Cabinet 9 February 2022	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director - Resources (Section 151 Officer)	**Classification:** Unrestricted
The Council's 2022-23 Budget Report	

Lead Member	**Councillor Candida Ronald, Cabinet Member for Resources and the Voluntary Sector**
Originating Officer(s)	Kevin Bartle, Interim Corporate Director - Resources
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	December 2021
Reason for Key Decision	To set the Council's Budget for 2022-23
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

The Council's Medium Term Financial Strategy (MTFS) 2021-22 to 2023-24 was approved by Full Council in March 2021. This report summarises the review of the MTFS as part of the 2022-23 budget setting process.

Despite the Chancellor announcing departmental spending limits for Government departments on 27 October 2021 for three years, 2022-23 to 2024-25, the Local Government Finance Settlement (LGFS) was only announced for a single year covering 2022-23. The funding landscape for Local Government over the medium term remains highly uncertain. Core Grants such as the Revenue Support Grant, New Homes Bonus and the Improved Better Care Fund have been rolled forward for 2022-23, with additional funding received via the Social Care Grant, with much of this expected to contribute to additional costs arising from Adult Social Care Reforms. There was also a one-year one-off Services Grant distributed to Local Authorities for 2022-23.

One reason Councils have been provided with a single year settlement is due to funding reforms that have been delayed, annually, for several years that the Government has signalled its intention to now take forward. The distribution formula utilised for allocating resources across Local Authorities dates to 2013-14 and the Government propose to take forward a ‘Fair Funding Review’ to ensure a more up to date assessment of need. Business Rate Baselines have not been reset since 2013-14 and, therefore, Councils that have experienced growth in their Business Rates have been able to retain a share of growth since that year. The Government intends to reset the Baselines to coincide with a review of the funding formula. In early 2021 the Government consulted on ending New Homes Bonus (NHB), a targeted incentive providing funding based on housing growth within the Council area, and the Government has not yet announced the outcome of its consultation.

The impact of these funding reforms is particularly acute for Tower Hamlets. Funding retained from Business Rates Growth and the New Homes Bonus are significant and therefore the impact of resetting the Business Rates baseline or withdrawing New Homes Bonus would result in a substantial funding reduction for the Council. The Government has indicated that transitional relief would be provided to Councils who were impacted by the reforms. At this stage it is not clear when the reforms will be introduced nor what transitional relief would look like.

For 2022-23 the Council has benefitted from rolled forward funding and new grants provided for the next financial year. The Council has therefore been able to set a balanced budget for next year and to propose a freeze in the Tower Hamlets element of Council Tax, only levying the 1% Adult Social Care precept to meet demographic pressures within that area. Due to the funding uncertainties beyond the next financial year the Council has only been able to set a one-year budget. In the Medium Term it is anticipated that the funding gap for the Council could be in the range of **circa £10m to £30m**. It will therefore be important to continue work to balance the budget over the Medium Term, returning to a three-year budget for 2023-26 to ensure alignment with the refreshed strategic plan.

The Coronavirus pandemic continues to have a significant adverse effect on the economy, along with the Council’s cost of services and reductions in income. With the new Omicron Variant, the pandemic shows no sign of abating. Current pandemic pressures are being met by one-off Covid grant. However, the ongoing scale of the impact on society, the economy and public finances resulting from Covid-19 in the medium to long term is at this point unknown.

The HRA remains in a strong position with reserves at the start of 2021-22 amounting to £52.3m.

As previously, consultation with residents, businesses and other key stakeholders has been a feature of proposed changes and the results of the Council’s 2022-23 budget consultation were considered at Cabinet on 15 December 2021.

The Council received the provisional Local Government Finance Settlement (LGFS) on 16 December 2021. The final LGFS is still to be received and the budget will be further updated for any material changes.

This report examines the key issues and pressures facing the Council in the medium term, with an updated position on funding, growth pressures and saving requirements. Continued focus on identifying and delivering efficiencies for future years will play a central role in ensuring financial sustainability going forward.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Propose a General Fund Revenue Funding Requirement of **£388.964m** for 2022-23 subject to any remaining changes arising from the final Local Government Finance Settlement.

2. Propose to freeze the Tower Hamlets element of Council Tax and to only levy a 1% Adult Social Care precept for 2022-23. This will result in a Band D Council Tax of £1,124.39 (Council share) 2022-23 to be referred to Full Council for approval.

3. Propose that the Interim Corporate Director – Resources, after consultation with the Mayor and Lead Member of Resources, makes any changes required to the budget following the final settlement announcement expected in February.

4. Note that the Council is joining the 8 Authority Pool for Business Rates with seven other London Local Authorities for 2022-23 and note that delegated authority has been given to the Section 151 Officer to implement the Council's inclusion in the pool.

5. Approve the 2022-23 transfers to and from corporate reserves as set out in section 3.9.

6. Approve the continuation of £1m funding from the Public Health grant to the Key Stage Two extension of Free School Meals.

7. Approve that the increase in the Social Care Grant for 2022-23 is allocated in full to the services (75% to adult social care and 25% to children's social care).

8. Propose the 2022-23 Housing Revenue Account budget as set out in Appendix 6 to be referred to Full Council for approval.

9. Approve the HRA housing rent and service charge increases as outlined in section 3.11.

10. Approve the 2022-23 Management Fee payable to Tower Hamlets Homes (THH) of £33.236m as set out in paragraph 3.11.16.

11. Note that under the Management Agreement between the Council and THH, THH manages delegated HRA income and expenditure budgets on behalf of the Council. In 2022-23, THH will manage delegated income budgets totalling £98.842m and delegated expenditure budgets totalling £32.128m.

12. Propose the 2022-23 Schools Budget.

13. Agree that the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2022-23. The only changes included are increases to the factor values in line with the NSFF and the use of the mobility factor in the NSFF for the first time.

14. Agree that the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set at 2.0%, the maximum allowed after consideration for growth and factor changes in School allocations.

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

16. Note that the Local Council Tax Reduction Scheme will remain unchanged for 2022-23.

17. Propose the three-year General Fund Capital Programme 2022-25 as set out in Appendix 7A, totalling £347.282m.

18. Propose the three-year Housing Revenue Account Capital Programme 2022-25 as set out in Appendix 7D, totalling £411.927m.

19. Approve the updated and revised 2021-22 General Fund and HRA Capital Programme budgets as set out in Appendix 7A and 7D, totalling £156.458m and £73.154m respectively.

20. Approve the budget allocation for the newly listed growth schemes in the programme, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place in consultation with the Corporate Director of Resources and agree that schemes funded by future capital receipts, s106 and/or CIL will not go ahead until such funds have been received by the Council.

21. Approve the funding principle that when capital receipts are received in year, they replace borrowing in future years.

22. Approve delegated authority to the Corporate Director of Place in consultation with the Corporate Director of Resources to take any steps required to deliver the capital programme including but not limited to going out to tender, appointing consultants and contractors in accordance with the Procurement Procedures, acquiring land interests and appropriating land from the General Fund to the Housing Revenue Account (HRA) for the delivery of new council homes, subject to approved budget.

23. Note the Equalities Implications 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 2022-23 by 11 March 2022 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 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 Review 2021, the 2022-23 Local Government Finance Settlement and the impact of the Covid-19 pandemic 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. At this time due to funding reforms signalled by Government and the Council's reliance on funding sources that are potentially subject to change significantly in the Medium Term, the Council is to set a one-year budget for 2022-23 whilst continuing to monitor the Medium Term position.

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 2022-25 and associated capital estimates to be approved.

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 March 2021 without a re-appraisal of both the financial and policy position.

2.2 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.

2.3 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 The medium-term financial planning process is an essential part of the Council's resource allocation and strategic service planning framework. The MTFS integrates strategic and financial planning over a multi-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 March 2021 the Council agreed a balanced budget for 2021-22 (after the planned use of £1.254m reserves) and a MTFS to 2023-24 agreeing savings of

£35.867m to be delivered over the three year period, which remain in place despite the Council setting a one year only budget for 2022-23.

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 pandemic.

3.1.5 In the context of uncertainty and challenges facing the Council from a number of forthcoming fundamental changes to the financial environment in which Local Authorities operate, this report updates Members on the impact of these changes and proposes changes to growth, inflation, and previously agreed savings that will inform consideration of the budget package by the Overview and Scrutiny Committee. The proposals will deliver a balanced budget for 2022-23; taking into account the views of residents, business rate payers and other interested stakeholders.

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

- Strategic Approach (Section 3.2)
- Proposed Budget (Section 3.3)
- Impact on Council Services (Section 3.4)
- Financial Resources (Section 3.5)
- Budget Pressures, Growth and Inflation (Section 3.6)
- Savings Proposals (Section 3.7)
- Risks and Opportunities (Section 3.8)
- Reserves (Section 3.9)
- Schools' Funding (Section 3.10)
- Housing Revenue Account (Section 3.11)
- Capital (Section 3.12)
- Treasury Management Strategy (Section 3.13)
- Budget Consultation and Scrutiny Process 2021-24 (Section 3.14)

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

3.1.8 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.

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

- Settlement Funding Assessment and Revenue Support Grant – inflationary increase of £1.1m from 2021-22 based on September CPI.
- New Homes Bonus – a decrease of £1.3m from 2021-22 (£17.6m) to 2022-23 (£16.3m).

- Council Tax Requirement (base and levels of growth) and assumptions on the level of assumed Council Tax increases.
- Improved Better Care Fund – inflationary increase of £0.5m from 2021-22 (£16.3m) to 2022-23 (£16.8m).
- Social Care Grant – continuation of the additional 2021-22 increase and a further increase totalling £4.3m from 2021-22 (£12.3m) to 2022-23 (£16.6m) to support adult and children's social care.

3.2 STRATEGIC APPROACH

3.2.1 In April 2021, Cabinet approved a revised 2021-24 Strategic Plan. The Strategic Plan has been updated to reflect:

- the continued response to the pandemic
- moving into pandemic recovery for the borough
- progress and achievements made since the last strategic plan
- information relevant to priority-setting such as the Council's performance and community needs

3.2.2 Also revised for the 2021-24 Strategic Plan are the high-level actions (what actions will we take) and measures (what will we measure) - to review and reflect on progress made. Importantly the Strategic Plan will be delivered in the context of moving from pandemic to recovery. In doing this we will:

- ensure the Council, residents and partners recover from the impact of the pandemic whilst continuing to respond to it
- deliver Council priorities - including a sustainable future budget - and better outcomes for residents
- grasp the opportunities from new ways of working, efficiency and effectiveness learnt during this period
- work with partners to contain future outbreaks, minimise cases and deaths - particularly in our most vulnerable residents
- communicate public health guidance
- ensure affected residents get the support and care they need
- ensure that the impact of service disruption is minimised

3.2.3 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.

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.

3.2.4 Due to the level of uncertainty in future funding the Council is setting a one-year budget for 2022-23, however it is planned to return to a three-year budget for 2023-26 to ensure alignment with the refreshed strategic plan which will reflect changes to national and local priorities including the latest information from the 2021 Census.

3.3 PROPOSED BUDGET

3.3.1 The revised budget 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 **£388.964m** for 2022-23 and a Council Tax at Band D of £1,124.39 (Council share).

3.3.2 The previous multi-year funding settlement agreed with the Government expired at the end of the 2019-20 financial year. Single year settlements were announced for first 2020-21, then 2021-22 and now 2022-23. The government announced the Spending Review 2021 on 27 October 2021, which provided resource budgets for Government Departments the three years 2022-23 to 2024-25. However, the Government have only announced **a single year** provisional Local Government Finance Settlement (LGFS) for next year, published on 16th December 2021, to enable funding reforms to be progressed. The absence of a long-term settlement hinders the ability of Local Authorities to plan for the Medium Term effectively.

3.3.3 Previously the direction of travel for Local Authority funding 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 Council Tax, retained Business Rate growth and targeted incentive payments such as New Homes Bonus funding. Following the pandemic, the Government has signalled a change in direction consulting on ending New Homes Bonus payments and progressing a 'fair funding review' to assess needs and a business rates reset. The needs assessment formula utilised to distribute funding and business rates baselines have been unchanged since 2013-14 and a review of these will have significant implications for Tower Hamlets over the medium term. It is anticipated these reforms will be implemented on 1 April 2023 at the earliest and transitional relief will be provided to councils who will lose funding as a result.

3.3.4 The impact of the Covid-19 pandemic has inevitably impacted on the level of resources available and shaped 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. Since March 2020 the Government has announced various packages of one-off funding to Councils to support Local Authorities through the pandemic, including enabling Councils to defer the costs of deficits in Council Tax or Business Rates collection over multiple years. With the pandemic still ongoing, the long-term pressures on the Council's finances of the pandemic remain to be quantified.

3.4 IMPACT ON COUNCIL SERVICES

3.4.1 The one-year provisional Local Government Finance Settlement (LGFS) for 2022-23 has been positive for Tower Hamlets as funding streams that were expected to come to an end were rolled forward for an additional year. This includes New Homes Bonus funding and another year of business rates growth, that Tower Hamlets has been able to retain since the baselines were set in 2013-14. There was also additional Social Care Grant and a one-off Services Grant for 2022-23. This has enabled the Council to set a balanced budget for 2022-23 whilst freezing its element of Council Tax, aside from levying a 1% precept specifically for Adult Social Care to fund demographic pressures in that area.

3.4.2 The Government has signaled that the one-year settlement was provided to facilitate taking forward Local Government funding reforms including a 'fair funding' review of the needs assessment formula and a reset of Business Rates baselines essentially wiping-out growth since 2013-14. In early 2021 the Government also consulted on altering New Homes Bonus funding, with the outcome expected to be published in 2022.

3.4.3 The proposed changes would have significant implications for Tower Hamlets over the Medium Term. Retained Business Rates above the Council's baseline accounts for approximately £14.6m of the Council's funding and New Homes

Bonus funding is £16.3m for 2022-23. If these funding sources are removed it is not clear how the money would be redistributed across Local Government, although the Government has signaled transitional relief would be provided to Councils to support them managing funding reductions. The reforms are anticipated to come into force by 1 April 2023 at the earliest.

3.4.4 In addition to funding uncertainties in the medium term, the Council continues to face increases in demand for services, inflationary cost increases and demographic cost pressures particularly in Adult Social Care. The long-term impacts of the ongoing coronavirus pandemic remain uncertain. For this reason, the Council is only able to publish a one-year budget for 2022-23 at this point in time. Over the Medium Term it is forecast that the Council's budget gap could be in the range of **circa £10m to £30m** and early in 2022-23 the Council will need to urgently review its financial position to work towards balancing the Medium-Term Financial position going forward.

3.4.5 The majority of the Council's costs relate to staffing and, given the scale of the challenges projected for future years, it is likely that continuing significant reductions will be needed to the Council's overall headcount and pay bill. The processes by which posts are identified 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.

3.5 FINANCIAL RESOURCES

Budget Summary	**2022-23** £'000
Net Service Costs	364,120
Growth - previously approved by Full Council	573
Growth - new	18,081
Inflation - previously approved by Full Council	6,500
Inflation - new	4,852
Savings - previously approved by Full Council	(9,223)
Savings - new (previously approved savings reprofiling and write-offs)	4,060
Total Funding Requirement	**388,964**
Revenue Support Grant	(35,056)
New Homes Bonus	(16,263)
Improved Better Care Fund	(16,810)
Social Care Grant	(16,602)
Public Health Grant	(36,896)
Rough Sleeping Initiative	(646)
Homelessness Prevention Grant	(5,940)
Market Sustainability and Fair Cost of Care Fund	(989)
Lower Tier Services Grant	(1,479)
Services Grant	(7,688)
Core Grants	**(138,368)**
Business Rates	**(129,286)**
Council Tax - in year income	(121,674)
Council Tax - Collection Fund deficit / (surplus)	364
Council Tax	**(121,309)**

Total Funding	**(388,964)**
Budget Gap / (Surplus)	**-**

Assumptions:

- No general Council Tax increase for 2022-23.
- ASC precept of 1% to be applied for 2022-23 - allocated to fund ASC demography.
- Core grant amounts not confirmed in the provisional LGFS will require updating once known.

Council Tax

3.5.1 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) and the rate of charge per property.

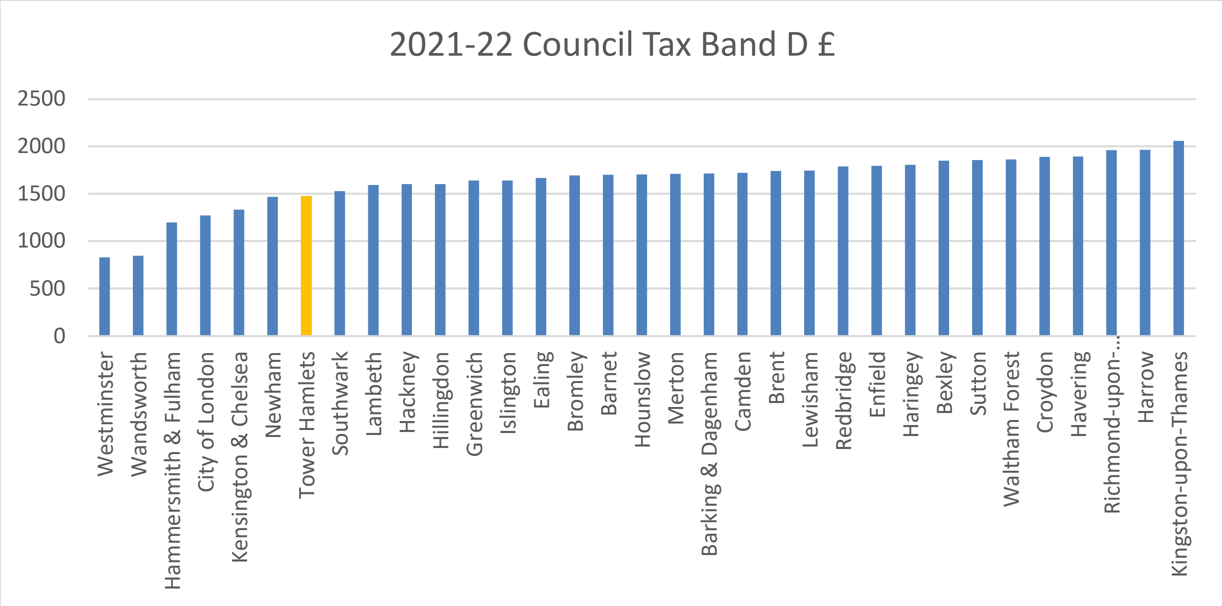
3.5.2 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms; the Adult Social Care precept and general tax rate increases. Each 1% increase in the Council Tax rate generates circa £1.2m per annum, which equates to approximately 21 pence per week for the average Band D property.

3.5.3 For the Adult Social Care (ASC) precept, specifically to fund Adult Social Care pressures, the government agreed a maximum level of 2% for 2021-22 and the Council consulted on and implemented a 2% precept. The Council also implemented a 1.99% increase in the general Council Tax rate for 2021-22.

3.5.4 The provisional LGFS has stated a referendum level of 1.99% for general tax rate increases and an ASC precept of up to 1.00% for 2022-23. The government assumes in the Core Spending Power calculation that Councils will increase Council Tax at the maximum allowed level. If the Council, therefore, does not implement at the maximum level, then its spending power to provide services would be reduced going forward with no funding from government to mitigate this (and therefore be making higher savings than the Council otherwise would have done).

3.5.5 Currently Tower Hamlets has one of the lowest Council Tax rates in London as shown in Chart 1 below. It is currently proposed that the Council will not increase Council Tax in 2022-23 but the Council proposes to apply the ASC precept of 1.00%. The extra income received through the ASC precept is assumed to be given directly to the adult social care service to fund demographic growth (£1.2m in 2022-23). The Council will continue to have one of the lowest Council Tax rates across the 33 London Boroughs.

Chart 1: 2021-22 Council Tax Rates Across London



3.5.6 The borough has seen increases in the number of new homes over the last few years, however the Covid-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 Covid-19 on their income levels.

3.5.7 The Mayor in Cabinet approved the Council Tax Base calculation for 2022-23 on 18 January. The Council Tax Base calculation assumes growth of 3.5% in 2022-23.

Council Tax Assumptions

	2022-23
Council Tax increase	0.00%
ASC Precept	1.00%
Tax Base increase	3.5%
Collection Rate	97.50%

Local Council Tax Reduction Scheme (LCTRS) 2022-23

3.5.8 In March 2021, the Council agreed that there would be no changes to the current Local Council Tax Reduction Scheme (LCTRS) for 2021-22. Since that time, and as a result of the Covid-19 pandemic, the cost of the scheme has risen from £26.7m in 2019-20 to £31.6m in 2020-21. The level of claimants has remained at the increased pandemic level to date (estimated £32.8m cost in 2021-22 which includes the effect of the annual Council Tax increases).

3.5.9 The current LCTRS 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.

3.5.10 The Covid-19 pandemic resulted in 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 demand for services increases, however the economy and levels of employment are showing improvement and it is hoped that the level of claimants will reduce back to pre-pandemic levels over the next two years.

3.5.11 Each year, the Council is required to consider whether it wishes to change its LCTRS. Any changes to the scheme require a full public consultation and impact analysis.

3.5.12 The budget assumes that the existing 100% LCTRS will remain unchanged for 2022-23 protecting our residents on low incomes. The reasons for not changing the current scheme would be:

- 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

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

3.5.14 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).

3.5.15 The difference between SFA and the Baseline Funding Level is the amount of RSG an authority receives. For Tower Hamlets, the 2022-23 calculation based on the Provisional Local Government Finance Settlement is shown below.

Provisional Settlement Funding Assessment

Provisional Settlement Funding Assessment	2021-22 £m	2022-23 £m
Settlement Funding Assessment (SFA)	145.5	146.6
Baseline Funding Level (BFL)	111.5	111.5
Revenue Support Grant (RSG)	34.0	35.1

Business Rates Retention Scheme

3.5.16 The Business Rates London Pilot Pool commenced in April 2018 on 100% retention and was extended into 2019-20 on 75% retention. After the ending of pilot pools, all London Boroughs agreed to form a pool on the 67% retained total for 2020-21. Due to the volatility in business rates income resulting from the pandemic, all London Boroughs agreed to not form a business rates pool for 2021-22.

3.5.17 The Council will now enter a business rates pool with seven other neighbouring London Boroughs in 2022-23 (the 8 Authority Pool) which will enable the Council to retain some of the levy on growth that would otherwise be required to be paid to Central Government. The amount of extra growth retained is estimated to be £2.5m one-off extra income in 2022-23 and this has been reflected in the updated budget. Delegated authority has been given to the Section 151 Officer to implement the Council's inclusion in the pool.

3.5.18 The Covid-19 pandemic has significantly impacted the business rates income for the Council and created a 2020-21 Business Rates Collection Fund deficit which will be required to be repaid over the period 2021-24. The Council share of the accumulated Business Rates deficit to the end of 2020-21 is £85.6m, towards which the government will provide compensation of £15.08m. The Covid-19 pandemic continues to have a significant impact on the 2021-22 business rates income through revaluations, other changes to the rating list and a reduction in collection rates.

3.5.19 It should also be noted that the Valuation Office may carry out revaluations of business properties in the office accommodation sector following a number of potential appeals relating to changing working patterns and thus the reducing use of office accommodation, as impacted by the pandemic. Any successful appeals would have a potentially significant impact on the Council's level of business rates income.

3.5.20 The business rates baseline was due to be reset in 2022-23, however this has been delayed until at least 2023-24. The current business rates system allows councils to retain a proportion of the growth in the local business rates tax base, however this is typically lost during funding rebasing. For Tower Hamlets this is c£14.5m of funding that could be lost because of a reset and the delay has improved the budget position for 2022-23. The Government has signalled funding reforms to be implemented over the next year and it is still not clear when the government will implement the reset, how the money would be redistributed across Local Government and the amount of any transitional relief provided to the Council. The proposed reset therefore represents a significant funding risk to the Council that hinders its ability to plan over the Medium Term.

Collection Fund

3.5.21 Due to the effect of the Covid-19 pandemic on the Collection Fund deficits for 2020-21, the government announced that 2020-21 deficits can be repaid over the three-year period 2021-24. This is a further spread of the impact over more years than the normal requirements for repayment periods. Furthermore, the Spending Review 2020 announced that the government will fund 75% of components of the 2020-21 deficit.

3.5.22 There is an accumulated Business Rates Collection Fund deficit to the end of 2020-21, of which the Council share is £85.6m and of this circa £54m is funded through expanded retail and nursery scheme relief grants. The Council is utilising its Collection Fund Smoothing Reserve to align the government grant funding of business rates reliefs with the timing of deficit payments over the three-year period 2021-24. The Collection Fund currently remains under consideration by external audit and, therefore, the accumulated deficit to the end of 2020-21 may be subject to change.

3.5.23 The Business Rates accumulated deficit includes the significant impact of the increased appeals provision for 2020-21 which includes allowance for potentially successful Material Change of Circumstances (MCC) appeals relating to the pandemic (total of £102m, Council share of £30.6m). The accumulated deficit also includes a significant increase in the loss allowance (bad debt provision) for potential non-payment of debts to the Council, again due to the pandemic, rising £5.8m (Council share) from £1.9m (2019-20) to £7.7m (2020-21).

3.5.24 There is an accumulated Council Tax Collection Fund deficit to the end of 2020-21, of which the Council share is £6.5m. The deficit includes the impact of the loss allowance (bad debt provision) which was increased by £2.9m (Council share) from £11.9m (2019-20) to £14.8m (2020-21) due to the impact of the pandemic.

3.5.25 The Collection Fund Smoothing Reserve has a draft balance of £66.8m at the end of 2020-21, subject to the closure and audit of the Council's accounts for the period 2016 – 2021. This includes Section 31 grant income from central government to fund the expanded retail and nursery scheme business rates reliefs for 2020-21, which will be drawn down over the period 2021-24 to match the years in which the related business rates deficit payments will impact the financial accounts. The purpose of the Smoothing Reserve is also to balance out potential deficits and surpluses across individual years for Business Rates and Council Tax income over the medium term. Income collection to date and forecasts for the year are monitored monthly including the impact of inflation and the pandemic on the Collection Fund.

Core Grants

3.5.26 The Council is in receipt of several core grants to support specific service priorities. Given the uncertainty of the Fair Funding review, assumptions have been made in respect of most grants after the announced 2022-23 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 methodology.

Revenue Support Grant

3.5.27 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.

3.5.28 The Council's Revenue Support Grant (RSG) has decreased from circa £54m in 2017-18 to £35m in 2022-23.

New Homes Bonus

3.5.29 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. Tower Hamlets is a high growth area and has attracted one of the highest levels of NHB in the country.

3.5.30 A consultation was launched after the 2021-22 settlement on the future of NHB with options including increasing the threshold for payment and various other factors that could be included for calculations. There is uncertainty in the amounts to be received going forward and it is likely that payments in future will be significantly lower. The Secretary of State for DLUHC has stated that the government's response to the consultation will be published in early 2022 and that they are committed to reform and will use the additional year to carefully consider how they can ensure the incentive is more focused and targeted on ambitious housing delivery and which complements wider government priorities.

3.5.31 If the NHB (including all legacy payments) were to come to an end in the medium term, 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, however this will clearly need to be kept under review. As part of the provisional LGFS, the Secretary of State for DLUHC announced a further round of New Homes Bonus allocations under the current scheme for 2022-23. The allocations for 2022-23 include previously announced legacy payments but, as in 2021-22, these new allocations for 2022-23 will not result in new legacy commitments being made in subsequent years on those allocations. The New Homes Bonus grant has reduced nationally from £622m in 2021-22 to £554m in 2022-23. The Council's New Homes Bonus grant allocation has decreased from £17.646m in 2021-22 to £16.263m in 2022-23.

3.5.32 Next year's budget has been updated to reflect the allocation of £16.263m in 2022-23. Over the medium term the level of funding potentially lost will depend on which changes are announced, the timescales for implementation and any transitional funding for Councils such as Tower Hamlets that would lose significant funds as a result. The amount of funding going forward remains therefore unclear.

Improved Better Care Fund

3.5.33 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.

3.5.34 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 Rounds since 2019 have extended this grant for one year at a time and the continued provision of this funding is built into the budget.

Social Care Grant

3.5.35 In the Chancellor's 2019-20 budget, £410m of additional funding was announced for use for adult and children's social services. 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 was used to distribute this Social Care Support Grant funding.

3.5.36 The 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 Social Care Support Grant allocation for Tower Hamlets of £2.499m was used to support the revenue budget funding for demographic and inflationary growth for the directorates. The grant was increased in 2020-21 to £9.367m. This increase of £6.868m was allocated 50% to supporting the revenue budget funding for demographic and inflationary growth for the directorates, and the remaining 50% directly allocated as budget to the services (75% to adult social care and 25% to children's social care).

3.5.37 The Spending Review 2020 announced a further one-off increase to the Social Care Grant for 2021-22 of £2.974m and this was allocated in full as budget to the services. The 2022-23 LGFS has retained the 2021-22 increase and further increased the grant by another £4.261m (to a total £16.602m) and it is proposed through the budget to also allocate this further increase directly to the specified services.

3.5.38 The table below demonstrates the allocations of the Social Care Grant.

Social Care Grant Allocations	Adult Social Care Budget	Children's Social Care Budget	Funding of Demography and Inflation	Total
	£m	£m	£m	£m
2019-20 Funding	-	-	2.499	2.499
2020-21 Additional Funding	2.575	0.858	3.435	6.868
2021-22 Additional Funding	2.230	0.744	-	2.974
2022-23 Additional Funding	3.196	1.065	-	4.261
Total 2022-23	**8.001**	**2.667**	**5.934**	**16.602**

Social Care Reform

3.5.39 In December 2021 the Government published its long-awaited white paper on Adult Social Care reform entitled ‘People at the Heart of Care’ setting out a 10-year vision for transforming support and care in England. The document set out a range of priorities that the Government will seek to take forward with the sector in coming years.

3.5.40 The Government published ‘Build Back Better: Our Plan for Health and Social Care’ in September 2021 introducing a new health and social care levy to National Insurance Contributions, initially to help fund the clearance of NHS backlogs, a cap on care costs of £86,000 and the ability of self-funders to ask their Local Authority to arrange their care for them. The Government announced that the cost of the increased National Insurance Employer Contributions for Councils will be funded and the provisional LGFS has stated that the 2022-23 funding has been included in the new Services Grant, although the grant is one-off whilst the tax increase is permanent.

3.5.41 The LGFS has stated that to ensure that local authorities are able to move towards paying a fair cost of care, the Government is providing an additional £1.4 billion over the next 3 years. This forms part of the £3.6 billion confirmed at Spending Review 2021 to implement Charging Reform. £162 million will be allocated in 2022 to 2023 to support local authorities as they prepare their markets for reform. A further £600 million will be made available in both 2023-24 and 2024-25. These proposals are funded by the new Health and Care Levy announced in September 2021, of which £5.4 billion is being invested into adult social care over the next 3 years. Beyond the next 3 years, an increasing share of funding raised by the levy will be spent on social care in England.

Market Sustainability and Fair Cost of Care Fund

3.5.42 The provisional LGFS has announced this new grant for 2022-23 intended to help local authorities to prepare their markets for reform and move towards paying the fair cost of care. The government has distributed funding using the adult social care relative needs formula and the 2022-23 allocation for Tower Hamlets is £0.989m. The budget allocates this funding in full to the Health, Adults and Community directorate.

3.5.43 Local authorities will be expected to carry out activities including:

- Conduct a cost of care exercise to determine sustainable rates.
- Engage with local authorities to improve data on operational costs and the number of self-funders.
- Strengthen capacity to plan and implement greater market oversight.
- Use the funding to increase fee rates (appropriate to local circumstances).

Services Grant

3.5.44 In the provisional LGFS, the Government has introduced a one-off 2022-23 Services Grant and the proposed allocation for Tower Hamlets is £7.688m. This grant will not be ringfenced, and conditions on reporting requirements will not be attached. It has been provided in recognition of the vital services, including social care, delivered at every level of local government and also includes funding for local government costs for the increase in employer National Insurance Contributions.

3.5.45 The Government has stated a clear intention for this grant to be one-off for 2022-23 but intend to work closely with local government on how to best use this funding from 2023-24 onwards. This funding would be excluded from any proposed baseline for transitional support as a result of any proposed system changes but the funding could be used by Government to provide transitional relief from decreases in funding caused by the Fair Funding Review and Business Rates Reset.

Public Health Grant

3.5.46 The Public Health grant is ring-fenced for use on public health functions exclusively and covers all ages. The allocation of the Public Health grant to Tower Hamlets for 2022-23 is estimated to be £36.896m, pending receipt of the final grant determination.

Rough Sleeping Initiative

3.5.47 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.

3.5.48 The budget estimates that the Council will receive an allocation of £0.646m in 2022-23 (allocation still to be announced) with the funding allocated directly to the relevant service.

Homelessness Prevention Grant

3.5.49 The Flexible Homelessness Support & Homelessness Reduction grant was 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.

3.5.50 The government created a newly named Homelessness Prevention Grant that replaced the Flexible Homelessness Support and Homelessness Reduction grant in 2021-22. The new allocation for 2021-22 was £5.852m which was a £0.746m increase on the previous grant. The MTFS includes this new grant allocation and assumes that this level will continue in future years with added inflation, with the funding allocated directly to the Place directorate to support services relating to homelessness in the borough.

Local Tier Services Grant

3.5.51 The Lower Tier Services Grant was introduced in the 2021-22 LGFS, intended to be "minimum floor funding" to ensure that no district or unitary council had a decrease in Core Spending Power for 2021-22. The government made it clear that "This funding is in response to the current exceptional circumstances and is a one-off. No local authority should take this funding floor as guaranteeing similar funding floors in future years, including in future finance reforms".

3.5.52 The provisional LGFS has proposed to retain the Lower Tier Services Grant for another year (2022-23), however the current provisional allocation of £1.479m for Tower Hamlets may change in the final LGFS.

3.5.53 In 2021-22 the funding was placed into the Collection Fund Smoothing Reserve, to support the impact of the Covid-19 pandemic on Business Rates and Council Tax income. The MTFS for 2022-23 assumes that this one-off income will contribute to in-year funding of the Council's expenditure.

Covid-19 Support Grants

3.5.54 In the continuing response to the Covid-19 pandemic, the Council has continued to utilise government funding towards increased expenditure, reduced income and passported business rates (NNDR) relief.

3.5.55 As well as grants, the government has provided reimbursement of reduced income for specified eligible Sales, Fees & Charges. This has been agreed until June 2021. For income that is eligible, the government will reimburse 75% of the reduced income, after the first budgeted 5% (therefore circa 70% of the lost income). The main areas covered by this reimbursement are planning services, contract services and parking charges. Collection Fund deficits (Council Tax and Business Rates income), treasury investment income (reduced through the Covid-19 economic impact on interest rates) and income areas in the Housing Revenue Account (HRA) are the main areas of reduced income for the Council that are not eligible for reimbursement through this claim.

3.5.56 It is forecast that based on funding received and announced to date, that the funds available will not fully cover the costs and reduced income from the Covid-19 pandemic over the medium term, including Collection Fund deficits. This would have an impact on reserves balances for any overspends created.

3.6 BUDGET PRESSURES, GROWTH AND INFLATION

3.6.1 A key part of the annual budget setting process is the review of growth pressures across the MTFS period arising from demographic changes, new requirements or responsibilities or inflationary pressures.

3.6.2 In previous budget setting processes, the Council approved amounts for unavoidable growth and estimated inflation over the period to 2023-24. These have been reviewed as part of updating the MTFS for the period until 2025 and in the context of the overall funding pressures and in particular as a result of the continuing impact of Covid-19.

3.6.3 In line with this review methodology, previously agreed demographic growth funding for Adult Social Care (ASC) in 2021-22 and 2022-23 was revised downwards to take account of a range of demand management measures that include more effective price controls to mitigate pressures (£3.5m revised growth for 2022-23). This was a risk-based proposal given the Council's overall financial gap and given that the service is currently experiencing financial pressures on care packages. The updated MTFS recommends that funding from the ASC Precept will be allocated to support ASC demography (£1.2m in 2022-23). Consideration of further adult social care demographic growth pressures of circa £4m for each of 2023-24 and 2024-25 will need to be made in the future, alongside work to estimate the impact of the government's ASC Reform and potential funding to be provided from the new health and social care tax.

3.6.4 The Council remains part of the National Joint Council (NJC) for Local Government Services for negotiating pay award arrangements. The 2020-21 pay inflation was agreed nationally at 2.75%. The Spending Review 2020 indicated that the government will not provide funding for a 2021-22 pay increase, except for an increase for those under £24,000 per annum of at least £250, however the Council would need to provide funding for any 2021-22 pay award agreed by the NJC.

3.6.5 The MTFS has been updated to ensure that pay inflation is provided for the higher increase of 2.75% that was agreed for 2020-21 and the current 1.75% pay award offer by the NJC for 2021-22. The pay inflation requirement for future years is currently estimated at £3.8m per annum, based on a 2% annual pay award and increased to provide for the recent bringing inhouse of IT and waste collection services.

3.6.6 Pay inflation for 2022-23 also includes a £1.4m allowance for the increased employer's NI contribution for the health and social care tax, funded in 2022-23 through the new Services Grant from Government.

3.6.7 The refresh of the MTFS has also considered the currently heightened inflationary risks in non-pay inflation. Some large contracts include inflationary uplifts based on the Retail Price Index (RPI) or Consumer Price Index (CPI), which could be high in certain months following the recovery from the pandemic and the markets are experiencing pressures in areas such as labour and fuel which could affect the cost of new contracts. The year on year RPI increase for October 2021 is 4.9% and the CPI increase is 5.1%.

3.6.8 Future years of the MTFS allow for non-pay inflation at 2% which is the Bank of England's target rate. This requires an annual allowance of £3.1m for General Fund budgets, reduced due to the recent bringing inhouse of IT and waste collection services. The MTFS has a higher non-pay inflation allowance in 2022-23 of £3.9m to take on board current inflationary pressures in contracts, however it should be noted that risk remains if the currently higher level of inflation continues into the next year.

3.6.9 The GLA has announced the London Living Wage (LLW) increase for 2022-23 of 1.84%, increasing from £10.85 per hour to £11.05 per hour. This followed the government's increase to the National Living Wage, and the Council is committed to fund social care homecare providers for any LLW increase as part of the Ethical Care Charter.

3.6.10 Directorates in the Council have also reviewed their service areas for unavoidable growth and budget pressures that are requested to be funded in 2022-23. These are listed together with inflation, demography and changes to savings and core grants in Appendix 3A. Please refer to the business cases for the General Fund growth items in Appendix 3B. Due to the level of uncertainty in future funding, the growth amounts indicated for 2023-24 and 2024-25 will need to be further reviewed as part of the 2023-26 MTFS refresh.

3.6.11 There has been a decrease in the costs of concessionary fares (freedom passes) due to the reduced travel journeys during the pandemic. The charge to the Council is calculated from the average of the two prior years. The charge has reduced from £9.2m in 2020-21 to circa £8.1m for 2021-22 and the forecast for 2022-23 is estimated at £6.2m. It is proposed that this one-off £3m reduction to cost will supplement the MTFS in 2022-23 only.

3.6.12 A summary of the changes to General Fund expenditure budgets is below:

Summary of changes to General Fund (GF) expenditure budgets	**2022-23 £m**
New Mayoral Priority Growth	5.411
New Unavoidable Growth	3.482
New Budget Pressure Growth	3.926
New Budget Adjustment – Concessionary Fares	(3.000)
New changes to Core Grants allocated to services	8.262
New Pay Inflation	4.352
New Non-pay Inflation	0.500
Savings – reprofiled	1.771
Savings – written off	2.289
Total expenditure budget changes – GF	**26.993**

3.6.13 There are growth items proposed for the Housing Revenue Account (HRA) totalling £3.386m including allowance for new building safety obligations. Please refer to the listing in Appendix 3A and the business cases in Appendix 3C.

3.7 SAVINGS PROPOSALS

Savings Proposals – General Fund

3.7.1 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 the 2021-24 budget setting process, amid considerable uncertainty around future funding levels, there was a remaining estimated budget gap for 2022-23 and 2023-24.

3.7.2 The expected delay to the business rates reset and increased income assumptions for Council Tax and recycling of government grants into the Revenue Support Grant mean that the current expectation is that new savings will not be required to be identified for 2022-23. Planning has commenced for the development of savings proposals to be worked up for 2023-25, pending clarity around future funding levels.

3.7.3 The Council has previously approved savings totalling £9.223m (2022-23) and £7.181m (2023-24). However, with the latest estimated significant budget gaps in both 2023-24 and 2024-25, there is a likely future need to identify significant additional savings for these years and to ensure all previously approved savings remain deliverable. Detailed consultation and impact assessments will continue to be undertaken as the proposals agreed previously are taken through to implementation and the services will continue to develop and consult on proposals for future years.

3.7.4 The previously approved savings include increased fees and charges income for the Council of £0.420m in 2022-23, in line with results from the budget consultation which indicate support for an increase in income generation. The fees and charges report was agreed at Cabinet on 18 January 2022. The schedules in the appendices to the report list the individual fees for both statutory and discretionary charges and further information on the adult social care charging policy can be accessed online at: https://www.towerhamlets.gov.uk/lgnl/health__social_care/ASC/Support_from_Social_Care/Paying_for_your_care/Charges.aspx

Prior year savings to be written off - £2.289m

3.7.5 Following a robust review, the following previously agreed savings are considered to be no longer deliverable and it is proposed in this budget that these are now formally written off: -

- **Local Presence and Idea Store Asset Strategy ref: SAV / RES 003 / 21-22 £0.600m.** The strategy agreed by Cabinet in March 2021 allows for the achievement of £1m of the £1.6m target, following stakeholder consultation and resulting amendments to the Idea Stores strategy which protect the services most valued by our residents.
- **Local Presence / Contact Centre Review ref: ALL006/17-18 £0.689m.** This saving relates to channel shift to digital by default (streamlining access to services and utilising IT improvements). Of the total £2.050m original saving, £0.900m has been already achieved, £0.461k will be achieved in 2022-23 and £0.689m has been identified as unachievable at this time. A review of the full customer journey (frontline and back office) will be carried out to consider if new savings could be proposed in the future.

- **Greater Commercialisation ref: SAV / ALL 002 / 20-21 £1.000m.** The pandemic has impacted the local economy and therefore £1m of the £2.5m saving has now been identified as unachievable.

Re-profiled savings to later financial year - £2.471m (£1.771m from 2022-23)

3.7.6 The following previously agreed savings are considered to be no longer deliverable within the originally planned timescales and it is proposed in this budget to re-profile these to following years;

- **Property Asset Strategy ref: SAV / PLA 001 / 20-21 £0.500m re-profiled to 2024-25**. This re-profiles half of the total £1m savings due to the pandemic, e.g. rent holidays required to attract new tenants.
- **Legal services ref: SAV / GOV 001 / 20-21 £0.200m re-profiled to 2024-25**. This re-profiles £0.2m of the total £0.3m savings to allow time for the consideration and implementation of a collaborative shared service.
- **Review of Telecare ref: SAV / HAC 014 / 21-22 £0.071m re-profiled to 2023-24.** This allows the review to consider the technology enabled care recommendations to be identified through the diagnostic work of Argenti.
- **Human Resources ref: SAV / RES 010 / 21-22 £0.700m re-profiled from 2023-24 to 2024-25.** This allows time for service and system improvements.
- **Greater Commercialisation ref: SAV / ALL 002 / 20-21 £1.000m re-profiled to 2024-25.** This saving has been impacted by the pandemic's effect on the local economy and therefore £1m is proposed to be re-profiled to 2024-25 (as well as £1m being proposed for write-off as detailed in the paragraph above).

3.8 RISKS AND OPPORTUNITIES

3.8.1 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.

3.8.2 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.

3.8.3 Pressures in service demand are demonstrated in the Council's budget monitoring for 2021-22, especially for children's and adult social care. The Council commissioned an external review of adult social care budgets, demography projections and savings plans. Consideration of the review and identified risks will feed into the medium-term financial planning process.

3.8.4 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

Inflation

- CPI Inflation rose to above 3% from September 2021 and the increase is expected to persist to the end of the 2021-22 financial year, driven largely by energy and goods prices. Rises in commodity prices, increases in shipping costs and supply shortages have together pushed up goods prices globally and reflected in UK import prices. The increases are accentuated by the low base effect of 2020.
- Currently above target inflation is expected to be temporary, and CPI is expected to return to around the 2% target in the medium term. However, if these transitory factors do feed higher longer-term inflation there will be impacts on Council budgets in relation to higher costs, and potentially lower income collection as households face pressures associated with increased prices.

Covid-19 Pandemic

- Public health and wellbeing – both residents and staff
- Increase in service demand – especially mental health, social care, homelessness, unemployment and domestic abuse
- Increased levels of financial hardship, with poverty exacerbating existing inequalities
- Economic impact on Council funding
    - Potentially significant decreased business rates and council tax income levels; it will be vital for the Council to continue to receive government support for these reduced income levels
    - Decreased sales, fees and charges income
    - Decreased treasury investments income due to lower interest rates

Impact of decision to leave European Union (Brexit)

- Workforce impact arising from direct or indirect employment of EU nationals.
- Supply chains are affected by changes in import and procurement legislation, and there are potential cost implications associated with currency fluctuations.
- 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.

Regulatory Risk

- **Business Rate Reset** – A proposed business rates reset by the Department for Levelling Up, Housing and Communities (DLUHC) means that the baseline level will be raised 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 DLUHC's intention to update the target amounts. This was planned to take place in 2019-20 but has been delayed until at least 2023-24, so, in this regard, Tower Hamlets has benefitted. It is envisaged that resets will also occur periodically going forward.
    - Once the reset takes place, the growth will be redistributed based on need (within the funding formula) and Tower Hamlets will receive a share. Tower Hamlets should also receive more resources going forward, if local growth continues.

- **Review of relative needs and resources (also called the Fair Funding Review)** - The government has committed to reforming the way local authorities are funded. Its Fair Funding Review aimed to introduce a new funding formula from April 2021, now delayed to at least April 2023. 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.

Adult Social Care Services

- **Discharge from hospital** – reduction in NHS funding for the short-term funding of care costs for residents that are discharged from hospital (NHS funding is currently only agreed until March 2022).
- **Long Covid** – the long term effects on the health and social care needs of residents are unclear and may increase demand for community and residential based services.
- **National implementation of a care cap on client contributions** – reduction in income and an increase in administration costs (updating the calculations of contribution levels and monitoring of contributions paid against the cap which will also include self-funders).
- **Price pressures in the social care market** – impact of workforce shortages and inflation on labour, fuel, food and clothing costs.

General Economic Factors

- Economic growth slowing down or disappearing
- Reductions in grant and third party funding
- Reductions in the level of income generated through fees and charges
- A general reduction in debt recovery levels
- Increase in fraud

Increases in Service Demand

- Adult Social Care homecare and residential care services
- 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 (including homelessness and temporary accommodation)
- General demographic trends (including a rising and ageing population)
- Impact of changes to Welfare Benefits

Efficiencies and Savings Programme

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

Opportunities

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

3.9 RESERVES

3.9.1 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 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 rates of Council Tax. The recommended movement in reserves, either contributing to or drawing down from, is set out in this section of the report from paragraph 3.9.6.

3.9.2 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. There are two main types of reserves:

- Earmarked Reserves – held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year/s.
- General Reserves – these are held for 'unforeseen' events.

3.9.3 The Council maintains reserves for its General Fund activities, in respect of its Housing Revenue Account (HRA) and for Schools. Capital reserves are also held to support funding of the Council's capital investment strategy.

3.9.4 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. The Council's current Reserves Policy is included in Appendix 4. Reserves are one-off funds and, therefore, the Council should always aim to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. In the current unprecedented challenging environment, it is even more important to ensure reserves are maintained and not on a continuing declining trajectory. The level of General Revenue balance is maintained at the level agreed in the Financial Regulations of the Council, currently £20m.

3.9.5 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. collection fund surpluses or deficits, 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.
- 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.

3.9.6 The proposed Corporate reserve movements for 2021-22 and 2022-23 are presented below.

Proposed Corporate reserve movements 2021-22: -

Description	Transfer from Reserves £m	Transfer to Reserves £m
Planned contribution to MTFS	1.254	
Collection Fund Smoothing Reserve	15.772	
New Homes Bonus (NHB) Reserve - addition from in-year grant allocation		7.654
Contribution to Free School Meals costs (from Free School Meals reserve)	2.000	
Creation of Mayor's Covid Recovery Fund (CRF)		3.000
Transfer from NHB Reserve to create Mayor's Covid Recovery Fund	3.000	
Creation of BAME Inequalities Commission Reserve		1.000
Transfer from NHB Reserve to create BAME Inequalities Commission Reserve	1.000	

Proposed Corporate reserve movements 2022-23: -

Description	Transfer from Reserves £m	Transfer to Reserves £m
Collection Fund Smoothing Reserve	18.604	
Contribution to Free School Meals costs (from Free School Meals reserve)	2.000	

3.10 SCHOOLS' FUNDING

3.10.1 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 Academies to pay them directly, based on the same formula as the funding allocations made to Tower Hamlets maintained schools. This leaves a net LA cash budget.

3.10.2 The DSG is allocated through four blocks: The Schools Block, Central School Services Block, High Needs Block and Early Years Block. All elements of the DSG are calculated based on a national funding formula, however these are calculated using historic funding as a baseline.

3.10.3 Whilst the Schools Block allocation for 2022-23 is based on allocating a school level budget calculation, the method of distribution to schools is still through a local formula methodology.

3.10.4 In December 2021 the ESFA published initial allocations for 2022-23 for the Schools Block, Central Services Block High Needs Block and the Early Years block. The allocations for the High Needs block and the Early Years block are further updated in year in line with pupil data changes whilst the Schools Block and Central School Services block are final allocations.

3.10.5 The Early years block is based on pupil take up on an hourly rate which is £8.06 per hour for 3 and 4 year olds and £6.87 per hour for 2 year olds. Tower Hamlets rate has been frozen for 3 and 4 year olds for the last three years with only the 2 year old rate increased by 21p or 3.1% for 2022-23. The initial Early Years Block allocation is based on January 2021 early years numbers which were lower than in previous year due to the Pandemic, we would expect the final allocation to be increased for actual pupil take up

3.10.6 Additional funding for Pupil growth in the Schools Block for 2022-23 has been included in the December allocation at £1.796m this is calculated using growing pupil numbers in Middle Super Output Areas between October 2020 and October 2021 ignoring reductions in other areas. This methodology benefits Tower Hamlets with the movement in demand across the borough plus we have seen an increase in total pupils from the previous year of 597 or 1.6%.

3.10.7 The Schools block of the DSG has increased by 2% per pupil for 2022-23, whilst the overall cash increase is 4% this relates to the growth in the pupil population.

3.10.8 The High Needs Block is funding to support costs of pupils with additional education needs, across mainstream and special schools as well as the associated support costs. The allocation of the high needs block for 2022-23 has increased by 8%, which will go some way to ease the pressure on current spend and mean we are able of manage the high needs block spend within the financial year as well as build additional capacity. However, there continues to be an accrued deficit that will be bought forward and can, in line with government guidance, be bought back into balance over a number of future financial years.

3.10.9 Significant work continues to take place to identify efficiencies in high needs provision, including remodelling of central services, review of top ups paid to individual schools as well as building local capacity to prevent expensive placements outside of LBTH. A long term management plan for high needs will be reviewed with the Department for Education early in the new year.

3.10.10 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 (ESG) funding for ongoing central functions e.g. admissions and funding for historic commitments including items previously agreed locally such as contributions to central Education budgets.

3.10.11 As part of the national funding formula the DfE are reducing the allocation within the CSSB of historic commitments and therefore the CSSB for Tower Hamlets has been decreased by £376k in relation to historic commitment for 2022-23.

3.10.12 In addition to the Central Schools Services Block, maintained schools can, through the Schools Forum, agree to de-delegate some of their Schools Block resources for certain specific services that schools would benefit from the economies of being managed centrally. Schools can also make contributions to support the former Education Services Grant (ESG) general duties which was removed as a separate grant in 2017. This contribution supports costs the Council is obliged to carry out as statutory duties for maintained schools, for example in relation to financial regulation, asset management, internal audit, HR and the provision of information to government departments and agencies. Schools Forum Were asked at the School Forum of 12th January 2022 to increase these contributions and de-delegations by 2% to match the increase in the schools. These rates were agreed.

3.10.13 The table below sets out the DSG allocation over the funding blocks for 2022-23.

Dedicated Schools Grant – Initial 2022-23 and Final 2021-22

Block Gross	2022-23	2021-22	Change
	£m	£m	£m
Schools Block	289,896	278,633	11,263
CSSB	3,511	3,887	(376)
High Needs Block	71,875	65,820	6,055
Early Years Block	27,927	31,139	(3,212)
Total	**393,209**	**379,479**	**13,730**

3.10.14 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£20.9m in 2021-22) and sixth form funding (circa £13m). Final allocations for the pupil premium will be confirmed in July 2022 and sixth form funding in March 2022. In 2021-22 a number of Covid related catch up funds were also passported fully to Schools which have yet to be confirmed as continuing into future years.

Tower Hamlets' Funding Formulae

3.10.15 The agreement on the local Schools Funding Formula and Early Years Funding Formula is a decision for the Council following consultation with the Schools Forum. Forum have had initial consultation and will finalise the distribution methodology in the January Forum meetings following the final DSG settlement. The current recommendation is:

- That the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2022-23. The only changes included are increases to the factor values in line with the NSFF, and the inclusion of mobility funding included in the NSFF but initially excluded in LBTH

- That the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) has been set at 2.0%, the maximum allowed.

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

3.11 **HOUSING REVENUE ACCOUNT (HRA)**

3.11.1 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.

3.11.2 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.

2022-23 Rent Increase

3.11.3 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 applied was 2019-20.

3.11.4 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.

3.11.5 Any rent increase is based on the September CPI figure of 3.1%, and therefore the maximum rent increase would be 4.1% (CPI +1%). The table below shows the impact of a 4.1% on rental income by bedroom size:

Bedroom Numbers	2015-16 Average Weekly Rent	2021-22 Average Weekly Rent	2022-23 Average Weekly Rent	£ Weekly Increase (21-22 to 22-23)
0 Bed	85.49	85.81	89.33	3.52
1 Bed	99.28	99.32	103.39	4.07
2 Bed	112.17	112.27	116.87	4.60
3 Bed	126.06	126.48	131.67	5.19
4 Bed	141.35	143.36	149.24	5.88
5 Bed	156.97	156.19	162.59	6.40
6 Bed	160.34	160.06	166.62	6.56

The 2022-23 rent increase will be the first year in which rent levels have risen above 2015-16 rents prior to the enforced rent cuts detailed in para. 3.11.3

3.11.6 Within the formula rent calculation there is the ability to charge up to 5% more on the base rent levels for specific reasons, for example, a new build council house. This flexibility has not been applied in Tower Hamlets.

3.11.7 In line with this updated rent policy, the Mayor in Cabinet is asked to approve the proposal that a rent increase of CPI + 1% be implemented from the first rent week in April 2022.

2022-23 Increase in Tenanted Service Charges

3.11.8 LBTH should budget to recover the cost it incurs on providing services to tenants through the service charge made to them. Historically these charges have been subject to an inflationary increase, with the assumption being that the cost of providing the services will incur an annual inflationary increase. As a result, it is proposed that tenanted service charges are increased by 3.1% (September CPI figure).

3.11.9 The table below details the current service charges and the impact of a 3.1% CPI inflationary increase.

Service Charge	2021-22 Average Weekly Charge	2022-23 Average Weekly Charge	£ Weekly Increase (21-22 to 22-23)
Block Cleaning	5.70	5.88	0.18
Estate Cleaning	2.50	2.58	0.08
Concierge	9.97	10.28	0.31
Horticulture	0.81	0.84	0.03
ASB	1.20	1.24	0.04
Boiler Fuel	14.28	14.72	0.44
Communal Energy	1.33	1.37	0.04

Total	35.79	36.91	1.12

3.11.10 The Mayor in Cabinet is asked to approve the proposal that a tenanted service charge increase of CPI be implemented from the first rent week in April 2022.

Repairs and Maintenance

3.11.11 The 2021-22 repairs and maintenance budget included a growth item of £250k for a five-year programme of electrical testing. Work is ongoing to determine the level of inflationary provision required within the budget for 2022-23, with the impact of both Brexit and the pandemic now impacting on these costs. As a result, an above inflationary increase of 5% has been built into the budget.

3.11.12 The main repairs and maintenance contract, currently with Mears will be re-procured during the year. At present tender submissions are being sought and any positive or negative impact on the cost of providing the service is unknown.

Energy

3.11.13 The 2021-22 energy budget was held at the same level as the previous year with no inflation applied following a new energy contract being procured. However, wholesale gas and power markets have been extremely volatile since December 2020, with prices hitting a new decade high in August 2021. It is uncertain whether this is a short-term increase or a more long-term fundamental change to the UK energy prices but it is likely to impact on the cost of energy and will need to be factored into the MTFS and annual HRA budgets.

3.11.14 Tower Hamlets exposure to these price increases has been mitigated in year through the pre-emptive step to hedge most of the energy required. However, the longer-term impact will affect prices and the impact on the 2022-23 budget is being evaluated. An inflationary rise has been applied to the energy budget and this will be revised in year should the impact of the price rises be greater.

Management Fee

3.11.15 The Management Fee represents the largest single expenditure element of the HRA budget. In January 2021, the Mayor in Cabinet approved the 2021-22 Management Fee payable to THH for services provided to the Council at £32.615m.

3.11.16 The table below shows the calculation of the proposed 2022-23 Management Fee payable to THH.

Calculation of 2022-23 Management Fee

Description	Total £m
Management Fee 2021-22	32.615

Add: 2021-22 Pay Award	0.000
Savings from Salary and Non-Salary Budgets	(0.313)
Growth from Non-Pay related activities	0.075
Growth from Pay related activities	0.217
Growth - Building Safety	0.642
Management Fee 2022-23	**33.236**

3.11.17 The 2021-22 management fee does not include an inflationary increase in relation to a pay award. Salary costs represent approximately £20m of the management fee and any formally agreed increase will need to be reflected in the 2022-23 management fee. At present any pay award is being negotiated and will be added to the management fee on agreement.

Savings

3.11.18 At its meeting on 26th July 2016, the Mayor in Cabinet agreed a HRA medium-term savings target of £6m. The budget for 2021-22 represented the final £1m tranche of this saving, with £5m already having been delivered across the management fee and delegated budgets.

3.11.19 Following the delivery of £6m of savings over the previous five years, THH has indicated that it will be difficult to deliver significant savings in 2022-23 without cutting services. It has therefore been suggested a negligible savings target is implemented in 2022-23, with larger targets in following years once THH move to the New Town Hall and can take advantage of the synergies that this will bring.

3.11.20 As part of its budget setting process, THH has identified £0.313m of savings that are deliverable against the management fee in 2022-23. Staff savings of £0.042m was identified, primarily from the re-organisation of the Business Development Team to enable the creation of a Regulatory Assurance Team. The remaining £0.271m of savings related to non-staffing budgets following service reviews, new ways of working following on from the pandemic and in preparation to moving to the new Town Hall. The savings also included budgets that had not been utilised and for which no plans were in place for its use.

Growth – Management Fee

3.11.21 In 2022-23 THH are proposing a new permanent growth item totalling £0.642m to ensure that the Council is meeting its obligations for building and fire safety following the Hackett review. The growth will fund the appointment of a team comprising a Fire Safety Manager and 8 Building Safety Officers.

3.11.22 The Fire (Building) Safety Manager will be the Council's 'named individual' and will manage our programme of fire risk assessments, EWS surveys and Type 4/compartmentation surveys; ensure compliance with the requirements of PAS9980 which relates to the holistic risk assessment of external walls; manage as part of the wider team the building safety officers who will primarily focus on our portfolio of 69 high rise buildings; inform the investment programme and help us to understand our priorities and provide advice within the organisation and support the project managers and delivery of fire safety remedial works.

3.11.23 The Building Safety Officers (seven Officers and one Senior) will manage all 69 high rise buildings over 6 stories and other buildings as may be deemed appropriate; each officer will have a portfolio of 10 buildings and they will be the public face with all residents in those buildings and lead resident engagement strategies; lead on enforcement action in relation to all fire safety issues (inc. leaseholders) i.e. gates/grills etc; work with suitable 3rd parties in ensuring that all front entrance doors across the 3966 flats in the 69 high rise buildings meet the relevant standard. This includes 1353 leaseholders; have a high profile in each building and carryout regular inspections working with caretakers.

3.11.24 A further £0.217m of pay related growth relating to the recruitment of additional caretakers for new build properties; the realignment of gardener's salaries as agreed with trade unions and overtime payments for ASB officers when providing an out of hours text service.

3.11.25 Non-pay growth of £0.075m relates to increase in rent paid on a property following a rent review, software upgrade for the Health & Safety system and training for the new building safety team.

Growth – HRA Delegated Budgets

3.11.26 A further permanent growth bid of £356k has been submitted relating to the clienting of the building safety bill. This growth is split over two years, with £108k required in 2022-23 and the remainder in 2023-24.

3.11.27 The Building Safety Bill introduces a new regime applicable to all high-risk/high-rise buildings that are 18 meters or 7 storeys and more in height with two or more residential units. This includes our existing housing stock, new developments that are ready for residents to move into and some commercial units located on the ground floor of residential blocks in scope of the Bill.

3.11.28 The Bill will improve the fire and structural safety of new and existing residential buildings and focuses on accountability at each stage of a building's lifecycle. Non-compliance with the Building Safety Act could result in fines and/or imprisonment.

3.11.29 The Council is required to undertake building safety case reviews with a requirement to complete intrusive external wall system surveys to the blocks managed by THH of 7+ storeys or 18m+. This represents a new requirement and costs are estimated at £0.353m and growth is proposed at this level.

3.11.30 It is proposed to increase the feasibility budget within the HRA by £1.5m to support the new build housing capital programme, enabling the continued identification of sites, develop designs, carry out cost and viability appraisals and proceed towards planning applications for the delivery programme.

3.11.31 The contracts for asbestos surveys, fire risk assessments and stock conditions surveys have recently been awarded and the procurement for water risk assessments is in the process of being relet. The overall 4-year budget for each contract have been agreed and growth of £0.783m is proposed.

Overall position on the HRA

3.11.32 The HRA business plan is currently being modelled and the impact of the risks and opportunities detailed above are being assessed to ensure that the key parameters within which it operates will not be breached. These include HRA reserve balances maintained at a minimum of £10m and an Interest Cover Ratio (the number of times rental income can cover interest repayments on borrowing) above 1.5.

Capital Programme, Stock Needs and 30 Year Business Plan

3.11.33 Work is being completed with external consultants to update the stock conditions data and identify an accurate level of investment needed in this stock over the next 30 years. The previous value of £1.2bn over 30 years was based on a 20% stock conditions survey and increasing this sample will provide for more accurate costing throughout the plan. Additional sums for fire safety works, building safety, environmental works and net zero carbon will be required on top of this to meet regulatory requirements and manifesto commitments. External consultants are supporting the Council's ALMO in identifying these costs.

3.11.34 A total of £308.496m was included in the 2021-22 Approved HRA Capital Programme. This includes funding of £74.596m for capital works in the THH Annual Rolling Programme for the existing housing stock over the next three years. The capital programme is currently being reviewed and updated and following discussions with THH the funding for these cyclical works is forecast to increase to £88m for the period 2022-23 to 2024-25, with a budget of £28m for 2022-23 and £30m for the following two years.

3.11.35 A further £233.900m has been budgeted for the delivery of the first 1,000 council homes programme, again this is being reviewed and will be updated as part of the capital budget setting process.

3.11.36 Schemes are being identified and assessed for financial viability and funding towards the delivery of the second 1,000 homes. Those schemes deemed viable that can be funded will be brought forward as part of the 2022-23 Capital budget setting process. The Council has been awarded £32.017m of GLA funding towards specific housing schemes as part of the delivery of this second 1,000 homes.

3.11.37 The HRA Business Plan is currently being reviewed and updated to ensure that the delivery of the capital programme is affordable and can be contained within the parameters agreed for the HRA (Interest Cover ratio above 1.5, Minimum revenue balances of £10m etc.)

Update on Government Policies Affecting the HRA

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

Social Housing White Paper

3.11.39 In November 2020 the Government issued its social housing white paper - The charter for social housing residents, with a focus on tenant safety, consumer protection and redress. The Regulator of Social Housing (RSH) has been tasked with setting up a new consumer regulatory function which will proactively monitor and ensure compliance with updated consumer standards

3.11.40 The removal of the 'serious detriment' test along with the introduction of both routine and reactive inspections for all landlords with more than 1000 homes signals a new approach to consumer regulation with implications for the way councils manage the ALMO relationship and gain assurance, providing the regulator with greater oversight of the performance of the local authority landlord function' emphasising that where management has been contracted out to an ALMO or TMO, it is the local authority as landlord that is responsible for meeting the regulatory standards.

3.11.41 This brings a renewed focus on the client role and how the local authority gains assurance. Councils will need to demonstrate to the regulator how they know the ALMO is performing and ensure there are robust measures in place to ensure compliance with the consumer standards and a shift towards more contractual compliance and the White Paper suggests councils should review their contracts to ensure they do not hinder the RSH in the exercise of its powers.

3.11.42 Landlords will also be required to specify a named 'responsible person for Consumer Standards' and a named 'responsible person for health and safety'. It is unclear whether it will be possible to delegate these roles to the ALMO, however the likelihood is that the Regulator will follow the precedent set in the Building Safety Bill which requires the landlord to undertake the Authorised Person role directly.

3.11.43 The White Paper also introduces new requirements in terms of landlord transparency and accountability to tenants. The regulator is tasked with developing arrangements to collect and publish a core set of tenant satisfaction measures for all social landlords so tenants will know how their landlord is performing relative to others in the sector. Whilst operationally much of this will be delegated to the ALMO, LBTH will need to keep a close eye on all aspects of performance including complaints and satisfaction levels with different aspects of the services.

Building Safety Bill

3.11.44 The government is bringing forward fundamental changes in the draft Building Safety Bill that will improve building and fire safety, so that people will be, and will feel, safer in their homes following the Grenfell Tower fire.

3.11.45 Dame Judith Hackitt carried out an independent review of building regulations and fire safety to understand the causes of the fire. The review concluded that the whole system needed major reform and that residents' safety needed to be a greater priority through the entire life cycle of a building – from design and construction, through to when people are living in their home.

3.11.46 The Building Safety Bill will sit alongside the recent Fire Safety Act 2021 was introduced on 5th July 2021 and anticipated to receive Royal Ascent between April and July 2022, with full implementation one year later.

3.11.47 Measures will be put place to make people safer in their homes. The Bill will ensure that there will always be someone responsible for keeping residents safe in high rise buildings – those 18 metres and above. They will also have to listen and respond to residents' concerns and ensure their voices are heard – they will be called the 'Accountable Person'.

3.11.48 Residents and leaseholders will have access to vital safety information about their building and new complaints handling requirements will be introduced to make sure effective action is taken where concerns are raised.

3.11.49 As announced in the Queen's speech on 11th May 2021, a new Building Safety Regulator will be established to oversee and make sure that Accountable Persons are carrying out their duties properly. The new Regulator will sit within the Health and Safety Executive and will have the power to prosecute property developers and landlords that do not meet safety standards as set out in the Bill.

3.11.50 The Regulator will work closely with duty holders both within the Council and THH throughout the lifecycle of Council owned stock and will ensure that high rise buildings and the people who live in them are being kept safe and will have new powers to raise and enforce higher standards of safety and performance across all buildings.

3.11.51 The draft Bill will make sure that those responsible for the safety of residents are accountable for any mistakes and must put them right. It will fully establish the regulator that will enforce new rules and take strong actions against those who break them.

3.11.52 The regulator will have 3 main functions: to oversee the safety and standard of all buildings, directly assure the safety of higher-risk buildings; and improve the competence of people responsible for managing and overseeing building work.

3.11.53 It will operate a new, more stringent set of rules for high-rise residential buildings. The new set of rules, contained in the draft Bill, will apply when buildings are designed, constructed and then later occupied.

3.11.54 At each of these 3 stages, it will be clear who is responsible for managing the potential risks and what is required to move to the next stage enabling a 'golden thread' of vital information about the building to be gathered over its lifetime.

3.11.55 When residents move into a building that falls under the new set of rules, it will need to be registered with the Building Safety Regulator and apply for a Building Assurance Certificate. The Accountable Person will need to conduct and maintain a safety case risk assessment for the building and appoint a Building Safety Manager to oversee it day to day.

3.11.56 The bill also bans the use of combustible materials on the external walls of high-rise buildings, publishes clearer guidance on existing regulations that buildings owners must follow, and will make it mandatory for sprinklers to be fitted in all new blocks of flats over 11 metres high.

Fire Safety Act

3.11.57 The Fire Safety Act 2021 received Royal Ascent in April. Implementation arrangements will be set out in legislation, namely Regulations and associated guidance to be issued by the Home Office. The implementation timetable envisages that the Fire Safety Regulations will be laid before Parliament before the end of October with a commencement date of April 2022.

3.11.58 These regulations will place significant obligations on landlords of high-rise and multi-occupancy residential buildings, including:

- Requiring the Council to consider the spread of fire across external surfaces of its buildings. This means that priority will need to be given to implementing a programme of External Wall Surveys which will require significant internal resource and expertise. It is proposed that the new Fire Safety Manager will taking a leading role in this respect and manage the programme of inspections.
- The Fire Safety Act will also require front entrance doors and balconies to be included within the scope of fire risk assessments to ensure that they are in good condition and fit for purpose. This applies equally regardless of tenure and it is envisaged that the new building safety officers will play a key role in enforcing this.
- It is likely that the Act will require the Council to consider those residents who may need assistance in the event of the building being evacuated and put in place an appropriate plan (PEEP). Again, in high rise buildings the safety officers will lead on this.

The Act will empower fire and rescue services to take enforcement action and hold building owners to account if they are not compliant.

3.11.59 The Act provides a foundation for secondary legislation to take forward recommendations from the Grenfell Tower Inquiry phase one report, which stated that building owners and managers of high-rise and multi-occupied residential buildings should be responsible for a number of areas including:

- regular inspections of lifts and the reporting of results to the local fire and rescue services
- ensuring evacuation plans are reviewed and regularly updated and personal evacuation plans are in place for residents whose ability to evacuate may be compromised
- ensuring fire safety instructions are provided to residents in a form that they can reasonably be expected to understand
- ensuring individual flat entrance doors, where the external walls of the building have unsafe cladding, comply with current standards

Removal of HRA debt cap

3.11.60 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.

3.11.61 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, the s151 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.

3.11.62 The s151 officer has also introduced a number of metrics within which the HRA must remain to ensure that borrowing levels remain prudent and interest / debt repayment remains affordable. These most important metric is a maximum interest cover ratio (the number of times LBTH can cover its interest payments from its income) of 1.5. This in effect places an artificial cap on the HRA as it limits the interest that can be repaid and therefore the amount borrowed. An ICR of 1.5 is in line with other similar Local Authorities and therefore deemed to be set at the right level.

Social Rent policy 2019-20 onwards

3.11.63 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.

3.11.64 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

3.11.65 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.

3.11.66 Historically local authorities have been able to make decisions on their rent policy with the only control mechanism being the annual 'Limit Rent', used to control Housing Benefit grant paid to the Authority by the Government.

3.11.67 With the introduction of HRA Self-Financing in April 2012, in return for being responsible for all items of expenditure and risk 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 seen as crucial in terms of running the HRA as a 'business'.

3.11.68 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;
- introduced the Regulator's rent standard to local authorities (as well as RPs) so that annual rent increases will be set out by the Regulator.

3.11.69 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 set CPI at 3.1% for 2021-22 rent setting and assumes 2% throughout the remainder of the 30 year period.

Right to Buy receipts

3.11.70 The government's consultation on the use of right to buy receipts was launched in August 2018, reaching a conclusion in March 2021 with the publication of its consultation 'Use of receipts from Right to Buy sales'.

3.11.71 Original rules set out that Right to Buy 'one for one' receipts must be spent on replacement social housing within three years. Any unused receipts after three years were paid back, along with interest at 4% to MHCLG.

3.11.72 Under the new rules put forward by the Government in its Right to Buy consultation response, the timeframe local authorities have to spend new and existing Right to Buy receipts will be extended from three years to five years. This change has been backdated, and Councils will be able to apply this to receipts received as long ago as 2017-18 with the view that it will allow longer-term planning, including allowing larger plots of land to be remediated.

3.11.73 The response to the consultation also brought changes to the percentage cap that Councils can use on the construction of new homes, with the cap rising from 30% to 40% in a bid to make it easier for Local Authorities to fund replacement homes, particularly those for social rent. In Tower Hamlets, the cap has been applied at 30% to the existing housing programme and 40% to the future programme.

3.11.74 Authorities can use receipts to supply shared ownership and First Homes, as well as housing at affordable and social rent, to help them build the types of home most needed in their communities.

3.11.75 Right to Buy receipts for acquisitions will be capped to help drive new supply with effect from 1 April 2022 and phased in over 2022-23 to 2024-25. From April 2022 it will prohibit more than 50% of RTB replacements being delivered as acquisitions in financial year 2022-2023, reducing to 40% in 2023-24 and 30% from 2024-25 onwards.

3.11.76 Pooling of RTB receipts will take place annually, replacing the former quarterly system. Deadlines for spending retained receipts will also be calculated on an annual basis. A minimal amount of non-financial management information will still be collected quarterly.

Risks – Welfare Reform

3.11.77 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 it is not yet clear precisely what the future level of bad debts will be.

Risks – Brexit

3.11.78 On 31 December 2021 the United Kingdom left the European Union. The house building industry is reliant on a significant number of EU workers and procuring materials from EU countries. As a result, there is a risk of delays to house building and costs increasing which will impact on the 30-year business plan and delivery of Government legislation and manifesto commitments.

3.11.79 The BCIS Price Adjustment Formula Indices for May 2021 shows the most significant cost increase is in materials. The highest increase is in the cost of structural steel which increased by more than 30% between May 2020 and May 2021 (Source: BCIS). Other increases are lower (e.g. cost of composite windows and doors increased by around 15%; hardwood fittings by 7%; ready mixed concrete and tile cladding by 3%), but will still have an impact on total scheme costs. Added to this, lead-in times for materials and components have lengthened resulting in delays in delivery and the associated increase in costs.

3.11.80 Rising labour costs, combined with shortage of skills in certain trades, is also having an impact on project costs and delivery timetables. Contractors who rely on sub-contractors rather than their own directly employed labour force are most affected. Some workers have left the industry permanently due to pandemic and post-Brexit immigration rules have resulted in a reduction in the pool of workers available for construction activity.

3.11.81 In addition to changes in market conditions, new Health and Safety rules including the Fire Safety Bill, Building Safety Bill and Construction and Design Management Regulations will add further cost to construction projects, as will the target of meeting net carbon zero by 2025.

3.11.82 Turner and Townsend estimate that tender prices will be inflated over the next three years, increasing from 1.5% in 2021 to 4.5% in 2024 for built product and from 2% in 2021 to 5% in 2024 for infrastructure projects. However, recent returns for projects in the capital programme tendered in the last three months have seen prices increase by up to 15% as a result of material, supply chain and labour costs. These cost increases will impact on affordability within the HRA business plan.

Risks – Covid-19 Pandemic

3.11.83 On the 23rd March 2020 the UK entered into its first lockdown in response to the coronavirus pandemic. Since then, there have been two further lockdowns, with a phased ending of the third lockdown commencing on 8 March 2021. In total the UK has spent in excess of six months in lockdown restrictions. During this time many tenants have experienced hardship through the inability to work or loss of employment. Despite this, rent and service charge collection rates have remained stable and broadly in line with pre-pandemic levels. However, any further restrictions resulting from the pandemic could result in collection rates falling and an impact on the affordability of the HRA business plan.

3.12 CAPITAL

3.12.1 The report seeks budget approval for the council's proposed 2022-25 capital programme of **£347.282m** for the General Fund programme and **£411.927m** for the Housing Revenue Account programme as set out in Appendix 7A and Appendix 7D respectively. The details of the GF programme are set out in Appendix 7B and the capital growth items which have been added to the capital programme are set out in Appendix 7C. The capital programme is for a three-year period, with commitments beyond 2025 resulting from the current programme to be funded in future years. Capital expenditure is focussed on the council's strategic priorities.

3.12.2 The new capital projects, being added to the proposed 2022-25 capital programme, do not require any additional borrowing, but the programme does include substitute borrowing released from schemes in the existing programme that are not proceeding or being funded instead from a different source. The proposed HRA programme relies on **£209.097m** of new borrowing, alongside other funding sources.

3.12.3 The principles on which this report is based are that approved projects will not proceed until the identified funding source is received, or in the case of external grant, confirmed in writing; the council will not borrow more than it can afford to repay; and the total approved capital programme will not exceed the total funding available and if new schemes are prioritised above those already in the programme, they will need to replace existing approved schemes. The programme-wide approach will enable individual projects to be brought forward and moved back as issues that impact on delivery arise, to maintain delivery outcomes.

3.12.4 The new schemes included in the 2022-25 proposed capital programme for the General Fund, total **£84.125m**, as set out in Appendix 7C, brought forward and proposed by directorates to meet strategic priorities over the next three years.

3.12.5 The 2022-25 proposed capital programme for the HRA, as set out in Appendix 7D, shows the committed programme, including the delivery of the first 1,000 council homes, alongside an increase of **£64.924m** for 2022-25 for the annual housing capital rolling programme for THH to maintain and improve the council's housing stock and carry out essential fire and building safety works, and **£89.675m** for the delivery of the next phase of the new council homes programme. The HRA capital programme maximises the availability of external funding and RTB receipts, but the regulations associated with the use of these sources means that there is a need for borrowing to be used alongside. The proposed new HRA capital programme will require **£209.097m** of borrowing, which the 30-year HRA Business Plan can support.

3.12.6 In order to successfully deliver a substantial capital programme, it is essential to have effective governance, project monitoring, financial management and staff resources in place to ensure that quality outcomes are delivered on time and value for money is demonstrated.

Funding Sources

3.12.7 There are various funding sources available for the council for the capital programme. These include external grant, s106 contributions, Community Infrastructure Levy (CIL) payments, capital receipts, including Right-to-Buy (RTB) receipts, and lastly, borrowing. The availability of each funding sources to fund capital projects is considered in this order, to ensure that all other funding options are maximised before the use of borrowing, because of the impact it has on borrowing. Borrowing remains the last resort and can only proceed once revenue budget provision has been sought, and approved in the MTFS, to fund the borrowing costs.

Community Infrastructure Levy (CIL) and Section 106 (s106) Funding

3.12.8 CIL is a charge that local authorities set to collect funds for infrastructure, facilities and services, associated with new development. The regulations require that this is to be spent on infrastructure, including social infrastructure (schools, community centres, etc.), physical infrastructure (roads, bridges, flooding works, etc.) and green infrastructure (parks, trees, etc.). A total of **£67.987m** of CIL was allocated in the 2021-24 Approved Capital Programme.

The amount of CIL allocated to the proposed 2022-25 capital programme is **£66.263m** and LIF is **£23.258m**.

3.12.9 CIL cannot be used to fund affordable housing. S106 can be used for this purpose, but not alongside RTB receipts.

3.12.10 CIL can be spent on new infrastructure or the replacement or improvements of existing infrastructure. The key factors are that it must be providing additional capacity (either by space or quality) to accommodate new development and it must be for general public good. In limited circumstances, CIL can be spent on revenue.

3.12.11 In addition to receiving CIL payments, the council also received a proportion of CIL 'in kind', where the developer funds and delivers improvements to infrastructure as part of a new development.

3.12.12 From the total CIL received, the council sets aside 25% of net CIL for Local Infrastructure Fund projects (LIF) and 5% for CIL administration. A further 5%, up to a maximum of £1.500m per year, is deducted from CIL available for the capital programme, to be used to fund feasibility studies and associated surveys for infrastructure projects which are expected to form part of the future programme.

3.12.13 There is a time lag between agreeing the CIL payable for a development and receiving the payment. CIL is received shortly after development commences. CIL to the value of **£52.000m** is expected in the next three years.

3.12.14 The council's ambition is to develop a resilient long-term strategy for financing the delivery of the infrastructure needed to support both existing and new residents. The council recognises the challenges in financing and delivering the right infrastructure in the right places at the right time.

3.12.15 Prior to the introduction of CIL, the council only collected contributions from developers through s106 agreements to address the site-specific impacts of development, including any local infrastructure needs arising from new development and affordable housing. A total of **£90.068m** of s106 is allocated in the current approved capital programme. The amount of s106 allocated to the growth items in the proposed 2022-25 capital programme is **£11.232m**.

The table below shows the allocation of s106 funding:

Head of Term	Account Balance as at 30/11/21 on Ledger	Of which the following is allocated in Approved Capital Programme	Of which the following is allocated in this report (growth Items)	Remainder available for future allocation*
	£m	£m	£m	£m
Affordable Housing (Wheelchair Housing)	0.148	0.054	0.000	0.094
Public Art	0.560	0.254	0.157	0.149

Carbon Offset	6.753	2.185	0.135	4.433
Community Payment	3.102	0.326	2.567	0.209
Education	20.097	16.411	1.215	2.471
Environment and Public Realm	10.620	7.080	0.000	3.540
Health	14.326	11.653	0.000	2.673
Leisure	7.200	2.531	3.758	0.911
Landscape and Open Space	16.658	12.130	3.400	1.128
London Thames Gateway Tariff (for infrastructure in Lower Lea Valley	14.455	8.225	0.000	6.230
Millennium Quarter	0.651	0.000	0.000	0.651
TfL	16.176	7.898	0.000	8.278
Highways and Transportation	6.370	5.373	0.000	0.997
Employment and Enterprise (Capital)	4.200	2.010	0.000	2.190
Sub-total (GF)	**121.316**	**76.130**	**11.232**	**33.954**
Affordable Housing	22.932	13.938^	0.000	8.994
Sub-total (HRA)	**22.932**	**13.938**	**0.000**	**8.994**
GRAND TOTAL	**144.248**	**90.068**	**11.232**	**42.948**

* specific requirements of remaining grant mean that this balance cannot be allocated to new growth items
^ allocated to HAP in December 2021

3.12.16 A proportion of s106 funding is used for revenue and spent on employment and training, master planning, monitoring and administration. This is not included in the total available s106 referred to in this report.

3.12.17 The as yet unallocated s106 contributions are financially significant and specific projects that meet the terms of the planning agreements from which they have been generated are being identified to enable this remaining balance to be spent. It is worth noting that some of the conditions on the contributions are narrowly defined, particularly in relation to some categories such as highways or public realm due to the site-specific reasons that they were secured and that makes it difficult to pool the contributions towards larger projects.

3.12.18 Receipts from s106 will continue to decline in future as strategic infrastructure contributions from new developments are made via CIL rather than s106, however, a total of £64.000m is expected in the next three years. Payments are contingent on developments progressing as approved in the planning permission and the developer paying in line with the trigger point defined in the s106 agreement. All payments are index linked from the date the s106 is signed to generate uplift in the money received by the council and are subject to late payment interest in the event the contribution is not received by the required trigger point.

3.12.19 In the current climate, there is a high degree of risk around the resources being available or the time frame within which they will be received. There is a greater level of certainty relating to payments forecast to be received in respect of large-scale developments with multiple phase trigger points closely monitored by the council, such as Woodwharf and London Dock.

Capital Receipts

3.12.20 One of the funding sources for the capital programme is capital receipts, primarily generated by the sale of assets. Subject to Member agreement on potential assets to be disposed of, the sale of identified assets (Commercial Road car pound, Albert Jacob House, John Onslow House, Southern Grove, Tent Street, schools identified as surplus to requirement) is estimated to generate substantial capital receipts in the next three years. However, the council cannot commit expenditure to be funded by these receipts until they are physically received.

3.12.21 The disposal of council-owned assets provides the opportunity to generate a capital receipt to invest in the capital programme, whilst also contributing towards meeting council priorities, such as increasing the supply of affordable housing.

3.12.22 The principle is that when capital receipts are received in year, they replace borrowing in future years. Capital receipts are not ring-fenced for specific projects, but available for use across the programme as agreed, unless they are HRA receipts or for education where restrictions apply to their use.

PROPOSED 2022-25 CAPITAL PROGRAMME

Annual Rolling Programme

3.12.23 The purpose of the annual rolling programme is to ensure that the council's assets are maintained to avoid deterioration, to address health and safety requirements and meet statutory duties. The capital programme includes the following annual rolling programmes:

Condition and Improvement programme for schools

3.12.24 Condition and Improvement programme for schools is entirely funded by Schools Condition Grant. £3.000m has been added to the programme for 2024-25, bringing the total budget to £9.645m over 3 years. The programme was increased by £0.645m in 2021-22 to enable essential roof works to be undertaken at Thomas Buxton School.

Private Sector Improvement programme

3.12.25 Private Sector Improvement grants of £0.100m a year are funded by the council's resources. The 2021-24 approved capital programme includes £0.100m a year for 2022-23 and 2023-24 however to avoid the use of borrowing, an allocation of £0.100m for 2024-25 has not been included in the proposed 2022-25 capital programme contained in this report. This funding request will be brought forward when appropriate funding sources become available.

Disabled Facilities Grant programme

3.12.26 Disabled Facilities Grants (DFGs) of £1.700m for 2024-25 are funded by grant; of which £0.300m is made available to Adult Social Care from the same grant funding source, for adaptations to support independent living.

Streetlighting Maintenance Programme

3.12.27 The streetlighting maintenance programme, for which there is no external funding source, requires £0.400m per year from council resources. The 2021-24 approved capital programme includes £0.400m a year for 2022-23 and 2023-24 however to avoid the use of borrowing, an allocation of £0.400m for 2024-25 has not been included in the proposed 2022-25 capital programme contained in this report. This funding request will be brought forward when appropriate funding sources become available.

Carriageway and Footway Maintenance Programme

3.12.28 Maintenance of carriageways and footways, for which there is no external funding source, requires £5.000m per year from council resources. The 2021-24 approved capital programme includes £5.000m a year for 2022-23 and 2023-24, however, to avoid the use of borrowing, an allocation for 2024-25 has not been included in this report. This funding request will be brought forward when appropriate funding sources become available.

Capital investment works in LBTH assets

3.12.29 Investment in council-owned assets (building fabric works, M&E), for which there is no external funding source, requires £2.000m per year to keep buildings operational and safe to use. The 2021-24 approved capital programme includes £2.000m a year for 2022-23 and 2023-24, however, to avoid the use of borrowing, an allocation for 2024-25 has not been included in this report. This funding request will be brought forward when appropriate funding sources become available.

Leisure centre improvement programme

3.12.30 Investment in existing leisure centres is a new addition to the annual rolling programme, more information on which is set out in the relevant report on the agenda for this Cabinet. To establish this programme and fund the first three years of a longer investment programme requires funding from council resources. Based on the availability of funding sources, the proposed 2022-25 capital programme includes £1.000m per year for the next three years.

IT assets programme

3.12.31 Improvements to the corporate IT infrastructure, for which there is no external funding, requires £3.500m per year. The 2021-24 approved capital programme includes £3.500m a year for 2022-23 and 2023-24, however, to avoid the use of borrowing, an allocation for 2024-25 has not been included in this report. This funding request will be brought forward when appropriate funding sources become available.

Local Infrastructure Fund programme

3.12.32 The LIF programme forms part of the annual rolling programme. No further additions to the LIF programme are set out in this report.

PROPOSED CAPITAL PROGRAMME FOR CHILDREN AND CULTURE

Education

3.12.33 Providing high quality education is essential to improving the life chances and increasing future employment opportunities. In partnership with Tower Hamlets Education Partnership and local schools, the council is working hard to help young people to do well at school and achieve their potential.

3.12.34 The council has a statutory duty to provide and plan for sufficient, high quality and appropriate schools, which are accessible to children in the local community and available when they are needed. Evidence of projected need is reviewed regularly to enable decisions on future provision to be taken in a timely manner.

3.12.35 As with all other local education authorities, the council receives a contribution towards the cost of creating new pupil places through the Basic Need grant from the Department of Education (DfE). As a limited funding source, the council needs to ensure that its use is focussed on adding additional educational value to the school estate.

3.12.36 The funding available for Education projects includes external funding from DfE (including Basic Need Grant, Special Provisions Capital Fund, Schools Condition allocation), s106 contributions ringfenced for education and other funding forecast to be received (e.g. DfE scheme specific grant for London Dock School) over the 3-year capital programme and CIL as required.

Secondary School Provision

3.12.37 The council's plan for secondary school provision is to provide new schools and improve the existing school estate, to meet the projected needs of pupils aged 11 to 16 years.

London Dock School

3.12.38 In November 2018, Cabinet approved a capital budget allocation of £52.000m for the development of a new secondary school, to be funded by DfE grant and CIL. The DfE has confirmed a grant allocation of £47.000m, subject to completion of a development agreement.

3.12.39 Kier has been appointed as the contractor and early works have commenced. However, the cost of the project has increased as a result of changes in the market due to Brexit and the pandemic resulting in rising material costs, scarcity of materials and impacts on labour; DfE specification requirements; changes to the design resulting from the new fire strategy and associated costs. An additional £10.700m is required to cover these additional costs to be funded in full by CIL (£10.700m).

3.12.40 Mulberry Trust has been appointed as the new school provider.

George Green School

3.12.41 In January 2021, Cabinet approved a capital budget allocation of £51.400m to deliver a new secondary school for George Green on its existing site, with funding from grant (£1.714m), s106 (£5.779m), CIL (£4.456m), with the remainder from borrowing (£39.451m). At that time, the intention was to swap out ring-fenced capital receipts from the disposal of assets identified as surplus to requirement. These have yet to be generated, however, with additional CIL having been received for schemes on the Isle of Dogs, a proportion of this has been allocated to the scheme in place of borrowing (£19.987m). Borrowing released from this project has been reallocated to other schemes in the programme.

Oaklands Expansion

3.12.42 The capacity of Oaklands School increased by three forms of entry, following the closure of Raines Foundation School in August 2020, which requires capital investment at both the Oaklands school building and the former Raines Lower site to create additional teaching and learning space for all year groups. The 2021-24 approved capital programme currently includes a budget of £2.300m, to which an additional £5.485m has been added for the expansion works, funded by Basic Needs Grant (£2.050m), s106 (£1.215m) and substituted borrowing (2.220m).

3.12.43 Oaklands currently occupies the Raines Lower site on a licence from the diocese. The council is exploring a number of arrangements to ensure that Oaklands can continue to use this building as part of their school campus. In addition to exploring the option to purchase the Raines Lower site, the council is considering whether a lease agreement is more affordable.

3.12.44 As stated in the September 2020 report, the closure of Raines Foundation School did not result in capital or revenue savings, or generated a capital receipt for the borough, because it is owned by the Raines Foundation Trust. The purchase or lease of the former Raines Lower School building is expected to be funded from education capital receipts. Currently, no receipts are available, but at least two schools have been declared surplus and are likely to generate a receipt that should be sufficient to cover this cost in the future.

Primary School Provision

St Saviours Primary School

3.12.45 In September 2020, Cabinet approved a capital budget allocation of £4.000m for an expansion of primary provision in the Poplar catchment, because this is a significant area of growth, funded in full by s106 contributions (£4.000m). This budget allocation will be used for the expansion of St Saviours Primary School to create an additional form of entry.

Wood Wharf Primary School

3.12.46 In September 2020, Cabinet approved a capital budget allocation of £4.800m to fund the creation of a new 2FE primary school at Wood Wharf, based on 2019 cost estimates. Following the tender process, approval was sought in June 2021 to increase the budget by £1.790m (funded by CIL) to £6.590m in June 2021. A further £0.240m, funded by Basic Needs Grant (£0.240m) is required to complete this new school, which is due to open in September 2022.

Arnhem Wharf Primary School

3.12.47 A budget allocation of £3.000m is required to address the ongoing damp penetration issues at Arnhem Wharf Primary School. These essential works to ensure the whole school premises can be safely used will be funded in full by the Schools Condition Grant (£3.000m).

SEND Provision

Increased SEND provision at Hermitage School

3.12.48 A capital budget allocation of £3.000m is required to enable the expansion of Hermitage School to accommodate pupils with SEND and enable them to be integrated into the school across all year groups.

Ben Jonson Primary School ASD unit

3.12.49 A capital budget allocation of £0.650m is required to complete the ASD unit at Ben Jonson School, to be funded by High Needs Provision Capital Allocation and Special Provisions Capital Fund.

Condition and Improvement

3.12.50 The annual rolling programme for condition and improvement works to schools is shown in the capital programme for the next three years. The programme of works totals £9.645m, which includes an additional £3.000m for 2024-25 and is funded entirely from the Schools Condition Grant.

3.12.51 This programme funds high priority condition works in schools, health and safety, statutory requirements ie. accessibility and security. Schools are expected to contribute up to 10% of the value of their Devolved Formula Grant.

Future projects

3.12.52 Further funding will be required to fund future schemes identified to meet projected need as a part of the regular review process. Feasibility work is currently underway to explore options to expand LEAP accommodation to facilitate a primary provision and the reconfiguration of accommodation at Chisenhale Primary School to enable full size classes across all year groups.

3.12.53 The disposal of schools that have been confirmed as surplus to requirement, subject to the s.22 process, are estimated to generate capital receipts in the next three years for re-investment in the provision of education.

LEISURE, PARKS & CULTURE

Leisure Estate Investment

3.12.54 The Leisure estate consists of seven centres, managed by GLL, through a contract that will expire on 30 April 2024. The condition of the estate is variable, in terms of levels of usage, mix of facilities and revenue performance, and has been impacted further by the pandemic and changes to patterns of demand.

3.12.55 A short and long-term investment programme for the Leisure estate has been set out in another report on this Cabinet's agenda. The purpose of the investment programme is to ensure that current and future generations of local residents can benefit from high quality and well-maintained facilities to enhance their health and wellbeing.

3.12.56 The first stage of the investment programme is to replace the existing St George's Leisure Centre with a new facility on the current site by 2026, estimated to cost in the region of £35.000m. Specialist leisure and design expertise will be procured to ensure the value of the council's investment is maximised. Capital investment on the existing estate to address backlog condition issues are estimated to cost in the region of £11.300m over the next ten years.

3.12.57 For the 10-year period 2022 to 2032, the provisional investment programme indicates the need for £141.000m. For the 3-year period of the proposed capital programme set out in this report 2022 to 2025, a total of £25.163m is required, which is proposed to be funded mainly through borrowing. The additional budget required beyond 2024/25 will need to be funded in future years.

3.12.58 For improvement works to existing leisure centres, a budget allocation of £1.719m was approved in January 2021. In addition to this, the proposed

2022-25 capital programme adds an annual rolling programme of £3.000m over three years, to be funded from council resources.

Parks Investment Programme

3.12.59 The council's 2017-27 Open Space strategy recognises the challenges that high population growth, high demand for housing and reducing public sector resources present for the provision and maintenance of publicly accessible open space; as well as the important role that access to green space plays in promoting health and wellbeing. Given the limited opportunities there are for creating new open space, the protection and enhancement of existing open space is of crucial importance.

3.12.60 The current and proposed capital programme includes the following works in existing parks:

a) King Edward Memorial Park – a capital budget of £3.270m, funded in full by s106, for significant improvements to the park linked in phases to the completion of the Tideway works is included as a new capital item for the 2022-25 capital programme

b) Ford Square and Cavell Street – a capital budget of £0.660m is approved for the improvement to these parks, with works due to start in March 2022

c) Victoria Park – a capital budget of £1.406m, approved in 2021-22, will fund a series of projects being delivered in Victoria Park

d) Quality Parks – a capital budget of £4.655m, of which £1.312m will fund 11 projects requested by the public through the LIF process, is available for 2022-23, 2023-24 and 2024-25

e) Inclusive Playgrounds – a current capital budget of £0.692m is available to fund playground improvements in 2022-23 and 2023-24.

f) Improvements to Sports Facilities in Parks – a current capital budget of £0.369m is available to improve sports facilities (tennis courts, multi-use games aeras, basketball courts etc.) in parks in 2022-23 and 2023-24.

g) Mitigating anti-social behaviour – a capital budget of £0.158m remains available for a range of initiatives to mitigate ASB

h) Signage and Heritage – a capital budget of £0.062m remains available to complete the installation of interpretation boards around heritage and nature in each of the council's Green Flag sites and other significant heritage/biodiversity sites and support improvements to welcome and wayfinding signage, including the creation of self-guided walks

i) Biodiversity, Community Gardening and Horticulture – a capital budget of £0.260m continues to be available to complete the development of community gardening/biodiversity projects

3.12.61 Where new projects with specific funding sources are identified, these will be brought forward through the governance process to be added to the approved capital programme.

Youth Provision

3.12.62 Following a review of youth provision, a programme of works for buildings which are continuing to be used to deliver youth services has been established. The works include creating dance and fitness studios, improving existing music studios with sound proofing and related equipment, upgrading IT suites with media facilities (eg. audio and video editing) and installing 121 pods.

3.12.63 The proposed 2022-25 capital programme is £2.000m over the next two years, of which £1.050m will be funded by LIF, with the remaining £0.950m funded by substituted borrowing. LIF funding can only be used for the enhancement of youth provision located in LIF areas 3 and 4.

PROPOSED CAPITAL PROGRAMME FOR PLACE DIRECTORATE

NEW TOWN HALL

3.12.64 2022-23 will see the completion of the new Town Hall on the site of the former Royal London Hospital site in Whitechapel. The former hospital building is being renovated and refurbished, a new build extension is being completed and investment is being made in high quality public realm. In total, the new Town Hall will provide 26,700m2 of space, of which the ground floor will be available for public use on the ground floor, including library facilities and café, and for co-location of partner organisations, to enable local residents to access a diverse range of services in one place. New ways of working will inform the design of the upper floors, which is likely to result in more space being available for compatible uses.

3.12.65 Between June 2015 and November 2018, a total budget of £123.350m was approved to fund the project, primarily funded by prudential borrowing. Internal project staff costs, fit out, furniture, IT and CCTV requirements and wayfinding and signage were not included in the original budget allocation for this project. The proposed capital programme for 2022-25 includes budget allocations for some of the project interdependency costs, such as CCTV.

PUBLIC REALM

Highway improvements and enhancements

3.12.66 Since 2019, £13.700m was allocated to the Liveable Streets programme to deliver schemes in Bethnal Green (£2.700m), Wapping (£1.100m), Barkantine (£1.000m), Bow (£3.000m), Brick Lane (£1.700m), Old Ford West (£1.000m), Shadwell (£1.000m), Whitechapel (£1.200m) and Mile End West (£1.000m), many of which have now completed. The ambition of the programme was to enhance public realm across the borough, by improving opportunity to walk and cycle, greening streets to make them more attractive places to be and encouraging active travel in a healthier environment. A budget of £1.470m, funded by external grant, remains available to spend.

3.12.67 The proposed 2022-25 capital programme includes a budget allocation of £2.000m for 2022-23 and £1.200m for 2023-24 for highway improvements and enhancements, which makes a total of £4.670m for the next two years. The additional £3.200m is funded from substituted borrowing because there is no s106 currently available for this borough-wide scheme.

Transport for London (TfL) funded projects

3.12.68 Whilst the expectation is that there will be no grant funding from TfL in 2022-23, the current capital programme already includes a £1.974m budget allocation to be available to spend if grant is received from TfL. Last year, a series of small grants were offered to deliver specific outcomes which the council were able to access and spend at short notice.

Carriageway and Footway Planned Improvements Programme

3.12.69 The council has a statutory duty under the Highways Act 1980 to maintain the public highway. Since January 2019, a budget of £5.000m per year has been allocated to fund this programme of works and the current capital programme includes approved budget allocations of £5.000m per year for 2022-23 and 2023-24. The requested increase to £8.800m per year to enable the council to clear its carriageway and footway backlog, would require new borrowing in the 2022-25 capital programme, the revenue impact of which cannot, at this stage, be afforded.

Street Lighting Replacement, Monitoring and Maintenance programme

3.12.70 The programme to switch all streetlights to low energy LEDs to deliver revenue savings based on lower energy consumption charges and reducing maintenance requirements has received £19.250m since January 2019. Of this, £3.968m remains available to spend in 2022-23. With insufficient capital receipts, the requested budget increase of £1.382m would require new borrowing in the 2022-25 capital programme, the revenue impact of which cannot be afforded. The remote street light monitoring programme has an approved budget of £0.800m, of which £0.550m remains available for 2022-23.

3.12.71 The streetlighting maintenance programme has an approved budget of £0.400m per year for 2022-23 and 2023-24.

Purchase of electric waste vehicles

3.12.72 The proposed 2022-25 capital programme includes a budget allocation of £4.500m for the purchase of electric waste vehicles to be funded in full by CIL. This follows the approval of a £0.975m budget in November 2021 for the provision of 84 electric charging points for council vehicles at Poplar Recreation Ground, Toby Lane, Victoria Park and Blackwall Depot, with capacity to charge 180 vehicles.

Provision of a new depot

3.12.73 Feasibility work is continuing to establish the most appropriate option for the development of a new depot on the site. The new depot is expected to cost in the region of £40.000m and a capital growth bid will be brought forward as a capital growth bid when the feasibility is complete.

Temporary Coroner's Court

3.12.74 Capital works are required to establish a temporary coroner's court in partnership with neighbouring borough. £0.275m is required as the council's share of this work.

Improving Air Quality

3.12.75 A budget allocation of £2.000m is required for the improving air quality programme, with £1.500m from grant funding, £0.135m from s106 and £0.365m from CIL.

HOUSING

3.12.76 In January 2021, Cabinet approved an HRA capital programme, totalling £308.496m for the 2020-21 forecast outturn and budget for 2022-23 and 2023-24, of which £77.552m was allocated to the THH annual rolling programme and £232.768m was allocated to the first 1,000 council homes programme.

3.12.77 In December 2021, Cabinet approved a budget allocation of £86.000m for the first three years of the HAP Estate Regeneration scheme, bringing the total approved HRA capital programme £394.496m.

3.12.78 The proposed 2022-25 HRA capital programme set out in this report is for **£411.927m**, which the 30-year HRA Business Plan currently demonstrates is affordable, although this will need to be kept under regular review as circumstances change (for example interest rates). Of this, **£64.924m** is for the THH annual rolling programme and **£89.675m** is for the next phase of the new council homes programme. This is funded by a mixture of grant funding, capital receipts (including RTB receipts), s106 contributions and borrowing.

Housing Capital Programme for existing council housing stock

3.12.79 The priorities for housing capital expenditure for the next three years are to maintain and improve the existing council stock, continue retrospective works to address fire safety and building safety and, subject to the availability of funding, carry out energy efficiency works.

3.12.80 The 30-year HRA Business Plan has established that there is sufficient funding available for capital works identified in stock condition surveys. The budget allocation equates to £26.242m in 2022-23 and £30.000m in 2023-24 and 2024-25.

Next phase of council homes programme

3.12.81 In the report to Cabinet in June 2021, a breakdown of the £232.768m approved budget for the first 1,000 council homes programme was provided.

3.12.82 As with the first 1,000 of the new council homes programme, a programme-wide approach will be taken, to enable individual schemes to be brought forward or moved back if issues that impact delivery arise, ensuring the provision of new homes is maintained. If schemes listed in the next phase need to be removed, replacement schemes will be brought forward from the pipeline programme.

3.12.83 The current position on the HRA Business Plan review carried out by Savills confirms that the next phase of the new council homes programme, as shown in the table below can be afforded.

Table: Detail of the next phase of the new council homes programme

Scheme address	Status	No. of new homes being delivered	Total budget required (£m)	Funding sources			
				GLA grant	s.106	RTB/cap receipts	HRA borrowing
GLA funded housing schemes							
Edward Mann Close	Ready for planning submission	19	7.239	2.895	0	0	4.344
Caxton Grove	Design stage	10 + 14 (LAR + sale)	10.212	1.480	0	0	8.732
Copenhagen Place	Design stage	14 + 14 (LAR + sale)	11.914	2.072	0	0	9.842
O'Brien garages	Design stage	10	4.600	1.600	0	0	3.000
		Sub-total	**33.965**	**8.047**	**0**	**0**	**25.918**

Scheme address	Status	No. of new homes being delivered	Total budget required (£m)	Funding sources			
				GLA grant	s.106	RTB/cap receipts	HRA borrowing
Proposed RTB (40%)/HRA funding							

Ashington	Design stage	55	31.603			12.641	18.962
Alfred Street	Planning consent	4	2.133			0.853	1.280
Walter Terrace	Planning consent	4	2.208			0.883	1.325
Rushmead	Planning consent	5	2.300			0.920	1.380
Buxton Street	Ready for planning submission	4	2.289			0.916	1.373
1a Solander Gardens	Ready for planning submission	2	0.950			0.380	0.570
Cressy Place	Design stage	24	11.400			4.560	6.840
		Sub-total	**52.883**	**0**	**0**	**21.153**	**31.730**

Scheme address	Total budget required (£m)	Funding sources			
		GLA grant	s.106	RTB/cap receipts	HRA borrowing
Additional funding required for existing 1,000 new homes programme inc. rooftops, Blackwall Reach	2.827	0	0	1.311	1.516
Sub-total	**2.827**	**0**	**0**	**1.311**	**1.516**
Total	**89.675**	**8.047**	**0**	**22.464**	**59.164**

Key **LAR**: London Affordable rent
sale: dwellings for market sale

3.12.84 The council has recently been informed of its GLA grant allocation for the next phase of the new council homes programme. In total, Tower Hamlets received a GLA grant allocation of £26.747m for the delivery of 194 new council homes for social rent. Local authorities were able to apply for grant for on a competitive basis. The council based its bids on the equivalent basis to that applicable for RTB receipts i.e. at a level of 40% of costs. This has enabled the programme to be agreed and budget approval is being sought to enable the schemes to be progressed.

3.12.85 As set out in the report to Cabinet in September 2020, the HAP Estate Regeneration scheme remains a priority for the next phase of the new build programme, alongside the redevelopment of Ashington House.

3.12.86 A report on the HAP Estate Regeneration was presented to Cabinet in December 2021 setting out the details of the scheme and approving a budget allocation of £86.000m for the first three years. The approved budget of £86.000m will enable Phase 1 to be delivered in its entirety, subject to planning. A planning application was submitted in December 2021 and is expected to be considered by Development Committee in March 2022.

Scheme address	Status	No. of new homes being delivered	Budget required for 1st 3 years (£m)	Funding sources			
				Total GLA grant	Total s.106	RTB receipts	HRA borrowing
GLA funded regeneration scheme							
HAP Estate regeneration	Planning application submitted	Total: 412 177 (LAR)	86.000	0	4.482[1] 9.456[2]	17.280	54.790
		Sub-total	**86.000**	**0**	**13.938**	**17.280**	**54.790**

3.12.87 Although an allocation from the GLA has been offered, subsequent to the bid being made the scheme has had a reduction in the number of units and had increased costs. As a result, a switch between the GLA grant and RTB receipts was recommended in the December Cabinet report. This will necessitate substitute schemes, currently earmarked for RTB receipts to be switched to GLA grant funding, subject to the GLA's agreement.

3.12.88 The indicative start on site date for HAP Estate Regeneration is late 2022-23, with completion in 2028-29, meaning that costs will be profiled over the 8-year build programme. Capital receipts generated from sales in earlier phases are expected to reduce the borrowing capacity in later phases.

3.12.89 With the exception of HAP for which funding is sought for the first three years only, the remainder of the schemes included in the next phase will extend beyond the 3 years of this capital programme. These costs have been included within the Year 3 (2024-25).

3.12.90 The number of new homes listed in the table above are new homes, not replacements for existing homes. RTB receipts cannot be used to fund replacement homes, either for social rent or shared equity, or to fund new homes for sale.

3.12.91 Where schemes in the next phase of the new council homes programme include new homes for sale, the capital receipts from these sales will be ring-fenced to reduce borrowing on future schemes.

3.12.92 Approval is sought for an increase to the HRA capital programme of £89.675m for the next phase of the new council homes programme, in order for them to be adopted into the proposed 2022-25 capital programme.

[1] s106 available for affordable rent
[2] s106 available for intermediate housing (intermediate rent)

INTEGRATED GROWTH AND DEVELOPMENT

Whitechapel Road Improvements

3.12.93 The Whitechapel Road Improvement Programme includes significant improvements to public realm, development of a new model of market operation, designing and delivering new market stalls and market infrastructure. In January 2021, Cabinet approved a capital budget allocation of £1.870m to be funded by CIL for Phase 1, which is currently in delivery. In October 2021, the council received confirmation that the £9.000m LUF (Levelling Up Fund) bid had been successful.

Hainton Close underground parking

3.12.94 A budget allocation of £1.700m is required to upgrade the underground garage area to create a secure car park for Barts Health NHS Trust. These works are expected to be funded in full by the trust.

South Dock Bridge

3.12.95 In June 2021, the £15.000m approved budget was increased by £5.000m to £20.000m, of which £7.000m is from the Strategic Investment Pot (SIP) and the remainder from CIL. The £5.000m CIL allocation has been replaced by s106, to release the CIL allocation for new growth items.

PROPOSED CAPITAL PROGRAMME FOR HEALTH, ADULTS AND COMMUNITY

ADULT SOCIAL CARE

Day care provision

3.12.96 A feasibility study has been carried out to explore how the current day care provision at Antill Road for adults with profound learning disabilities can be expanded to increase in-borough provision. A budget allocation of £1.500m is required to expand the service, of which £1.050m has been allocated in 2022-23 from substituted borrowing, with allocations for future years to be included in the programme when further funding sources become available. The council is exploring the option of moving the provision to the former Cherry Trees School, which has been confirmed as surplus to requirement for education.

COMMUNITY SAFETY

CCTV

3.12.97 In September 2020, Cabinet approved a capital budget allocation of £3.100m for a CCTV system transformation programme to upgrade the network and switch from analogue to digital. A further budget allocation of £0.892m is required to enable the operation to be moved to the new Town Hall before the end of the year, funded in full by CIL.

3.12.98 The purpose of the Protective Security Fund is to provide and install counter terrorism security measures such as bollards, pedestrian and vehicle barriers and CCTV. A budget allocation of £0.093m for 2022-23 is funded by CIL.

PROPOSED CAPITAL PROGRAMME FOR RESOURCES

CUSTOMER SERVICES

Legacies of Empire & Colonialisation

3.12.99 A budget allocation of £0.157m is required for a programme of community engagement to produce new public art, focussing on the histories of Black and Asian people affected by empire and colonialism, working with affected communities to co-produce lasting commemorations in a range of locations. This will be funded in full by CIL.

Idea Stores

3.12.100 A budget allocation of £1.050m is required for the Idea Store Whitechapel, to be funded by s106 and substituted borrowing. The Idea Store provides educational and employment support facilities and will form part of the cultural campus in Whitechapel. As a flagship Idea Store it is a venue for many exhibits showcasing the borough's rich history and cultural diversity, including the recent exhibition celebrating the 50th anniversary of the independence of Bangladesh.

3.12.101 In parallel to the development of the new Town Hall, the renovation and upgrade of the Idea Store will provide an opportunity to expand operations, create increased community benefits and make use of the space being vacated by the Children's Library for alternative uses. The scheme includes the relocation of Workpath services and the Visual Arts Adult Learning provision from Shadwell Centre.

3.12.102 A total budget allocation of £0.600m is required in 2022-23 for capital works at Idea Store Bow, Brady Centre and Kobi Nazrul Centre, to be funded by substituted borrowing.

Local History Library and Archive Service

3.12.103 The council is developing proposals to provide a fit-for-purpose Local History Library and Archive Service, to upgrade the current provision based at Bancroft Library. The estimated cost of this work is £10.000m, of which the proposed 2022-25 capital programme includes a budget allocation of £3.300m for 2022-23 and £3.300m for 2023-24, with the remaining balance of £3.400m for 2024-25 will be included in the programme when funding sources become available. The total budget allocation of £6.600m is funded in part by available s106 (£1.126m) and substituted borrowing (£5.474m).

IT

3.12.104 There is an approved budget allocation of £3.500m per year for 2022-23 and 2023-24 in the annual rolling programme for IT, funded by council resources. No further allocation is made in this report.

PIPELINE SCHEMES

3.12.105 All schemes in the proposed 2022-25 capital programme set out in this report have funding sources identified and allocated, confirming that the programme can be afforded.

3.12.106 For the annual rolling programme, the proposed 2022-25 capital programme includes budget allocations for 2022-23 and 2023-24 for all programmes, however, to avoid an increase in the borrowing requirement, budgets for 2024-25 have not been included for the Private Sector Improvement grants (£0.100m), Streetlighting Maintenance Programme (£1.382m), Remote monitoring of street lighting (£0.400m), Carriageway and Footway Maintenance Programme (£5.000m), Capital investment works in LBTH assets (£2.000m) and IT Assets Programme (£3.500m). Funding requests for 2024-25 will be brought forward when appropriate funding sources become available.

3.12.107 For the main programme, the parks investment programme of £8.000m for 2024-25 onwards has not been included in the proposed 2022-25 capital programme and a number of projects have been partially funded in 2022-23 and 2023-24.

3.12.108 The consideration of disposal of under-utilised assets should be a key priority if the Council wishes to unlock capital receipts which can then, in turn, fund pipeline schemes and further development in the borough; with the consequent advantage of reducing the need for borrowing.

3.12.109 The table below shows the schemes where funding has been allocated for part of the scheme to avoid the need to increase the borrowing requirement. Once funding becomes available, including potential disposals, funding requests for the remainder of the scheme budget will be brought forward.

Scheme	Budget request for growth £m	Budget allocation £m		Total budget included in proposed 2022-25 programme £m	Balance (not funded) £m
		2022-23	2023-24		
Oaklands expansion	23.000	2.085	3.400	5.485	17.515
Protective Security Fund (Community Safety)	0.123	0.093	0	0.093	0.030
Leisure Centre investment works	7.800	1.000	2.000	3.000	4.800

Highway improvements and enhancements	8.000	2.000	1.200	3.200	4.800
Day service provision expansion	1.500	0.525	0.525	1.050	0.450
New archive	10.000	3.300	3.300	6.600	3.400
Contingency for uplift in costs	0.750	0.500	0	0.500	0.250

3.13 **TREASURY MANAGEMENT STRATEGY**

3.13.1 The Treasury Management Strategy Statement has been revised and agreed with Audit Committee on 27 January 2022, and will now be recommended for Full Council approval in March 2022 in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

3.13.2 The proposed prudential indicators set out in the Treasury Management Strategy are based on the proposed Capital Programme 2022-25.

3.14 **BUDGET CONSULTATION AND SCRUTINY PROCESS 2022-25**

3.14.1 The Council must undertake statutory budget consultation with Business Rates payers in the borough and it is also good practice to consult with Council Tax payers and a broad range of other key 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 involved in the setting of the Council's budget.

3.14.2 The Council carried out the six weeks budget consultation from Monday 4 October until Monday 15 November 2021. The consultation sought to provide 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 which have increased due to the impact of the Covid-19 pandemic.

3.14.3 A detailed report of the budget consultation was considered by Cabinet on 15 December and has informed budget proposals.

3.14.4 The on-going role of the Overview and Scrutiny Committee in scrutinising business cases and undertaking targeted reviews in a number of key areas identified by them is key to maintaining the rigour of budget scrutiny of the Medium Term Financial Strategy (MTFS).

3.14.5 In addition to the scrutiny of relevant revenue savings and growth 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 Schools Budget which will be proposed for approval by the Cabinet, from the Schools Forum.

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 one of the fastest growing and most densely populated places in the UK. Our population has grown by almost 31% since 2011 to just under 332,000. It is expected to increase to 364,000 by 2028 (a further 9.6% increase). More homes are built here than almost anywhere else. The borough is expecting to accommodate a further 35,000 homes by 2028. We are a young borough - the average age is 32 and 44% of the population is between 20 and 39.

4.3 Tower Hamlets is a world borough with a proud history of diversity and equality. Over 117 languages are spoken in the borough’s schools – 43% of residents were born in over 200 different countries. The mid-pandemic residents survey 2021 showed that 79% of our residents feel that people from different backgrounds get on well together.

4.4 This diversity 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 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 and growth proposals to determine if a full equality impact assessment needs to be carried out.

4.5 Corporate Directors will ensure equality analyses are completed to inform decisions for implementation of these proposals.

4.6 In setting the 2022-23 budget, no new savings have been proposed, however existing savings for 2022-23 that were agreed in the 2020-23 and 2021-24 budgets will still need to be implemented. The new growth items proposed in the 2022-23 budget represent a positive impact for residents and organisations in the borough.

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 Finance Officer (Section 151 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.

6.3 Not increasing the Council Tax in line with government assumptions reduces the income available to the Council for 2022-23 and future years 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. Although the provisional Local Government Finance Settlement (LGFS) for 2022-23 has been positive for the Council, there are significant risks facing the Council's funding over the medium term due to planned Local Government funding reforms.

6.4 Due to only receiving a one-year settlement from Central Government, and funding reforms signalled within the settlement, it is extremely challenging to forecast the Council's funding over the medium term. The impact of the fair funding review, business rates reset and changes pertaining to New Homes Bonus will impact Tower Hamlets significantly and timing of the implementation of these reforms together with details of how funding will be redistributed, including any transitional arrangements, are unknown at this stage. Over the medium term it is anticipated that the funding gap could be in the range of circa £10m to £30m. For this reason, the Council has only prepared a one-year budget for 2022-23 and will refresh the MTFS in the summer as part of 2023-26 financial planning to ensure a sustainable budget going forward and alignment with the refreshed Strategic Plan.

6.5 Following receipt of the final Local Government Finance Settlement, the CFO will need to be assured of the robustness of estimates and adequacy of reserves and this will be covered in the report to Council in March 2022.

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 Council's Chief Finance Officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control of which this report forms part. It is consistent with these arrangements for Cabinet to receive information about the revenue and capital budgets as set out in this report. It is also consistent with these legal duties to prepare the referred to savings plans and associated financial considerations.

7.2 The adoption of the final budget is reserved as a non-executive decision of full Council in accordance with the Constitution. This means that those recommendations that deal with the setting of budgets in each area in the coming financial year, if accepted by the executive Mayor will then need to be proposed to full Council in line with the Constitution before being of effect.

7.3 The setting of budgets and monitoring of financial information is also a significant contributor to meeting the Council's Best Value legal duty and therefore this report complies with that legal duty.

7.4 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 such persons should be considered immediately prior to the making of a change to the service.

Linked Reports, Appendices and Background Documents

Appendices

- Appendix 1A Budget Summary
- Appendix 1B Budget Detail by Service Area
- Appendix 2 Tower Hamlets Core Spending Power
- Appendix 3A New Growth, Inflation and Changes to Existing Savings
- Appendix 3B New Growth Business Cases – General Fund
- Appendix 3C New Growth Business Cases – Housing Revenue Account
- Appendix 3D Previously Approved Growth and Inflation
- Appendix 3E Previously Approved Savings
- Appendix 4 Reserves Policy
- Appendix 5 Projected Movement in Reserves
- Appendix 6 Housing Revenue Account Budget Summary
- Appendix 7A Capital Budget by Programme
- Appendix 7B Capital Budget Detail
- Appendix 7C Capital Growth
- Appendix 7D Capital HRA Budget by Programme
- Appendix 8 Budget Consultation

Linked Report

- None

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

- None

Officer contact details for documents:
Nisar Visram, Director of Finance, Procurement and Audit
Allister Bannin, Head of Strategic and Corporate Finance
Shakil Rahman, Senior Accountant