Cabinet 29 January 2020	TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources	**Classification:** Unrestricted
The Council's 2020-21 Budget Report and Medium Term Financial Strategy 2020-23	

Lead Member	**Councillor Candida Ronald, Cabinet Member for Resources and the Voluntary Sector**
Originating Officer(s)	Kevin Bartle, Interim Divisional Director of Finance, Procurement & Audit
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	24th December 2019
Reason for Key Decision	To set the Council's Budget for 2020-21 and MTFS 2020-23
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 a 3 year budget and Medium Term Financial Strategy (MTFS) for the period 2019-22, including new savings of £15.390m that would need to be delivered to achieve a balanced budget over that period.

As part of the Council's annual budget cycle, Cabinet considered a draft budget report on the 8th January that updated the assumptions for the years 2020-22 and incorporated a new financial year, 2022-23, to maintain the Council's three year MTFS.

This report presents the final budget proposals that will be recommended for Full Council approval on the 19th February. The assumptions set out in last year's MTFS for 2020-21 have been reviewed and updated to allow Members to agree a balanced budget and Council Tax requirement for that year.

2019-20 was the final year of the government's 'guaranteed' funding settlement and in the light of the continued uncertainty surrounding Brexit the government published on 4 September 2019 a Spending Round (SR2019) for one year only.

A technical consultation covering issues for 2020-21 to inform a provisional Local Government settlement, in accordance with the recommendations of the recent Hudson review, commenced in October 2019. A provisional Local Government Finance Settlement (LGFS) was published on 20th December 2019; however the final complete settlement is still to be published.

As a consequence, this budget report includes a number of areas where planning assumptions have needed to be made in advance of the final settlement and it is important to recognise that this creates some uncertainty over the final shape of the Council's proposed budget until the final details are available.

Following receipt of the final settlement, the Chief Finance Officer (CFO) will need to be assured of the robustness of estimates and adequacy of reserves.

As in previous years, officers have evaluated the financial impact of new demographic and inflationary budget pressures in comparison to estimated impacts included for the years 2020-21 and 2021-22 in the previous years' MTFS together with an evaluation of those pressures arising in the newly incorporated year 2022-23; the action that is needed to meet these additional commitments over the existing MTFS assumptions is built into the budget proposals.

A summary of the projected General Fund budget for each of the three years 2020-23 is shown in Appendix 1A with a more detailed service analysis in Appendix 1B.

The report also includes revised assessments of the Dedicated Schools Budget (DSB), Housing Revenue Account (HRA) and the three year Capital Programme 2020-23.

The report also includes the outcome of the Council's 2020-21 budget consultation that ended on the 5th December 2019.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Approve a General Fund Revenue Funding Requirement of £354.496m subject to any changes arising from the final Local Government Finance Settlement.

2. Propose a Band D Council Tax of £1,060.35 for 2020-21 to be referred to Full Council for consideration.

3. Authorise the Corporate Director Resources after consultation with the Mayor and Lead Member of Resources to make any changes required to the budget following the final settlement announcement.

4. Approve the provisional Capital Programme for the period 2020-23; as detailed in Appendix 8 and adopt the associated capital estimates.

5. Approve the 2020-21 Housing Revenue Account budget as set out in Appendix 7.

6. Approve the 2020-21 Management Fee payable to Tower Hamlets Homes (THH) of £32.415m as set out in Table 5.

7. Note that under the Management Agreement between the Council and THH, THH manages delegated income and expenditure budgets on behalf of the Council. In 2020-21, THH will manage delegated income budgets totalling £93.792m and delegated expenditure budgets totalling £93.465m.

8. Approve the 2020-21 Dedicated Schools Budget.

9. Agree that the National Schools Funding Formula (NSFF) adopted by Tower Hamlets in 2019-20 continues for 2020-21. The only changes are increases to the factor values in line with the NSFF.

10. Agree that the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set at 1.84%, the maximum allowed.

11. Agree that the structure of the Early Years Funding Formula remains unchanged except that hourly rates will increase in line with the Early Years National Funding Formula.

12. Propose that Council approves no changes to the current Local Council Tax Reduction Scheme for 2020-21.

13. Note the Equalities Impact Assessment and specific equalities considerations as set out in Section 4.

1. REASONS FOR THE DECISIONS

1.1 The Council is under an obligation to set a balanced and sustainable budget and to set the Council Tax Levels for the financial year 2020-21 by 9th March 2020 at the latest. The Council's Chief Financial (S151) Officer must confirm the robustness of the estimates applied and the adequacy of the Council's reserves as part of the budget setting report to the Council.

1.2 The setting of the budget is a decision reserved for Full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Overview & Scrutiny Committee to allow for their comments to be considered before the final budget proposals are made to Full Council.

1.3 The announcements and consultations made about Government funding for the Council in the Chancellor's Spending Round and the technical consultation on the 2020-21 Local Government Finance Settlement require a robust and timely response to enable a balanced budget to be set.

1.4 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.

1.5 As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFS; in particular as the Council becomes ever more dependent on locally raised sources of income through Council Tax and retained business rates these elements become fundamental elements of its approach and strategies.

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

1.7 In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme, and capital estimates adopted prior to any expenditure being incurred. This report includes the revised three year Capital Programme 2020-23 and associated capital estimates to be approved.

2. ALTERNATIVE OPTIONS

2.1 The Council is required to set an affordable Council Tax and a balanced budget, while meeting its duties to provide local services. This limits the options available to Members. Nevertheless, the Council can determine its priorities in terms of the services it seeks to preserve and protect where possible, and to the extent permitted by its resources, those services it wishes to prioritise through investment.

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

3. DETAILS OF THE REPORT

3.1 BACKGROUND

3.1.1 In February 2019 the Council agreed a balanced budget for 2019-20 and a Medium Term Financial Plan (MTFP) to 2021-22 identifying additional savings of £15.390m to be delivered over the medium term period. This was done in the context of certainty over government grant funding levels only to the end of March 2020 which is when the government's four year guaranteed funding settlement expires. The estimates for 2020-21 and later years were therefore speculative and reflected a number of significant unknown elements such as any changes arising from a new Spending Review period and a stated intention to implement a 'Fair Funding' review of Local Government finances including the expected introduction of changes to the business rate retention scheme.

3.1.2 In the event, the next multi-year Spending Review has been delayed by other Government business and instead the Chancellor of the Exchequer announced a one year Spending Round (in September 2019). This included headline information on the funding levels for Local Government including clarification in respect of a number of separate grant funding streams outside of Revenue Support Grant (RSG) and retained business rates. A provisional Local Government Finance Settlement (LGFS) was then announced on 20 December 2019.

3.1.3 This report updates Members on the impact of all of these changes, and identifies the additional growth and savings proposals that will inform consideration of the budget package by the Overview and Scrutiny Committee.

3.1.4 The main body of the report has the following sections:

- Strategic Approach (Section 3.2)
- Medium Term Financial Strategy & Proposed Budget (Section 3.3)
- Financial Resources (Section 3.4)

- Budget Pressures and Growth Allocations (Section 3.5)
- Savings Proposals (Section 3.6)
- Risks and Opportunities (Section 3.7)
- Reserves (Section 3.8)
- Schools' Funding (Section 3.9)
- Housing Revenue Account (Section 3.10)
- Capital (Section 3.11)
- Treasury Management Strategy (Section 3.12)
- Budget Consultation (Section 3.13)

3.1.5 The key planning assumptions that support the draft budget proposals are set out in the body of the report and in the attached appendices.

3.1.6 In developing these proposals the Council has taken account of the government's previous approaches to measuring the total resources that it believes are available to each Council. This is known as Core Spending Power (CSP) and reflects the government's assumptions for a number of key grants, retained business rates and Council Tax.

3.1.7 The Council's CSP calculation is attached as Appendix 2; the most recent calculation reflects the following:

- Settlement Funding Assessment and Revenue Support Grant – unchanged from the technical consultation.
- New Homes Bonus – an increase from 2019-20 (£19.2m) to 2020-21 (£22.0m).
- Council Tax Requirement (base and levels of growth), and assumptions on the level of assumed Council Tax increases for inflationary purposes.
- Adult social care Winter Pressures Grant rolled into Improved Better Care Fund.
- The additional announcement of one-off funding to support pressures in adults and children social care through the Social Care Grant.

3.2 STRATEGIC APPROACH

Strategic Plan 2019-22

3.2.1 In April 2019 Cabinet agreed a three year Strategic Plan focusing on improving outcomes for local people and delivering sustainable improvements in the way the Council operates. The Strategic Plan is designed to reflect and deliver the Mayor's manifesto. The Plan is refreshed annually to ensure it is aligned with emerging priorities for the organisation and borough. The Council's vision is to work with the community for a fairer, cleaner and safer borough. The Council is focused on becoming a dynamic outcome based organisation using digital innovation and partnership working to respond to the changing needs of our borough. This renewed focus on outcomes requires us to think differently. Working together across traditional organisational boundaries, we need a relentless focus on what has the biggest impact on outcomes. This needs us to question not only how our services are performing, but also whether we are doing the right things to deliver the impact needed. The Strategic Plan embeds Outcomes Based Accountability and Budgeting (OBA/OBB) in our planning and performance approach for 2020-21.

3.2.2 In line with this approach, the Council's priorities and outcomes are set out in the table below:

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.

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

- Achieve the best outcomes for our residents by integrating services across the council and partners to make the most of the money we have.
- Become a modern council with new ways of working and an agile workforce that is supported by the necessary infrastructure now and at our new home in Whitechapel.

- Use technology and information to provide better services and empower our citizens so they take a more active role in their area and co-design services.
- Reduce future demand on the council through measures including better forecasting of need, supporting independent living and providing early intervention to prevent problems escalating in later life.
- Harness economic growth that benefits our residents by making it simple for businesses to set up and invest in our borough.

3.2.4 The Council's approach to strategic and financial planning has been informed by an understanding of the opportunities and potential in the borough. This includes:
- Ongoing economic growth and a rising employment rate;
- A vibrant population with a high proportion of young people;
- An active voluntary and community sector; and
- A partnership committed to collaborative working around priority outcomes.

3.2.5 It also recognises that there are longer term challenges which need to be addressed by working with the community to create a fairer, cleaner and safer borough. These challenges include:
- Growth and development impacting on local infrastructure and services;
- Lower employment levels, particularly for women and some ethnic minorities;
- Significant child poverty and the impact of welfare benefit reductions;
- Local people priced out by spiralling housing prices, and the danger of a polarised community;
- Climate change and air quality affecting the way residents live their lives now and in the future;
- Low levels of health and life expectancy; and
- The need to be vigilant and tackle the potential for radicalisation and extremism.

3.3 MEDIUM TERM FINANCIAL STRATEGY & PROPOSED BUDGET

3.3.1 The revised Medium Term Financial Strategy is set out in Appendix 1A, and the detail by service area in Appendix 1B. The detailed figures and assumptions incorporated in these tables are explained more fully in this report. The figures assume a Council budget requirement of £354.496m for 2020-21; a Council Tax at Band D of £1,060.35 and a net transfer from reserves of £1.740m in 2020-21.

Spending Round 2019

3.3.2 The 4-year funding settlement agreed with the Government expires at the end of the current financial year. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020-21 to 2023-24. However, due to the government's focus on other legislative agendas, it was announced on 4th September 2019 that a one-year Spending Round would be provided, covering the financial year 2020-21 only; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and again setting multi-year budgets.

3.3.3 The government has indicated that it projects that Core Spending Power (CSP) will increase by £2.9bn in 2020-21, a real terms increase of 4.3% (i.e. a cash increase of 6.2%). This compares to a cash increase in CSP of £1.7bn between 2015-16 to 2019-20.

3.3.4 Within this, the government has indicated that there will be £1bn for Social Care, which will be in addition to grants of £2.5bn already being paid, which might be taken to include the current Improved Better Care Fund (IBCF), Winter Pressures Grant and Social Care Support grant. In addition, the government has consulted on a further 2% Adult Social Care Precept for 2020-21 and the provisional LGFS indicates this level of precept will be agreed.

Local Government Finance Settlement (LGFS) 2020-21

3.3.5 A provisional LGFS was published on 20th December 2019, however the final settlement has not been received to date. The MTFS includes consideration of the provisional settlement and these assumptions will be revised as soon as we receive the final settlement information.

Fair Funding Review and Business Rates Reset

3.3.6 The Fair Funding Review and Business Rates Reset will be deferred until 2021-22 however, the government has announced that the London 75% Business Rate pilot will come to an end in March 2020.

3.3.7 Notwithstanding this, the Leaders of all London Councils together with the Greater London Authority (GLA) intend to continue with the London wide pooling arrangement for 2020-21, permissible under the original business rate retention scheme. This allows for the offset of the top-up and tariff position of each authority in the pool.

3.4 FINANCIAL RESOURCES

Council Tax

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

3.4.2 The borough has seen a year-on-year increase in the number of new homes over the last few years and this continues to be a key priority area for growth for both central government and the Council.

3.4.3 The Council can, subject to legislative constraints, increase its Council tax rate through two mechanisms; the Adult Social Care precept and general inflationary increases. Each 1% increase in the Council Tax rate generates around £1m per annum, which equates to approximately 20 pence per week for the average Band D property. In the Spending Round the Chancellor announced that the referendum level (which excludes amounts attributable to the Adult Social Care precept) will be set at a level of up to 2% - a fall from previous levels and reflecting the government's broad view of inflation and an assumed rise of 1.99% which is now reflected in their calculation of Core Spending Power (CSP).

3.4.4 For the Adult Social Care (ASC) precept, the government consulted on a maximum increase of 2% and have indicated in the provisional LGFS that this level will be agreed for 2020-21. The increase in Council Tax attributable to the ASC precept must be directed towards Adult Social Care pressures.

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

3.4.6 A general inflationary increase of 1.99% is proposed over all years of the MTFS. This equates to 39 pence per week for the average Band D property. A 2% increase in the ASC precept is also proposed and included in all years of the MTFS. Taking all of these factors into account it is proposed to increase the Council Tax by 3.99% in 2020-21. This equates to an increase of 78 pence per week (2% ASC and 1.99% Inflation).

3.4.7 Taking into account the forecast growth in tax base and decisions around rate increases referred to above, the Council's share of Council Tax income in 2020-21 is estimated to be £108.438m and this has been built into the proposed Budget for 2020-21.

Local Council Tax Reduction Scheme (LCTRS) 2020-21

3.4.8 Following a full public consultation, the council introduced changes to its Local Council Tax Reduction Scheme last year, effective from April 2019.

3.4.9 Each year, the council is required to consider whether it wishes to change its Local Council Tax Reduction Scheme. Any changes to the scheme would require a full public consultation and impact analysis.

3.4.10 As part of the Medium Term Financial Strategy refresh and budget planning for 2020-21, Cabinet decided on 8 January to maintain the existing 100% Local Council Tax Reduction Scheme for 2020-21 protecting our residents on low incomes.

3.4.11 It is, therefore, recommended that the current Local Council Tax Reduction Scheme should remain unchanged for 2020-21.

3.4.12 The reasons for this are:

- The current scheme was adopted after full public consultation
- The current scheme is a 100% scheme and remains amongst the most generous in the UK protecting Tower Hamlets residents on low incomes

Settlement Funding Assessment and Revenue Support Grant

3.4.13 Settlement Funding Assessment (SFA) reflects the government's current approach to funding most local authorities through Revenue Support Grant (RSG) and retained business rates.

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

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

Table 2 – Provisional Settlement Funding Assessment 2020-21

Provisional Settlement Funding Assessment	£m
Settlement Funding Assessment (SFA)	145.3
Baseline Funding Level (BFL)	111.5
Revenue Support Grant (RSG)	33.8

Business Rates Retention Scheme

3.4.16 In 2018-19 and 2019-20, the Council participated in a London-wide Business Rates Retention Pilot scheme. In the 2019 Spending Round it was announced that the London pilot scheme would not exist in 2020-21.

3.4.17 However, on the 8th October 2019 the Leader's Committee at London Councils agreed to pool business rates in 2020-21 under the original business rates pool provisions. This allows for the offsetting of individual authorities top-up and tariff payments. The estimated net benefit to the Council from this arrangement is £1.4m.

Core Grants

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

Table 3 – Summary Core Grants 2020-23

Core Grants	2020-21 £m	2021-22 £m	2022-23 £m
New Homes Bonus	21.981	9.992	3.812
Improved Better Care Fund (includes previous Winter Pressures Grant)	16.316	16.316	16.316
Public Health Grant	35.045	35.746	36.461
Social Care Grant (includes previous Social Care Support Grant)	9.367	2.500	2.500
Total Core Grants	**82.709**	**64.554**	**59.089**
NHB transferred to reserves	(15.999)	(6.810)	(0.630)
Total Core Grants (Revenue)	**66.710**	**57.744**	**58.459**

New Homes Bonus

3.4.19 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.

3.4.20 The Council reduced its reliance on NHB as a funding source in support of its revenue budget since 2016-17. Of the £22.0m NHB the Council expects to receive in 2020-21, £6.0m will be used to support the revenue budget. This includes £2.8m from the increase in NHB from 2019-20 (£19.2m) to 2020-21 (£22.0m). The MTFS allocates £3.2m NHB to support the revenue budget in 2021-22 and 2022-23.

3.4.21 The provisional LGFS indicates NHB decreasing to £10.0m in 2021-22, £3.8m in 2022-23 and nil in 2023-24. It is expected that decreases in NHB will be re-allocated nationally into grant funding such as the Revenue Support Grant and other core grants.

Improved Better Care Fund and Winter Pressures Grant

3.4.22 The Better Care Fund (BCF) was introduced in the 2013-14 spending review. The Fund is a pooled budget, bringing together local authority and NHS funding to create a national pot designed to integrate care and health services.

3.4.23 In addition to this, an Improved Better Care Fund (IBCF) was announced in the 2016-17 budget to support local authorities to deal with the growing health and social care pressures during the period 2017-20. The Spending Round

2019 confirmed the continuation of this grant for a further year in 2020-21. This funding takes into account local authorities' ability to raise resources locally through the Adult Social Care precept.

3.4.24 In the Chancellor’s 2019-20 Budget, £240m of additional funding was announced for Councils to spend on adult social care services to alleviate winter pressures on the NHS. This Winter Pressures Grant funding was allocated using the existing Adult Social Care Relative Needs Formula. The provisional LGFS has indicated that for 2020-21, the Winter Pressures Grant allocations will be rolled into the pooled allocation for the Improved Better Care Fund, and will no longer be ring-fenced for alleviating winter pressures. As in the previous year the Corporate Director for Health, Adults and Community will identify appropriate interventions in consultation with the Clinical Commissioning Group (CCG) and other relevant partners.

Public Health Grant

3.4.25 The Public Health Grant allocation for 2020-21 has not been confirmed. The government has, however, announced its intention to increase the overall level of the national grant by the level of the GDP deflator (1.84%).

3.4.26 The provision for free school meals to all primary aged children over and above the current government policy of funding for Key Stage 1 pupils will continue to be partly supported from the public health grant. The total cost to the Council is estimated to be approximately £3m per annum and £1m has been included in the MTFS to be funded from the Public Health grant with the balance to be funded from an earmarked reserve in line with the Council’s strategic priorities to support our young people.

Social Care Grant

3.4.27 In the Chancellor’s 2019-20 budget, £410m of additional funding was announced for use for adult and children’s social services. The Spending Round 2019 indicated that there will be additional Social Care funding of up to £1.5bn in total for 2020-21, partly delivered through grant (over and above funding currently received in 2019-20) and through an additional year of Adult Social Care Precept. The government believes there is not a single bespoke needs formula that can be used to model relative needs for both adult and children’s social care, therefore the existing Adult Social Care Relative Needs Formula will also be used to distribute this Social Care Support Grant funding.

3.4.28 The provisional LGFS indicates that the previous Social Care Support Grant allocations will be rolled into a new Social Care Grant for 2020-21. In the absence of the final LGFS and grant determination, the MTFS currently assumes a one-off increase in 2020-21 to £9.4m from the 2019-20 Social Care Support Grant allocation of £2.5m.

3.5 **BUDGET PRESSURES, GROWTH AND INFLATION**

Budget pressures

3.5.1 A key part of the annual budget setting process is the review of growth pressures across the Medium Term Financial Strategy period arising from demographic changes, new requirements or responsibilities or inflationary pressures.

3.5.2 In previous budget setting rounds, the Council approved amounts for unavoidable growth over the period 2020-22. Following a review as part of updating the MTFS for the period 2020-23, some additional growth pressures arising from demographic changes, new requirements or responsibilities have been identified. These items are set out in Appendix 3 and have been built into the budget proposal presented in this report.

Inflation

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

3.5.4 The Government's target projection for inflation which is reflected in the MTFS is 1.7% (CPI) throughout the MTFS period. Most of the Council's contracts for goods and services which span more than one year contain inflation clauses and although service directorates have been successful in negotiating annual increases which are below inflation this will be a difficult position to maintain.

3.5.5 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The MTFS anticipates that staffing costs will increase by at least 2% in each year of the three year plan.

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

3.6 **SAVINGS PROPOSALS**

3.6.1 In 2019-20 the Council approved savings covering the whole of the period of the MTFS which ensured that a balanced budget for 2020-21 and 2021-22 was already in place. Detailed consultation and impact assessments will continue to be undertaken as the proposals agreed previously are taken through to implementation.

3.6.2 However, there have been a number of changes made to the 2020-22 budget assumptions, largely to take account of the revised analysis of demographic growth requirements and, after a re-assessment, the expected deliverability and timescales of savings. This has resulted in the need to reprofile £5.4m of 2020-21 savings to later financial years, mainly to allow for the planned contractual efficiencies to be delivered in line with procurement timescales, greater commercialisation opportunities to be developed and information technology improvements to become embedded.

Prior year savings written off - £3.8m

3.6.3 The following previously agreed savings are no longer deliverable and it is proposed in this budget that these are now written off;

- Better targeting of services for children with special educational need and disabilities (SEND) ref: CHI005/17-18 (£0.940m) – Savings made in this area will be attributable to the Dedicated Schools Budget, instead of the General Fund.
- Increasing the involvement of partners in Early Years services ref: CHI003/17-18 (£2.408m) - Savings made in this area will be attributable to the Dedicated Schools Budget, instead of the General Fund.
- Pan-London Homelessness Prevention Procurement Hub ("Capital Letters") ref: SAV/PLA003/19-20 (£0.200m) – Savings made in this area will be attributable to the Housing Revenue Account (HRA), instead of the General Fund.
- Income Through Wi-Fi Concession Contract ref: SAV/RES07/18-19 (£0.300m) - This saving related to revenues generated from the rental of street furniture that was anticipated from the exclusive concession award for Wi-Fi. This approach has now been abandoned based on independent legal advice received. Despite this, the Council has made significant progress in delivering publicly accessible Wi-Fi at Council office buildings, Idea Stores, libraries and youth centres.

3.6.4 New savings have been identified for 2020-21 as well as future years. The high level summary of the proposed saving areas are detailed in Appendix 4. The 2020-21 budget position is balanced, albeit with the planned use of reserves to fund short-term priority investments agreed in earlier budget rounds.

3.6.5 The business rates income for Tower Hamlets since 2013-14 has included an extra amount of income to reward the level of local growth that has occurred since 2013-14 (the incentivising of growth by government by allowing local councils to retain a share of the growth). A proposed business rates reset by the Ministry of Housing, Communities and Local Government means that the baseline level will be raised in 2021-22 to the current level of business rates, and, therefore, Tower Hamlets will only retain extra income for growth that occurs above the new baseline expected level.

3.6.6 The effect of the business rate baseline reset is not confirmed, however the current estimate for Tower Hamlets is that business rates income could reduce by circa £16m in 2021-22 and we have, therefore, planned on that basis. New savings identified across 2021-23 reduce the MTFS impact of this estimated income reduction, however there remains a budget gap in both 2021-22 and 2022-23. Work is already underway to develop transformational Council-wide savings to eliminate this medium term budget gap.

Income generation through fees and charges

3.6.7 The current MTFS assumes that an additional £0.570m of general fund income will be generated through the Fees and Charges changes proposed for 2020-21. This contributes £0.125m estimated extra income to the 2020-21 MTFS position above the £0.445m allocated to the existing Debt Management & Income Optimisation savings target. The MTFS assumes further increases in fees & charges income for 2021-22 (£0.545m) and 2022-23 (£0.420m).

3.7 RISKS AND OPPORTUNITIES

3.7.1 When setting the draft MTFS, Service Directors have provided their best estimate of their service costs and income based on the information currently available to them. However there will always be factors outside of the Council's direct control which have the potential to vary the key planning assumptions that underpin those estimates.

3.7.2 There are a number of significant risks that could affect either the level of service demand (and therefore service delivery costs) or its main sources of funding. In addition, there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services going forward. Pressures in service demand are demonstrated in the Council's projected overspend for 2019-20, especially for children's and adults social care and special educational needs transport. A recovery plan is in place with the aim to reduce spend where appropriate, with a view to eliminating or at least minimising the need for a drawdown of general fund reserves.

3.7.3 Similarly there are opportunities to either reduce costs or increase income which will not, as yet, be fully factored into the planning assumptions. The main risks and opportunities are summarised below.

Risks

Regulatory Risk

- **Business Rate Reset** – A proposed business rates reset by the Ministry of Housing, Communities and Local Government (MHCLG) means that the baseline level will be raised in 2021-22 to the current level of business rates, and therefore Tower Hamlets will only retain extra income for growth that occurs above the new baseline expected level.
  - The target business rates amount since 2013-14 was set on cash amounts received in previous years. This created winners and losers depending on the timing of appeals. Tower Hamlets benefited from the methodology chosen, plus has benefitted from growth achieved locally since 2013-14.
  - It was always MHCLG's intention to update the target amounts. This was supposed to happen in 2019-20, so Tower

Hamlets has gained by a further two years. Resets will occur periodically going forward also.
  - The growth is not lost to MHCLG, but will be redistributed based on need (within the funding formula) and Tower Hamlets will receive a share. Also Tower Hamlets should receive more resources going forward, if local growth continues.
  - The forecast reduction in business rates income for the Council in 2021-22 has been factored into our planning.

General Economic Factors

- **Impact of decision to leave European Union (Brexit)** - London Boroughs are still determining the impact of leaving the EU under a range of scenarios. Some of the key points to consider whether financial provision may be required are:-

  - Potential workforce impact arising from direct or indirect employment of EU nationals.
  - Supply chains could be affected by any changes in procurement legislation, and there are potential cost implications associated with currency fluctuations that must be considered.
  - The implications for pension funds are mixed as global investment vehicles have already priced in much of the uncertainty, but valuations on balance sheets and the cost of borrowing may lead to greater vulnerability.
  - Commercial strategies may need to take into account the potential for any downturn in demand for properties in their investment portfolios which impact rental income and profitability.

- **Fair Funding Review** - The government has committed to reforming the way local authorities are funded. Its Fair Funding Review aims to introduce a new funding formula from April 2021.

- The government has said that the 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 available to local authorities;
  - focus initially on the services currently funded through the local government finance settlement;
  - be developed through close collaboration with local government to seek views on the right approach.

- It is considered likely that London authorities will be adversely affected by the changes and it is therefore sensible to plan for a variation in funding levels even after allowing for transitional arrangements.

Other risks

- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- Further reductions in Third Party Funding
- Further reductions in grant income
- Reductions in the level of income generated through fees and charges
- Increase in fraud

Increases in Service Demand

- Children's Social Care including an increase in the number of looked after children, unaccompanied asylum seekers or those with no recourse to public funds
- Housing (and homelessness in particular)
- General demographic trends (including impact of an ageing population)
- Impact of changes to Welfare Benefits

Efficiencies and Savings Programme

- Slippage in the expected delivery of the savings programme
- Non delivery of savings remains a key risk to the Council and will be monitored during the year

Opportunities

- Growth in local taxbase for both housing and businesses
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs
- Income generation opportunities including through a more commercial approach.

3.7.4 In addition to the above there is a risk that the combined impact of some of these factors will adversely impact on service standards and performance.

3.8 RESERVES

3.8.1 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its financial standing and resilience.

3.8.2 The Council's key sources of funding face an uncertain future and the Council, therefore, holds earmarked reserves and a working balance in order to mitigate future financial risks.

3.8.3 There are two main types of reserves:

- Earmarked Reserves – which are held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year(s); and

- General Reserves – these are held for ‘unforeseen’ events

3.8.4 The Council maintains reserves both for its General Fund activities and in respect of its Housing Revenue Account (HRA). In addition it accounts for the reserves of schools.

3.8.5 The amount of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained, and the Council’s potential financial exposure to risks. A Reserves Policy is included in Appendix 5.

3.8.6 The Council holds reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax. Capital reserves play a similar role in funding the Council’s capital investment strategy.

3.8.7 The Council also relies on interest earned through holding cash and bank balances to support its general spending plans.

3.8.8 Reserves are one-off money and, therefore, the Council generally aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long term future planning.

3.8.9 Reserves are therefore held for the following purposes:

- Providing a working balance i.e. Housing Revenue Account and General Fund.
- Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying forward expenditure between years.
- Holding funds for future spending plans e.g. Capital Expenditure plans, and for the renewal of operational assets e.g. Information Technology renewal.
- Meeting future costs and liabilities where an accounting ‘provision’ cannot be justified.
- Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
- To provide resilience against future risks.
- To create policy capacity in a context of forecast declining future external resources.

3.8.10 All earmarked reserves are held for a specific purpose. A summary of the movement on each reserve is published annually, to accompany the annual Statement of Accounts.

3.8.11 The use of some reserves is limited by regulation e.g. reserves established through the Housing Revenue Account can only be applied within that account and the Car Parking reserve can only be used to fund specific transport related expenditure. Schools reserves are also ring-fenced for their use.

3.9 SCHOOLS’ FUNDING

3.9.1 The largest single grant received by the Council is the Dedicated Schools Grant (DSG), which is ring-fenced to fund school budgets and services that directly support the education of pupils. The Local Authority receives its DSG allocation gross (including allocations relating to academies and post 16 provision), and then the Education & Skills Funding Agency (ESFA) recoups the actual budget for these settings to pay them direct, leaving a net Local Authority allocation.

3.9.2 The methodology for allocating the DSG to local authorities changed significantly in 2018-19. The DSG is now allocated through four blocks: The Schools Block (SB), Central School Services Block (CSSB), High Needs Block (HNB) and Early Years Block (EYB). A new national funding formula was introduced in 2018-19 with the Early Years Block funded by a new national formula from 2017-18.

3.9.3 Responsibility for agreeing the DSG is split between Tower Hamlets’ Schools Forum and the Council. The former agrees any transfers between blocks, de-delegation (see 3.9.13), the allocation of the CSSB and approves any centrally retained budgets within the EYB. The Council agrees the schools and early years funding formulae and the use of the HNB.

3.9.4 As in 2019-20 the Schools Block allocation will be calculated on the basis of the national school funding formula reforms but will be aggregated and allocated to each Local Authority for local decisions on distribution.

3.9.5 In December 2019 the ESFA published the DSG allocations for 2020-21. These are the final allocations for the Schools Block and Central Services Block but the High Needs Block will be subject to minor adjustments during the year. The Early Years Block allocation is still based on January 2019 data and will be updated when the January 2020 pupil numbers become available.

3.9.6 Three of the four DSG blocks have increased for 2020-21. The Schools Block has increased by 1.60% despite a 0.19% fall in pupil numbers. This represents an increase of 1.84% per pupil (the funding floor) once a reduction in the funding for future growth is taken into account. Growth in the provisional Early Years Block is 0.14%, but when updated for January 2020 data this is expected to reflect a 1.84% uplift per child. The funding floor is set at the level of the GDP deflator and therefore only covers inflation. The High Needs Block shows an increase of £7.7m (15.26%).

3.9.7 There are a number of continuing pressures, specifically in relation to the High Needs Block which is managed by the Council for those pupils with needs that cannot be fully met from mainstream schools’ individual budgets. The Government has extended the scope of the High Needs funding to cover educational costs of children and young people up to the age of 25. This expansion of the age range, coupled by an increase in the number of children who are applying for Education, Health and Care plans places significant pressure on both the retained budget and schools' own budgets.

3.9.8 The High Needs Block overspent by £7m in 2018-19, offset by underspends in other blocks to give a net DSG overspend of £4.5m. Despite action to find savings the HNB overspend is projected to increase to £9.3m in 2019-20.

3.9.9 The increase in the High Needs Block for 2020-21 will go some way to ease the pressure but is not in itself sufficient to remove it. Various savings in the block have been identified, including reductions in central services and the Council has also consulted on reductions in special needs top-up funding.

3.9.10 Tower Hamlets' Schools Forum has agreed to a transfer of the £1.031m headroom available in the 2020-21 Schools Block to the High Needs Block. Transfers can only be made on an annual basis. The headroom is what remained in the Schools Block after mirroring the uplift in the National Schools Funding Formula (NSFF) and applying the maximum Minimum Funding Guarantee (MFG).

3.9.11 The level of top-up in Tower Hamlets is high compared to similar local authorities. A limiting factor in reductions to top-up funding for special schools is the recently imposed change to the Minimum Funding Guarantee (MFG), effectively prohibiting reductions to special school top-up funding without the approval of the secretary of state.

3.9.12 The Central Schools Services Block (CSSB) was introduced in 2018-19 to fund LAs for their statutory duties relating to maintained schools and academies. The CSSB brings together funding previously allocated through the retained duties element of the Education Services Grant; funding for ongoing central functions e.g. admissions; and funding for historic commitments e.g. items previously agreed locally, such as combined budgets. There is a significant reduction of £0.61m (12.7%) in this block for 2020-21. The reduction is partly due to the move to a national funding formula for this block but more significantly to a fall in provision for historic commitments that are expected to be reducing.

3.9.13 In addition to the Central Schools Services Block, maintained schools can also, through the Schools Forum, agree to de-delegate some of their Schools Block resources for certain specific services such as to fund release time for trade union duties and allow the Local Authority to fund them centrally on behalf of all schools. De-delegation also covers contributions to support the former Education Services Grant (ESG) general duties. Although the ESG was discontinued by the government in 2017, the Council is obliged to carry out a number of statutory duties, for example in relation to financial regulation, asset management and the provision of information to government departments and agencies. Schools Forum in January 2020 agreed the funding to be de-delegated.

School Improvement Monitoring and Brokering Grant

3.9.14 In November 2016, the government announced a £50m fund for local authorities to “continue to monitor and commission school improvement for low-performing maintained schools”. This is allocated to local authorities on the basis of the number of maintained schools, an area cost adjustment and top-up to ensure each local authority receives a minimum. The Council has been allocated £0.372m for 2019-20 and assumes this will continue for 2020-21 onwards.

3.9.15 This partly replaced the former Education Services Grant which previously secured the authority £3.8m in 2016-17 and £2.7m in 2017-18 and therefore represents a reduction in government grant funding.

3.9.16 The table below sets out the December 2019 DSG allocation over the funding blocks for 2020-21.

Table 4 - Dedicated Schools Grant 2020-21 and 2019-20

Block	2020-21 £m	2019-2020 £m	Change £m
Schools Block	264.819	260.646	4.173
CSSB	4.200	4.811	(0.611)
High Needs Block	58.524	50.777	7.747
Early Years Block	29.658	29.617	0.041
Total	**357.200**	**345.851**	**11.350**

3.9.17 Table 5 sets out the proposed Schools Budget for 2020-21 following Forum decisions.

Table 5 – Schools Budget

Schools Budget	2020-21 £m
1.0 Schools Block (including Growth Fund and Post 16)	274.953
1.1 De-delegated Items (Schools Block)	1.714
1.2 High Needs Block	59.555
1.3 Early Years Block	29.658
1.4 Central School Services Block	4.200
Total	**370.080**
Funding Sources	**2020-21 £m**
1.7.1 DSG (After Recoupment)	(288.084)
1.7.3 ESFA Post 16 Funding (Indicative)	(12.880)
1.7.5 Academy Recoupment (Indicative)	(65.330)
1.7.5 High Needs Block Recoupment	(3.786)
Total	**(370.080)**

3.9.18 In addition the Council receives, and passports fully to schools, funding for the pupil premium (£16.8m 2019-20). Final allocations for the pupil premium will be confirmed in July 2020 and 6th form funding in March 2020.

3.9.19 **Additional funding for SEN**

3.9.20 Capital provision to expand special needs provision has been programmed for the years 2018-19 to 2020-21. For Tower Hamlets this totalled £6.015m.

Tower Hamlets' Funding Formulae

3.9.21 The agreement of the local Schools Funding Formula and Early Years Funding Formula is a decision for the Council following consultation with the Schools Forum. Forum has been consulted on both and endorsed the following recommendations for 2020-21. Cabinet is asked to formally agree these recommendations:

- That the National Schools Funding Formula (NSFF) adopted by Tower Hamlets in 2019-20 continues for 2020-21. The only changes are increases to the factor values in line with the NSFF.

- That the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set at 1.84%, the maximum allowed.

- That the structure of the Early Years Funding Formula remains unchanged except that hourly rates will increase in line with the Early Years National Funding Formula.

3.10 HOUSING REVENUE ACCOUNT (HRA)

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

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

2020-21 Rent Increase

3.10.3 Section 23 of the Welfare Reform and Work Act forced local authorities to implement a rent reduction of 1% for four years starting in 2016-17. The last year to which the rent reduction applies is 2019-20.

3.10.4 In September 2018 the government published a consultation entitled ‘Rents for social housing from 2020-21’ in which it set out its proposals for social rent policy from 2020-21. The proposals are that the Regulator of Social Housing’s rent standard will, from 2020-21, apply to local authorities. This will mean that, in common with other Registered Providers (RPs), local authorities will be permitted to increase their rents by a maximum of CPI + 1% for at least five years. In line with this updated rent policy, the Mayor in Cabinet agreed on 8th January 2020 that a rent increase of CPI + 1% be implemented from the first rent week in April 1st 2020.

3.10.5 The current year’s estimate for rent income is £64.600m. As a result of the rent increase and the movements in stock arising from property acquisitions and disposals (including right to buy sales), the 2020-21 budget is estimated at £65.497m. September 2019 CPI was 1.7%, therefore the average increase is 2.7% which equates to an average weekly rent increase in 2020-21 of £2.94.

2020-21 Increase in Tenanted Service Charges

3.10.6 The Mayor in Cabinet agreed on 8th January 2020 that tenanted service charges be increased by 2.7%. This is consistent with the new Social Housing rent standard rent policy which increases rents in line with the previous year’s September Consumer Price Index +1%. In this case, the September 2019 CPI was 1.7%, which will lead to an average weekly increase in tenanted service charges of approximately £0.23. It should be noted that energy charges are billed separately based on actual costs incurred.

3.10.7 The current year's budget for tenanted service charges is £5.511m. As a result of the proposed increase in charges and the movements in stock arising from property acquisitions and disposals (including right to buy sales), the 2020-21 budget is estimated at £5.714m. This income is included within the budget for heating and tenant charges shown in Appendix 7.

Savings

3.10.8 At its meeting on 26th July 2016, the Mayor in Cabinet agreed a HRA medium-term savings target of £6m. In 2019-20 savings of £0.5m have been made across the delegated budgets. However, as well as these savings there are also elements of growth requested within the 2020-21 management fee, as detailed in table 5. The Council will work with THH over the next few months to identify efficiencies to be effected on the management fee to release monies for costs to be incurred in the wider HRA. Any amendments will be approved via a specific report to the Mayor in Cabinet.

Repairs and Maintenance

3.10.9 The 2020-21 repairs and maintenance budget has been held almost constant in cash terms. The inflationary increase under the contract (£0.456m) has been offset by savings agreed with the contractor (£0.443m).

Energy

3.10.10 The 2020-21 energy budget has been held at the same level as the current year as, despite current forecasts that 2020-21 energy contract prices will increase, there is currently extra capacity within this budget to meet projected demand.

Growth

3.10.11 As part of setting the budget for 2017-18 approval was given to a three year programme to tackle ASB on LBTH estates. This involved an agreement to fund additional police officers through a buy one get one free deal with MOPAC and securing a patrol service from an accredited organisation called Parkguard. This has proved very successful. It is now proposed to make this a permanent scheme. The scheme actually started in the autumn of 2017 so part year funding of £0.552m is required for 2020-21, with full year funding from 2021-22. MOPAC no longer offers the buy one get one free arrangement so the costs have increased.

Management Fee

3.10.12 In February 2019, The Mayor in Cabinet approved the 2019-20 Management Fee payable to THH for services provided to the Council. At £31.105m, the Management Fee represents the largest single expenditure element of the HRA budget.

3.10.13 The table below shows the calculation of the proposed 2020-21 Management Fee payable to THH.

Table 5 – Calculation of 2020-21 Management Fee

Description	Total £m
Management Fee 2019-20	**31.105**
Add: 2018-19 Pay award	0.470
Adjustment to numbers in pension fund	0.140
Environmental Services restructure growth agreed last year	0.350
One off growth – Hackitt review	0.350
Management Fee 2020-21	**32.415**

3.10.14 At this stage, the proposed management fee does not include an inflationary increase in relation to a pay award. Salary costs represent approximately £20m of the management fee, resulting in an increase in employee costs of approximately £0.4m if a pay award of 2% is agreed. These costs are built into the HRA MTFP but will only be released to THH once the pay award is formally agreed.

3.10.15 As in previous years, there is scope to adjust the management fee outlined in the table above during the 2020-21 financial year, including work on efficiencies as mentioned above in paragraph 3.10.8.

One-off Growth Items

3.10.16 The 2019-20 management fee incorporated growth of £0.300m a year for the following two years. This relates to extending the fire safety team for two years to enable visits to be undertaken to all residents in order to minimise the risk from fire. It should be noted that there have been other benefits from the fire safety team's visits including the identification of Houses of Multiple Occupation (HMOs) and illegal subletting. HTT propose further growth in this budget of £0.350m for 2020-21 only.

Risks

3.10.17 Increasing costs associated with staffing and accommodation continues to be a risk and will be monitored and reported in the year.

Medium Term Financial Plan

3.10.18 Appendix 7 shows the HRA Medium Term Financial Plan (MTFP) for the period 2020-21 to 2024-25.

Overall position on the HRA

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

3.10.20 The revised MTFP shows that, on current projections, the HRA reserve will reduce over the next few years, but will remain above the assumed minimum balance of £15m.

Capital Programme, Stock Needs and 30 Year Business Plan

3.10.21 The recent stock condition survey provided an updated view of the needs of the Authority's current stock over the next 30 years, and included additional sums of £50m for fire safety works, £20m for energy efficiency and £30m for environmental works. On current projections the business plan is fully funded over the 30 year period. The capital programme includes provision for investment in the existing stock for the 3 years 2020-21 to 2022-23. The needs of the housing stock will be a key element of the review of the capital programme – see capital section below. It is essential that before future capital estimates are formally adopted, schemes are assessed in light of their affordability within the HRA.

New Housing Supply

3.10.22 In relation to new housing supply, additional and detailed financial modelling will need to be undertaken to ensure that manifesto commitments can be funded. Early indications had been that it would be possible for the HRA to finance all current and planned new housing supply schemes given that the HRA debt cap has been abolished. It should be noted that this does not include the acquisition of properties that are being acquired for use as temporary accommodation as these are being purchased by and held within the General Fund, nor does it include the purchase of s106 properties.

3.10.23 It should also be noted that previous modelling assumptions had been that no HRA debt would be repaid during the 30 year period. Clearly this is not sustainable and, therefore, the current budget includes provision for a contribution to debt repayment (Minimum Revenue Provision or MRP) of 2% of outstanding debt (see paragraph 3.10.26 below).

Update on Government Policies Affecting the HRA

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

Removal of HRA debt cap

3.10.25 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 must – along with General Fund borrowing - be subject to the Prudential Code meaning that borrowing must be affordable, prudent and sustainable.

3.10.26 Under current rules, although interest charges on outstanding debt must be paid, the HRA has not made any provision for debt repayment in recent years. As non-repayment of debt is not sustainable over the long-term as it would result in increasing levels of interest charges being incurred on a scheme, the Chief Financial Officer has decided that the charging of Minimum Revenue Provision (MRP) must 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. If MRP is not charged, then future administrations will inherit ongoing debt costs that will be very difficult to reduce within budget constraints.

Social Rent policy post 2019-20

3.10.27 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.

3.10.28 In the consultation the government proposed that the Regulator of Social Housing's rent standard will:

i. permit Registered Providers (RPs) to increase their rents by a maximum of CPI + 1% for at least five years
ii. also now apply to Local Authorities

3.10.29 The government has now confirmed this policy and this means that in future local authorities will no longer have any discretion over their rent policy and will have to adhere to the Regulator's rent standard.

3.10.30 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.

3.10.31 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'.

3.10.32 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.

3.10.33 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. The financial model assumes CPI of 2% throughout the 30 year period.

3.10.34 The government published its housing Green Paper 'A new deal for social housing' on 14th August 2018. In his foreword the Secretary of State set out the five principles that underlie the Green Paper:

1. Ensuring that homes are safe and decent
2. Swift and effective resolution of disputes
3. Empowering residents and making sure their voices are heard
4. Addressing the stigma that residents in social housing face
5. Boosting the supply of social housing and supporting home ownership

Possible Impact on the HRA

3.10.35 Until the consultation has ended and the government has published its response and policy proposals it will not be clear what the impact on the HRA will be, however some of the main issues are outlined below.

Ensuring that homes are safe and decent

3.10.36 The government is seeking views on whether to change the Decent Homes standard - which has not been revised since 2006 - to see whether it is demanding enough. The government is also seeking views on whether new safety measures that apply to the private rented sector – for example, the requirement to install smoke alarms on every storey, inspecting electrical appliances every five years – should also apply to social housing.

3.10.37 Any additional such requirements that may be introduced in future could lead to extra costs in order for the Authority to maintain its housing stock at a higher standard.

Boosting the supply of social housing and supporting home ownership

3.10.38 The government is asking for views about the current balance between grant funding for Housing Associations and HRA borrowing for LAs, and what additional affordable could be provided if capacity by social housing providers had more funding certainty.

3.10.39 The paper highlights problems identified by local authorities that wish to build more social housing and sets out ways the government is willing to tackle them including a separate consultation on the use of Right to Buy receipts.

3.10.40 The Green Paper consultation ended on 6th November 2018.

Cancellation of the Sale of Higher Value voids levy

3.10.41 The government confirmed in August 2018 that this policy will not be implemented. Previous assumptions were that a levy of £8.4m would be payable in 2019-20, continuing for five years. This has now been removed from future year budgets.

Right to Buy receipts consultation

3.10.42 The government published its consultation ‘Use of receipts from Right to Buy sales’ on 14th August 2018 and the main proposed changes are summarised below

Q1. Increased time limit for spending existing Right to Buy receipts

3.10.43 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.

GLA Agreement – Right to Buy ring-fence

3.10.44 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 must be 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 not clear whether the proposals resulting from the Right to Buy receipts consultation will have any impact on the status of this agreement.

Q2. Flexibility of the 30% cap on 1-4-1 receipts funding new housing

3.10.45 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’, and the local authority must finance the remaining 70% from its own resources.

3.10.46 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).

Q3. Use of one for one receipts for property acquisition

3.10.47 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).

3.10.48 If agreed, this may mean that the Authority may not be able to use any 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.

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

Q5. Cost of transferring land between the General Fund (GF) and the HRA

3.10.50 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.

3.10.51 The government is considering relaxing 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.

Q7. Suspension of interest payments for three months

3.10.52 Under current rules, if Right to Buy one for one receipts are not returned to the government immediately (at the end of the quarter in which they arise) then interest is payable on the sum if the local authority subsequently decides to return the receipts. The government is proposing that local authorities would have a short period of time – 3 months - to return receipts without paying interest.

Update on Right to Buy receipts position

3.10.53 Currently (as at the end of Q2 of 2019-20) the Authority has retained Right to Buy one for one receipts of £56.4m, which means that, under the original (current) Right to Buy agreement, the Authority would have to spend £188m on replacement social housing within three years i.e. the end of September 2022.

3.10.54 As at the end of Q2 of 2019-20, since Q3 2016-17, spend in excess of £188m on replacement social housing has been reported to the government, in line with our spend targets. The table below outlines future spend deadlines showing the three year deadlines, for information.

Table 6 – Three year spend deadlines for existing Right to Buy one for one receipts

Deadline	Cumulative spend needed on replacement social housing £m
31-Dec-19	262.5
31-Mar-20	281.0
30-Jun-20	296.5
30-Sep-20	318.3
31-Dec-20	336.0
31-Mar-21	352.0
30-Jun-21	365.3
30-Sep-21	376.3
31 Dec 21	396.9
31 Mar 22	410.1
30 Jun 22	411.4
30 Sep 22	416.7

3.10.55 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. To date the authority has not had to use this flexibility.

3.10.56 As outlined in paragraph 3.10.39, one of the proposals in the consultation 'Use of receipts from Right to Buy sales' is that local authorities would have an extra two years to spend the receipts that they currently hold, but still only three years to spend newly arising receipts. It is not currently clear whether this proposed change would supersede the agreement with the GLA to receive our expired Right to Buy receipts as grant and then give us an additional three years (on top of the a new five year deadline) to spend these.

Risks – Welfare Reform

3.10.57 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.

3.11 CAPITAL

Provisional Capital Programme

3.11.1 The provisional capital programme for 2020-21 to 2022-23 is set out in Appendix 8. It shows the budget requirements for each programme area. Where projects are at the feasibility stage, the budgets set out in this report are estimated costs and will be revised ahead of the project commencing.

3.11.2 Last year, a capital programme totalling £867.647m was presented, for the period 2018-19 to 2028-29. This year, the capital programme is for a three-year period. There are £7m of future commitments resulting from the current programme and these will be funded in future years.

3.11.3 A fundamental review of the provisional capital programme will be carried out over the next few months to ensure that programmes are delivering value for money and agreed outcomes for our communities and identifying where there are options to defer, reduce or delete schemes in order to minimise the requirement for prudential borrowing or allow headroom for new schemes that are currently unfunded. Outcomes from the Asset Strategy will form part of this review. The options from this review will be brought to Cabinet for consideration in April.

3.11.4 The provisional programme relies on new General Fund borrowing of £112m over the next 3 years which will have revenue implications for the Council, and the funding of borrowing costs will need to be factored into the future MTFS and included as part of the fundamental review. If this were to be financed long term at 3% per annum and, as an indicative figure the capital cost spread over 25 years (a minimum revenue provision of 4%), this would lead to a £8m increase in debt charges by 2023-24.

3.11.5 Monthly monitoring of housing capital projects through the capital governance arrangements will continue to demonstrate progress, manage risk and identify slippage that will be used to inform the capital programme. As new schemes are brought forward and funding sources identified, they will form part of the future programme.

3.11.6 Additions to the capital programme will only be brought forward through the capital governance process and to Cabinet for approval when funding sources are confirmed.

New Town Hall

3.11.7 In 2015, the intention was to fund the development of the new Town Hall through the disposal of assets identified as surplus to requirement. Since that date, more flexibility has been sought on how the project is funded and the scheme is now proposed to be largely funded through prudential borrowing.

Liveable Streets future programme

3.11.8 A budget of £6.4m to fund Liveable Streets projects in 2020-21 is included in the draft programme. A review of the proposed projects for 2021-22 and beyond will be carried out in the next few months to inform the future programme. This will be presented to Cabinet when funding sources have been identified.

Accelerated Carriageway and Footway Planned Improvements Programme

3.11.9 The current Carriageway and Footway Planned Improvements Programme is programmed over a 10 year period, with a total projected cost of £75.649m. The core improvement works in the 5 years from 2019-20 to 2023-24 are estimated at £34m to deal with the roads and footways that have either, failed, or are close to failing if left untreated. The programme of work will contribute to delivering the Council's Love Your Neighbourhood agenda, and the Mayor's Manifesto Pledge to 'invest in good quality road and footway surfaces to reduce accidents and make all journeys more pleasant', and public realm improvements linked to the Council's statutory duty to maintain the public highway within the Highways Act 1980.

3.11.10 Approval was given for £15m in 2019-20, as the first tranche of the programme and requests to fund further works will be brought forward when funding sources have being identified.

Accelerated Street Lighting and LED Replacement Programme

3.11.11 The current Accelerated Street Lighting and LED replacement Programme is programmed over a number of years. £3.50m of the approved £7.0m approved for 2019-20 is committed for expenditure in 2019-20 as the first tranche of the programme, with the balance being slipped into 2020-21. A total of £16.5m is included in the core capital programme for the next three years. The programme will contribute towards the Mayor's Manifesto Pledge to switch all street lights to low energy LEDs, delivering revenue savings based on lower energy consumption charges and reducing maintenance requirements.

London Dock School

3.11.12 The commitment to delivering London Dock School was approved by Cabinet in October 2018, as part of the report to Cabinet on school places. A budget of £51m has been programmed, some of which has been spent and the rest included in 2020-23, with an assumption that the development will be entirely funded by grant from DfE. The costs for the end of 2019-20 will be covered by s106 and CIL. There will be no prudential borrowing for this project.

Provisional Capital Programme Forward Plan

3.11.13 This report seeks budget approval for the provisional capital programme as set out in Appendix 8A. Beyond this, service areas are working on emerging capital schemes, which will be brought forward when they have been developed further and funding has been identified. Where funding sources are limited, the capital programme will need to be re-prioritised to ensure best use of available financial resources.

New council homes

3.11.14 The current capital programme includes the budget for the delivery of the first 1,000 new council homes. The new build schemes are either on site, in development, contractors being appointed or ready to be submitted for planning. Where planning consent has yet to be granted or contractors procured, best estimates of costs have been made for inclusion in the capital programme. However, it should be recognised that there may be changes required to the approved budgets when contractors are ready to be appointed and total scheme costs are known. These will be reviewed through the capital governance process.

3.11.15 A number of the sites in the new council homes delivery programme currently sit within the General Fund. These sites were identified for development through the review of assets, including community buildings, and many are mixed use schemes. The current assumption is that there is a nil land value for appropriation of land from the General Fund to the Housing Revenue account, because the land is being used to deliver new council homes for rent. If there is a change to this approach as a result of policy development, it will be brought back to Members for their consideration.

3.11.16 The purchase of 115 new homes at Barchester Court, being built by Canary Wharf Group as part of a s106 agreement, is included in the current programme. Further s106 purchases are expected to be brought forward in future years.

3.11.17 For the second 1,000 council homes, many of the sites have been identified, initial feasibility work is underway and community consultation has commenced. The strategy for delivery is being developed and will be presented to Members when the affordability of the programme has been established and funding availability confirmed. As with the first 1,000 homes, the second 1,000 is expected to be delivered through a mix of new build schemes, estate regeneration, buy-backs and s106 purchases.

3.11.18 The feasibility for Clichy (Harriott, Apsley and Pattison Houses) is underway, and, following the ballot, the future plans for the estate will be developed and the funding strategy put in place. If regeneration is supported, the scheme will provide new homes for existing tenants and resident leaseholders and has potential to deliver in the region of 350 additional new homes. The preferred approach to development and required budget will be presented to Cabinet for consideration as part of a Housing Capital Programme report later in the year.

3.11.19 Buy-backs continue to be part of the delivery options for the second 1,000 homes. These properties are purchased in the General Fund for the provision of temporary accommodation, reducing the cost of homelessness prevention and providing a good quality directly-managed home in the borough for local families. Based on the development of a robust business case, the strategy for buy-backs is being refreshed, and will clarify the extent of savings that are being achieved within this programme through cost avoidance and the contribution made towards the borrowing requirement from the rental income stream.

3.11.20 One of the new opportunities to increase the supply of council homes to meet the Mayor's pledge of 2,000 new council homes is to deliver new build rooftop extensions. A pilot project to provide in the region of 26 new homes, initially on two-storey blocks, is proposed. The location of these blocks has yet to be identified. A detailed programme will be brought forward early in 2020-21.

PLACE Ltd Temporary Accommodation

3.11.21 The Council is one of four local authorities in London who are part of a newly-formed company, the Pan-London Accommodation Collaborative Enterprise (PLACE) which is utilising £11m of GLA grant to fund the purchase of modular housing units to provide temporary accommodation across the capital, as meanwhile use on available publically-owned sites. This is included in the £13.6m budget allocation in the current capital programme.

3.11.22 In addition to the grant, which will fund the modular units, funding will be required for site preparation and installation. This has yet to be included in the capital programme. The project is expected to deliver in the region of 60 homes in the next few years. A detailed programme will be brought forward early in 2020-21 when funding has been identified and the affordability of the project has been assessed.

Housing Company Review

3.11.23 In February 2017, two housing delivery vehicles were set up to expand the options available to the council to deliver new supply across tenures, of both permanent and temporary homes, to complement the council's existing delivery approaches within the HRA and General Fund. The Wholly Owned Company (WOC), called Seahorse Homes, was set up with a commercial purpose to provide homes for rent and sale, returning a dividend to the Council from long term profit-making activities; and the charitable Community Benefit Society (CBS), called Mulberry Homes, was set up to provide homes for sub-market rent, subsidised by grant of land and retained Right To Buy receipts, made possible by governance arrangements within which the Council holds a minority position. A review of the use of the companies is underway and a decision on their future use will be presented for consideration to Cabinet in the coming months.

Antill Road and Sewardstone Road

3.11.24 In order to deliver service improvements, including related revenue savings, there is a proposal from Adult Services to make better use of the site at Antill Road (day service) and Sewardstone Road (respite service) to increase provision for people with high/complex needs in Tower Hamlets. The project will include developing the vacant first floor and refurbishing the ground floor at Antill Road to provide a building based day service for an additional 15-20 adults with high/complex needs; and refurbishing Sewardstone Road to provide personalised respite for this client group. Feasibility is underway and details of the scheme will progress through the capital governance process when funding sources have been identified.

Provision of a new depot

3.11.25 The contract with Veolia comes to an end in March 2020, bringing the waste service back in-house. To enable the development of new depot facilities on the existing site, an interim depot building is being provided, which will be available for occupation in April 2020. Feasibility is underway for the long-term provision and this will form the basis of a report to Cabinet when the proposals have been developed and funding sources have been identified.

Local History Library and Archive Service

3.11.26 There is a need to upgrade the accommodation provision for the Local History Library and Archive Service, which is currently based at Bancroft Library and feasibility work is underway to explore the alternative options. As a significant project, further work is required before a fully-funded proposal can be brought forward for approval and inclusion in the capital programme.

Investment in Leisure Centres ahead of contract review

3.11.27 The contract with GLL is due for renewal in 2022. Ahead of contract review, funding will be required for works on the existing leisure assets over the next few years, recognising the challenges of carrying out these works while the existing operator is in occupation, and for feasibility studies to be carried out on the long term options for the leisure portfolio.

3.11.28 The Physical Activity and Sport Strategy, considered by Cabinet in December 2019, set out how assets in the borough could be used to enable residents to have better access to physical activity and sport. This strategy will help to inform the recommended works on the leisure portfolio to deliver improved health and wellbeing outcomes for residents. An allocation of £0.2m is included in the current capital programme for the feasibility works to identify the development and improvement options and assess the affordability of these.

3.11.29 A Project Team will be established in the next few months to agree the proposals and consider funding options which will be brought to Cabinet for approval before the end of 2020-21.

Implementing the Primary School Review

3.11.30 Cabinet received a report on Planning for School Places 2019-20 Review and Recommendations in October 2019, which agreed to rationalise primary school provision in areas of surplus and increase places elsewhere in the borough to meet the anticipated need.

3.11.31 To inform the implementation of these recommendations, a series of design appraisals are required, for which a feasibility budget will be identified. Following consideration of the emerging options, a strategy for delivering the outcomes of the Primary School Review will be presented to Cabinet for approval. Funding is expected to be available through grants from the Department of Education, Basic Needs Grant and any prudential borrowing the Council may approve will be confirmed as part of the report. If funding is limited, the programme will need to be prioritised based on the funding available.

Communities Driving Change

3.11.32 The Public Health service has been consulting with local communities on environmental improvements which are intended to deliver improved health outcomes for residents. Prioritisation of the programme of works, based on the delivery of improved outcomes for local residents and value for money, is required Funding sources are yet to be identified for programme of works.

LIF

3.11.33 CIL regulations provide concessions around the use of the neighbourhood portion, known as Local Infrastructure fund (LIF), which gives the Council freedom to use LIF for aspects of delivering infrastructure where it can be demonstrated that it addresses demands that development places in an area. In response to the LIF consultation in 2017, £1.3m will be programmed to fully fund the delivery of projects to meet local capital infrastructure priorities, on a project by project basis during the year, through the capital governance process.

Housing Revenue Account (HRA)

THH Capital programme and the wider HRA capital budget

3.11.34 In January 2019, the Council approved a budget of £132.634m for the period from 2018-19 to 2023-24, of which £115.634m was for the period to 2022-23. The provisional 2020-21 capital programme now includes £71.552m to fund capital works to the council’s existing social housing stock until end of 2022-23. This is due to the programme being reduced to the level of the depreciation charge to the HRA – the depreciation charge is designed to set aside enough budget to keep the stock at the existing stock condition level.

3.11.35 There are several strategic decisions that have yet to be made relating to the HRA Capital programme. Significant additional financial resources are expected to be required to cover future anticipated costs, such as for fire safety, when the outcome of the Grenfell Inquiry is known. The Council has yet to agree a strategy to fund the 2nd 1,000 new Council homes and the impact of that needs to be assessed, alongside existing stock condition requirement.

3.11.36 It is therefore proposed to limit the THH programme to depreciation plus leaseholder contributions until a review of the HRA capital programme is carried out; this will form part of a future report to Cabinet.

3.12 TREASURY MANAGEMENT STRATEGY

3.12.1 The Treasury Management Strategy Statement will be revised and presented to the Audit Committee and subsequently to Full Council in February 2020 in accordance with the CIPFA Treasury Management Code of Practice. The Statement will set out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

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

3.13 BUDGET CONSULTATION

3.13.1 The Council 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 Council launched the six week Your Borough Your Future budget consultation campaign on Friday, 25 October 2019. Your Borough Your Future provides the Council with an overarching brand identity for public consultations around budget setting. In the first instance, and for the purposes of this report, Your Borough Your Future relates to the general consultation run between 25 October and 5 December 2019, which sought to provide residents with details of the financial challenges the Council currently faces and requested feedback on priorities for Council services. It also asked how the Council should consider its approach in light of the budgetary pressures it faces.

3.13.3 A 'campaign narrative was agreed with the Mayor and Cabinet which identified and articulated the key drivers for the council's approach via Your Borough Your Future. The key messages in this narrative are:

- Significant real terms government core funding cuts since 2010 and growing pressure on key public services mean the Council has to find an additional £39m of savings by 2023.
- Tough choices will have to be made to maintain good quality services, and to continue to support our most vulnerable residents including children and older people.
- The Council has made significant savings (£190m since 2010) while continuing to find ways to deliver cost effective services and generate income from additional sources.
- Residents and businesses were encouraged to get involved by giving their views on what matters most to them, and suggesting ways in which Tower Hamlets can do things differently to help make savings.

3.13.4 The campaign aimed to engage as many residents and businesses as possible during a six week consultation period. A wide range of high visibility communication methods were employed, including press releases, dedicated budget website content and consultation on the council website, major social media channel promotion, on-street advertising, plasma advertising screens in public buildings (including Idea Stores), as well as direct mail of a dedicated budget consultation booklet to every household in the borough The campaign also ensured representative views were sought (i.e. there was opportunity for people from all parts of the borough and from different age groups and ethnicities to take part). The council employed a dual approach of self-selection (opting-in to the online consultation) and targeted outreach (via a telephone survey and face-to-face interviews) to ensure a representative set of responses.

3.13.5 The consultation on Your Borough Your Future started on Friday 25 October and closed on Thursday 5 December 2019. A total of 1,917 responses were received. Whilst most people identified with the demographic and geographic breakdown, not all demographic responses were fully completed and no assumptions have been made where these have been left blank.

3.13.6 Key findings of the Your Borough Your Future consultation include:

- Overall, children’s services and education & protecting and supporting vulnerable children were the most valued services in Tower Hamlets.
- Protecting and supporting vulnerable children is seen as the most important service the council should prioritise.
- Over half felt the council should reduce spending on temporary agency staff as well as generating more commercial income.
- The majority felt that efficiency, availability and quality will decline as a result of further savings.
- Around half said it was most important for the council to make services more efficient.
- 38% support a general council tax rise of up to 2 per cent, with 51% opposed, and 12% don’t knows.

- Just under half (47%) were in favour of a 2% increase in council tax to support adult social care services; slightly more than opposed it.
- Around two-thirds support the council expanding its approach to income generation.

3.13.7 A detailed report of the budget consultation has been included in Appendix 9 of this report. This was considered by Cabinet on the 18th December 2019 and informed the final budget proposals detailed within this report.

4 EQUALITIES IMPLICATIONS

4.1 The Equality Act 2010 requires the council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

4.2 Tower Hamlets is a dynamic place where a thriving economy co-exists with high levels of poverty. The council is working to make the borough a safer, cleaner and fairer place to live and improve outcomes for local people however inequalities still exist. The borough is the second most densely populated local authority in the country with almost 19,000 people on the housing waiting list – the second highest in London – and 35,110 additional homes are needed over the next decade. There are significant health problems and the borough has the lowest life expectancy rates in London (disability-free) and 43 per cent of Year 6 children are overweight or obese. Tower Hamlets has the highest rates of child poverty in England at 32.5% and half of all residents aged 60+ live below the poverty time (three times the national rate).Coupled with this is the fact that Tower Hamlets has one of the fastest growing populations in the UK which is projected to rise from 323,700 in 2019 to 341,000 by 2023 and 376,300 in 2029.

4.3 These inequalities and rapid growth mean that ensuring equality is embedded throughout council plans, services and activities is the number one priority and at the heart of all decision making. To help meet its duty under the Equality Act the council undertakes equality impact assessments to analyse a proposed change in order to assess whether it has a disproportionate impact on persons who share a protected characteristic. As part of our budget setting process an equality impact assessment checklist is carried out on all new savings proposals to determine if a full equality impact assessment needs to be carried out.

4.4 The budget setting process for 2020-21 to 2022-23 has identified 17 savings proposals. Equality impact assessment checklists have been completed for all proposals and it has been determined that 11 of these will require a full equality impact assessment prior to a decision to implement being made.

Details of the proposals are set out below:

Savings Proposal Reference	Savings Proposal Title	Directorate	Full Equality Impact Assessment Required?
SAV / HAC 001 / 20-21	Accommodation and Support for Single Homeless People	Health, Adults & Community	Yes
SAV / HAC 002 / 20-21	Merging of the PD Day Opportunities Service with the Riverside Day Service	Health, Adults & Community	Yes
SAV / HAC 003 / 20-21	Changes to the Adult Social Care Charging Policy	Health, Adults & Community	Yes
SAV / HAC 004 / 20-21	Integration of Tower Hamlets Short Term Support Services - Rehabilitation and Reablement	Health, Adults & Community	Yes
SAV / HAC 005 / 20-21	Technology-Enabled Care	Health, Adults & Community	No
SAV / CHI 001 / 20-21	Rationalisation and Development of Early Help Services from Conception to Age 25 in Youth and Commissioning	Children & Culture	Yes
SAV / CHI 002 / 20-21	Savings and Traded Delivery of Education & Partnership Services	Children & Culture	Yes
SAV / CHI 003 / 20-21	Transformation of Service Delivery provided by the Integrated Early Years' Service	Children & Culture	Yes
SAV / CHI 004 / 20-21	Transformation of Service Delivery Following the Youth Service Review	Children & Culture	Yes
SAV / CHI 005 / 20-21	Transformation of SEND Transport Commissioning	Children & Culture	Yes
SAV / PLA 001 / 20-21	Property Asset Strategy	Place	No
SAV / PLA 002 / 20-21	Deletion of Dedicated Business Assurance Function for Place Directorate	Place	No
SAV / PLA 003 / 20-21	New Town Hall Revenue Savings	Place	No
SAV / GOV 001 / 20-21	Legal Services	Governance	No
SAV / GOV 002 / 20-21	Modernisation of the Registration Service	Governance	No
SAV / RES 001 / 20-22	Revenues - Cashiers - reduce cash and cheque handling and eliminate the need for cheque printing	Resources	No
SAV / RES 002 / 20-21	Benefits Service – Centralisation of Assessments – Service Review and Restructure	Resources	Yes

4.5 As part of its budget setting process the council also consults with residents, businesses and community organisations to get their views in order to help shape the council's budget and council tax rate for 2020-21.

4.6 Increasing pressures on the councils limited finances mean that the council need to save an extra £39 million by 2023. This is a major challenge for the council which needs to give careful consideration to every penny spent while ensuring that equality remains at the heart of all decision making.

5. OTHER STATUTORY IMPLICATIONS

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

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

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 are set out in section 3.7 of this report.

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

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

6.2 The government's Core Spending Power calculation makes assumptions about the level of growth in the Council Tax base and that authorities will increase Council Tax each year up to the referendum limit. On that basis Council Tax Income is assumed to increase to £110.3m by 2020-21 as shown in the Core Spending Power (CSP) analysis at Appendix 2. However, based on previous decisions and the Council's actual tax base the current MTFS estimates £108.438m Council Tax income by 2020-21.

6.3 Not increasing the Council Tax in line with government assumptions could result in a growing financial pressure over the MTFS due to the impact on the Council's on-going tax raising base and also through the Fair Funding review where the government has indicated its preference to use a notional level of Council Tax rather than actual Council Tax levels to determine the extent of resources available to each authority.

6.4 Following receipt of the final settlement, the Chief Finance Officer (CFO) will need to be assured of the robustness of estimates and adequacy of reserves.

7. COMMENTS OF LEGAL SERVICES

7.1 The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The budget planning represented in this report is consistent with this legal duty.

7.2 However, the adoption of the final budget is reserved as a non-executive decision of full Council in accordance with Section 19 (3) of Part B of the Constitution. Therefore, in order for the recommendations in this report to be effective, a positive decision of a meeting of full Council is required in accordance with the budget framework.

7.3 There are areas covered in the report where persons with a protected characteristic may be indirectly affected by changes to the budget for the purposes of the Equality Act 2010. However, where changes in the budgetary position result in a change to the delivery of a service, the effect on persons should be considered immediately prior to the making of a change to the service.

Linked Reports, Appendices and Background Documents
Appendices

- Appendix 1A Medium Term Financial Strategy Summary
- Appendix 1B Medium Term Financial Strategy Detail by Service Area
- Appendix 2 Core Spending Power
- Appendix 3 New Growth Proposals 2020-21 to 2022-23
- Appendix 4 New Savings Proposals 2020-21 to 2022-23
- Appendix 5 Reserves Policy
- Appendix 6 Projected Movement in Reserves
- Appendix 7 Housing Revenue Account Budget Summary
- Appendix 8A Provisional Capital Programme Summary
- Appendix 8B Provisional Capital Programme
- Appendix 9 Budget Consultation 2020-21

Linked Report

- None

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

- None

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