


<p style="text-align: center;"><b>Cabinet</b></p> <p style="text-align: center;">29 July 2020</p>	
<b>Report of:</b> Neville Murton, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>Medium Term Financial Strategy Refresh and 2021-22 Budget Planning</b>	

<b>Lead Member</b>	<b>Councillor Ronald, Cabinet Member for Resources and the Voluntary Sector</b>
<b>Originating Officer(s)</b>	Kevin Bartle (Interim Divisional Director, Finance Procurement and Audit)
<b>Wards affected</b>	All wards
<b>Key Decision?</b>	No
<b>Forward Plan Notice Published</b>	30/06/2020
<b>Reason for Key Decision</b>	N/A
<b>Strategic Plan Priority / Outcome</b>	<p>1. People are aspirational, independent and have equal access to opportunities;</p> <p>2. A borough that our residents are proud of and love to live in;</p> <p>3. A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.</p>

### Executive Summary

In February 2020 the Council agreed its budget for 2020-21 and set out a Medium Term Financial Strategy (MTFS) covering the period 2020-2023. This included additional savings of £8.653m to be delivered over the extended MTFS period.

Very shortly thereafter the country was hit by the COVID-19 (CV-19) pandemic and the government implemented on the 20th of March a series of emergency measures including a lockdown. Local authorities' emergency planning procedures were invoked and new responsibilities followed including in relation to the borough's most vulnerable residents.

This crisis has had a profound impact on the Council's budget and its ability to deliver services and, as a consequence, on its financial planning assumptions. The

council welcomed the Government's pledge to provide 'whatever it takes' to cover the cost of dealing with the crisis. As a result of the pandemic, and this explicit government commitment, new areas of expenditure were required together with fundamental changes to the Council's main sources of funding; additional emergency short term funding was made available by the government alongside other measures to support the Council's cash flow. The Council's priorities were redefined by the crisis and the delivery of some proposed investments and savings were paused.

This report updates the Cabinet on the key issues affecting the Council's budget planning for the future including the impact of the CV-19 pandemic on the Council's finances for 2020-21. It also updates the MTFS by extending it to 2023-24; a potential budget gap of £12.9m for 2021-22 is highlighted with a further £26.3m in 2022/23. The national environment, both financial and in relation to the virus, continues to be subject to significant uncertainty with the government announcing the deferral of the Fair Funding Review and the Business Rates Reset and there being potential for further waves of the virus.

Separately the Council has set out the impact of the pandemic. The Council is now experiencing a rise in demand and extreme pressure on services especially in mental health, social care, homelessness, unemployment, domestic abuse as well as increased levels of financial hardship, poverty exacerbating existing inequalities. A further report establishes a refreshed strategic plan outlining the high-level interventions we will take as part of our response and a basis for future policy considerations. Taken together these reports inform a new direction in what is a fundamentally more challenging financial environment.

If government fail to honour its pledge to cover the cost of dealing with the pandemic then as a council we will be in a difficult financial position in future years and as a result will have to make tough choices about our services. We are not complacent and will continue to fight for our fair share of funding to continue to protect the essential services needed to support residents.

As previously, consultation with residents, businesses and other key stakeholders will be a feature of proposed changes and the report also sets out a timeframe for that consultation.

### **Recommendations:**

The Mayor in Cabinet is recommended to:

1. Note the updated draft budget position for 2021-22 to 2023-24, and specifically that a further gap has arisen in 2021-22 since this was last reported to Cabinet.
2. Note the need to set a balanced budget over the whole of the MTFS period and that prompt and decisive action is required urgently to address the challenging financial position outlined in the report as highlighted by

the now increased budget gaps.

3. Note the issues and actions set out in this report that are informing the development of the MTFS for 2021-24 which will include the following recommendations: -
4. Remove the previously agreed growth item in the MTFS relating to Early Help, in the sum of £0.475m (see paragraph 3.72); and
5. Approve the revised policy for management of the New Homes Bonus specific grant so that it fully supplements the revenue budget going forward.
6. Note the indicative timeline of formal budget consultation with residents, businesses and other key stakeholders and to receive feedback on the consultation at Cabinet in December.

## **1 REASONS FOR THE DECISIONS**

- 1.1 The country, indeed the world, has experienced a period of massive turbulence; in response to the pandemic the UK government has borrowed heavily, increasing the national debt to never before seen levels in order to fund the nationwide response to the pandemic and to protect the economy in preparation for the time when the virus subsides. Alongside our key partners, Local Authorities have been at the forefront of responding to the needs of local residents, taking on new responsibilities as well as continuing to deliver a range of existing services in a situation of heightened demand. The cumulative impact of those matters requires a change in approach from that set out and agreed in February when the Council approved its budget.
- 1.2 Tower Hamlets now finds itself in a materially changed environment from that which existed in February 2020 when the budget and medium term financial strategy were approved by the Council. The priorities set out in its strategic plan were temporarily set aside in order to respond to the crisis. However, four months further on there is a need to re-evaluate the extent to which those priorities remain relevant in the context of the continuing uncertainty associated with CV-19 and, just as importantly, the financial position that the council now finds itself in.
- 1.3 The Council is under a duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities. 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. The need to respond immediately to the pandemic and the impact that this has had on the Council's finances means that a re-evaluation of the

current year's financial position is the starting point for any changes.

- 1.4 The financial issues raised within this report and the complementary reports considering the Council's response to the pandemic and its impact, need to be considered together in order to reach a balanced and strategic view of the Council's future direction.

## **2 ALTERNATIVE OPTIONS**

- 2.1 Whilst the Council will adopt a number of approaches to the identification of measures aimed at delivering its MTFs it must set a legal and balanced budget and maintain adequate reserves. The scale of the changes experienced mitigate against continuing on the basis agreed in February without a re-appraisal of both the financial and policy position.

## **3 DETAILS OF THE REPORT**

### **3.1. BACKGROUND**

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

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

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

- 3.1.3. In February 2020 the Council agreed a balanced budget for 2020-21 and a Medium Term Financial Strategy (MTFS) to 2022-23 identifying further

savings of £8.653m to be delivered over that period and utilising £1.740m of general fund reserves in 2020-21.

3.1.4. Since 2011-12 in the face of unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council's financial planning process. In early 2020 a further dimension appeared with the need for local authorities to respond immediately to the COVID-19 virus.

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

### 3.2. STRATEGIC APPROACH

3.2.1. The Strategic Plan 2020-23 has been refreshed (separate item on Cabinet agenda) to take account of the CV-19 pandemic impacts (separate item on Cabinet agenda) of exposed inequality and rising demand, as well as opportunities to holding on to gains such as improved air quality, delivering services in a different way and tackling rough sleeping. This has identified high level priority actions, which will be expressed in developments to the Council's MTFS. The refreshed Strategic Plan focuses on the three priorities set out below; within each priority there are a number of outcomes which guide how services will be delivered in the interests of residents.

**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.
<b>Priority 3:</b> <b>A dynamic, outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough</b>	
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.

- 3.2.2. In the light of the current position the need to consider and re-focus some of these priorities, it is essential to ensure that officers and members have a shared understanding of relative priorities and can plan strategically for their delivery within the available resources.

### **3.3. OUTCOMES BASED BUDGETING**

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

- 3.3.2. The Council's Medium Term Financial Strategy (MTFS) 2020-2023 was prepared using these principles and this is intended to ensure that the Council is delivering the Council's priority outcomes, as set out in the Strategic Plan, while making savings through planned budget reductions rather than cutting costs on a service by service basis.

- 3.3.3. The emergence of the CV-19 pandemic in early 2020 created a new set of priorities determined partly by the national response to the pandemic and local authorities' position in responding to government instructions. The Council's recovery plan aims to ensure the council and residents recover from the impact of the pandemic. We will continue to respond to the needs of our community during the ongoing pandemic, whilst ensuring that we deliver council priorities including a sustainable future budget. At the same time, we believe that we can deliver better outcomes for residents by using the opportunities from new ways of working, efficiency and effectiveness learnt during this period.

- 3.3.4. Our approach follows these principles:

- We will ensure a safe transition out of lockdown, with a balanced approach to risk and recovery to ensure continued safety of our staff and community, whilst supporting the social, economic and health recovery of the borough
- We will maintain a coordinated, multi-agency approach

- Council services, democratic processes, and priorities will be updated as we reconstitute them to improve outcomes for the community
- Transformation, change and value for money will be embedded
- Budget implications will be managed and our income rebuilt
- The effort and commitment of staff and community during the pandemic will be recognised
- We will support the healing process
- Learning from our experiences during the pandemic will inform our future work
- There will be consistent and timely communication across the council and its partners

3.3.5. Fifteen main issues have been identified through a review of the impact of CV-19 and these have been analysed for the CV-19 impact on the UK, Tower Hamlets and specific groups in our communities, including consideration of the headline results from the resident survey. These main areas of impact are:

Mortality and physical health	Domestic abuse
Mental health	Crime and ASB
Social care	Substance misuse
Deprivation and employment	Education and learning
Business	Transport and air quality
Community and voluntary sector	Community cohesion and involvement
Homelessness and rough sleeping	LBTH workforce
Safeguarding adults and children	

3.3.6. We need to be clear about the profound impact that pandemic has had/continues to have on our finances. To ensure that a complete picture is understood this report and other policy focussed pieces of work will set out as a basis for further political and stakeholder consultation over the remainder of the summer several key areas of work including:

- Consideration of the short and medium-term impacts from the CV-19 pandemic and resulting impact on the economic environment that the Council operates within.
- Extending the MTFS by a further year to cover the period 2021-2024; identifying the gap arising from recent funding announcements and the Council's options for managing these strategic issues.
- A review of previously agreed savings and growth proposals, including specific consideration of their continued relevance.
- Consideration of new proposals, including high level business cases, required to either replace previous unachievable savings or to bridge the funding shortfall now evident from revised financial projections.

- The Council's medium-term financial prospects in the light of:
  - Deferral of the Fair Funding Review from April 2021 until 2022-23 at the earliest.
  - The expected associated changes to the national Business Rates retention scheme alongside the Fair Funding Review, including any proposals for a continuation of business rate pooling within London.
  - The uncertainty surrounding the timing and context for a future Comprehensive Spending Review. It is vital that the Council understands clearly its future funding position, and the delay in the Spending Review will make a very difficult financial management process even more challenging.

### **3.4. ESTIMATED OUTTURN 2019/20 AND 2020/21 LATEST POSITION**

- 3.4.1. Local Government has been dealing with reducing funding levels for well in excess of ten years now – austerity, following the financial crisis of 2008 has seen a sustained and significant reduction in funding levels provide by central government and a move towards reliance on locally generated sources of long term funding in the form of Council Tax and National Non-Domestic Rates (Business Rates).
- 3.4.2. Paradoxically the reliance on those sources of funding has, in the context of CV-19, exposed the weakness of that approach to local government funding with material and immediate adverse impacts on the level of income being received together with additional demands being placed on council services and support mechanisms. The changes to funding levels will impact primarily on 2021/22 onwards with substantial Collection Fund deficits for 2020/21 being predicted as a result of both reductions in the yield from Council Tax and Business Rates but also the resultant increase in the cost of the Council's Local Council Tax Reduction Scheme.
- 3.4.3. The need to make year on year savings has dominated the budget setting process in recent years and coupled with increasing demands for services and Member priorities there has been a marked reduction in the level of reserves and balances held by the Council. Since 2010 the council has had to save £190m due to government austerity and increasing demand and over the next three years we had expected to have needed to save a further £39m; that position has now deteriorated further. The estimated outturn position for 2019/20 which is also presented on the agenda to Members today (29 July 2020) sets out a deficit on the year of £10m and a reduction in the estimated level of the General Fund Balance at the end of March 2020 to £8.3m; earmarked reserves are therefore needed to be re-focussed in order to ensure that the minimum working balance on the General Fund reserve can be maintained at £20m in accordance with the Council's reserves policy.
- 3.4.4. Also being considered by members today is the first quarter budget monitoring information for the current (2020/21) financial year and which takes into account the initial estimated impact of the CV-19 pandemic. This already highlights a gross overspend position of £34m and whilst



additional government support has been received, and more is expected in light of very recent announcements referenced elsewhere in this report, there is a significant and worsening gap between the financial impact of CV-19 on the Council and the level of promised government support. The further impact of the estimated net overspend for 2020/21 would, without immediate action, take the General Fund balance into an 'overdrawn' position which would contravene Council policy and thus cannot be allowed to take place. The balance will have to be 'topped up' from earmarked reserves, which will clearly have an impact on the plans for use of those earmarked reserves.

- 3.4.5. The government requires the return of monthly information and the latest position for June 2020 indicates a shortfall in relation to additional costs, loss of sales, fees and charges income and the funding impacts totalling circa £36m. On the 2 July the government announced a further £500m of support; on the 16 July the individual allocations were announced setting out an additional £4.138m for Tower Hamlets, some relief for the loss of sales, fees and charges income (75% of losses above 5%) and changes to allow Collection Fund deficits to be recovered over a 3 year period rather than in a single year. Taken together, and whilst welcome, it is clear that without substantial additional funding the financial position will continue to deteriorate rapidly unless other prompt and focussed remedial action is taken by the Council. To be clear, the additional support for the Collection Fund recently announced by the government will assist our cash flow as we will have longer to repay the deficit but crucially it will not fund the deficit(s).
- 3.4.6. The Council's Chief Financial Officer (S151) has to maintain oversight over the adequacy of the level of reserves and balances and the robustness of the financial estimates used when setting the budget. It is a significant cause for concern that subsequent to setting the budget in February there have been material changes in both of these aspects of the Council's finances and it is apparent that without further clarity over government support difficult decisions will need to be taken to reduce expenditure quickly and this will inevitably impact service delivery and require rapid re-prioritisation to take place.

### **3.5. IMPACT ON COUNCIL SERVICES**

- 3.5.1. In the context of the funding challenges set out in this report it is critical that the government delivers on its "whatever it takes" pledge to cover the cost of our response. While we welcome recent government spending announcements on recovery, including support for business, training, skills and the green economy, we are keen to ensure these commitments are stood behind, and strive to ensure we are positioned to embed these proposals into our local ambition for recovery. However, if the government does not provide the funding required, we will need to make significant changes to the way the council operates. There will be difficult choices to make including changing the way we deliver services and previous priority areas.
- 3.5.2. The Council has maintained a 100% Local Council Tax Reduction Scheme since the transfer in 2013 of Council Tax benefit. Since the

pandemic lockdown in March the cost of that benefit has risen by circa £3m, in addition to the consequent loss of Council Tax income.

- 3.5.3. The impact on the Council's Housing Benefit shortfall as homeless people were housed at government's direction has also increased given the disparity between the level of funding supported by the benefit and the high cost of acquiring temporary accommodation in the borough.
- 3.5.4. A number of key Council priorities have been funded by reserves and in the context of the revised position the intended use of all reserves is under review; this has implications for the Council's Universal Free School Meals programme for infant children; the Tackling Poverty Fund; the purchase of additional police officers to name a few.
- 3.5.5. The lessons learnt from the delivery of key council services during the pandemic and a re-appraisal of service needs in the emerging landscape also means that we will be in a position to review the need for, and uses made of, many of our assets such as buildings and service delivery points and also ensure that the premium to be gained from the continued digitisation of services and service delivery is in fact realised.
- 3.5.6. The majority of the Council's costs relate to staffing and, given the scale of the challenges being faced in 2020/21 and projected for future years, it is likely that significant reductions will need to be made to the Council's overall headcount and pay bill. The processes by which posts are identified will draw upon the lessons learnt during the pandemic about which services are essential, which services are discretionary and which service delivery points are required for the future delivery of what are likely to be changed or redesigned services.

### **3.6. FUNDING FOR 2021 ONWARDS**

- 3.6.1. The last funding settlement agreed with the Government expired at the end of the 2019-20 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 Brexit, it was announced in 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.
- 3.6.2. The more recent impact of the CV-19 pandemic will inevitably impact on the level of resources available and will also shape the government's own short-term funding priorities. This means both the relative priority of local government against other government departments such as the NHS as well as the relative resource allocations between local government services.
- 3.6.3. Previously the direction of travel for Local Authority funding has reflected a move away from direct general government support such as through Revenue Support Grant towards more targeted grant support coupled with an increased reliance on locally generated sources of income such as the Council Tax and retained Business Rate receipts.

- 3.6.4. The Local Government Secretary, Robert Jenrick, announced on 2 July a support package to help councils respond to CV-19 and to help ensure councils' financial sustainability for the future. This included allowing councils to repay Council Tax and Business Rates deficits over a three year period instead of one. The announcement also stated that in the next Spending Review the government will agree an apportionment of irrecoverable Council Tax and Business Rates losses between central and local government for 2020-21. The sooner the Council understands the impact of the now delayed Review the better, as any further delay exacerbates the difficulty in undertaking robust financial planning.
- 3.6.5. The following sections consider the funding prospects over the period 2021 to 2024, summarising the overall financial position and reviewing the estimated position. Appendix 1 sets out this overall position identifying a £12.9m overall funding shortfall for 2021-22.

### **Core Grants**

- 3.6.6. The Council is in receipt of several core grants to support specific service priorities. Given the uncertainty of the Fair Funding review, assumptions have needed to be made in respect of most grants after the announced 2020-21 level. There are risks associated with this approach as the government may decide to: change its priorities and reduce or cease funding through a grant; or reallocate service specific grants into more general funding with a changed distribution. Current assumptions for each of these are summarised in the table below:

**Table 2 - Summary of Core Grants 2020-24**

<b>Core Grants</b>	<b>2020-21 £m</b>	<b>2021-22 £m</b>	<b>2022-23 £m</b>	<b>2023-24 £m</b>
Revenue Support Grant	33.823	34.501	35.191	35.895
New Homes Bonus	21.981	9.992	3.812	0.000
Improved Better Care Fund	16.316	16.316	16.642	16.975
Social Care Grant	9.367	9.367	9.554	9.746
Public Health Grant	35.195	35.899	36.617	37.350
Rough Sleeping Initiative	0.636	0.636	0.649	0.662
Flexible Homelessness Support & Homelessness Reduction	5.106	5.106	5.208	5.312
<b>Total Core Grants</b>	<b>122.424</b>	<b>111.817</b>	<b>107.673</b>	<b>105.938</b>

### **Revenue Support Grant**

- 3.6.7. Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the Local Government Finance Settlement using the relevant funding formulae; the revision of these formulae is the focus of the (deferred) Fair Funding review process.
- 3.6.8. The Council's Revenue Support Grant (RSG) has decreased from circa £54m in 2017-18 to circa £34m in 2020-21.

### **New Homes Bonus**

- 3.6.9. The New Homes Bonus (NHB) scheme was introduced in 2011-12 to help tackle the national housing shortage. The scheme was designed to reward those authorities that increased their housing stock either through new build or by bringing empty properties back into use.
- 3.6.10. Tower Hamlets is a high growth area and has attracted one of the highest levels of NHB in the country.
- 3.6.11. The Council has reduced its reliance on NHB as a funding source in support of its general revenue budget since 2016-17. From the £22.0m NHB the Council expects to receive in 2020-21, £6.0m will be used to support the revenue budget. In the light of the financial situation that the Council now finds itself in, the Chief Financial Officer has considered the previous approach set out in the MTFS i.e. to only to allocate £3.2m NHB to support the revenue budget in 2021-22 and 2022-23 and has concluded that this must now be revisited. The previous approach of placing the balance into an earmarked reserve was appropriate prior to the impact of CV-19 but, given that it is a non-ringfenced grant and the acute pressures now being seen that position has been revisited. The NHB is expected to come to an end in 2023-24 and although it is expected that decreases in NHB will be re-allocated nationally into other funding streams such as the Revenue Support Grant or other core grants, this will need to be kept under review.

### **Improved Better Care Fund**

- 3.6.12. 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.
- 3.6.13. 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.

### **Social Care Grant**

- 3.6.14. 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.

- 3.6.15. The final 2020-21 LGFS confirmed that the previous Social Care Support Grant allocations will be rolled into a new Social Care Grant for 2020-21. The current MTFS assumption is that half of the Social Care Grant will be directly allocated to adult social care and children's social care, with the other half supporting the revenue budget funding for demographic and inflationary growth for the directorates.

#### **Public Health Grant**

- 3.6.16. The Public Health Grant is ring-fenced for use on public health functions exclusively and covers all ages. The current estimate of the Public Health grant allocation for 2021-22 is £35.9m.

#### **Rough Sleeping Initiative**

- 3.6.17. The Rough Sleeping Initiative fund was created to provide local support for those living on the streets. This was first announced in March 2018 to make an immediate impact on the rising levels of rough sleeping. This funding combined the Rough Sleeping Initiative and Rapid Rehousing Pathway into a single, streamlined funding programme.
- 3.6.18. The MTFS assumes that the Council will receive an allocation of £0.636m in 2021-22.

#### **Flexible Homelessness Support & Homelessness Reduction**

- 3.6.19. This grant is designed to transform the way councils fund homelessness services to provide greater flexibility to prioritise the prevention of homelessness. The grant empowers the Council to support the full range of homelessness services.
- 3.6.20. The MTFS assumes that the Council will receive an allocation of £5.106m in 2021-22.

#### **Council Tax**

- 3.6.21. 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.
- 3.6.22. The Council currently 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 circa £1m per annum.

- 3.6.23. The borough has previously seen a year-on-year increase in the number of new homes over the last few years. However, the CV-19 pandemic has had a material impact on the level of income received from this source; the virus has impacted the number of people in work or receiving low pay and as a consequence increased significantly those claiming benefits including through the Local Council Tax Reduction Scheme (LCTRS). There has also been a drop in the collection rate as residents have been affected by CV-19 on their income levels.
- 3.6.24. The MTFS has, in recent years, assumed Council Tax base growth of 3% and a 97.5% collection rate, however to take account of the economic impact of CV-19 these assumptions have been reduced in the latest MTFS as demonstrated in the table below:

**Table 3 – Council Tax Current Assumptions**

	2021-22	2022-23	2023-24
Council Tax increases	3.99%	3.99%	3.99%
Tax Base increases	2.1%	1.9%	2.4%
Collection Rates	96.0%	97.5%	97.5%

#### **Local Council Tax Reduction Scheme (LCTRS)**

- 3.6.25. In February 2020, the Council agreed that there would be no changes to the current Local Council Tax Reduction Scheme (LCTRS) for 2020-21. Since that time and as a result of the CV-19 pandemic the cost of the scheme has risen by circa £3m; the impact of this change will be seen in the 2020-21 Collection Fund deficit when the impact of reduced income from Council Tax and the increased cost of the LCTRS will need to be reflected in the 2021-22 budget.
- 3.6.26. The current scheme remains amongst the most generous in the UK protecting Tower Hamlets residents on low incomes. Those on the lowest income are able to receive 100% relief and pay no Council Tax. The CV-19 pandemic has seen a significant shift from those paying Council Tax towards those being in receipt of the LCTRS. This represents a significant risk to the Council's financial stability as income to the Council falls and demands for services increases.
- 3.6.27. Each year, the council is required to consider whether it wishes to change its Local Council Tax Reduction Scheme. Any changes to the scheme require a full public consultation and impact analysis. To meet the necessary timeline for any changes to be effective from April 2021, consultation would need to begin immediately for Council decision by the end of January.
- 3.6.28. The main options for change would include moving away from a scheme based broadly on the Housing Benefit approach towards an income

banded scheme. The main advantages of adopting an Income Banding Scheme are:

- It is simpler to administer
- Easier for residents to understand
- Once the scheme is in place it is easier to make annual changes and can be link directly to Universal Credit uplift

3.6.29. The savings that could be achieved are dependent on the band settings as determined by:

- The number of bands
- The level of income for each band
- The percentage of discount predicated on each income band; those on the lowest income could continue to receive full (100%) relief against Council Tax payments.

### **Business Rates Retention**

3.6.30. An increasing proportion of the Council's services are funded through locally generated resources such as Business Rates and Council Tax. The current business rate retention scheme is based broadly on an analysis of needs compared to business rate tax base dating back to 2013-14. The government had been expecting to reset the approach in 2020 – rebasing business rate tax base for growth achieved since 2013 and realigning the assessment of needs based on the revised Fair Funding approach. However, in the event this has been deferred firstly because of Brexit and more recently because of CV-19.

3.6.31. There has been an increase in the number of business properties where landlords are struggling to find tenants. As a result of this, where landlords are left with empty properties and would be liable for very high payments for Empty Property Rates, they are carrying out significant structural alterations to the property which has resulted in the Valuation Office Agency reducing the rateable value to zero. This has resulted in a significant reduction in the yield from the tax base, and this is expected to be further exacerbated due to the impact of CV-19. It is anticipated that these properties will be brought back into rating only when new tenants are found, and the yield from the tax base is expected to increase in the longer term.

### **Collection Fund**

3.6.32. There are collection fund deficits from 2018-19 of £11.5m and 2019-20 of £8.1m which will impact the collection fund in 2020-21 (funded by reserves). There is an estimated deficit for 2020-21 of £31.7m, due to the effects of CV-19, which would impact the collection fund in 2021-22. A collection fund smoothing reserve is being created in 2020-21 of £27.5m from S31 business grant monies to fund the majority of this estimated deficit. The recent announcement from the Local Government Secretary allowing for deficits to be repaid over three years instead of one will also support the Council's cashflow.

### **3.7. GROWTH AND INFLATION**

- 3.7.1. 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.
- 3.7.2. In previous budget setting processes, the Council approved amounts for unavoidable growth and estimated inflation over the period to 2023. These will be reviewed as part of updating the MTFS for the period until 2024 and in the context of the overall funding pressures and in particular as a result of the impact of CV-19. In line with this review methodology, the previously agreed 2020-21 growth of £0.475m for Early Help (GRO/CHI 006/19-20) has been reversed in the updated MTFS.
- 3.7.3. The MTFS assumes an additional inflation requirement both in respect of pay and other non-pay costs which are estimated to amount to £6.5m in 2023-24.

### **3.8. SAVINGS**

- 3.8.1. The Council has previously approved savings to ensure that a balanced budget was in place for the MTFS three year period. However as part of 2020-23 budget setting the original budget assumptions were reviewed and updated, largely to take account of the revised analysis of demographic growth requirements and following a re-assessment of the expected deliverability and timescales for agreed savings. This resulted in the reprofiling of £5.4m of savings planned for the current financial year to be re-profiled into later financial years. This was mainly to allow for planned contractual efficiencies to be delivered in line with procurement timescales, greater commercialisation opportunities to be developed and information technology improvements to become embedded.
- 3.8.2. The Council have already approved savings totalling £13.5m (2021-22) and £7.1m (2022-23). However, with the large estimated current budget gap, there is a need to identify significant additional savings for the next 3 years and to ensure that in the light of CV-19 the agreed savings remaining deliverable.

### **3.9. Additional Short-term Funding Support**

- 3.9.1. In recognition of the impact that the CV-19 pandemic has had, the government has provided short-term funding increases either in support of Local Authority Services or for targeted 'new responsibilities' or for Local Authorities to pass on to targeted groups. In total to date these have amounted to in excess of £200m although by far the largest amounts fall into the third category described above and are for business rate grants and reliefs. Table 2 below summarises the allocations for Tower Hamlets as at the end of June 2020.



- 3.9.2. The table excludes an additional amount of a £63m national fund for additional welfare support which has been announced but the individual allocation of which is awaited.

**Table 4 – Additional Grant Funding received or expected.**

<b>£m</b>	<b>Description</b>
97.8	Business Rates Relief
78.8	Business Rates Small Grants
4.4	Hardship Fund
0.5	Infection Control Fund
3.2	Test and Trace
23.5	COVID Support Grant
<b>208.20</b>	

- 3.9.3. The largest element of the short-term additional funding is in relation to business rate grants and reliefs; totalling c£176m. The details for the main components are set out below, although an allocation of up to 5% from the Small Grants funding can now also be used in support of a discretionary relief scheme.

<b>Measure</b>	<b>Details</b>	<b>Approx. Financial Value</b>
<b>Extended Retail Relief</b>	Relief of 100% for all qualifying retail, leisure and hospitality properties including public house.	£98m for identified Retail Relief cases
<b>Small Business Grant</b>	Businesses who qualify for Small Business Rate Relief (many of whom already have no rates liability) will now get a grant of £10k per property.	c£40m grant in addition to reductions to Business Rate bills of £8.9m
<b>Retail Property Grant</b>	The properties already identified as being in receipt of Retail Relief and having an RV below £51k will receive a grant payment of £25k.	c£41m grant in addition to reduction to Business Rate Bills of £1.6m

Measure	Details	Approx. Financial Value
<b>Nursery Relief</b>	Relief of 100% for all registered nurseries.	£627k for 39 businesses

- 3.9.4. A hardship fund of £4.4m has been allocated to the Council to enable the payment of up to £150 to reduce the Council tax liability for those working age claimants in receipt of Council tax reduction
- 3.9.5. Funding of £0.5m has been received to support Care Homes through an infection control fund.
- 3.9.6. £3.2m has been allocated to the Council in support of new duties in respect of test and trace within the borough and in support of delivering its Local Outbreak Plan.
- 3.9.7. A share of the £3.2Bn made available nationally to local government to use on an un-ringfenced basis in support of the additional costs experienced in relation to CV-19. The Tower Hamlets allocation has been received in 2 tranches totalling £19.4m.
- 3.9.8. As at the end of June 2020 the net additional estimated costs to be met from the COVID Support Grant of £23.5m totals £55.12m – a shortfall of c£32m. This comprises a combination of additional expenditure, loss of income from sales fees and charges and the impact on our funding from losses in Council tax and business rates.

### **3.10. CAPITAL**

- 3.10.1. In September a revised Capital Programme will be presented to Cabinet taking into account the need to set a realistic and deliverable programme and avoid the significant over-programming and subsequent underspending against capital that has been a feature for several years. The revisions will also take into account the changes in priorities that become apparent following the CV-19 pandemic.
- 3.10.2. This will also allow a better assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy.

### **3.11. TIMETABLE**

- 3.11.1. A further report will be brought to the December Cabinet which will provide a detailed update of the financial planning assumptions underpinning the current MTFS and the outcome of the budget consultation with stakeholders.
- 3.11.2. In the January Cabinet report, Members will be presented with updated information relating to our assumptions for Council Tax and Business Rates and any impact those changes have on the MTFS, and asked to agree the 2021-22 Fees & Charges schedule.
- 3.11.3. The draft timetable for the budget setting process is as follows:

Activity	Date
Capital Strategy and Proposed Capital Programme	September – December 2020
Budget Gap and proposals to close	
Income generation strategies	
Impact of the Chancellor's Autumn Statement	
Impact of Fair Funding review updates	
Impact of changes to Business Rates	
Budget consultation	
Review of the MTFS following Local Government Financial Settlement	27 <sup>th</sup> January 2021 Cabinet
Agreement of Fees & Charges schedule	
Capital Strategy & Programme	
Agree final budget and setting of Council Tax	By 1 <sup>st</sup> March 2021 Full Council

### **3.12. BUDGET CONSULTATION AND SCRUTINY PROCESS 2021-24**

- 3.12.1. 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.
- 3.12.2. The Cabinet are asked to note that the Council's budget consultation will be carried out over the period October to November.
- 3.12.3. The scrutiny and consultation processes will recognise that developing proposals over a three year period means that business cases will be more fully developed for proposals in the earlier years but that others will continue to be developed later on. The on-going role of the Overview and Scrutiny Committee in scrutinising developed business cases and undertaking targeted reviews in a number of key areas identified by them is key to maintaining the rigour of budget scrutiny of the Medium Term Financial Strategy (MTFS).
- 3.12.4. In addition to the scrutiny of relevant revenue savings and investment proposals the O&S Committee will undertake similar scrutiny of capital programme proposals. They will also have an overview of the medium term financial proposals being considered for approval by the board of Tower Hamlets Homes (THH), including proposals for rent setting and medium term savings. Similarly, the budget strategy for the Dedicated

Schools Budget (DSB) which will be proposed for approval by the Cabinet, from the Schools Forum.

Activity	Date	Outcome
<b>Budget Consultation</b>	October to November 2020	Outcome reported to OSC, Cabinet and reflected in detailed budget proposals.
<b>Budget and Policy Framework – Budget Scrutiny meeting</b>	Dates to be confirmed for 2021 (the previous year these meetings took place on 13 January and 3 February 2020).	Review final Cabinet budget proposals and provide comments for consideration by Cabinet and Full Council.

#### **4 EQUALITIES IMPLICATIONS**

- 4.1 Strategic budget implications in respect of the Council's available funding and budget risks will tend to apply equally across all groups with protected characteristics or otherwise.
- 4.2 The HRA and DSG are ring-fenced funding allocations with prescriptions governing their use. In addition, several grants received by the Council can only be used in accordance with specified conditions.
- 4.3 The Council must maintain a Local Council Tax Reduction Scheme which will prescribe those individuals that can gain relief from the full cost of their Council Tax bill. Government legislation also preserves some historic protections for other groups such as those not of working age.
- 4.4 Individual budget proposals will also be subject to consultation which will consider specifically the impact on groups with protected characteristics and where appropriate put in place mitigation measures.

#### **5 OTHER STATUTORY IMPLICATIONS**

- 5.1 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that best value is achieved.
- 5.2 The preparation of the MTFS takes 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.

- 5.3 The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.
- 5.4 Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks will be reported to Cabinet as the budget process develops. The Council will maintain a range of budget provision (contingency) earmarked reserves for specific risks and general reserves for unforeseen events and risks.
- 5.5 The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.
- 5.6 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.

## **7 COMMENTS OF LEGAL SERVICES**

- 7.1 The report updates the revised medium term financial strategy. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial strategy.
- 7.2 The report provides information about risks associated with the medium term financial strategy and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit Regulations 2015 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.
- 7.3 The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is required under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty) which includes a duty to consult. Having a medium term financial strategy therefore contributes to achieving this legal duty.

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

### **Linked Report**

- None.

### **Appendices**

- Appendix 1 - Budget Setting Indicative Timetable
- Appendix 2 - Summary MTFS Position 2021-24
- Appendix 3 - Existing Savings and Growth Summary 2020-23

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

- None

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

Allister Bannin x3930

Shakil Rahman x1658