

Overview and Scrutiny Committee

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MTFS and Budget 2023-26 Scene Setting

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Agenda



- Background of current position
- Challenges - reforms
- Draft MTFS 2023-26
- Assumptions:
 - Business Rates
 - Council Tax
 - New Homes Bonus
 - Inflation
 - Changes to savings
- Draft Budget Setting Timetable
- Draft Reserves position
- New potential growth identified so far



Background



- For 2022-23 the Government announced a one year funding settlement for Local Government. This was despite the Treasury giving Government departments a 3 year settlement.
- Government signalled funding reforms in line with its 'levelling up' agenda.
- Due to uncertainties about future funding levels the Council only published a one year MTFs in March 2022, however we are now returning to a three-year MTFs for 2023-26.



Challenges - Reforms



- **No announcement on any reforms thus far** – due to which we believe it is very unlikely that anything substantial will be in place for 2023-24
- We're assuming most of our funding streams will continue.
- The Government does have some flexibility with one-off monies given last year and a reducing New Homes Bonus funding pot, which may support a 'levelling up' announcement of some sort before the summer. No detail as yet on what this distribution would look like.



Draft MTFS 2023-26



MTFS Summary 2023-26	2023-24 £'000	2024-25 £'000	2025-26 £'000
Total Funding Requirement	421,500	438,256	451,322
Core Grants:			
- Revenue Support Grant	(36,883)	(37,617)	(38,369)
- New Homes Bonus	(2,328)	(2,328)	(2,328)
- New Homes Bonus - transitional funding (via Services Grant)	(10,550)	(10,550)	(10,550)
- Improved Better Care Fund	(16,810)	(16,810)	(16,810)
- Social Care Grant	(16,602)	(16,602)	(16,602)
- Public Health Grant	(39,315)	(40,101)	(40,903)
- Rough Sleeping Initiative	(658)	(672)	(672)
- Homelessness Prevention Grant	(6,062)	(6,183)	(6,183)
- Market Sustainability and Fair Cost of Care Fund	(8,546)	(12,208)	(12,208)
- Lower Tier Services Grant	(1,479)	(1,479)	(1,479)
Core Grants	(139,232)	(144,550)	(146,104)
Business Rates	(150,596)	(147,970)	(155,122)
Council Tax:			
- Council Tax - in year income	(128,226)	(134,702)	(140,863)
- Council Tax - Collection Fund deficit / (surplus)	364	-	-
Council Tax	(127,862)	(134,702)	(140,863)
Total Funding	(417,690)	(427,221)	(442,090)
Budget Gap / (Surplus)	3,810	11,035	9,233
Contribution to Reserves / (Drawdown from Reserves)	(3,810)	(11,035)	(9,233)
Budget Gap after Contribution / (Drawdown) to Reserves	0	0	0

Assumptions:

- General Council Tax increase of 0% for all years.
- ASC precept increase of 1% for all years - allocated to fund ASC demography.
- Business Rates income - assumes reset to occur in 2025-26 but partially offset by transitional funding (75% in 2025-26).
- New Homes Bonus - assumes transitional funding to retain funding level at current income (excluding legacy payments).
- Market Sustainability and Fair Cost of Care Fund grant fully given to services (primarily Adult Social Care for reduced client contribution income).
- Pay Inflation - 4% for 2022-23 and 2023-24; 2% for other years.
- Contractual Inflation - 4.5% for 2022-23; 6% for 2023-24; 4% for 2024-25; 2% for 2025-26



Assumptions - Business Rates



- It is not clear when the business rates reset will now be implemented; we currently believe it's unlikely in 2023-24 or 2024-25 due to the lack of any announcement and due to recent informal indications by the Local Government Finance unit in DLUHC.
- Our latest assumption is that the reset will be in place by 2025-26 but that funding loss would be dampened by a transitional grant (75% in 2025-26).
- Assumed extra funding from the delayed reset and transitional funding is £18.8m (2023-24 and 2024-25) and £14.1m (2025-26).
- The MTFS assumes 0% growth in the number of businesses but assumes business rates income will grow due to inflation, 7% for 2023-24 (based on estimated September 2022 RPI) and then 3% and 2.5% respectively in 2024-25 and 2025-26.



Assumptions - Council Tax



- The MTFs currently assumes that the Local Council Tax Reduction Scheme (LCTRS) will not be changed for 2023-24. If it were to be changed, then this would impact Council Tax income for the Council. Any change would require statutory consultation and agreement by Full Council by the end of January 2023.
- The Council's taxbase for 2023-24 will be calculated later in 2022 based on the most recent information available at the time and this will impact the level of forecast Council Tax income.
- The MTFs currently assumes a 0% general Council Tax increase and a 1% increase in ASC precept over the three years.
- If the Council were to implement a general increase to Council Tax, **each 1%** would generate extra income (and therefore decrease the budget gap) of c£1.3m in 2023-24, c£2.7m in 2024-25 and c£4.2m in 2025-26).
- If the ASC Precept were not able to be applied, this would not increase the budget gap, but would decrease the resources given to ASC towards demographic growth (c£1.3m in 2023-24, c£2.7m in 2024-25 and c£4.2m in 2025-26).



Assumptions - New Homes Bonus



- Government consulted on ending NHB in January 2021, and there has been no announcement since.
- **At this point** in the absence of any new information, we have based our future year allocations using 2022-23 information plus inflation (estimated £12.9m per annum). If the allocation is lower than this, the risk will be managed by utilising the New Homes Bonus reserve.
- We **may** have more detailed information on this over the summer to support our budget review during the year.
- Table showing NHB allocations for Tower Hamlets 2020-21 to 2022-23:

New Homes Bonus	2020-21 £m	2021-22 £m	2022-23 £m
2017-18 allocation	5.406		
2018-19 allocation	6.180	6.180	
2019-20 allocation	3.812	3.812	3.812
2020-21 allocation	6.584		
2021-22 allocation		7.654	
2022-23 allocation			12.451
Total Allocation	21.981	17.646	16.263



Assumptions - Inflation



- We're assuming those funding streams that have been linked to inflation in the past will continue to be linked to inflation.
- Pay inflation – the MTFs proposes to build in extra 2% (on top of 2% already in 2022-23), 4% in 2023-24 and 2% for subsequent years, in line with London Councils indicative levels advised
- Contractual inflation will be high due to fuel price increases being passed on etc – currently proposed to build in extra 2% (on top of 2.5% already in 2022-23), 6% 2023-24, 4% 2024-25 and 2% 2025-26.
- The year-on-year RPI increase for April 2022 is 11.1% and the CPI increase is 9.0%



Assumptions – Changes to Savings



Prior year savings to be written off - £2.200m

- Contract Management Efficiencies ref: SAV / CORP 02 / 18-19 £1.950m. The current inflationary pressures on contract negotiations and procurements have resulted in these further contract efficiencies not being achievable.
- Income Through Housing Companies ref: SAV/ RES 08 / 18-19 £0.250m. There is currently no activity within the housing companies and a review of the use of the housing companies is being undertaken with a view to having a clear strategy around their roles and any savings that could be delivered.

Re-profiled savings to later financial year - £0.100m

- THH - Potential support service savings ref: SAV / COP 002 / 21-22 £0.100m re-profiled from 2023-24 to 2025-26. This saving relates to support service savings from the potential in-sourcing of THH and is therefore proposed to be re-profiled to allow time for due consideration of this option.



Draft Budget Setting Timetable



Activity	Draft Dates
MTFS and Budget Scene Setting report to Cabinet and Overview & Scrutiny Committee	July 2022
Budget review with services including unavoidable growth pressures & efficiency proposals (including HRA business plan)	July 2022 to September 2022
Local Council Tax Reduction Scheme – if to be changed from 2023-24 then statutory consultation will need to begin in the late summer	LCTRS changes would require Council approval by end of January 2023
Budget Consultation (with businesses)	TBC
MTFS and Budget report to Cabinet and Overview & Scrutiny (first version)	November 2022
Fees and Charges report to Cabinet and Overview & Scrutiny Committee	November 2022
Local Government Finance Settlement (provisional)	December 2022
Local Government Finance Settlement (final)	January 2023
MTFS and Budget report to Cabinet and Overview & Scrutiny Committee (final version)	January 2023
MTFS and Budget report to Full Council and setting of Council Tax	March 2023
Treasury Management Strategy report to Full Council	March 2023



Draft Reserves Position



Reserves Summary	Forecast 31/03/22
	£m
General Fund Reserve	23.8
Earmarked Reserves with Restrictions on use	120.7
Earmarked Reserves without Restrictions	86.5
Total Forecast General Fund Earmarked Revenue Reserves	207.2
Other Reserves	
Housing Revenue Account	52.5
Schools Balances	36.5
Dedicated Schools Grant Surplus / (Deficit)	(10.6)
Reserves restricted by law to finance Capital Expenditure	
Capital Grants Unapplied	192.7
Capital Receipts Reserve	128.3
Overall Reserves Total	630.4



New potential growth identified so far



Title	Notes	Growth Type	Directorate	Service Area	2022-23 £'000	2023-24 £'000	2024-25 £'000	Total £'000
Review of Corporate Support Recharges (included in the MTFS)	The Corporate Support Recharges to ring-fenced funding streams (HRA, DSG, Public Health, Pension Fund, Parking, Building Control, Street Trading, CIL and Section 106) have been reviewed. This is to ensure that these are accurate, well evidenced, in line with accounting reporting guidance and to eliminate potential duplication between corporate and directorate recharges. Also to ensure that administration and monitoring charges to CIL and S106 are within overall annual expected funding income for the Council. This has identified a pressure of £1.712m.	Budget Pressure	Corporate	Corporate		1,712	-	1,712
Residents' Hub (NOT included in the MTFS)	Customer Services has utilised an one-off underspend in 2021-22 (from maximisation of staffing costs against Covid ringfenced grants in HA&C) to put circa £0.5m into an earmarked reserve to cover the pilot costs in Mulberry Place in 2022-23. The service is calculating the annual revenue costs required for the staffing structure in the new Town Hall from 2023-24. Currently showing a rough estimate which will be updated over the summer for budget planning.	Potential Growth	Resources	Customer Services		500?	-	500?



Previously Agreed Savings



- Within the Cabinet report (Appendix 4 – Previously Approved Savings), there are £7.181m of savings for 2023-24 which were agreed (in 2021-22) and formed part of the MTFS.
- These will be reviewed by the current Administration and are subject to change.
- Any reduction in savings taken forward will increase the MTFS budget gap.

