3.4.32. 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.

3.4.33. 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.

3.4.34. It is expected that the government will allocate a one year settlement for 2020-21 and then a multi-year settlement for future years would take account of the fair funding consultation and spending review.

3.5. Growth and Inflation

3.5.1. 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.

- 3.5.2. The MTFS for the period 2020-22 included Adult Social Care demographic growth of £7.5m. The MTFS currently assumes further demographic growth pressures in 2022-23 of £3.0m. Work is underway to review the assumptions for 2020-23.
- 3.5.3. Budget setting will need to consider funding requirements for Children and Culture directorate demography. The MTFS that was agreed for the period 2019-22 included £0.5m permanent growth for Leaving Care services, one-off funding of £1m for SEND transport in 2019-20 and an extension to funding for Free School Meals of £2m for 2021-22.
- 3.5.4. 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 2022-23.
- 3.5.5. Pay inflation will be reviewed in line with agreed terms and conditions following the TOWER Rewards consultation, including taking account of any pay increases and increment increases.

3.6. Savings Programme

- 3.6.1. Full Council have previously approved savings of £14.6m (2020-21) and £8.2m (2021-22) as summarised in Appendix 2. Additional growth, including for any undeliverable savings, means that there is a need to identify further savings over the MTFS period to 2022-23.
- 3.6.2. A number of budget meetings will be held in August through to October, which will allow officers, in discussion with lead Cabinet members and the Mayor to consider the 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.
- 3.6.3. Additional savings proposals will need to be identified for 2020-23. Officers will need to develop 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 specific consultation where there are service implications.

3.7. Income Strategy

3.7.1. The Council has needed to deliver savings of approximately £15m 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.

3.7.2. With greater powers to charge for services and the continued budget gap, the Council will need to continue to take a strategic approach to income generation. 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.

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

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

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

Rent

3.8.3 Under HRA self-financing, local authorities were able to decide on the level of rent increase implemented each year, and although they were expected to have regard to government guidance, 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 was removed for four years as local authorities had to implement four years of 1% rent reductions, starting in 2016-17.

Social Rent policy post 2019-20

3.8.4 On 13th September 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.

3.8.5 On 26th February 2019 the government confirmed that it is directing the Regulator of Social Housing to include local authority registered providers within the scope of the Regulator’s Rent Standard from April 2020 and has issued a policy statement for social housing rents from 2020. This confirms that registered providers will be permitted to increase rents on social rent and affordable rent properties by up to CPI+1% each year from

2020. The direction and policy statement confirm the government's intention that this settlement should remain in place for at least five years.

- 3.8.6 The most recent HRA 30 year financial modelling assumes that from 2020-21 HRA rents will increase by CPI + 1% for five years, and then by CPI only.

Update on Government Policies Affecting the HRA

- 3.8.7 There have been a number of recent government consultations and announcements and these are outlined below.

Right to Buy receipts consultation

- 3.8.8 The government published a consultation 'Use of receipts from Right to Buy sales' on 14th August 2018. The government has not published anything further so it is presently unclear what the outcome of the consultation is or what the government's final proposals will be.

Increased time limit for spending existing Right to Buy receipts

- 3.8.9 Current rules set out that Right to Buy one for one receipts must be spent on replacement social housing within three years. The consultation asked for views on extending the time limit for using existing receipts from three to five years, but keeping the timescales for new receipts at three years.

- 3.8.10 It should be noted that in June 2018 the Authority signed an agreement with the GLA in order that any currently retained Right to Buy one for one receipts that are unspent by the Authority by the three year deadline and are returned to the government with interest will then be passed to the GLA and subsequently ear-marked to be returned to the Authority as grant money, with another three years to spend. The Authority must make a firm commitment to deliver a programme of projects on a three-year rolling delivery programme. It is unclear whether the government's final Right to Buy proposals will have any impact on the status of this agreement.

Flexibility of the 30% cap on 1-4-1 receipts funding new housing

- 3.8.11 Under current Right to Buy rules the retained Right to Buy one for one can finance 30% of the cost of the 'replacement social housing' with the local authority financing the remaining 70% from its own resources.

- 3.8.12 The consultation set out two possible areas of flexibility over the 30%:
- a) Increase the cap to 50% of build costs for homes for social rent where LAs meet the eligibility of the Affordable Homes Programme, and can demonstrate a clear need for social rent rather than affordable rent.

- b) Permit LAs to ‘top-up’ insufficient Right to Buy receipts with funding from the Affordable Homes Programme up to 30% of build cost for affordable rent, or up to 50% of build costs for social rent, where the LA can demonstrate a need for social rent (top up bids are to be submitted to the Affordable Homes Programme).

Use of one for one receipts for property acquisition

3.8.13 The government is looking to restrict property acquisitions and outlined two options, but stated that its preference is option a:

- a) Introducing a cap per dwelling based on average build costs; acquiring a property at above these (indicative) caps would not be allowed:
- £268,000 in Inner London
 - £265,000 in Outer London
 - £167,000 in the South-East), or
- b) allowing acquisitions in certain areas (e.g. where average build costs are more than acquisition costs).

3.8.14 If agreed, this may mean that the Authority may not be able to use Right to Buy one for one receipts to finance 30% of the costs of any acquisitions that are higher than the average build costs in the relevant area.

3.8.15 The Authority has adopted substantial capital estimates in order to undertake property acquisitions, but may need to revise this commitment when the government publishes its final proposals.

Cost of transferring land between the General Fund (GF) and the HRA

3.8.16 Under current rules, where LAs transfer land from their GF to their HRA the land must – in effect – be ‘bought’ by the HRA, with an adjustment made to the HRA Capital Financing Requirement and the GF compensated for the value of the land.

3.8.17 The government’s proposal was to relax the conditions so that LAs would be able to gift GF land to the HRA at zero cost, thereby making it easier for LAs to use GF land for housing.

Suspension of interest payments for three months

3.8.18 Under current rules if Right to Buy one for one receipts are not returned to the government immediately then interest is payable on the sum if the local authority subsequently decides to return the receipts. The government proposed that local authorities would have a short period of time (3 months) to return receipts without paying interest.

3.8.19 The table below outlines future spend deadlines showing the (current) three year deadlines.

Deadline	Cumulative spend needed on replacement social housing £m
30-Jun-19	188.257
30-Sep-19	223.213
31-Dec-19	255.142
31-Mar-20	273.600
30-Jun-20	289.067
30-Sep-20	310.919
31-Dec-20	328.585
31-Mar-21	344.640
30-Jun-21	359.281
30-Sep-21	370.962
31-Dec-21	391.579
31-Mar-22	404.731

- 3.8.20 As outlined earlier, the Authority has an agreement with the GLA so that any currently retained Right to Buy one for one receipts unspent by the Authority by the three year deadline can be returned to the government with interest, but then passed to the GLA and subsequently returned to the Authority as grant money, with another three years to spend. Therefore the Authority now has some added flexibility in relation to its deadlines to spend current Right to Buy receipts.

Removal of HRA debt cap

- 3.8.21 The government announced in October 2018 that the HRA debt cap would be scrapped and this took effect from 29th October 2018. Removing the HRA debt cap means that instead of having a limit to the amount of debt that the HRA can undertake, HRA borrowing will in future (along with General Fund borrowing) be subject to the Prudential Code meaning that borrowing must be affordable, prudent and sustainable.
- 3.8.22 The Chief Financial Officer considers that the charging of Minimum Revenue Provision (MRP) should be made to ensure the repayment of any borrowing is made over the usable lifespan of the assets, similar to the Minimum Revenue Provision (MRP) arrangements that operate for the Council's General Fund.

Savings

- 3.8.23 At its meeting on 26th July 2016, the Mayor in Cabinet agreed a HRA medium term savings target of £6m. There is a £1 million savings target in place for 2020-21, and detailed savings proposals will be brought forward by THH as part of the 2020-21 budget process.

Risks – Welfare Reform

- 3.8.24 The cumulative impact on the HRA will not be clear until the various reforms all take effect. Provision has been made within the HRA MTFP

for an increase in bad debts but as the introduction of Universal Credit has been delayed once again it is not yet clear precisely what the future level of bad debts will be.

3.9. School's Funding

3.9.1. 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.

3.9.2. 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.

3.9.3. 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.

3.9.4. In 2018-19, the DSG had an estimated gross overspend position of £7.9m (within the High Needs and Early Years blocks), partially mitigated by an underspend of £2.2m from the central schools services block allocation, leaving a net overspend position of £5.7m.

3.9.5. Ongoing pressures and growth in demand for Special Education Needs (SEN) provision, including high needs transport, will need to be considered as part of budget setting for 2020-23.

3.10. Pension Fund

3.10.1. The pension fund is currently undergoing a triennial valuation by the actuary for 2020-21 onwards. This will impact the MTFs through a potential increase in employer contributions to meet the forecast funding deficit.

3.11. Capital Programme

3.11.1. The MTFS currently allows for £6.8m of capital financing costs to meet requirements for debt repayment and interest payments. This will be next reviewed in line with the capital budget plan for 2020-30 after the Capital Strategy Board in September 2019.

3.12. Next Steps

3.12.1. A further report will be brought to the November 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 2023.

3.12.2. 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.

3.12.3. 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 2023 alongside a strategy that fully meets the identified funding gap.

3.12.4. The draft timetable for the budget setting process is as follows:

Activity	Date
Capital Strategy and long term Capital Programme	September – December 2019
Budget Gap and proposals to close	
Income generation strategies	
Fair Funding review update post consultation	
Future of Business rates pool and Impact on the MTFS	
Comprehensive Spending Review outcome	
Budget consultation	8 th and 29 th January Cabinet
Review of the Existing MTFS in light of the settlement.	
Capital Strategy & programme.	
Identification of potential gap and options to close the gap	By 1 st March 2020 Full Council
Agree final budget and setting of the Council Tax	

3.13. Budget Consultation and Scrutiny Process 2020-23

3.13.1. 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 Council's budget framework sets out the need for the Overview and Scrutiny committee to be fully involved in the setting of the council's budget.

- 3.13.2. The Cabinet are asked to note that the Council's budget consultation will be carried out in November.
- 3.13.3. 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).
- 3.13.4. 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), including proposals for rent setting and medium term savings. Similarly, 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	November 2019	Outcome reported to OSC, Cabinet and reflected in detailed budget proposals.
Budget and Policy Framework – Budget Scrutiny meeting	13 th January 2020 3 rd February 2020 (if there are any changes to budget following Cabinet on 29 th January)	Review final Cabinet budget proposals and provide comments for consideration by Cabinet and Full Council.

4 EQUALITIES IMPLICATIONS

- 4.1 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.
- 4.2 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.
- 4.3 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.

- 4.4 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.

5 OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.
- 5.2 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.
- 5.3 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.
- 5.4 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.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

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

7 COMMENTS OF LEGAL SERVICES

- 7.1 The report updates the 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.

- 7.2 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.
- 7.3 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). Having a medium term financial plan therefore contributes to achieving this legal duty.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix 1 - Budget Setting Timetable
- Appendix 2 - Summary MTFs Position 2019-23
- Appendix 3 - Existing Savings Summary 2019-22

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

- None,

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