

Cabinet 25 October 2023	 TOWER HAMLETS
Report of: Julie Lorraine, Corporate Director of Resources	Classification: Open (Unrestricted)
MTFS and Budget Scene Setting 2024-27	

Lead Member	Councillor Saied Ahmed, Cabinet Member for Resources and the Cost of Living
Originating Officer(s)	John Harrison, Interim Director of Finance, Procurement and Audit
Wards affected	(All Wards);
Key Decision?	No
Reason for Key Decision	This report has been reviewed as not meeting the Key Decision criteria.
Forward Plan Notice Published	08/09/2023
Exempt information	N/A
Strategic Plan Priority / Outcome	Invest in public services

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the current projected MTFS budget position in paragraph 3.2.2.
2. Note the actions set out in section 3.4 that are being taken to address the budget gap.

1 REASONS FOR THE DECISIONS

- 1.1 The Council is required to set a balanced budget and Council Tax Levels for the financial year 2024/25 by 11 March 2024 at the latest. The Council undertakes a budget setting process through out the year to ensure a robust and consulted budget is presented to Council for approval before this date.
- 1.2 This report provides an update on the MTFS position since it was approved by Council in March 2023 and gives an overview of the budget setting

process that is being undertaking to present Council with a proposed budget for 2024/25.

2 ALTERNATIVE OPTIONS

- 2.1 Section 30(6) of the Local Government Finance Act 1992 provides that the Council has to set a balanced budget before 11 March each year. Options to set a balanced budget by the statutory deadline will be presented to members as part of the budget setting process.

3 DETAILS OF THE REPORT

3.1 BACKGROUND

- 3.1.1 The Council's MTFS was approved by Council on 1 March 2023 and contained several assumptions. These assumptions continue to be reviewed and an update of the MTFS, considering the latest information, is provided.
- 3.1.2 For 2024/25 the MTFS has a projected budget gap of £15.8m before new savings or growths. Several actions have been undertaken to close the gap and the report sets out these actions and the timetable for setting a balanced budget by the statutory deadline.

3.2 MTFS UPDATE

- 3.2.1 A number of changes to MTFS assumptions have been identified since March and these are shown in the following table, with explanations for these in the next paragraphs. A summary MTFS incorporating these changes is at Appendix A.

- 3.2.2 Table 1 – Summary of Updated MTFS Assumptions

	2024-25 £000	2025-26 £000	2026-27* £000
Budget Gap	46,435	42,648	42,648
Drawdown from Reserves	(15,622)	(4,822)	-
Final Budget Gap (Approved by Full Council on 1 March 2023)	30,813	37,826	42,648
Updated Assumptions			
Business Rates revised assumptions including reset deferred until 2026/27	(20,072)	(14,524)	(4,808)
Council Tax taxbase growth additional income	-	-	(3,761)
Business Rates continuation of 8-authority pool	(2,000)	(2,000)	-
Revenue Support Grant revised forecast	(788)	180	180
Further pay inflation (2% higher in 23/24 & 24/25)	7,800	7,800	7,800

2026/27 pay Inflation (2% assumed)			4,000
2026/27 contractual inflation (2% assumed)	-	-	4,000
Sub Total	(15,060)	(8,544)	7,411
Budget Gap Before New Savings or Growths			
	15,753	29,282	50,059

* 2026/27 is a new financial year that didn't previously feature in March's MTFS.

3.2.3 Business Rates Assumptions – Since the budget was set, the outturn business rates return for 2022/23 has been completed, which provided further information on the Council's business rates income. Additionally, the Council's consultants (LG Futures) have provided an updated funding model based on higher inflation rates which the Council has used to revise its business rates projections.

3.2.4 Business Rate reset deferred until 2026-27 – Due to the timeframes it is increasingly unlikely that a business rates reset will occur in 2025/26. Therefore, the assumed implementation date is now 2026/27, although the actual financial impact is still uncertain, and an estimated figure has been used based on data from LG Futures and internal judgement.

3.2.5 Continuation of 8-authority pool – Assumption that the Council remains in the business rates pool with 7 other London authorities and that it continues to perform in line with past performance.

3.2.6 Revised Revenue Support Grant (RSG) forecast – The 2023/24 Local Government Finance Settlement was another one year settlement and the RSG forecast has been updated in line with the latest funding model from LG Futures, which includes a higher level of inflationary uplift.

3.2.7 Pay Inflation – Latest pay assumptions are that 2023/24 should increase from 4% to 6% and 2024/25 should increase from 2% to 4%. Future years remain at 2%.

3.2.8 Contractual inflation – 2026/27 didn't feature in March's MTFS and this is a line to recognise 2% contract inflation in that year.

3.2.9 Through the activities outlined in section 3.4 of the report, to date a number of potential savings have been identified. These are subject to the appropriate approval processes as part of the budget setting process before they can be realised. Work on identifying further savings is ongoing.

3.2.10 The MTFS projections do not include any new growths. This is a risk and work is being undertaken to identify essential growths and how these can be mitigated.

3.2.11 The Housing Revenue Account's (HRA) 30 year business plan has recently been reviewed with external assurance provided by Savills. A separate report will be presented on this review.

3.3 BUDGET SETTING TIMETABLE

3.3.1 The high-level budget setting timetable with key meeting dates are shown in the following table.

3.3.2 Table 2 – High-level Budget Setting Timetable

Activity	Dates
MTFS refresh	May
Budget review with services including savings proposals and growth pressures	May – October
MTFS and Budget Scene Setting 2024-27 report to Cabinet	25-Oct-23
Budget Consultation	October – November
Local Government Finance Settlement	December
Fees and Charges report to Cabinet meeting	13-Dec-23
MTFS and Budget report to Cabinet meeting (first version)	03-Jan-24
Overview & Scrutiny - Budget Scrutiny	08-Jan-24
MTFS and Budget report to Cabinet meeting (final version)	31-Jan-24
MTFS and Budget report to Full Council and setting of Council Tax	28-Feb-24

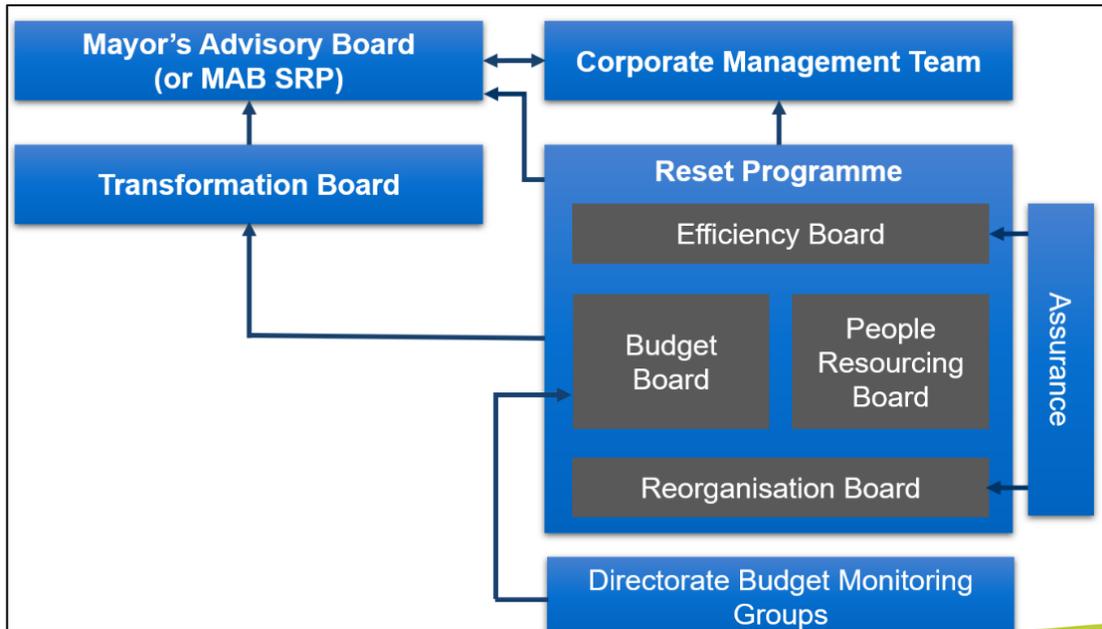
3.4 ACTIONS TO CLOSE THE BUDGET GAP

3.4.1 Local Government nationally is facing significant financial challenges. Tower Hamlets is not isolated from these and it has taken a number of actions to address the budgets pressure and close the gap.

3.4.2 The Council is undergoing a transformation programme to make sure we are achieving the council's agreed priorities, Mayor's ambitions for the borough and the objectives set out in the Strategic Plan in a more efficient and financially sustainable manner.

3.4.3 Boards have been set up to drive the transformation and achieve those efficiencies detailed in our Medium-Term Financial Strategy (MTFS). These boards have been set up to bring much more rigour to the financial management process, in part based on the annual underachievement of savings targets over a number of years and will help to reorganise and restructure the council and are subject to on-going quarterly review to ensure they are working as effectively as possible.

3.4.4 The diagram below shows how these new governance arrangements for the transformation of the Council operate:



- 3.4.5 A key element of these arrangements is the Budget Board, which is chaired by the Section 151 Officer and leads on approving budget efficiencies, including saving targets, budget growth requests and in-year variances.
- 3.4.6 In addition, the Council is also reviewing its Target Operating Model to guide the organisations evolution towards one that places more emphasis upon the needs and aspirations of the people of our Borough and the users of our services.
- 3.4.7 Directorates have been issued with £40m savings targets to achieve and proposals will progress through the new governance framework to ensure they are deliverable, and all potential savings are identified. Savings that can be taken in year will be identified as part of this process.
- 3.4.8 A corporate savings target has also been set for the Corporate Restructure Initiative. There are three drivers that necessitate a review of the departmental structures for the Council's services. These are: -
- To ensure staff resource is better aligned to the Council's priorities.
 - To ensure that the services we offer are as efficient and customer focused as they can be.
 - To provide an accelerated contribution to the delivery of £40m of realisable recurring savings required over the coming medium term to secure a financially sustainable position in line with our financial strategy.
- 3.4.9 Options identified as part of these actions will come forward for Councillors to approve as outlined in the budget setting timetable.

3.5 RISKS AND OPPORTUNITIES

- 3.5.1 When setting the draft MTF5, best estimate of service costs and income based on the information currently was used. 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.
- 3.5.2 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.
- 3.5.3 Existing pressures in service demand are reported in the Council's budget monitoring for 2023/24 reports. The main MTF5 risks and opportunities are summarised below.

Inflation

- CPI Inflation stood at 6.8% in July 2023, down from 7.9% in June. Inflation is expected to continue to fall but it has proven persistent and the economy resilient to date so there is a risk that the Council's current assumptions will need to be revised.
- A 1% change in pay inflation equates to c£2m.

Regulatory

- **Business Rate Reset** – A proposed business rates reset by the Department for Levelling Up, Housing and Communities (DLUHC) could mean 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 regularly delayed and not expected until at least 2026/27, so, in this regard, Tower Hamlets has benefitted. It is envisaged that resets will also occur periodically going forward.
 - Once the reset takes place, it is expected 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, which was now delayed and not expected until at least 2026/27. 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.

Adult Social Care Services

- **Price pressures in the social care market** – impact of workforce shortages and inflation on labour, fuel, food and clothing costs.
- **Discharge from hospital** – reduction in NHS funding for the short-term funding of care costs for residents that are discharged from hospital.
- **Increased demand** – Population growth estimates are built in and changes in the complexity of needs also impacts demand.

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

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
- Support for children with special educational needs including transportation
- 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 is a 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

Local Taxation

- Collection rates are impacted by the economy which affects taxpayers' ability to pay.
- The current MTFS assumes no increase in Council Tax.
- An increase in the Council's tax base has occurred over previous years and growth above current projections will generate more income.

Other 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

3.6 RESERVES

3.6.1 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.

3.6.2 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 without Restrictions – held for identified purposes and are used to maintain a resource in order to provide for expenditure in future years.
- Earmarked Reserves with Restrictions - held for identified purposes but their use is restricted to specific spend (e.g. grant conditions) so cannot be repurposed.
- General Reserves – these are held for 'unforeseen' events. The minimum level has been set at £20m.

3.6.3 The following table shows an early projection of the level of reserves based on an assumed spending profile and that no new reserves are created. They do not take into account the funding of any budget gaps projected in the MTFS.

	31/03/2023 £m	31/03/2024 £m	31/03/2025 £m	31/03/2026 £m	31/03/2027 £m
General Fund Reserve	24.2	20.0	20.0	20.0	20.0
Reserves without restrictions	97.3	61.9	42.9	34.8	31.9
Sub total	121.5	81.9	62.9	54.8	51.9
General Fund Restricted Reserves	97.6	78.7	70.3	53.4	40.7
Total	219.1	160.6	133.2	108.2	92.6

4 EQUALITIES IMPLICATIONS

4.1 There are no equality implications directly resulting from this update report.

5 OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 There are no other statutory implications arising from this update report.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The report provides and update on the MTFs and actions taken to bridge the budget gap. Financial comments have been incorporated in the report.

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 from time to time and as set out in this report. It is also consistent to be continually reviewing the position on a rolling basis and setting strategic directions for the coming months.

- 7.2 The monitoring of budgets and 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.
- 7.3 There are areas covered in the report where persons with a protected characteristic for the purposes of the Equality Act 2010 may be indirectly affected by the budgets as set. However, where changes in the budgetary position may result in a change to the delivery of a service, the effect on such persons will be considered separately and prior to the making of a change to that service.
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Linked Reports, Appendices and Background Documents

Linked Report

None

Appendices

- Appendix A - MTFS Summary

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

None

Officer contact details for documents:

Chris Leslie, Head of Strategic and Corporate Finance
Shakil Rahman, Senior Accountant