

## **Medium Term Financial Strategy Responses to recommendations raised by Overview and Scrutiny Committee**

### **Recommendation 1**

Provide the Committee with modelling of what impact changes to income in future years will have on the council's finances, providing insight of worst-case, medium case, and best-case scenario.

#### Response 1

The updated medium term financial position including modelling different scenarios will form part of the budget refresh that is intended to be shared with Cabinet in the new financial year and this information will also be shared with the Overview and Scrutiny Committee at that time.

Covid has had a massive effect on the Council's finances, which was completely unforeseeable. We are living in extraordinary times and Government decisions have been driven by the virus and are more last minute than ever. We have seen Government making announcements of what they are going to do and then changing policy. For example, we still don't know the financial implications of Adult Social Care reforms.

The Council needs a 3-year settlement from government which would allow it to budget with more certainty.

### **Recommendation 2**

- a. Establish a funding approach that includes a refreshed Reserves' Policy – so that it does not operate in isolation, and is integrated; attach confidence levels/levels of assurance against items and aspects projected to happen, and reflect on past projections to learn from those things we have previously predicted/assumed that have not eventuated.
- b. Review modelling for income projections and expenditure assumptions to ensure income growth is more accurately reflected.

#### Response 2

- a) An assessment of reserves forms part of the budget build process, and the reserves policy is reviewed formally each year and included alongside the budget report presented to Cabinet. Furthermore, reserves are monitored during the year and form part of quarterly budget monitoring reports presented to Cabinet. Council reserves are split into:
  - i) Capital reserves, which can statutorily only be used for capital expenditure and support the funding of the capital programme.



- ii) Restricted revenue reserves, mostly made up of grant funding for specific items received in advance.
- iii) Unrestricted revenue reserves, which underpin the financial resilience and future sustainability of the council and are to fund unforeseen one-off risks being actualised.

The Council's S151 officer is required to comment on the robustness of the council's reserves, and this also forms part of the budget report.

Most reserves held by the Council are restricted in use to fund the capital programme – capital receipts held are fully allocated over the medium term and the capital programme includes significant use of capital reserves.

Within revenue there are significant funds with restricted use, such as grant received in advance, and these are high at present due to COVID and particularly Government funding for business rate reliefs and shortfalls. These will be utilised within the medium-term period.

General un-restricted revenue reserves are to protect the council from risks such as the costs of an unforeseen major incident, failure of a major supplier, failure of a treasury management counterparty and to manage risks around unforeseen falls in income. These reserves can only be utilised once their balance is considered annually by the S151 officer considering risks and in the context of the council being an organisation with an annual spend of over £1bn and that any application of these reserves would be one off and not to support ongoing budget pressures.

- b) The medium term financial strategy will be refreshed and presented to Cabinet in the new financial year and will reflect updated assumptions based on the latest information available at that time. Income from fees and charges are modelled based on the specific parameters that impact the charge levied. Regarding income from Government funding, the Council utilises the best information available at any given point in time. For example, the business rates reset was to come into place on 1 April 2022 and a delay was only announced in December 2021 including a mention of transitional arrangements for the first time. This announcement alone meant that the Council anticipates receiving £14.5m more than forecast in 22/23.

The Government has been reducing New Homes Bonus funding, including announcing a reform last year and that there would be no more 'legacy payments' for each year's housing growth bonus payment, signalling the winding down of the scheme. In early 2021, the Government consulted on reforming New Homes Bonus significantly. These reforms had been reflected



in forecasts, yet the Government has delayed announcing the outcome of the consultation meaning there was no change for 22/23. Furthermore, although there are no new legacy payments for the 20/21 and 21/22 allocations, the Government did honour legacy payments for 19/20 and 18/19 in December 2021, which was unexpected.

There are unavoidable pressures within Adult Social Care yet additional funding for Social Care was only announced in December 2021, as was a one-off services grant. There was no information that would have enabled the Council to build these funding streams into its budgets in advance.

For these significant areas of funding, decisions are based on second guessing Government policy based on what is being signalled at the time, using the best available information, and to ensure a prudent and responsible approach to financial planning.

Council finances were modelled based on the business rates rebase which the Government had announced would be coming into effect from 1 April and New Homes Bonus reforms which the Government has reduced funding for and had consulted on reforming in early 2021. The Government in December 2021 delayed the reset and still has not yet announced the outcome of the New Homes Bonus consultation. Additionally new grants were given for Social Care and a one-off Services Grant which had not previously been signalled. These four add up to £33m which, as explained, had not consequently been assumed in the previous year for 22/23.

### **Recommendation 3**

In light of the additional £5.4m, review previously agreed savings alongside the equalities impact assessment and identify where additional funding can be allocated. In particular savings which have or will have the greatest impact on access to frontline services and vulnerable people must be reviewed.

### Response 3

The additional funds are one off for the 2022/23 financial year and have not been confirmed by Government for future years. For example, the Council is to receive a £7.7m Services Grant that the government have specified as being for one year only. The additional £5.4m has been allocated to front line services most valued by residents, to supporting our elders and children particularly impacted by the virus, and to mitigating the cost-of-living crisis. The Council continues to face challenges with unavoidable cost pressures, budgetary growth which has only been built in for the next financial year and not beyond, costs associated with adult social care reform and demographic



growth, covid cost pressures with over £40m of one-off covid grant applied to supporting expenditure this year and inflation running at significantly higher than budgets have allowed for. These pressures are exacerbated by the population growth within Tower Hamlets, which has amongst the highest housing growth in the country.

The council monitors and reviews previously agreed savings on an ongoing basis, including those that are delayed or unachievable. Where savings cannot be achieved, given the pressures outlined, new savings would need to be identified to replace them and ensure a sustainable budget going forward.

Savings against budget take time to develop and implement and are necessary to ensure that the Council has a balanced budget into future years to continue to provide services to residents, ensuring the council on an ongoing basis spends what it earns. Temporary one-off monies help and have enabled the council not to be required to make any new savings in 22/23 over those previously agreed. However, one-year allocations from Government hinder financial planning and due to the size of these funds, have necessitated the council to set a one-year budget. The requirement for efficiencies is based on a longer-term view of the funding of the council. Where savings are required that may impact services, these would be subject to consultation prior to being taken forward.

#### **Recommendation 4**

That the Council restructures its budget setting process so that it has a greater focus on delivering priorities and measuring impact.

- a. Conduct the Budget Consultation (which gauges public priorities) at the beginning of the municipal year
- b. That the Council restructures its budget setting process so that it has a greater focus on delivering priorities and measuring outcomes.

#### **Response 4**

- a) The budget consultation prior to setting the 2022/23 budget was carried out earlier than before and ran from 4th October 2021 to 15<sup>th</sup> November 2021, which enabled the output from the consultation to be reflected within the budgets being set for the 2022/23 financial year. Given the election in May 2022, a budget consultation will not be possible early in the financial year. The council will however once again ensure consultation takes place sufficiently early in the process to facilitate the outcomes being reflected in the budgets set for the year. In the next year we also face an uncertain funding environment where the Government has signalled changes to Local Government funding, which



could have a significant impact on Tower Hamlets. Given the uncertainties in this regard, there are ongoing challenges with trying to second guess government direction.

- b) The council will endeavour to ensure alignment of service planning with budget setting over the next financial year, for setting budgets for 2023/24. Service plans will follow on from the Strategic Plan and come from Manifesto pledges, to be refreshed after the election.

## **Fees and Charges**

### **Recommendation 5**

Reduce the level of increase to market trader fees and charges which will have a significant impact on people's livelihood and ability to stay in employment i.e. charges impacting market traders at Watney market, Columbia Road, Whitechapel market, and Bethnal green road.

#### Response 5

The Council has provided significant support to market traders during the challenging Covid period utilising discretionary business grants. Market trader fees are to be subject to consultation prior to implementation where interested parties will be able to feed back any thoughts and concerns.

### **Recommendation 6**

Review the fees and charges for hiring of venues such as community hubs, ideas store, Brady Centre to make them more affordable and accessible for local community organisations and groups.

#### Response 6

We recognise the social value of our local community organisations and groups and have protected investment in our Voluntary and Community Sector. These items will be assessed as part of setting fees and charges for 2023/24.

### **Recommendation 7**

Provide a link on the fees and charges for community based social care services and residential care services within the fees and charges report.

#### Response 7

This link has been included in the version of the report that was presented to Cabinet on 9<sup>th</sup> February 2022.

**Recommendation 8**

Provide OSC with a briefing note setting out the position of the Waste Services Reorganisation saving and the Technology Enabled Care saving.

Response 8

This will be drafted and circulated to OSC Members.

**Recommendation 9**

Include a list of the previously agreed savings for 2022-23 in the budget papers presented to Full Council.

Response 9

This has been included as an appendix with the Final Budget Papers

