

Cabinet	
3 January 2024	
Report of: Julie Lorraine, Corporate Director of Resources (Section 151 Officer)	Classification: Unrestricted
Budget Report 2024-25 and Medium-Term Financial Strategy 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	Approval of the budget and MTFS is reserved to Council.
Forward Plan Notice Published	TBC
Exempt information	Not applicable
Strategic Plan Priority / Outcome	All Strategic Plan Priorities

Executive Summary

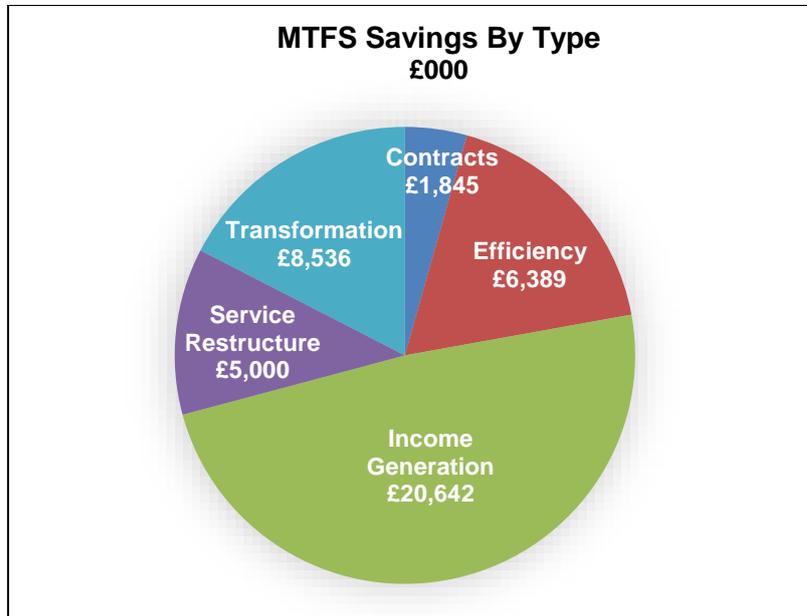
- 1 The contents of this financial report are necessarily technical in nature. It seeks to provide relevant context and to highlight the key issues for consideration by all those charged with the governance and the maintenance of financial sustainability for the London Borough of Tower Hamlets.

Context

- 2 The budget set by the Council on 1st March 2023 secured a balanced position reliant on the planned use of reserves across the medium term for the first 2 years (£22.1m in 2023-24 and a further £15.6m in 2024-25). As a result, the Council committed to achieving what were at the time unidentified savings of £37.8m.
- 3 The Council further committed to securing a sustainable balanced position across the medium term. This objective was to ensure that beyond the use of reserves set out in the MTFS in March 2023 there would be no need for further reliance on reserves. The latest updated draft position has made considerable progress and now shows a reduction in the use of reserves by £4m over the life of the MTFS.
- 4 Strong governance arrangements were put in place to oversee the delivery and identification of the savings required comprising four delivery boards each with terms of reference reflective of various aspects of financial control and management of resources. Appendix 7 provides more detail about the approach adopted to securing the savings required and meeting the objective of a securing a sustainable financial position across the medium term.
- 5 The Council has worked hard to achieve these objectives and has made good progress. A summary schedule of savings identified to date, together with the individual proformas providing further detail are attached at Appendix 3.
- 6 Whilst some savings are cross cutting, each proforma has been categorised under one of the following heads:
 - Contracts, this reflects savings on third party contractual spend. For example, where lower than expected inflationary uplifts have been successfully negotiated. A Council wide target of 1% reduction in expected spend on third party goods and services (excluding adults and children's services) has been set.
 - Efficiency, this reflects value for money improvements. For example, changes to service delivery models to secure the same or better outcomes at lower costs.
 - Income Generation, this reflects a Council wide focus on optimising returns on all our assets. For example, increased revenue from hosted advertising.
 - Transformation, this reflects changes to service delivery that deliver the same outcomes in a different way. For example, the application of new technologies.

- Service restructure, this reflects changes to the Council’s establishment in keeping with paragraph 8. For example, reducing management costs by changes to management / staff ratios.

7 At a summary level the proportion of savings by category are shown as follows:



8 The Council set clear criteria for its savings identification process designed to protect frontline services to residents, avoid compulsory redundancy where possible and increase permanent employment opportunities by reducing reliance on temporary and interim resources. To assist this a council wide voluntary redundancy/early retirement programme has been launched which is currently in train. The Council is currently implementing a comprehensive restructure, to ensure that savings, efficiencies and service delivery are maximised and improved. Some of the restructure proposals are included in this first iteration of the Council's MTFS, and further progress resulting in additional proposals concerning ongoing work on the restructuring of the Mayor's Office and Resources and Adult Social Care directorates will be included in the next report to be published on 31 January 2024. Ongoing structural changes to the Housing and Regeneration and Children's Services directorates will also be part of this ongoing restructuring process. As a matter of principle only clearly identified savings with supporting equality impact assessments are included in the Councils budget reports for approval.

9 During the year further growth pressures have emerged largely as a result of:

- Demand led pressures, particularly in the areas of temporary accommodation, children’s services and inflationary costs of adult social care packages, all of which are pressures faced by local authorities across the country. In the case of homelessness, which drives temporary accommodation demand, London boroughs have faced extreme pressures. This is visible on forecast out-turn positions for the current year as set out in the quarter two budget monitoring report presented to Cabinet on 13th

December 2023. As illustrated in that report Tower Hamlets has accommodated these pressures comparatively well when compared to peers. These pressures have been driven by a combination of the legacy of the pandemic, high inflation, high energy costs driven by international events and the multiple impacts of Brexit. All outside of the Council's direct control.

- Necessary investment required to accommodate new national initiatives such as the regulatory demand for building safety, emergency responses such as the RAAC problems and in the case of climate change, global pressures to meet carbon neutral targets and higher than expected costs associated with wider London schemes such as Transport for London's (TfLs) discounted rail programme.
 - The requirement to resource the resolution of some longstanding legacy issues, such as outstanding draft and audited accounts, annual governance statements, historical VAT underpayments and pensions administration issues. In the period this investment has resulted in major progress made including completion of the final audited positions for financial years 2016-17, 2017-18, 2018-19 and 2019-20, publication of all relevant annual governance statements and successful resolution of the waste strike.
- 10 All growth items are presented for consideration in Appendix 2. A robust approach has been adopted to growth, which have followed the same governance processes as savings. As a result, the growth bids presented for consideration by Cabinet align to the primary areas of in-year budget pressures and protecting services for the most vulnerable residents.
- 11 As a result of the Mayor's declaration of a Waste Emergency in November 2022, £5million in additional one-off growth has been provisioned for investment in Waste Services in Tower Hamlets in 2024-25. Full details of this growth can be found in Appendix 2.
- 12 The wider funding position from government for all councils remains inadequate to accommodate the demand led pressures described above. During the year many peer councils are facing financial crises with some having little option but to issue section 114 notices because their future costs exceed their current resources.
- 13 Considering all the above, the updated draft position set out in this report represents a significant improvement on that presented to members at the last budget setting meeting on 1st March 2023. Effective and prudent financial planning undertaken over the last few months has ensured that the Council's financial position is much stronger than reported last year with all mayoral priorities delivered within its funding envelope. Tower Hamlets is not at any risk of issuing a Section 114 notice.
- 14 It seems unlikely that any new or increased government funding will be forthcoming to address the ongoing pressures set out above. The Government has announced there will be no continuation of the household support fund. It

should be noted that beyond a preliminary settlement for 2024-25, there are no funding details provided for future years.

- 15 So, whilst the council is currently well placed financially and maintains a comparatively strong reserves position, maintaining financial resilience remains a priority and a necessity critical to the financial well-being of the organisation and our ability to continue to invest in and protect much needed services to our residents.
- 16 For the reasons outlined above, there should be no ongoing reliance on reserves to fund recurring costs across the medium term as this will erode our resilience and increase risk for the Council, which continues to operate in a very challenging environment.
- 17 The HRA business plan is currently being updated and the main consideration for this report is the rent and service charge levels for 2024-25.
- 18 In 2020 the government introduced a statutory override which separates local authorities' DSG deficits from their wider financial position. This is currently due to expire on 1st April 2026 and would therefore impact the Council's wider finances. At the start of the year there was a DSG deficit of £12.7m. Current demand trends indicate that without larger than forecast growth in DSG allocations then we will not be a position to reduce the accrued DSG deficit that has been bought forward. This position is in common with many local authorities, and we wait a direction on a longer-term solution from government.
- 19 The provisional local government funding settlement is due to be announced by 19th December 2023 (with the final to be issued in January 2024) and any resulting changes will be set out in the next report due to cabinet on 31st January 2024.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Propose a draft General Fund Revenue Funding Requirement of **£458.661m** for 2024-25 subject to remaining changes arising from the final Local Government Finance Settlement and any other necessary adjustments.
2. Propose to levy a 2% Adult Social Care precept for 2024-25.
3. Approve that the Corporate Director Resources, in consultation with the mayor and Cabinet Member for Resources & Cost of living, be authorised to make any changes required to the draft budget following receipt of the Local Government Finance Settlement (LGFS) for further consideration at Cabinet on 31 January 2024.
4. Note the latest draft position of the Council's reserves, subject to final audit of the statements of accounts.
5. Approve the HRA housing rent and service charge increases as outlined in section 3.11. This includes increasing housing rents for all properties by 7.7% for 2024-25 (CPI +1%), which will also enable updated modelling of the HRA for consideration at Cabinet on 31st January 2024.
6. To note this report incorporates the fees & charges changes proposed in another report to Cabinet and they are included in the draft budget and medium-term financial strategy.
7. Agree that the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2024-25. The only changes included are increases to the factor values in line with the NSFF.
8. Agree that the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set as close to 0.5% as affordable, the maximum allowed after consideration for growth and factor changes in School allocations.
9. Agree that the structure of the Early Years Funding Formula remains unchanged except for the introduction of the expanded two-year-old entitlement and new provision from 9 months from September 2024 with revised hourly rates increases in line with the Early Years National Funding Formula.
10. Note that the Local Council Tax Reduction Scheme will remain unchanged for 2024-25.
11. Note the School funding position set out at Section 3.10, in particular the overall Dedicated Schools Grant (DSG) deficit.
12. Note the Equalities Implications as set out in Section 5.
13. Note the Council Taxbase calculations in Appendix 4.

1. REASONS FOR THE DECISIONS

- 1.1 The Council has a statutory duty to set a balanced and sustainable budget and to set the Council Tax Levels for the financial year 2024-25 by 11 March 2024 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 be 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 in the Chancellor's Autumn Statement, the Local Government Finance Settlement, and challenges such as high inflation and the ongoing 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 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. Significant funding reforms have been signalled by Government and the Council has a reliance on funding sources that are potentially subject to change significantly in the medium term, and therefore it is important to continue to monitor the 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.
- 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. The MTFS report to Cabinet on 31 January 2024 will include the three-year Capital Programme 2024-27 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 for the coming financial year. The Mayor can propose the Council's priorities, in terms of the services it delivers and the level of investment, for agreement by the Council.

2.2 Additionally, the Council has a statutory duty to set a balanced HRA. Whilst there may be other ways of delivering a balanced HRA, the budget setting process outlined in this report is considered the most effective, in realising all the Council's statutory duties having regard to the matters set out in the report. The starting point for this is the agreement of rents and services charges.

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.

3.1.1 The drivers for the Council's financial strategy are:

- To set a balanced budget over the life of the MTFS. This objective was to ensure that, beyond the use of reserves set out in the MTFS in March 2023, it would remove any further reliance on reserves. The latest position shows a reduction in the use of reserves by £4m over the life of the MTFS, this ensures we are 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 agreed savings initiatives designed to keep reductions to service outcomes for residents to a minimum.
- To maintain and strengthen the Council's resilience, maintaining a financial position 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 spending, securing demonstrable value for money to deliver priority outcomes and respond proactively to external pressures in the context of the current challenging operating environment.

3.1.2 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. With reserves to support the position, the proposals

will deliver a balanced budget for 2024-25; taking into account the views of residents, business rate payers and other interested stakeholders.

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

- Strategic Approach (Section 3.2)
- Medium Term Financial Strategy & 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 (Section 3.14)

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

3.2 STRATEGIC APPROACH

3.2.1 In August 2022, Cabinet approved the 2022-26 Strategic Plan. The strategic plan is the council's main plan. It sets out the most important priorities for the council between 2022 and 2026. These priorities are translated from the Mayor's vision and the administration's manifesto. All local authorities must deliver certain services and make decisions: these are set out in law. The plan also includes important actions that the council will take to make sure these services and decisions are the best they can be.

3.2.2 There are eight key priorities identified in the Strategic Plan:

1. Tackling the cost-of-living crisis
2. Homes for the future
3. Accelerate education
4. Boost culture, business, jobs and leisure
5. Invest in public services
6. Empower communities and fight crime
7. A clean and green future
8. A council that listens and works for everyone

2021 Census

3.2.3 The 2021 Census found that Tower Hamlets had the fastest growing population in England and Wales. Between 2011 and 2021 the local population grew by 56,200 to 310,300, an increase of 22%. The borough is the most densely populated area in England and Wales with 15,695 residents per square

kilometre compared to an average of 424 residents per square kilometre in England.

- 3.2.4 The Borough also has the youngest median age in the country (30). The proportion of working age adults aged 20-64 is large (71%) and there is a large population of children and young people aged 0-19 (23.4%) whilst the proportion of older people is the lowest in England and Wales (5.6%).
- 3.2.5 The Borough is extremely diverse with the large majority (77%) coming from non-White British ethnic backgrounds. This includes the largest Bangladeshi population in the country (34.6%) as well as a large White Other population and sizeable Somali, Chinese and Roma communities. 6.2% of residents reported not being able to speak English well or at all, which was the 8th highest proportion of any local authority area.
- 3.2.6 Socio economic pressures and inequalities in the Borough persist and addressing them are among the highest priorities for the Council. Children and older people are far more likely to be living in poverty in Tower Hamlets than elsewhere in the country with a 47% child poverty rate. Overcrowding is a major issue with 15.8% of households overcrowded – the highest in the country. 87.8% of households in the borough are living in a flat or apartment compared with 22.2% in England. Homelessness numbers are high and are rising with 2,821 households currently in Temporary Accommodation. 17,085 (75%) of children of those on the TH Housing Register lack one or more bedrooms. These high numbers place pressure on the use of expensive nightly booked bed & breakfast accommodation, there are currently 574 households in B&B accommodation compared with 363 a year ago.

3.3 MEDIUM TERM FINANCIAL STRATEGY & PROPOSED BUDGET

- 3.3.1 The revised Medium Term Financial Strategy 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 £458.661m for 2024-25.
- 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 have been announced since. The Governments 2021 Spending Review provided resource budgets for Government departments for the three years 2022-23 to 2024-25. However, the Government again intends to publish a single year settlement for 2024-25. The absence of a long-term settlement hinders the ability of local authorities to plan for the medium-term effectively and drives us to make assumptions and judgements about future years. All such assumptions and judgements are underpinned where possible by third party reference sources. For example, the Office of budget Responsibility (OBR), the Bank of England (BOE) and LG Futures.
- 3.3.3 London Councils recent budget briefing highlighted the following key issues.

- The 2023 Autumn Statement did little to inspire confidence for local authorities facing financial difficulty or provide hope for those who rely on local government services.
- Demand for ever-more costly services is growing, but the resources to provide them continue to shrink. Today, London boroughs' overall resources remain about 18% lower than 2010-11 in real terms. Over that same period, London's population has grown by almost 800,000—equivalent to a city the size of Leeds.
- Adult and children's social care, a key driver of boroughs' overall demand pressures, was hardly mentioned in the Autumn Statement, and there was no new funding for social care services or any general local government funding beyond what was announced last year.
- Based on initial analysis of the statement, London boroughs will still need to make over £500 million of savings in 2024-25, as part of an estimated £2 billion funding gap over the next four years. They have worked hard to protect their budgets, but there is no painless way to make savings on the scale required. Any low hanging fruit and general efficiencies are long gone. Boroughs plan to use a quarter of their reserves to balance budgets over the next four years. This is not sustainable.

3.4 IMPACT ON COUNCIL SERVICES

- 3.4.1 The one-year provisional Local Government Finance Settlement (LGFS) for 2024-25 is expected to roll forward a number of funding streams for an additional year. The MTFs also includes another year of business rates growth that Tower Hamlets has been able to retain since the baselines were set in 2013-14. Reform is now not expected before 2026-27.
- 3.4.2 This one-year settlement marks the end of the current Spending Review period. In the Autumn Statement, announced on 22nd November 2023, departmental resource spending for the years beyond the current Spending Review period (2025-26 to 2028-29) are indicated to continue to grow at 1% a year on average in real terms, which implies real-terms cuts for 'unprotected departments' like Local Government.
- 3.4.3 Reforms of local government funding, including a 'fair funding' review of the needs assessment formula and a reset of business rates baselines, have been announced in past years but never implemented. This remains a risk to the Council and the reset of business rates baselines has the potential to wiping-out growth since 2013-14. In early 2021 the Government also consulted on altering New Homes Bonus funding. The Council's advisors believe that the policy statement may lead to reduction of funding of £1.1m in 2024-25 against our previous projections. Whilst there is a potential increase in later years it is not prudent to reflect this given we don't have a multi-year settlement.
- 3.4.4 Any proposed changes could have significant implications for Tower Hamlets over the medium term. Retained business rates above the Council's baseline

accounts for approximately £18.8m of the Council's funding. If these funding sources under the current mechanisms are changed and removed or reduced, it is not clear how the money would be redistributed across local government, and this remains a significant future funding risk for the Council.

3.4.5 In addition to funding uncertainties in the medium term, the Council continues to face increases in demand for services, inflationary cost increases, demographic cost pressures particularly in Adult Social Care and temporary accommodation.

3.5 FINANCIAL RESOURCES

MTFS Summary 2024-27	2024-25	2025-26	2026-27
	£'000	£'000	£'000
Net Service Costs	487,880	467,705	454,080
Growth - New	17,770	(4,400)	4,246
Grants and Funding impact on services - New	(21,643)	(3,557)	644
Inflation - New	6,250	(60)	6,510
Savings - Unachievable	1,213	-	-
Savings - New	(32,808)	(5,607)	(3,997)
Total Funding Requirement	458,661	454,080	461,483

Core Grants:			
- Revenue Support Grant	(41,984)	(43,243)	(43,935)
- New Homes Bonus	(2,171)	(2,171)	(2,171)
- Services Grant	(2,429)	(2,429)	(2,429)
- Improved Better Care Fund	(16,810)	(16,810)	(16,810)
- Social Care Grant	(30,082)	(30,082)	(33,282)
- ASC Discharge Fund	(3,928)	-	-
- ASC Market Sustainability & Improvement Fund	(5,158)	(5,158)	(5,158)
- Public Health Grant	(39,099)	(40,272)	(40,916)
Core Grants	(141,662)	(140,166)	(144,702)
Business Rates	(172,744)	(174,347)	(162,631)
Council Tax	(134,233)	(140,266)	(147,006)
Total Funding	(448,638)	(454,779)	(454,338)

Budget Gap / (Surplus) before Reserves	10,023	(698)	7,145
Previously Approved Drawdown from Reserves	(15,622)	(4,822)	-
Budget Gap / (Surplus) after Approved Reserves Drawdown	(5,599)	(5,520)	7,145
Contribution to Reserves / (Drawdown from Reserves)	5,599	5,520	(7,145)
Increase in Reserves Over Life of MTFS			3,974

Assumptions:

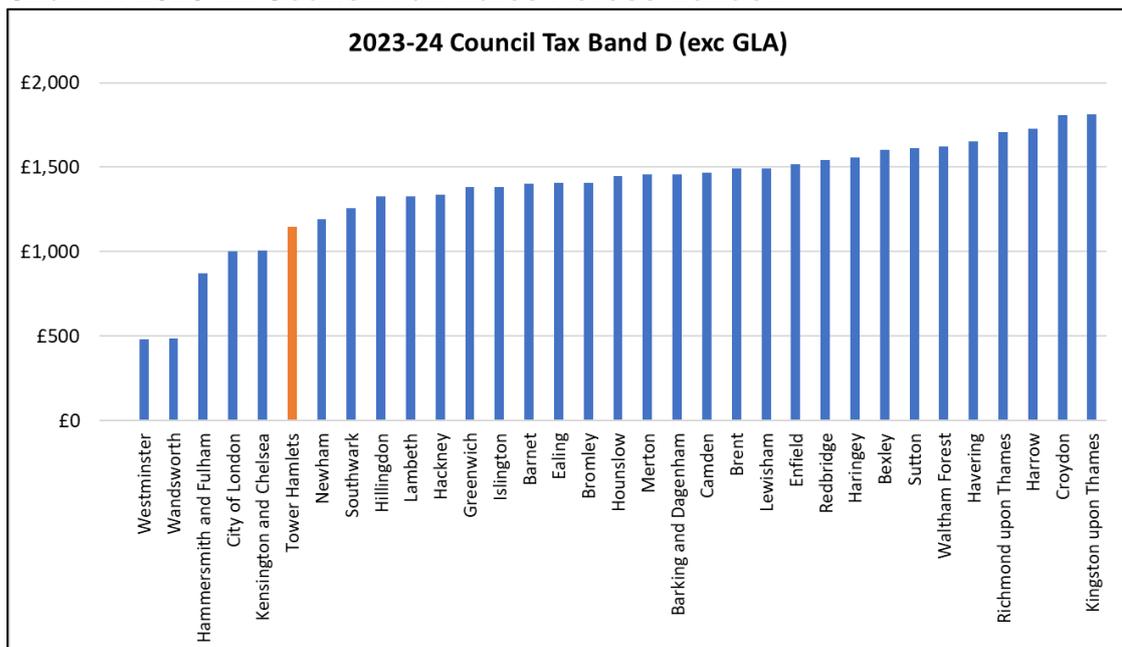
- Adult Social Care (ASC) precept increase of 2% allocated to help fund demographic pressures in Adult Social Care (i.e. spend on additional packages of care to support older and disabled people with increasingly complex needs).
- Business Rates income - assumes reset will occur in 2026-27.
- Core Grant allocations are based on the Local Government Finance Policy Statement announced in December 2023.

- Pay and contractual inflation at Autumn Statement (Office of Budget Responsibility) figures – 3.0% for 2024-25; 1.6% for 2025-26 and 1.5% for 2026-27.

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 taxbase (the number of properties adjusted for exemptions and discounts) and the rate of charge per property.
- 3.5.2 The Council can currently, subject to legislative constraints, increase its council tax rate through two mechanisms; general tax rate increases and the Adult Social Care precept.
- 3.5.3 The Government has stated the referendum level for general tax rate increases will be 3% for 2024-25 and a further maximum level of 2% for the ASC precept (specifically to fund Adult Social Care pressures). The Government assumes in the Core Spending Power calculation that councils will increase council tax at the maximum allowed level.
- 3.5.4 If the Council were to implement an increase to council tax, each 1% would generate c£1.3m per annum which would be sustainable and ongoing extra income.
- 3.5.5 Currently Tower Hamlets has one of the lowest council tax rates across the 33 London boroughs as shown in Chart 1 below.

Chart 1: 2023-24 Council Tax Rates Across London



- 3.5.6 The Covid-19 pandemic increased significantly those claiming benefits including through the Local Council Tax Reduction Scheme (LCTRS). The LCTRS impact on the Council's tax base has not yet returned to pre-pandemic levels.
- 3.5.7 The council tax collection rate decreased during the pandemic and has improved during 2023. However, in year collection rates remain lower than pre-pandemic levels by around 1% at 31 October 2023.
- 3.5.8 Additionally, growth in the council tax base has been below average for the Council at 1.7% for the year to September 2023. Nationally there has been an increase of 1.0% in the average Council Tax base which is 0.5% lower than growth in the previous year (1.5%) and below the average level of annual growth of 1.5% in the three years to September 2019.
- 3.5.9 The Council tax taxbase calculation for 2024-25 (detailed in Appendix 4) has assumed growth based on the average over the last five years of 3.1% and a 97.79% collection rate. This rate is higher than last year by 0.29% due to the additional collection activity the Council will undertake in 2024-25.

Local Council Tax Reduction Scheme (LCTRS) 2024-25

- 3.5.10 The Council did not make any changes to the Local Council Tax Reduction Scheme (LCTRS) for 2022-23 and 2023-24. The level of claimants has reduced from the increased pandemic level but remains higher than before the pandemic (19,704 band D equivalent claimants in 2019 compared to 20,217 in 2023).
- 3.5.11 The current LCTRS scheme remains amongst the most generous in the UK protecting Tower Hamlets residents on low incomes. Those on the lowest income can receive 100% relief and pay no council tax.
- 3.5.12 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. This draft budget and MTFs assumes the council will not make any changes to the existing 100% LCTRS for 2024-25 protecting our residents on low incomes.

Business Rates Retention Scheme

- 3.5.13 The Council retains 30% of business rates collected with 37% passported to the Greater London Authority (GLA) and 33% to central government.
- 3.5.14 Due to the impact of the pandemic, there was a Business Rates Collection Fund deficit to the end of 2022-23, of which the estimated Council share is £17.0m. Government funding did not match the year in which the deficit is recognised so the additional funding was put into a Collection Fund Smoothing Reserve and is being released to meet this deficit.

- 3.5.15 The Council entered a business rates pool with seven other neighbouring London boroughs in 2022-23 (the 8 Authority Pool) and will continue in this pool arrangement for 2024-25. This 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 £2.0m one-off extra income in 2024-25 and 2025-26.
- 3.5.16 The business rates baseline was due to be reset in 2022-23, however this has been delayed and is unlikely to happen before 2026-27.
- 3.5.17 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£18m of funding that could be lost, allowing for transition relief, because of a reset and the annual delays are expected to have improved the budget. Beyond this, there is significant uncertainty around 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; therefore, the level of business rates income is uncertain in future with a risk of reduced funding for the Council going forward.

Core Grants

- 3.5.18 The Council is in receipt of several core grants to support specific service priorities. Assumptions have been made in respect of most grants after 2024-25 due to the one-year settlement based on modelling by specialists LG Futures.

Revenue Support Grant

- 3.5.19 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.
- 3.5.20 Inflationary increases in RSG have been included based on the inflation assumptions in the Autumn Statement. RSG for 2024-25 is estimated at £42.0m.

New Homes Bonus

- 3.5.21 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 in the past attracted one of the highest levels of NHB in the country.

3.5.22 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 payments have reduced significantly in recent years.

3.5.23 If the NHB were to 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. 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. Following the publication of the Local Government Finance Policy Statement 2024 to 2025, modelling shows that the grant in 2024-25 will be £2.2m (£3.9m in 2023-24) with the MTFS assuming that funding will be at the same amount in all future years.

Services Grant

3.5.24 In the 2022-23 LGFS, the Government introduced a Services Grant and the allocation for Tower Hamlets was £7.688m. This grant was not ringfenced, and conditions on reporting requirements were not attached. It was provided in recognition of the vital services, including social care, delivered at every level of local government and also included funding for local government costs for the increase in employer National Insurance Contributions.

3.5.25 The Council's allocation was reduced to £4.3m in 2023-24 and is expected to fall to £2.4m for 2024-25.

Improved Better Care Fund

3.5.26 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.

3.5.27 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. The Local Government Finance Policy Statement 2024 to 2025 confirmed the grant will continue in 2024-25 and this funding is built into the MTFS at £16.8m for all years.

Social Care Grant

3.5.28 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). The Social Care Grant was increased by £2.974m in 2021-22 and then a further £4.261m in 2022-23 (to a total of £16.602m).

3.5.29 The Government announced previously that proposed Adult Social Care reforms would have their implementation delayed from October 2023 to October 2025, yet the accompanying funding would be provided to Local Government to support alleviating pressures within Adult Social Care. The Social Care Grant in 2023-24 was therefore increase to £25.958m. The grant for 2024-25 within the MTFS is £30.082m

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

Social Care Grant Allocations	Total £m
2019-20 Funding	2.499
2020-21 Additional Funding	6.868
2021-22 Additional Funding	2.974
2022-23 Additional Funding	4.261
2023-24 Additional Funding	9.356
2024-25 Additional Funding (TBC)	4.124
Total 2024-25	30.082

ASC Discharge Fund

3.5.31 The fund of £500m nationally was announced on 22 September 2022 as part of the government’s Our Plan for Patients policy paper, to help people get out of hospitals and into social care support.

3.5.32 This fund will continue in 2024-25 and government has confirmed that this will be in addition to the existing Better Care Fund. Funding of £3.9m is included in the MTFS for 2024-25 only as it is unclear if the funding will continue.

ASC Market Sustainability and Improvement Fund

3.5.33 The 2022-23 LGFS announced the new Market Sustainability and Fair Cost of Care Fund 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 distributed funding using the adult social care relative needs formula and the 2022-23 allocation for Tower Hamlets was £0.989m. The budget allocated this funding in full to the Health, Adults and Community directorate.

3.5.34 The funding was intended for local authorities 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).

3.5.35 The 2023-24 finance settlement increased this funding to £3.430m in 2023-24 and to £5.2m in 2024-25. The grant was renamed to the ASC Market Sustainability and Improvement Fund. It is envisaged that this will primarily be required to pay higher rates to providers towards a fair cost of care and to fund administration costs for the development of the market.

Public Health Grant

3.5.36 The Public Health grant is ring-fenced for use on public health functions exclusively and covers all ages. The final allocation of the Public Health grant to Tower Hamlets for 2023-24 was £37.372m. The 2024-25 indicative allocation was announced after the Autumn Statement at £39.1m, however the final allocation is not expected to be confirmed until March 2024.

Social Care Reform

3.5.37 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.

3.5.38 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 reversed the health and social care levy in November 2022 and has announced that implementation of the reforms would be delayed from October 2023 to October 2025.

3.5.39 The 2022-23 LGFS stated that to ensure that local authorities were able to move towards paying a fair cost of care, the Government was providing an additional £1.4 billion over the next 3 years. This formed 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.

3.5.40 The Autumn Statement 2023 reaffirms the commitments made at Autumn Statement 2022 to provide additional support to the NHS and adult social care in England in response to the pressures facing the health service

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 line with this review methodology, previously agreed demographic growth funding for Adult Social Care (ASC) has been updated for 2024-25 to 2026-27. For 2024-25 the demographic growth is estimated to be £2.9m, a reduction of £3.9m and reflective of the demand management measures that include more effective price controls to mitigate pressures. However, this reduction is offset in part by an additional £1.5m of inflationary pressures due to the higher levels of inflation experience in 2023-24. Funded through the 2% ASC precept in 2024-25 would bring in c£2.6m to assist fund these pressures.
- 3.6.3 The 2024-25 pay award was agreed nationally in November 2023 and the final cost to the General Fund was £12.4m. The award was the higher of £2,352 or 3.88%. The MTFS has been updated for 2024-25 to provide budget for the 2023-24 short-fall and a 3% pay award assumption for 2024-25, due to continuing cost of living pressures on national negotiations. The allowance for 2025-26 and 2026-27 assumes pay awards in line with the Office of Budget Responsibility (OBR) inflation forecasts of 1.6% and 1.5% respectively.
- 3.6.4 Next year's 10% increase in the national living wage (NLW) will trigger adult social care pressures without increased government funding for councils. Shire authorities said the NLW rise would cost them £6.3m each on average in 2024-25, totalling £230m across the sample polled by the County Councils Network (CCN) following last month's autumn statement. The rise in the NLW from £10.42 to £11.44 an hour, announced in the autumn statement, will benefit many adult social care staff in independent providers commissioned by local authorities.
- 3.6.5 For non-pay inflation, provision has been made in line with the OBR inflation forecasts, i.e. 3% in 2024-25, 1.6% in 2025-26 and 1.5% in 2026-27. In October 2023 the CPI inflation rate was 4.6%.
- 3.6.6 Directorates in the Council have reviewed their service areas for unavoidable growth and budget pressures that are requested to be funded in 2024-25. The growth requests are listed in Appendix 2.

3.7 SAVINGS PROPOSALS

Savings Proposals – General Fund

- 3.7.1 The Council has previously approved savings in past years and a further unidentified savings requirement to ensure that a balanced budget was in place for the MTFS three-year period. There are also new savings proposed in this budget for 2024-25 totalling £32.808m and these are listed in Appendix 3.

3.7.2 The identified savings previously approved by Council total £1.802m in 2024-25.

Historic savings to be written off - £1.213m

3.7.3 Following a robust review, the following previously agreed savings are no longer achievable or will be achieved through a different route, and it is proposed in this budget that these are now formally removed:

- **Review of Printing/Scanning/Use of Multifunctional Devices (SAV / ALL 001 / 17-18) £0.263m.** This saving was approved in 2017-18 and totalled £1.5m. There is £0.263m remaining relating to hybrid mail where the savings have not matched projections.
- **Using Section 106 funding to fund Housing Supply Team (SAV / PLA 001 / 23-24) £0.050m.** This was duplicated with savings SAV / PLA 005 / 23-24 - Removal of Development Officer Vacant Post.
- **Consolidation of Management Positions (SAV / PLA 008 / 23-24) £0.200m.** Saving has been superseded by the wider planned corporate restructuring.
- **Human Resources – Reprofiled to 2024-25 (SAV / RES 001 / 17-18) £0.700m.** The saving has slipped since approval in 2017-18 and relates to cross Council restructure savings that have been superseded by the new structure review.

3.8 RISKS AND OPPORTUNITIES

3.8.1 When setting the MTFS, best estimate of service costs and income based on the current information is 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.

3.8.2 There are several 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 Existing pressures in service demand are reported in the Council's budget monitoring for 2023-24 reports. The main MTFS risks and opportunities are summarised below.

Inflation

- CPI Inflation stood at 4.6% in October 2023, down from 6.7% in September. 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£2.4m.

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

3.9 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 are the foundation for good financial management and resilience. 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. As one-off resources they can only be spent once.

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 to mitigate financial risks. There are two main types of reserves:

- Earmarked Reserves – held for identified purposes and are used to maintain a resource to provide for ideally, one-off expenditure in a future year/s
- General Reserves – these are held for 'unforeseen' events. Recent lessons learned from valued fellow councils in the current challenging operating environment serve to emphasise the importance of this.
- General Balance – This is strongly recommended not to be less than £20m.
- Reserves in the circumstances referred to above, support financial resilience, providing a cushion to "buy time" in the event of stormy waters.
- Reserves invested wisely in schemes that reduce future costs can build added resilience (e.g. in invest to save schemes).
- The council's resilience and financial capacity underpin key judgements as to our risk profile and credit worthiness, in turn contributing to our ability to secure future borrowing.

3.9.3 The Council also maintains reserves in respect of its Housing Revenue Account (HRA), this together with our headroom again underpins our ability to borrow, which is critical during this time of a nationally recognised housing shortage crisis. An issue of particular focus at Tower Hamlets.

3.9.4 In 2020, the government also introduced a statutory override which separates local authorities' DSG deficits from their wider financial position. The statutory override was put in place and meant that local authorities' DSG deficits could be separated from their wider accounts. This is currently due to expire on 1st April 2026. At the start of the year there was a DSG deficit of £12.7m. Current demand trends indicate that without larger than forecast growth in DSG allocations then we will not be in a position to reduce the accrued DSG deficit that has been bought forward. This position is in common with most Local Authorities, and we wait a direction on a longer-term solution from government.

3.9.5 The amount held in reserves is a matter of judgment which considers the purpose for which they are maintained and the Council's potential financial exposure to risks. The Council's current Reserves Policy is included in Appendix 5. The level of balances is examined each year along with the level of reserves considering the risks facing the authority in the medium term. The S151 officer is required under Section 25 of the Local Government and Finance Act to include in Budget Reports, their view of the adequacy of the balances and reserves the budget provides for.

3.9.6 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 challenging environment, it is even more important to ensure reserves are maintained and not on a continuing declining trajectory. The minimum level of General Revenue balance, as set out in the Council's Financial Regulations, is £20m.

3.9.7 The following table is an overview of forecast balances on reserves at 31 March 2024 (subject to outturn and audit of outstanding Accounts).

Reserves Summary	Forecast 31/03/24 £m
General Fund Reserve	20.0
Earmarked Reserves with Restrictions on use	87.2
Earmarked Reserves without Restrictions	70.0
Total General Fund Earmarked Revenue Reserves	157.2
Other Reserves	
Housing Revenue Account	26.9
Housing Revenue Account Major Repairs Reserve	3.5
Dedicated Schools Grant Surplus / (Deficit)	(12.7)
Reserves restricted by law to finance Capital Expenditure	
Capital Grants Unapplied	159.4
Capital Receipts Reserve	148.5
Overall Reserves Total	502.8

3.9.8 Please refer to Appendix 6 for the detailed projected movement in reserves over the period 2023-27. The proposed corporate reserve movements for 2023-24 and 2024-25 are set out below

Proposed Corporate reserve movements 2023-24

Description	Transfer from Reserves £m	Transfer to Reserves £m
Contribution to fund Collection Fund deficit costs (from Collection Fund Smoothing Reserve)	8.0	
Contribution to fund Primary Schools Free School Meals costs (from Free School Meals Reserve)	1.8	
Contribution to fund MTFS (from Mayor's Priority Investment Fund)	22.1	
Contribution to fund Social Care pressures (from Mayor's Priority Investment Fund)	4.6	

Budget savings from deferred investments (to Mayor's Priority Investment Fund)		4.1
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Proposed Corporate reserve movements 2024-25:

Description	Transfer from Reserves £m	Transfer to Reserves £m
Contribution to fund MTFS (from the Mayor's Priority Investment Reserve)	15.6	
Contribution to MTFS Equalisation Reserve (from MTFS update - see table at Paragraph 3.5)		5.6
Contribution to fund Collection Fund deficit costs (from Collection Fund Smoothing Reserve)	2.6	

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 high needs 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 2024-25 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 October 2023, the ESFA published indicative allocations for 2024-25 for the Schools Block, Central Services Block and High Needs Block. These are all indicative allocations and will be updated in Mid-December based on the October 2023 School census. There is no indicative allocation for the Early Years Block which will have initial allocations published in December although subject to further change in relation to place and pupil numbers therefore the table below assumes static funding.

3.10.5 A further allocation for pupil growth and falling rolls in the school's block has yet to be allocated and will be confirmed in the December allocations. Growth is calculated using growing pupil numbers in Middle Super Output Areas (typically

3 to 4 schools) between October 2022 and October 2023 ignoring reductions in other areas. This methodology benefits Tower Hamlets with the movement in demand across the borough meaning that whilst there are no net increases in pupil numbers it does reflect that this masks a hidden disparity between the east and the west. For the first year the DfE (Department for Education) have also introduced funding for falling rolls, again based on middle super output areas but reflecting schools with a greater than 10% reduction in pupil numbers. The final December allocation it will allow us to confirm if there is any effect of this on Tower Hamlets funding allocations.

- 3.10.6 The Main element of the school's block of the DSG has been calculated by building in the previously separately paid schools additional pay grant and a 0.5% per pupil increase from 2023-24.
- 3.10.7 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 2024-25 has increased by building in the previously separately paid pay grant and a 3% increase. 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 several future financial years.
- 3.10.8 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. Tower Hamlets is currently part of the Department of Education, delivering better value (DBV) programme which will further explore cost avoidance in 2024-25.
- 3.10.9 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.
- 3.10.10 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 £222k in relation to historic commitment for 2024-25, and therefore significantly reduces central education spending power.
- 3.10.11 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 will be asked at the school Forum of 20th January 2024 to increase these contributions and de-delegations by 0.5% to match the increase in the schools funding.

3.10.12 The table below sets out the initial DSG allocation over the funding blocks for 2023-24. Please note that the 2023-24 allocations will be finalised in July 2023.

Dedicated Schools Grant – Indicative 2024-25 and Current 2023-24

Block Gross	2024-25 £m	2023-24 £m	Change £m
Schools Block	*306,634	295,265	11,369
CSSB	2,935	3,157	(222)
High Needs Block	85,458	82,472	2,986
Early Years Block	30.163	30,163	N/A
Total	425,190	411,057	14,133

** Includes the previously separately funded supplementary grant*

3.10.13 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£23m in 2023-24) and sixth form funding (circa £15m) 2023-24). Final allocations for the pupil premium will be confirmed in July 2024, Sixth form funding in March 2024.

Tower Hamlets’ Funding Formulae

3.10.14 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. Schools Forum have agreed in principle to mirror the national funding formula, which was confirmed in the November Forum meeting, and is line with the direction of travel stated by government. Schools Forum in January will consider the following:

- That the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2024-25.
- That the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) has been set at close to 0.5%, the maximum allowed, as affordable.
- That the structure of the Early Years Funding Formula is maintained whilst allowing for amended rates reflecting the increases and the changing entitlements for 2024-25.

3.11 HOUSING REVENUE ACCOUNT (HRA)

- 3.11.1 The Housing Revenue Account (HRA) was introduced as part of the Local Government & Housing Act 1989. It is a ringfenced account that contains the income and expenditure relating to the activities of the Council as landlord of its dwelling stock.
- 3.11.2 Being a ringfenced account means that any surplus or deficit on the HRA cannot be transferred to the General Fund and must remain within the HRA. The HRA cannot subsidise or be subsidised by the General Fund and must remain in balance.
- 3.11.3 Prior to April 2012 the provision of Local Authority Housing was managed through a subsidy system with rents being collected at a local level, pooled, and redistributed back to Local Authorities based on a formulaic calculation.
- 3.11.4 From April 2012 the Localism Act abolished the subsidy grant and replaced it with self-financing, under which local authorities took a one-off share of the national housing debt in return for retaining all rental income collected. Therefore, the HRA retains all benefits associated with its property portfolio but also incurs the risk and costs associated with them.
- 3.11.5 These freedoms were introduced with strings attached in the form of a debt cap. This was set by the Government individually for each Authority and represented the maximum level of borrowing allowed to fund investment in any new build programme or investment in the existing stock. In Tower Hamlets, the debt cap was set at £184m.
- 3.11.6 In October 2018, the Government abolished the debt cap as it was felt to have been set artificially low and was restricting Local Authorities in their new homes programme which was contributing to the shortage of available housing. As a result, the HRA is now able to borrow at higher levels than the debt cap and monitors the affordability of its current and planned future borrowing through parameters set within the HRA business plan.
- 3.11.7 The HRA business plan is a requirement of self-financing and is a 30-year plan that models both revenue and capital income and expenditure and assesses the affordability of current and future plans and their impact on HRA reserve balances. The HRA business plan is updated annually as part of the budget setting process to ensure activities within the HRA are affordable.

2023-24 Rent Increase

- 3.11.8 Annual rental increases or decreases are set nationally by Central Government. 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.
- 3.11.9 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.

- 3.11.10 Any rent increase is based on the September CPI figure, and therefore the maximum rent increase would be this CPI figure + a further 1%. The financial year 2024-25 represents the final year of this commitment and the Government has yet to announce its rent policy beyond this year.
- 3.11.11 In 2023-24, faced with an unprecedented rise in inflation and the exceptional cost of living pressures on households, the Government restricted the social housing rent increase by capping it at a lower than inflation level of 7%. The Mayor at Cabinet on the 23rd January 2023 approved this maximum rent increase.
- 3.11.12 The capped rent increase only applied to existing tenants and the Council had further flexibility on rents for new properties and relets where the formula rent and full CPI plus 1% rent increase could be applied if Tower Hamlets chose to do so. The Mayor at Cabinet approved this flexibility, with CPI +1% rent increases being implemented on new properties and those being re-let.
- 3.11.13 DLUHC has published an impact assessment alongside the consultation which estimates the loss of rental income for councils nationally at £3.4billion in the 5-year period between 2023 and 2028.
- 3.11.14 In its Autumn Statement on the 22nd November 2023 the Government announced that local authorities will be able to increase rents in line with its Social Housing Policy, up to a maximum of CPI +1% for 2024-25. There will be no cap restrictions applied. The CPI level for September 2023 is 6.7%, with the maximum rent increase therefore being 7.7%.
- 3.11.15 The Government intends to consult separately next year on social housing rent policy from 2025 onwards. To inform this, DLUHC will launch a call for evidence on whether social landlords should be permitted, gradually over time, to bring rents back up to the level they would have been had 7% cap not been applied. Other factors including affordability for tenants and welfare expenditure will also be considered.
- 3.11.16 It is proposed that housing rents for all properties are increased by 7.7% for 2024-25. The table below shows the new weekly rental charges for 2024-25. A 7.7% rent increase will generate £5.6m of additional income within the HRA that will be used to fund the borrowing costs associated with investment in the existing stock and new developments.

Bedroom Numbers	2023-24 Average Weekly Rent £	7.7% Increase	2024-25 Average Weekly Rent £
0 Bed	91.68	7.06	98.74
1 Bed	107.56	8.28	115.84
2 Bed	120.56	9.28	129.84
3 Bed	137.79	10.61	148.40
4 Bed	161.96	12.47	174.43
5 Bed	167.24	12.88	180.12
6 Bed	174.24	13.42	187.66
7 Bed	179.41	13.81	193.22
Weighted Average	123.21	9.49	132.70

3.11.17 It is acknowledged that a 7.7% rent increase represents an uplift in the weekly rental charge to tenants. However, the HRA is currently experiencing unprecedented increases in its costs resulting from Brexit, Covid pandemic and cost of living crisis following the war in Ukraine. High inflation and interest rates mean that many of the costs incurred within the HRA are rising by more than the 7.7% rent increase and the Council is therefore also bearing a proportion of these cost increases and not passing them all on to the tenant. The additional income generated will maximise the ability of the council to invest in the housing stock, both in the existing property portfolio and new build schemes. The Council's strategic plan commits it to building 4,000 new homes, and the rent increase will help to facilitate this target. The increase will also ensure that further funds do not have to be taken from other services within the HRA, and that these services will continue to operate without depletion to their budgets.

2023-24 Increase in Tenanted Service Charges

3.11.18 LBTH 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 uplift, up to the September CPI figure. They are calculated on a service charge basis to ensure full cost recovery.

3.11.19 The charge levied on tenants reflects the cost of providing the chargeable services to them. If service charges are not increased to reflect costs incurred, then the HRA will be subsidising these services and in effect tenants that do not receive these services will be meeting the cost through their rent payments.

3.11.20 The table below details the current service charges and the impact of the proposed weekly charges for 2024-25 to enable the HRA to recover its costs from tenants.

Service Charge	2023-24 Average Weekly Charge	2024-25 Average Weekly Charge	£ Weekly Increase (22-23 to 23-24)
Block Cleaning	6.53	6.97	0.44
Estate Cleaning	2.88	3.07	0.19
Concierge	11.42	11.99	0.57
Horticulture	0.93	0.98	0.05
ASB	1.35	1.42	0.07
Boiler Fuel	28.93	28.93*	-
Communal Energy	3.35	3.35	-

* Gas and Electricity charges are currently extremely volatile and therefore subject to change. The charges above will be continually reviewed and liable to change as a result of market conditions.

Building & Fire Safety

3.11.21 There are 78 buildings within the scope of the building safety act for which building safety cases, full building plans, external wall systems surveys and type 4 fire risk assessments. The programme of works has been expanded to include inspections of doors. There is a need to further strengthen the work to ensure the delivery of this programme, completion of inspections and the safety of tenants.

HRA Business Plan

3.11.22 In April 2012 the Localism Act introduced a self-financing system and the management of housing at a local level. This required LBTH to take on a one-off share of the national housing debt in return for retaining all rental streams in respect of the housing stock. The aim was to allow local decision making to drive the level of investment in the housing stock and to agree spending priorities in line with local demand. The HRA Business Plan is a 30-year financial model and is the key tool used to ensure the short, medium and long-term viability of the HRA and affordability of its investment programmes.

3.11.23 Since the abolition of the HRA debt cap in 2018 councils have been free to extend their borrowing but should be within their own pre-defined limits as part of the overall prudential code.

3.11.24 Three factors have been used to date to assess the borrowing constraints within the HRA are:

- A minimum reserve balance of £10m within the HRA
- A voluntary revenue provision for debt repayment based on 2% of opening debt (equivalent to c£2.9m per annum)
- A minimum Income Cover Ratio of 1.5 was maintained

3.11.25 To maximise the resources available to invest in the existing stock and new build housing programme, it is proposed to reduce the Interest Cover ratio to 1.15 and stop making voluntary revenue provision for debt repayment within

the HRA. These changes have been discussed with the Council's technical advisor and are in line with those of other London boroughs.

3.12 CAPITAL

- 3.12.1 Council approved the 2023-26 capital programme of £239m for the General Fund programme and £412m for the Housing Revenue Account programme in July 2023. The capital programme was for a three-year period, with commitments beyond 2026 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 capital programme is being refreshed for 2023-27 and will be presented, including any additions and changes to the programme, with the MTFs report to Cabinet on 31 January 2024.

3.13 TREASURY MANAGEMENT STRATEGY

- 3.13.1 The Treasury Management Strategy Statement will be revised and agreed with Audit Committee on 22 January 2024, and recommended for Full Council approval in February 2024 in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy regarding 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 will be based on the proposed Capital Programme.

3.14 BUDGET CONSULTATION AND SCRUTINY PROCESS

- 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 taxpayers and a broad range of other key stakeholders. Furthermore, the Council's Budget and Policy 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 budget consultation 2024-25 began on 23 October 2023 and closed on 4 December 2023. The consultation sought to provide details of the financial challenges the Council currently faces and requested feedback on priorities for Council services from residents and businesses. The results of the survey are currently being analysed.
- 3.14.3 Overview and Scrutiny Commitment play a key role in scrutinising the budget proposals. This covers all aspects of the budget including revenue growths and savings, the capital programme, Housing Revenue Account (HRA) and 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 Our Borough's strength lies in its diversity and the different communities and cultures living side by side. The Council is working to make the Borough safe, welcoming and a place of opportunity for all however inequalities still exist. The borough is the most densely populated local authority in the country. Tower Hamlets has one of the highest levels of children living in poverty in the country. Additionally, Tower Hamlets continues to experience exceptionally large population increases and since the 2021 census the population has risen from 310,306 in March 2021 to 325,789 just over a year later, the second fastest growing area in England.
- 4.3 These inequalities 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, on all proposed changes, the Council undertakes an equality impact screening and where required a full Equality Impact Analysis to determine whether the proposal will have a disproportionate impact on persons who share a protected characteristic and to also outline actions to mitigate against the equality risks. All savings proposals (Appendix 3A & 3B) include an equalities screening and identifies the relevant proposal that will require a full equality impact analysis.
- 4.4 Corporate Directors will ensure equality analysis are completed to inform decision making for implementation of these proposals.
- 4.5 Increasing pressures on the Council's limited finances mean that the Council needs to continue making savings in the next three years to achieve a balanced budget. This is a major challenge which needs to consider every penny spent while ensuring that equality remains at the heart of all decision making. The proposed growth items represent a positive impact for residents and organisations in the Borough.

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 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.
- 5.3 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.
- 5.4 The sustainable action for a greener environment implication of individual proposals in the budget are set out in the papers relating to those proposals.
- 5.5 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.
- 5.6 The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.
- 5.7 Any safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.

6 COMMENTS OF THE CHIEF FINANCIAL OFFICER (CFO)

- 6.1 As this Report is financial in nature, the comments of the Chief Financial Officer (s151 officer) are contained throughout. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer must report on the robustness of the estimates made for the purposes of the calculations and that the Council has adequate reserves should risks materialise. The Section 25 statement will be in the budget report to Council in February 2024.
- 6.2 Despite significant financial pressures the Council has managed to put forward a balanced MTFS over the next three financial years. However, several risks to this position exists including persistent high levels of inflation and increasing costs including those from Adult Social Care providers.
- 6.3 It is, therefore, vital that the Council continues to robustly monitor its financial position and take action to reduce costs or generate additional income were required.
- 6.4 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. The Council's decisions on this matter are therefore key to ensuring we maximise the amounts shown in the Core Spending Power calculation.

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 Schedule 1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 mandates those Council duties that cannot be the responsibility of the Executive. The duty to make arrangements for the proper management of the Council's finances is one such duty. Therefore, at this stage the report makes recommendations that the Mayor proposes the recommendations to full Council as part of the overall annual budget setting process.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1A Medium Term Financial Strategy Summary
- Appendix 1B Medium Term Financial Strategy Detail by Service Area
- Appendix 2A Proposed New Growth, Core Grants & Inflation Summary
- Appendix 2B Proposed New Growth Business Cases
- Appendix 3A Proposed New Savings & Unachievable Savings Summary
- Appendix 3B Proposed New Savings Business Cases
- Appendix 4 Council Tax Base calculation
- Appendix 5 Reserves Policy
- Appendix 6 Projected Movement in Reserves
- Appendix 7 Overview of Governance Arrangements

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

- NONE

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