Cabinet 4 October 2016	TOWER HAMLETS
Report of: Zena Cooke (Corporate Director of Resources)	**Classification:** Unrestricted
Medium Term Financial Strategy 2017 – 2020	

Lead Member	**Councillor Edgar, Cabinet Member for Resources**
Originating Officer(s)	Neville Murton (Service Head Finance and Procurement)
Wards affected	All
Key Decision?	No
Community Plan Theme	One Tower Hamlets

Executive Summary

On 24th February 2016 the Council agreed a balanced budget for 2016-17 and a Medium Term Financial Strategy (MTFS) covering the period 2016-2020. The MTFS identified a funding gap of just under £58m over the period 2017–2020 after a proposed use of General Fund reserves amounting to £4.4m. The estimated saving requirement amounted to £30m; £18m and £10m respectively for 2017-18 to 2019-20.

On 6th September 2016, Cabinet received an updating report; setting out the intention to adopt a new strategic approach to financial planning, predicated on the government's guaranteed four year funding settlement and utilising an outcomes based approach. That report highlighted that in October, a further report would be provided which would review and update the key underpinning assumptions in the MTFS including the future outlook for the council's finances and therefore the requirement for transformational savings to deliver against a revised budget gap. It also signalled the intention to set out information necessary to commence the budget scrutiny process and undertake public consultation on the budget.

This report fulfills that intention - detailing the revisions now considered appropriate to the key financial assumptions that underpin the Council's budget position for 2017-18 through to 2019-20. It confirms the funding gap of £58m, although highlights that it is possible to reduce the proposed use of the General Fund Reserve, initially set at £4.4m, to a lower figure of £1.1m.

It also proposes a number of approaches designed to minimize the impact of funding changes on the long term stability of the Council's finances and in particular suggests strategic approaches to the use of the New Homes Bonus, the Improved

Better Care Fund and any Collection Fund surpluses which minimises risk and improves the Council's strategic approach to its finances – both revenue and capital.

It also sets out and seeks approval for a broad set of proposals that the Council intends to pursue to deliver balanced budgets over the forthcoming three year period. The report proposes the start of the formal budget consultation process with residents, businesses and other key stakeholders and sets out a timeframe for completing the remaining items that will lead to the conclusion of the budget setting process and culminate in the setting of the Council Tax for 2017-18.

Taken in their entirety this approach supports the development of the Council's Efficiency Plan, including its approach to budget scrutiny and consultation.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the changes to the draft budget position for 2017-8;
2. Note the early indications of the financial position 2018-19 onwards, subject to the Autumn Statement and Local Government Finance Settlement;
3. Note that the financial position is subject to volatility and that developments in Government policy and their implications on MTFS planning assumptions will be monitored closely and reported back at regular intervals;
4. Agree to accept the Government's 4 year funding Settlement Offer and delegate authority to the Director of Resources to submit a request for a Four Year guarantee for Tower Hamlets together with an Efficiency Plan;
5. Agree the consultation approach set out in section 3.20 and appendix 5;
6. Agree to commence formal budget consultation with residents, businesses and other key stakeholders and to receive feedback on the consultation at Cabinet in December.

1. REASONS FOR THE DECISIONS

1.1. The Council is under a duty to set a balanced and sustainable budget and maintain adequate reserves such that it can deliver its statutory responsibilities and priorities. The Council must also undertake meaningful budget consultation with key stakeholders.

1.2. The government's four year guaranteed financial settlement provides the Council with the opportunity to take a more strategic approach to its budget setting arrangements; building on the existing medium term financial planning approach that the Council has adopted for a number of years.

1.3. A Medium Term Financial Strategy (MTFS) covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty.

1.4. Through the adoption of an outcome based approach over the 3 year planning period the Council is afforded the opportunity to develop proposals which are more transformational in nature and allow sufficient time for needs led, outcome based service redesign.

2. ALTERNATIVE OPTIONS

2.1. Whilst the Council has identified a number of proposals for consideration aimed at delivering its MTFS there is no alternative other than to set a legal and balanced budget and agree its Council Tax before the statutory deadline.

2.2. The Council could continue with the current approach of agreeing proposals on an annual basis but this does not support a strategic approach which allows for proposals to be managed and implemented over a longer period of time leading to evidenced based policy decisions and better overall outcomes.

3. DETAILS OF REPORT

3.1. Introduction and 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 Medium Term Financial Strategy (MTFS) integrates strategic and financial planning over a three 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.

3.1.2. In February 2016 the Council agreed a balanced budget for 2016-17 and an MTFS covering the period 2016-2020. For 2017 to 2020 this highlighted a funding gap of some £58m with estimated funding shortfalls of £30m in 2017-18, £18m in 2018-19 and £10m in 2019-20. The latest position which takes into account a small number of changes after the February Council decision is restated in Appendix 1. This reflects the following minor changes:

- The balance on the General Fund reserve has been restated to take account of the final 2015-16 outturn position;
- The full year impact of the 0 – 5 year old element of the Public Health grant which has increased both Core Grants and Service expenditure by £3.7m; and
- An additional £0.5m from S31 grants associated with the Business Rate Retention Scheme which has reduced the overall call on the General Fund reserve.

3.1.3. The MTFS was based on a number of key assumptions covering the following areas:

(i) Levels of total government grant over the MTFS period including Revenue Support Grant (RSG) as well as core and other service grants such as the New Homes Bonus (NHB) Better Care Fund (BCF) and Education Support Grant (ESG);
(ii) Estimated changes to the Council's local resource base i.e. Council Tax and Business Rates;
(iii) Estimated service demographic growth and inflationary pressures over the MTFS period;
(iv) The achievement of savings already approved including £27m in 2015-16 and further savings of £17m to be achieved in 2016-17.

3.1.4. Each of these assumptions and projections has been re-evaluated in the light of a number of significant events that have evolved since the MTFS was set in February 2016. The key issues impacting on those assumptions can be summarised as:

- The Council's 2015-16 outturn position and latest budget monitoring information for the current (2016-17) financial year – indicating the extent to which approved saving proposals have already or are expected to have been delivered and therefore the robustness of the Council's base financial position.
- The general economic outlook for the country following a sustained period of recession and the associated austerity measures giving rise to inflationary impacts and service demand pressures on the Council.
- The impact of the decision to leave the European Union.
- The change of Prime Minister and Cabinet Members following the EU Referendum and developments on a number of government policy direction announcements:
    - Schools
    - Welfare reform
    - Business rate reform
    - Housing

3.1.5. At the time of the Local Government Finance Settlement in December 2015, the government confirmed a number of previous announcements that signalled an intention to fundamentally change the way that Local Authorities would be funded in the future; proposing some immediate actions that included the following:

- A conditional offer to all authorities of a four year financial settlement for 2016-2020 based on the exemplifications set out in the 2016-2017 Local Government Finance Settlement; and
- An intention to work with stakeholders to develop a funding system, based on the extension of the existing Business Rate Retention Scheme such that authorities retained 100% of Business Rates.

3.1.6. Whilst these proposals offer an opportunity to adopt a more strategic financial and service planning approach it also introduces a number of additional risks that also need to be fully considered.

3.1.7. This report therefore seeks to bring together an updated position based on an analysis of all relevant factors with the intention of:

(i) Reassessing the Council's MTFS position, covering both funding and expenditure elements, and thereby determining a revised analysis of estimated funding shortfalls over the MTFS period;

(ii) Setting out a range of proposals which would seek to address the identified funding shortfalls;

(iii) Agreeing the basis for scrutiny and budget consultation;

(iv) Establishing the basis for the Council's Efficiency Plan to inform a decision on whether to accept the offer of a four year settlement.

3.1.8. All of these factors are considered further below.

3.2. The Council's Strategic Approach

3.2.1. As previously set out the drivers for the Council's financial strategy are:

- To set a balanced budget over the life of the MTFS whilst protecting residents from funding reductions as far as possible;
- To fund priorities agreed within the Strategic Plan, ensuring that service and financial planning deliver these priorities;
- To deliver a programme of planned reviews and savings initiatives designed to maximise efficiency and minimise the impact on services for residents;
- To maintain and strengthen the Council's financial position so that it has sufficient reserves to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents;
- To ensure the use of reserves policy prioritises investment in service transformation and efficiencies that deliver a reduced cost base;

- To ensure the Council maximises the impact of its spending to deliver priority outcomes.

3.2.2. The offer of a four year guaranteed funding settlement could provide an opportunity to strengthen the Council's strategic approach.

3.3. The Four Year Settlement.

3.3.1. In the 2016-17 provisional local government finance settlement (SR2015), the government stated that it would offer any council that wishes to take it up, a four-year funding settlement which would cover the period from 2016 to 2020. At the time of the final settlement in January 2016, it was confirmed that the deadline for requesting acceptance of the offer was 14th October 2016.

3.3.2. The Secretary of State for Communities and Local Government issued a letter and annex on 10th March 2016, which helped to clarify the following issues:

(i) The deadline for applying for the offer is 5pm on Friday 14 October 2016;

(ii) It is expected to be the only time over the course of the current Parliament that a multi-year settlement will be offered;

(iii) The offer covers the figures provided in the final local government finance settlement published on 9th February for Revenue Support Grant (RSG); Transitional Grant; and Rural Services Delivery Grant – Members should note that Tower Hamlets does not receive either Transitional or Rural Services Delivery Grants and so in practice the guarantee is limited to RSG;

(iv) In addition, protection will be provided that ensures tariffs and top ups for the period of 2017-18 to 2019-20 will not be altered for reasons related to any changes in the relative needs of local authorities. This was the original intention when the Business Rate Retention Scheme was first established – that once determined top-up and tariff payments would remain based on the original comparison between the baseline funding level and need until the next reset point (2020) subject only to annual uplifts for changes in the level of RPI.

3.3.3. The guarantee will not however, give protection from:

(i) The extra responsibilities and functions that might need to be accepted by local government as part of the move to 100% business rates retention;

(ii) Future transfers of functions to or between local authorities, or the impact of mergers; and

(iii) Any other unforeseen events.

3.3.4. Efficiency plans do not need to be their own stand-alone document. They can be combined with the MTFS or linked to an efficiency strategy developed for the use of capital receipts flexibility. Within the efficiency strategy, the Council will be expected to show how a four-year settlement will bring about opportunities for further savings. Where appropriate, the plans should be worked up in conjunction with public sector partners and linked to devolution plans.

3.3.5. It remains unclear whether a Council that has asked for and been given a four-year settlement can subsequently withdraw from the arrangement; in particular, as a result of a change of local political control or what 'unforeseen events' might be, including whether the need for further public sector funding reductions in excess of those announced at the settlement following SR2015 would be categorised as 'unforeseen'.

3.3.6. However, if there were sufficient adverse factors that required the government to 're-open' the guarantee, this must affect all councils and so it is reasonable to conclude that a council that had accepted the offer would not be in a worse position than one that had not.

3.3.7. On balance therefore officers consider that it is preferable to apply for a four year settlement despite the remaining uncertainties, as this is entirely consistent with the timeframe that the Outcomes Based Budgeting approach has been working to within the Council. This would largely only provide a guarantee for RSG the quantum of which is considered below using the figures confirmed as part of the Final Local Government Finance Settlement.

3.3.8. Members are asked to endorse this approach and give delegated authority to the Director of Resources to submit a request for a Four Year guarantee for Tower Hamlets together with an Efficiency Plan based on the strategic issues and proposals set out in this report.

3.4. Core Spending Power

3.4.1. The Government has begun using Core Spending Power (CSP) as a measure to gauge the overall change in resources available to Councils and has published this data for the period covered by the current Spending Review i.e. up to 2020. For Tower Hamlets the CSP calculation indicates a 3.7% reduction in cash resources available (£10.5m). However, CSP makes certain assumptions which are summarised below:

3.4.1.1. CSP assumes that Council Tax will be increased by the 2% ASC precept in every year to 2019/20. This is consistent with the position agreed for 2016-17 and modelled in the latest Medium Term Financial Strategy projections for 2017-18 to 2019-20. The value of the ASC precept in 2016-17 was £1.4m although this will vary annually according to any changes in the tax base.

3.4.1.2. CSP assumes that Council Tax will be increased by an inflationary element (based on an annual CPI rate of 1.75%) in every year until 2019-20. Whilst Tower Hamlets approved a 1.9% general increase in 2016-17 no such on-going assumption has been made in the MTFS for 2017-18 onwards. A 1.75% increase in the Council Tax would yield an estimated £1.3m

3.4.1.3. The historic average growth in the Council Tax base seen between 2013-14 to 2015-16 will be maintained. However, the government has never published the data that underpins this assumption; although an interpolation of the CSP data suggest that they have used a figure of 3.7% to 3.8% per annum. The current MTFS includes an assumed 3% per annum uplift for 2017-18 onwards. Based on the 2016-17 budgeted level of Council tax a 3% increase generates an additional £2.3m

3.4.2. The Core Spending Power calculation for Tower Hamlets is shown at Appendix 3.

3.4.3. Only to the extent that the above assumptions hold true will the CSP figure be a reliable indication of the Council's overall change in resources relative to other councils.

3.5. Revenue Support Grant (RSG)

3.5.1. Revenue Support Grant is currently the primary mechanism for providing direct central government grant support to Local Authorities. In general terms it assesses a council's need to spend through Relative Needs Formulae (RNF) and compares that with a council's ability to raise funding locally.

3.5.2. However, there are now a number of issues with its ability to achieve this successfully. In particular the RNF have remained largely unchanged for a number of years and central government policies aimed at limiting increases in Council Tax through a Council Tax freeze grant has introduced further distortions into the system. In addition, the extent to which RSG has provided the mechanism for the government to transact its austerity measures for Local Government means that RSG is estimated to have largely disappeared by 2020.

3.5.3. Notwithstanding the fact that the Government is proposing a four year funding guarantee, this substantively applies to the relatively small and diminishing amount of Revenue Support Grant (RSG) that the Council receives. The table below sets out the position shown in the Council's MTFS for its receipt of RSG and this reflects the basis of the government's four year funding guarantee as announced in the final 2016-17 Local Government Finance settlement.

3.5.4. On the basis that the Council will accept the guaranteed settlement the amount of RSG is not expected to change other than in 'exceptional circumstances' which reflects the Government's position as summarised in paragraph 3.3.3 above.

Year	Projected RSG £m
2016-17	68.665
2017-18	53.958
2018-19	43.795
2019-20	33.281

3.5.5. In 2019-20 RSG in Tower Hamlets is estimated to account for c£33m; at which point it will account for just over 10% of the Council's total funding requirement. From 2020 onwards, it will be subsumed into the new 100% Business Rate Retention Scheme. In essence the Government has proposed that the loss of the RSG will be more than offset by increases through the local retention of Business rates.

3.6. Business Rates

3.6.1. London Boroughs retain 30% of their Business Rate yield with the government retaining 50% and the Greater London Authority (GLA) retaining the remaining 20%. In the 2016 budget it was announced that from April 2017, and as a pilot scheme for the new Business Rate Retention Scheme, the GLA share of retained Business Rates in London will rise to 30% with a corresponding fall in the amount retained by Central Government (from 50% to 40%); there will be a corresponding reduction of TfL capital grant to the GLA which will reflect their increase in retained resources.

3.6.2. Under the existing arrangements, Resource Equalisation (the process of matching a council's assessed need for resources against its ability to raise those resources locally) is achieved through a combination of RSG (see earlier section) and the Business Rate top-up and tariff system. Tower Hamlets is currently a top-up authority - receiving c £4m per annum on top of its retained business rates quantum.

3.6.3. The government's Business Rate Retention Scheme (BRRS) has been in operation since 2013-14. In the most recent Spending Review the intention to move towards Local Authorities retaining '100%' of Business Rates was confirmed and in Budget 2016 some further details began to emerge. It is important to understand that the implications, alongside the elimination of RSG, of a fully retained Business Rates system in London might comprise:

- London Boroughs retaining say 60%-70% of Business Rates;
- The GLA retaining the residual element up to the full 100%;
- Resource Equalisation being achieved through a variant of the top-up and tariff system;
- Additional responsibilities being shared between GLA and the London Boroughs to recognise relative funding levels and transfers.

3.6.4. More generally, given that the move to a 100% retention of Business Rates will see Local Government retaining an estimated additional £12.5Bn of resources there will be a significant transfer of existing grants and other responsibilities to local authorities in recognition of the additional resources. This is in the same way that the London pilot sees a transfer of some TfL capital grant to the GLA to compensate for their increased retention of Business rates from April next year (para. 3.6.1)

3.6.5. . During 2016 there have already been a number of consultations relating to Business rates processes:

(i) A consultation on changes to the ***Appeals Process*** – A new three stage appeals system that allows ratepayers to Check, Challenge and Appeal their property valuations online is to be implemented from 1st April 2017. This is designed to resolve appeals more quickly and efficiently. The exact impact on income levels is not known and a further consultation has been issued with a closing date of 11th October 2016 which will aim to clarify the role of local authorities in the process. A smoother appeals process should provide greater certainty over our income levels and reduce the need to make large provisions for appeals. However, an assessment cannot be made of the extent to which this is possible until the outcomes of the most recent consultation are published; this might be expected towards the beginning of 2017.

(ii) ***Business Rates Revaluation*** – The next business rates revaluation will come into effect on 1st April 2017 and will be based on rental values as at 1st April 2015. It has been seven years since business rates were last assessed, increasing the difficulty in predicting individual bills.

The draft valuation list was expected to be released in late September or early October which will be the first opportunity for assessing the potential impact from this revaluation process.

During the Budget 2016 announcement the government made a commitment to review approaches to business rates revaluations. On 24th March 2016 the DCLG published a discussion paper which asked for consideration of three approaches to more frequent revaluations 1) the current system 2) A system based upon self-assessment 3) A formula based system. Consultation closed on the 8th July 2016, however, the outcome is yet to be published and no indicative date has been given.

(iii) In July 2016 the government published an initial consultation on the proposed changes necessary to allow for the implementation of a ***100% Business Rate Retention Scheme*** by the end of the Parliament. Responses to this consultation must be made by 26th September 2016.

3.6.6. In April 2017 when the revaluation takes place there will be a compensatory adjustment to the Uniform Business Rate (UBR) in order to demonstrate to businesses that the overall tax take from businesses remains neutral. Simply put if the revaluation indicates that Rateable Values have doubled the UBR will need to halve in order to maintain the overall balance. However, whilst this may hold true overall it will impact both individual businesses and in turn individual councils. The following issues need to be considered and factored in:

(i) The period between 2010 (the last valuation date) and 2015 was typified by slow economic growth in GDP within which there are likely to be sector specific issues;

(ii) London as a whole saw higher economic growth than the rest of the country;

(iii) Within London, Tower Hamlet's economic performance is likely to be stronger than many other parts of London, although given the importance of Canary Wharf to the Council's business rate performance there is also an adverse risk associated with the decision to leave the EU;

(iv) The revaluation process will, subject to the outcome of the recent consultations on approaches to appeals, introduce additional impetus for appeals. As the risk from successful appeals are shared in proportion to the retained element of Business Rates the proposed move from 2020 to the 100% retention scheme will increase the level of risk borne by the Council.

(v) It is also understood that consideration is being given to using the top-up and tariff arrangement to neutralise any impact from the revaluation. It will be important that this approach also reflects the impact of any transitional protection offered to businesses.

3.6.7. Taking all of these issues together but particularly the uncertainty around the new valuation list relating to business rate values from April 2017, it is suggested that a cautious approach to assumed Business Rate growth should be taken pending detailed analysis of the expected impact of the revaluation. This includes continuing to make prudent provision for a significant number of appeals and creating an appropriate reserve to cover the risk associated with the significant proposed changes to the Business Rate Retention Scheme over forthcoming years.

3.6.8. The Government has also announced its intention from 2020 to change the inflationary measure used to uplift the UBR multiplier from RPI to CPI which will have an impact on the expected yield from Business Rates at the point where it becomes fully retained by councils. Analysis of the relative movement in the two main measures of inflation (RPI and CPI) suggests that there appears to be a reasonable correlation between the trends in the two measures with CPI generally tending to be around 1% lower than RPI.

3.6.9. The MTFS includes the following figures for levels of Retained Business Rates. In light of the large number of uncertainties within this area, it is proposed that Business rates income projections remain at the levels contained within the MTFS.

Year	Original £m
2016-17	120.910
2017-18	126.750
2018-19	131.731
2019-20	137.172

3.7. Council Tax

3.7.1. Council Tax levels in Tower Hamlets were frozen in the period from 2009/10 to 2015/16 inclusive. However, the government grant used as an incentive to induce Council's to freeze their Council Tax has now been fully mainstreamed into RSG and, as a result, it has been and will continue to be subject to the reductions in RSG described above.

3.7.2. As a consequence once RSG fully disappears any benefit from the 'freeze grant' will also have disappeared. In reality this means that there will have been a significant impact on the Council's 'tax base' for collecting future Council Tax, equating to the cumulative loss of increases to the level of Council Tax over a 6 year period.

3.7.3. The government has also for many years maintained the power to limit what it considers to be excessive Council Tax rises. However, in 2016-17 it allowed authorities to introduce an Adult Social Care (ASC) precept of up to 2%, provided that it was fully allocated against ASC budgets. Currently any proposed increase, in addition to the ASC Precept, which is at or above 2% is subject to a binding referendum. So in practice for Tower Hamlets any increase at or above 4% would be covered by the need for a referendum.

3.7.4. Although the regulations governing the level at which a referendum would be necessary are set each year, it is reasonable to assume that future levels will be set according to the acknowledged pressures facing Adult Social Care services and an inflationary element consistent with the government's inflationary target (currently 2%).

3.7.5. In 2016-17 the Council resolved to implement a Council tax rise at 3.99% covering both the ASC precept and an inflationary element. For future years the MTFS currently assumes only the ASC element and this will need to be taken into account as part of the budget consultation feedback. There are two important issues to consider when consulting on potential Council Tax rises under the current funding regime:

- The government's Core Spending Power (CSP) calculation set out above and in Appendix 3, assumes that an inflationary increase in the Council Tax will be made each year to 2019/20 – even taking this into account the Tower Hamlets CSP indicates a 3.7% reduction in cash resources over the period (higher in real terms);
- Because of the way the government restricts Council Tax increases, any foregone increase in the council tax base cannot be subsequently recovered and the loss is therefore on-going.

3.7.6. Currently the Council Tax level is one of the lowest in London (6th out of 33). Appendix 4 sets out this relative position which allows an assessment to be made of how likely a change in the ranking is, dependent on decisions on changes to the Council tax rate taken by those councils with rates closest to the Tower Hamlets rate.

3.7.7. A 4% increase in Council tax equates to around £0.71p per week in 2017-18.

3.7.8. When the MTFS was agreed in February 2016 it assumed that the council tax base for 2016-17 would be 83,493 Band D equivalent properties; it also assumed subsequent increases in the tax base of 3% per annum.

3.7.9. Net increases in Band D equivalent properties within the first 6 months of this year are already higher than anticipated and it is therefore considered appropriate to rebase the 2017-18 Council tax base on a higher assumption. Although, in light of the risks to the housing market following the decision to leave the European Union (Brexit) it is suggested that the future working assumptions are reduced marginally to allow for an annual 2.5% increase (from 3%). The impact of raising the Council tax base for 2017-18 over the course of the MTFS period provides for additional Council Tax income of some £3.3m.

3.7.10. It is proposed that this additional sum is used to offset the assumed use of the General Fund Reserve across the MTFS period from £4.4m to £1.1m

3.8. The Collection Fund

3.8.1. For both Council Tax and Business Rates a Collection Fund operates to account for in-year activity i.e. the actual amounts collected taking into account changes in the tax base which happen during the year as new properties are added, taxpayers move, appeals are settled etc. however, the amount that is brought into an individual year's budget comprises three distinct elements:

3.8.2. The estimated yield from the precept for the forthcoming financial year (FY) i.e. 2017-18 based on the January 2017 CTB/ NNDR form (which once set does not vary);

3.8.3. The estimated surplus or deficit (based on the January position) from the current (2016-17) FY; and

3.8.4. The final surplus or deficit from the previous (2015-16) financial year, following closure of that year's accounts (bringing into account differences between the January estimate and the final outturn position).

3.8.5. An assessment of this factor will be made after completion of the relevant January 2017 CTB and NNDR forms and a decision made on that basis as part of finalising the 2017-18 budget proposals for Council in February 2017.

3.8.6. To the extent that there is an estimated surplus on the Collection Fund in 2016-17, both from Council Tax and NNDR, this could be brought into account for 2017-18. However, Full Council agreed a review of the Council Tax Reduction Scheme in 2016; if as seems likely that there is a Collection Fund surplus as a result of Council Tax growth it would seem to be an appropriate way to mitigate the impact of any changes to the CTRS, if agreed and implemented from April 2017, through a local welfare support scheme, which could provide a support mechanism for those adversely affected by any changes.

3.8.7. Similarly growth in the NNDR tax base could be ring-fenced and targeted at measures which support and benefit businesses.

3.9. Sensitivities

3.9.1. The potential for changes to the above sources of funding and the possible impact of such changes is set out in the table below. All of the sensitivities are based on the data for 2016-17.

Sensitivity of Primary Funding Sources

<table>
<tr><th></th><th>Impact of 1% change in forecast</th><th>Comments</th></tr>
<tr><td>Revenue Support Grant (RSG)</td><td>n/a</td><td>RSG is covered by the Government’s four year guarantee. If the Council requests and is given the guarantee changes to RSG are only likely to be as a result of a significant change to the Government’s macro-economic forecasts and therefore outside of a normal sensitivity approach.</td></tr>
<tr><td>Council Tax – tax base/ tax rate/ collection rate changes</td><td>£800k</td><td rowspan="2">The timing of variances in both Council Tax and Business Rates are also of significance because of the operation of the Collection Fund. Substantially variances are only reflected in the Council’s revenue account in the two years following the variance occurring. Further details are given in Section 3.8 – Collection Fund.</td></tr>
<tr><td>Business Rates – tax base/ tax rate/ collection rate changes</td><td>£1.2m</td></tr>
<tr><td>Grants overall</td><td>£600k</td><td>The effect against individual grants is significantly variable and so this should be treated with caution.</td></tr>
</table>

3.9.2. It is important to note that, for Business Rates in particular, as additional resources are retained the sensitivity impact correspondingly increases; so for example if the retained element changes from the current 30% to 60% the impact above would double to c£2.4m for each 1% change in the baseline.

3.10. Other Grants

3.10.1. In addition to the above sources of funding the Council receives a number of significant grants; some of which the government has already indicated as part of the Spending Review and the 2016-17 settlement how these might change over time. The table below sets out the other grants the Council receives.

Core Grants	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
New Homes Bonus	21,617	12,330	3,923	3,182
Education Services Grant	3,799	2,772	1,746	720
Public Health Grant	36,883	36,143	35,393	34,663
Improved Better Care fund	0	820	3,856	6,389
TOTAL NON-RINGFENCED	**62,299**	**52,065**	**44,918**	**44,954**

3.10.2. The Public Health Grant allocations set out in the Spending Review announcement indicated further reductions averaging real terms savings of 3.9% each year throughout the period to 2020-2021.

3.10.3. According to further details from Public Health England, the savings will be phased in at 2.5% in 2017-18, 2.6% in each of the two following years, and flat cash in 2020-21. There remains some uncertainty about the methodology that will be used to apply these reductions to individual councils' allocations since there has also been a consultation on potential future changes to the distribution methodology. However, an assessment of the estimated impact of these reductions has been made and reflected in the current MTFS; there are currently no indications that those assumptions are likely to be significantly different.

3.10.4. The Spending Review set out the overall envelope for New Homes Bonus (NHB) payments over the period to 2019-20 as being £1.485 billion for 2016-17, reducing to £900 million by 2019-20. There was also a separate consultation on reforms to NHB that were announced at the Spending Review; that consultation sought views on the options for change to two aspects of the Bonus: reducing overall costs by moving from 6 years to 4 of payments and reform of the Bonus in order to better reflect councils' performance on housing growth. The consultation closed on 10 March 2016 and the outcomes from that consultation, which will enable a more accurate estimation of future New Homes Bonus receipts, are still awaited.

3.10.5. Notwithstanding this, the core spending power figures (Appendix 3) published at the time of the Provisional Settlement included estimated NHB allocations in each of the years to 2019-20. A cautious view stated here that as this is time limited funding and links directly to supporting housing and infrastructure, this funding will be moved into the capital strategy to support the delivery of strategic priorities that require capital investment.

3.10.6. Overall Education Services Grant (ESG) has been cut as a first step towards achieving the savings of £600 million announced in the Spending Review. Although initially the Government's policy intention was the transfer of all schools to academy status, leading to the eventual disappearance of ESG and most, but not all, of the associated duties; the Government's position has changed to one where this would not become mandatory. However, it is likely that there will be further academy conversions in Tower Hamlets and so the estimated trajectory for ESG has been maintained until better information becomes available.

3.10.7. An additional £1.5 billion of funding for authorities to spend on adult social care by 2019-20 is to be given to authorities through an improved Better Care Fund (IBCF) commencing from 2017-18. In part this new grant has been created through a top slice reduction to the existing New Homes Bonus.

3.10.8. The Government proposes to allocate this funding through a separate grant to local government using a methodology which benefits those councils who gain less from the additional council tax flexibility for social care. Receipt of the IBCF is shown over the course of the period to 2019-20 in the Core Spending Power calculation (Appendix 3) currently only 50% of the IBCF is included in the Council's MTFS which reflected a cautious approach taken in February when it was considered that some of this resource would be allocated to the NHS. This is not considered to be the case now and so the amounts in the table below can be added to the restated MTFS. It should be noted that the MTFS also now assumes that the additional IBCF will need to be used to fund new and additional activities and therefore the expenditure requirement within adult social care has been revised to reflect that assumption.

Year	Additional IBCF £m
2017-18	0.820
2018-19	3.856
2019-20	6.389

3.10.9. Whilst it is now understood that the IBCF will be fully allocated to the Council, it is understood that there will still be a requirement to agree shared plans for the spending of this allocation with the Clinical Commissioning Group (CCG) as is currently the case for the core BCF. It is unclear at this stage whether there will continue to be a requirement to pool this money as part of the core BCF

3.10.10. The New Homes Bonus (NHB) incentivises councils to increase the number of homes within the borough either through encouraging new build or bringing empty properties back into use. For each unit of growth the Government provides additional grant funding, currently, for a period of 6 years. Tower Hamlets is the highest recipient of this funding source in the country receiving c £25m in 2016-17; it is also therefore at greatest risk from any adverse changes.

3.10.11. The consultation on 'sharpening the incentive' of New Homes Bonus ran from December 2015 to March 2016. In summary the proposals contained in that consultation would reduce the incentive payment from 6 years to 4, withhold payment to authorities that did not have a local plan, and not make payments for homes that would be built regardless of NHB (natural growth). These changes will have the impact of reducing future levels of NHB income. The outcome of the consultation is yet to be announced and there is currently no indication of when the impact from this potentially significant risk will be known. Currently a cautious view has been taken in the MTFS and until the government's intention in this area is known it is not proposed to make changes to the level currently assumed in the MTFS.

3.10.12. The MTFS already assumes a prudent approach to reducing the reliance on this source of funding in support of the revenue account. From 2018 onwards only £3m is assumed within the Council's revenue projections. To the extent that NHB in excess of the amounts in the revenue account are actually due it is now proposed that these are earmarked for investment in support of Priority Outcome 2 (2.2 Better Quality Homes for All). These investments are capital in nature and so the report to Cabinet in January will propose that the additional NHB is placed into a Capital Financing Reserve and the use of this reserve to deliver housing and infrastructure improvements will be a key strand within the developing Capital Strategy.

3.11. Growth and Inflation

3.11.1. Within the MTFS officers made various assumptions concerning the impact of demographic growth pressures and inflation on the budgets for all of the financial years covered by the MTFS. Within Adults and Children's Services, estimated pressures resulting from general population changes were included in the February MTFS and the underpinning assumptions behind those estimates are currently being reviewed to evaluate the extent to which they remain accurate and are likely to result in changed service demands.

3.11.2. In addition the need for growth to reflect regulatory changes such as the Apprenticeship Levy was also made which is a 0.5% tax on an employer's paybill and is estimated to cost the Council £0.8m.

3.11.3. Inflation relating to pay and price increases together with contract inflation has also been included at estimated levels based on the assumption that public sector pay will remain capped at no more than 1% and that general inflation will remain low. Contract inflation where it has been incorporated into the Council's contractual provisions has also been reflected.

3.11.4. To the extent that the assumptions already made in the MTFS change, this will either release resources and reduce the funding gap, or indicate an increased need for budgeted expenditure and thus increase the funding gap. At this stage there is nothing to indicate a fundamental need to amend the estimated provisions in these areas, although it will be kept under review and a final proposal will be made at the time that the budget is set.

3.12. Other Issues

3.12.1. Every three years the Pension Fund Actuary (Hymans) assesses the extent to which the deficit on the Fund has changed; the deficit will vary dependent on a number of factors including changes to the fund's membership and their associated age and service profile and the fund's investment performance.

3.12.2. The next triennial valuation is currently taking place based on April 2016 data and any revisions to the Council's contribution rate or deficit contribution will take effect from April 2017 and impact on the next three years (i.e. 2017 to 2020). The actuary will have initial results shortly which will be the subject of review and discussion with officers and the Pensions Committee in the period to December at which point any changes to the existing contributions rates will be known.

3.12.3. At this stage it is too soon to assess whether the provision made in the budget for increased contributions will be sufficient as final contribution rates will not be known until December at the earliest.

3.13. Saving Proposals

3.13.1. The Cabinet has embarked on a process to identify those areas where savings and efficiency proposals are consistent with its strategic priorities. As part of its Strategic Plan the Council has identified its three strategic priorities as:

(i) Creating opportunity by supporting aspiration and tackling poverty;

(ii) Creating and maintaining a vibrant, successful place;

(iii) A transformed council, making best use of resources and with an outward looking culture.

3.13.2. Within each of the strategic priorities a number of focussed outcome areas are set out which have formed the basis for evaluating the Council's performance and outcome achievements. The Cabinet and the Corporate Management Team have worked alongside each other to consider cost, performance and outcome data where available, to identify a number of opportunities for further investigation.

3.13.3. Benchmarking and other comparative data has been used to compare the Council's efficiency and performance with other similar authorities across the whole of the Council's budget and this has been used to focus an examination of expenditure across the Council based on the following key approaches:

(i) A focus on the outcome priorities, regardless of how the Council is structured, such that complementary services are considered in the round where they deliver against the same priority outcome.

(ii) Individual Directorates are not given nominal saving targets to achieve with the intention of avoiding a disjointed approach to saving proposals and again seeking to reinforce the synergies that can exist between services delivering against the same priority outcome areas.

(iii) Where the linkages against the Council's priority outcomes are not clearly evidenced there must be a strong indication that it fulfils a statutory function or another compelling case in order to justify its continued delivery.

(iv) Service provision for statutory functions should be considered equally against cost, efficiency and performance data to ensure that value for money is being achieved in the provision of all Council services.

(v) Where efficiency indicators suggest that other Local Authorities are delivering similar or better service outcomes for less, Directors have been challenged to initially identify and achieve cost reductions to align with the average cost of comparator authorities.

(vi) Approaches which align service delivery to 'best in class' performance should also be considered as a part of a longer term aspiration of the Council.

(vii) Acknowledge that in times of constrained or reducing resources a move towards centralised service provision is an accepted strategic approach unless there is evidence to the contrary.

(viii) Long term service transformation across the whole of the medium term financial planning period provides the opportunity to identify best practice and develop services that will reflect the fact that by the end of the planning period the Council will be spending significantly less on its services that it does now.

(ix) The Council's reserves will be reviewed and prioritised so that they can be used to effect service transformation and mitigate the risks associated with widespread service change and funding reductions.

(x) Front line services are prioritised against support services.

3.13.4. A number of 'key lines of enquiry' have been identified .and these have been initially reviewed by the Cabinet to consider whether they meet the above broad approaches. Service leads have started to develop the Business Cases necessary to establish:

- The validation of the extent to which they contribute to the overall savings target;
- The extent to which they align to the strategic approaches set out above;
- The performance metrics that can be set alongside the priority outcomes having implemented change;
- The extent to which investment or other support will be required to enable delivery;
- The timeframe for implementation taking into account the need for individual consultation with stakeholders where an external service change is proposed;
- The timeframe for implementation taking into account the need for staff and union consultation where an internal service change is proposed; and
- The risks associated with the proposals together with normal risk management procedures such as mitigating action and financial provision.

3.13.5. Within each of the strategic outcome areas the following approaches are becoming evident:

(i) **Strategic Priority 1 (People Services)** – In services for older people service transformation aimed at a shift towards self-help, self-care and prevention in line with the Care Act plus increased options for flexible extra care housing to reduce the need for people to move into residential homes. In services for people with learning disabilities, promoting independence and independent living and reducing the need for people to live in residential placements outside of Tower Hamlets. Consolidation and targeting of Public Health services. In services for Young People service transformation of the Integrated Youth and Community offer, better targeting of resources for those with Special Educational Needs and Disabilities.

(ii) **Strategic Priority 2 (Place Services)** – For environmental services better management in the demands for recycling, street cleansing and refuse disposal. Improvements to the efficiency of customer access, including a review of the council's "local presence", contact centre provision and ways to support customer self-service through channel shift.

(iii) **Enabling Priority (A Transformed Council)** – Service efficiency reviews across all support and business administration services; considering the use of ICT to transform services and facilitate self-service solutions. Structural review across the Council covering senior management posts and giving strategic direction including reviews of spans of controls and layers of management across all services.

3.14. Strategic Support

3.14.1. In order to support the Council in the identification, review and implementation of a substantial number of proposals, Cabinet agreed to the procurement of a strategic partner. The invitation to tender set out the Council's intention to undertake a range of transformational projects and sought organisations that could provide the high level strategic support necessary to assist the Council to deliver these successfully.

3.14.2. The tender evaluation process has now concluded and subject to the required standstill period and formal agreement of contractual terms it is hoped that the successful organisation will commence working alongside the Council's Corporate Programme Management Office very shortly. Cabinet will be given a verbal update at the meeting.

3.15. Reserves

3.15.1. The Council retains a number of earmarked reserves which are intended to be used in support of identified purposes. In the light of the significant change required from the Medium Term Financial Strategy the Director of Resources has identified a number of actions to be taken in relation to the Council's reserves:

(i) A review of the level of and purpose for which earmarked reserves are being held with a view to releasing resources to be targeted towards the following areas:

a. A Transformation Reserve which will enable the procurement of support to deliver the strategic changes necessary to re-shape the Council in the light of the MTFS funding reductions.

b. An ICT Reserve to deliver the investment in ICT Infrastructure necessary to support the transformational changes.

c. A Capital Financing Reserve to support the developed Capital Strategy and enable investment in infrastructure (other than ICT)

d. A Strategic Investment Reserve to underpin the Investment Strategy which will provide for resources to be targeted at activities which deliver growth in the borough.

(ii) The development and agreement to a Reserves Policy that reflects the Council's approach to the Corporate prioritisation of reserves including the need to consider them only for one-off investment purposes.

3.15.2. In addition to Earmarked Reserves the Council maintains a General Fund (GF) reserve which is intended to provide cover against unforeseen risks. The level of General Fund reserves has risen due to the better than expected performance in the Council's 2015-16 outturn and as a consequence the Director of Resources has asked for the level of GF Reserve to be considered and agreed by Cabinet in the light of a reassessment of the Council's risks.

3.16. The Capital Strategy

3.16.1. In the same way that the Council is reviewing its revenue budget against its priority outcomes, there is also a need to consider its capital resources.

3.16.2. The Capital Strategy will need to encompass the external environment for infrastructure investment such as those set by the Mayor of London for housing growth in London. However, the Council has access to significant resources from S106 and CIL together with reserves that can be used to underpin an ambitious growth and investment strategy. The Council can also undertake prudential borrowing where the costs of such borrowing are affordable either from existing revenue resources or from resources generated from the capital investment itself.

3.16.3. A capital strategy would prioritise expenditure against the same priority outcomes within the Strategic Plan recognising the on-going benefits that would accrue from investment in assets which would accrue to the Council's revenue position as well as the need to invest in operational assets from which the Council will deliver services and maintain its infrastructure.

3.16.4. It is envisaged that the strategic partner will be able to assist in reflecting the Council's needs and aspirations against its resources such that a Capital Strategy can be considered and approved by the Cabinet in 2016 and used to inform its capital programme over a 10 -20 year planning horizon.

3.17. The Housing Revenue Account (HRA) and Rent Setting

3.17.1. The Cabinet received an updated HRA 30 year Business Plan in July 2016 which set out the major issues facing the strategic delivery of housing services within the borough over the long term.

3.17.2. The July report set out that there remain major uncertainties around the impact of government policy on housing services and these will be kept under review as the Council progresses its budget setting processes.

3.18. The Dedicated Schools Budget Strategy.

3.18.1. Officers will be developing a proposed strategy for the Dedicated Schools Budget (DSB) alongside the Schools Forum and in the light of the proposed government reforms to school funding including its proposals for a national funding formula including for high needs and early years and its academisation programme.

3.18.2. It is anticipated that the government's proposals will result in significant funding reductions but the level of reduction is not yet known. Further details will be available in December once pupil numbers for the current academic year are confirmed and government proposals for schools become clearer.

3.19. 2020 Onwards

3.19.1. As the primary system of funding for councils moves from the existing largely central government grant support model (RSG, Top Up, Core Grants) to the 100% Business Rate Retention Scheme, there are a number of implications for council funding that are currently unknown or part of the latest Business Rate Retention Scheme consultation:

(i) The relative sharing of Business Rates in London between councils and the Greater London Authority;

(ii) How Resource Equalisation will be achieved between councils and whether this will be restricted to be managed within London or part of the wider council community;

(iii) What additional responsibilities would be transferred to London councils (or wider) given that the quantum of Business Rates significantly exceeds RSG. A potential list of functions or funding responsibilities that might transfer is set out in the Government's consultation as:

a. Revenue Support Grant
b. Rural Services Delivery Grant (n/a for Tower Hamlets)
c. Greater London Authority Transport Grant
d. Public Health Grant
e. Improved Better Care Fund
f. Independent Living Fund
g. Early Years Grant
h. Youth Justice Grant
i. Local Council Tax Admin. Subsidy and Housing Benefit Pensioner Admin. Subsidy grant
j. Attendance Allowance

3.19.2. At this point in time there is insufficient information to exemplify what the impact on the overall quantum might be from the factors set out above.

3.20. Budget Consultation and Scrutiny

3.20.1. The Council must undertake statutory budget consultation with Business Rate payers in the borough and it is also good practice to consult with Council Tax payers and a broad range of other stakeholders. In addition meaningful consultation must take place with service users before any changes to service provision are implemented.

Furthermore the Council's budget framework sets out the need for the Scrutiny Committee to be fully involved in the setting of the Council's budget.

3.20.2. This report will be presented to Scrutiny to keep them informed of the progress against confirming the funding gap and towards developing proposals aimed at bridging the funding gap over the MTFS planning period to 2020.

3.20.3. In that way Scrutiny are able to review and comment on the principles set out in this report and the progress being taken towards an outcomes based approach including specifically the broad range of measures being developed at this early stage as described in section 3.13. This is in advance of their detailed scrutiny of proposals once they have reached the point where Cabinet will be asked to consider their final budget proposals.

3.20.4. The scrutiny and consultation processes will recognise that developing proposals over a three year period means that business cases will be fully developed for proposals in the early years but that others will only develop fully later on. The on-going role of Scrutiny in scrutinising developed business cases and undertaking targeted reviews in a number of key areas identified by them is key to maintaining the rigour of budget scrutiny of the Medium Term Financial Strategy (MTFS). It will also include, consideration of the Capital and Investment Strategies.

3.20.5. This report will initiate public consultation on the broad areas of the developing themes and other key considerations such as any changes to the level of the Council tax.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1. All financial issues have been fully considered within this report and there are no additional points to make.

5. LEGAL COMMENTS

5.1. The report proposes consideration of a revised medium term financial plan. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan.

5.2. The report provides information about risks associated with the medium term financial plan and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit Regulations 2015 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

5.3. The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is required under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty). The setting of a medium term financial plan is one of the ways in which the Council can achieve best value.

5.4. The Council is required to consult for the purposes of deciding how to fulfil its best value duty. It must consult with representatives of council tax payer, business rates payers, persons likely to use services and persons appearing to have an interest in any area within which the Council carries out functions. As the adoption of a medium term financial plan is one of the Council's existing arrangements, it is arguable that consultation is not required prior to its amendment. However, best value consultation will likely be required at the time of preparing the 2017-2018 budget.

5.5. When considering the medium term financial plan, any savings proposals and the strategic plan, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate leave of equality analysis is required to inform the consideration required by the public sector equality duty. The report provides the borough equality analysis and sets out how equality impacts are addressed in relation to savings proposals. To the extent that savings proposals involve service changes which impact on individuals, consultation may be required to understand the impacts on those people.

5.6. Any consultation carried out for the purposes of either the best value duty or the public sector equality duty will need to comply with the following requirements: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1. The development of a rolling three year Medium Term Financial Strategy will support the more effective delivery of One Tower Hamlets priorities.

7. BEST VALUE (BV) IMPLICATIONS

7.1. The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, it is critical to demonstrate that resources are allocated in accordance with priorities and that full value is achieved.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1. The sustainable action for a greener environment implications of individual proposals in the budget will be set out in the papers relating to those proposals.

9. RISK MANAGEMENT IMPLICATIONS

9.1. 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1. The crime and disorder implications of individual proposals in the budget will be set out in the papers relating to those proposals.

11. SAFEGUARDING IMPLICATIONS

11.1. The safeguarding implications of individual proposals in the budget will be set out in the papers relating to those proposals.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix 1- MTFS as presented to Council February 2016 (incl. updated grants and GF Reserve)
- Appendix 2 - MTFS Restated following Funding Assumptions Review
- Appendix 3 - Core Spending Power of Local Government
- Appendix 4 - 2016-17 Council Tax levels (ranked) - London

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

- None.

Officer contact details for documents:
N/A

Appendix 1

MTFS as presented to Council February 2016 (incl. updated grants and GF Reserve)

Summary Draft Medium Term Financial Plan 2016-2020					
		2016-17	**2017-18**	**2018-19**	**2019-20**
		£'000	**£'000**	**£'000**	**£'000**
Net Service Costs		350,346	361,985	350,586	359,537
Growth					
Approved		27,563	(16,899)	3,451	3,400
New			0	0	0
Savings					
Approved		(4,000)	0	0	0
New		(17,423)	0	0	0
Inflation		5,500	5,500	5,500	5,500
Total Funding Requirement		**361,985**	**350,586**	**359,537**	**368,437**
Government Funding		(73,094)	(58,474)	(48,444)	(38,079)
Retained Business Rates		(120,910)	(126,750)	(131,731)	(137,172)
Council Tax		(76,884)	(80,775)	(84,862)	(89,156)
Collection Fund Surplus					
Council Tax		(1,278)	0	0	0
Retained Business Rates		(2,597)	0	0	0
Core Grants		(62,299)	(52,065)	(44,917)	(44,953)
Earmarked Reserves (Directorates)		(2,080)	(370)	(370)	0
Total Funding		**(339,141)**	**(318,434)**	**(310,325)**	**(309,361)**
Budget Gap (excl use of Reserves)		22,845	32,152	49,213	59,077
Unallocated Contingencies		0	0	0	0
Budgeted Contributions to Reserves		0	0	0	0
General Fund Reserves		(22,845)	(2,152)	(1,213)	(1,077)
Unfunded Gap		0	30,000	48,000	58,000
Savings to be delivered in each year		0	(30,000)	(18,000)	(10,000)
	31/03/2016	**31/03/2017**	**31/03/2018**	**31/03/2019**	**31/03/2019**
Balance on General Fund Reserves (£000s)	72,100	49,256	47,103	45,890	44,814

Appendix 2

MTFS Restated following Funding Assumptions Review

Summary Draft Medium Term Financial Plan 2016-2020		2016-17	2017-18	2018-19	2019-20
		£'000	£'000	£'000	£'000
Net Service Costs		350,346	361,985	351,407	363,393
Growth					
Approved		27,563	(16,899)	3,451	3,400
New			820	3,036	2,533
Savings					
Approved		(4,000)	0	0	0
New		(17,423)	0	0	0
Inflation		5,500	5,500	5,500	5,500
Total Funding Requirement		**361,985**	**351,407**	**363,393**	**374,826**
Government Funding		(73,094)	(58,474)	(48,444)	(38,079)
Retained Business Rates		(120,910)	(126,750)	(131,731)	(137,172)
Council Tax		(76,884)	(82,232)	(85,974)	(89,886)
Collection Fund Surplus					
Council Tax		(1,278)	0	0	0
Retained Business Rates		(2,597)	0	0	0
Core Grants		(62,299)	(52,885)	(48,773)	(51,342)
Earmarked Reserves (Directorates)		(2,080)	(370)	(370)	0
Total Funding		**(339,141)**	**(320,711)**	**(315,292)**	**(316,479)**
Budget Gap (excl use of Reserves)		22,845	30,695	48,101	58,347
Unallocated Contingencies		0	0	0	0
Budgeted Contributions to Reserves		0	0	0	0
General Fund Reserves		(22,845)	(695)	(101)	(347)
Unfunded Gap		0	30,000	48,000	58,000
Savings to be delivered in each year		0	(30,000)	(18,000)	(10,000)
	31/03/2016	**31/03/2017**	**31/03/2018**	**31/03/2019**	**31/03/2019**
Balance on General Fund Reserves (£000s)	72,100	49,256	48,561	48,460	48,113

Core Spending Power of Local Government;					
	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Modified Settlement Funding Assessment	187.9	170.7	158.0	150.9	143.8
Council Tax of which;	69.8	75.7	82.5	90.0	98.3
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*69.8*	*74.2*	*79.4*	*84.9*	*90.9*
additional revenue from 2% referendum principle for social care	-	*1.5*	*3.2*	*5.1*	*7.4*
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	-	-	-	-	-
Improved Better Care Fund	-	-	*1.6*	*7.7*	*12.8*
New Homes Bonus and returned funding	25.2	*28.9*	*29.0*	*18.2*	*17.5*
Rural Services Delivery Grant	-	-	-	-	-
Core Spending Power	**282.9**	**275.3**	**271.2**	**266.9**	**272.4**
Change over the Spending Review period (£ millions)					-10.5
Change over the Spending Review period (% change)					-3.7%

Appendix 4

2016-17 Council Tax levels (ranked) - London

Rank	Inner/ Outer	Authority	2016/17 Council Tax	% Variance from next Auth.
1	Outer	Kingston-upon-Thames	1,407.24	7.17%
2	Outer	Richmond-upon-Thames	1,306.39	1.74%
3	Outer	Harrow	1,283.61	1.24%
4	Outer	Havering	1,267.64	3.91%
5	Outer	Croydon	1,218.13	0.66%
6	Outer	Sutton	1,210.03	0.17%
7	Outer	Haringey	1,208.01	0.81%
8	Outer	Waltham Forest	1,198.18	0.15%
9	Outer	Bexley	1,196.43	4.37%
10	Outer	Enfield	1,144.17	0.43%
11	Outer	Redbridge	1,139.22	1.59%
12	Outer	Barnet	1,121.07	0.73%
13	Outer	Hillingdon	1,112.93	0.58%
14	Outer	Merton	1,106.45	0.34%
15	Inner	Lewisham	1,102.66	0.13%
16	Outer	Brent	1,101.24	1.60%
17	Inner	Camden	1,083.66	0.36%
18	Outer	Hounslow	1,079.77	0.16%
19	Outer	Barking & Dagenham	1,078.03	0.63%
20	Outer	Bromley	1,071.27	1.06%
21	Outer	Ealing	1,059.93	3.75%
22	Inner	Greenwich	1,020.18	0.00%
23	Inner	Islington	1,020.15	0.17%
24	Inner	Hackney	1,018.42	3.64%
25	Inner	Lambeth	981.35	1.71%
26	Outer	Newham	964.54	3.54%
27	Inner	Southwark	930.38	1.02%
28	Inner	Tower Hamlets	920.85	6.90%
29	Inner	City of London	857.31	8.72%
30	Inner	Kensington & Chelsea	782.58	7.00%
31	Inner	Hammersmith & Fulham	727.81	44.50%
32	Inner	Wandsworth	403.91	2.68%
33	Inner	Westminster	393.07	