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| Cabinet |  |
| 10 January 2017 | |
| Report of: Zena Cooke, Corporate Director of Resources | Classification: Unrestricted |
| The Council's 2017/18 Budget and Medium Term Financial Plan 2017-20 | |

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| Lead Member | Councillor David Edgar, Cabinet Member for Resources |
| Originating Officer(s) | Neville Murton |
| Wards affected | All wards |
| Key Decision? | Yes |
| Community Plan Theme | One Tower Hamlets |

EXECUTIVE SUMMARY

This report sets out proposals which form part of the draft Medium Term Financial Plan (MTFP) covering the three year period from 2017/18 to 2019/20. It also focusses on the 2017/18 budget setting process and brings together many of the component elements of that budget.

It includes a revised assessment in each of the next three years of the General Fund, Dedicated Schools Grant (DSG), Housing Revenue Account (HRA) and the Capital Programme including:

- the financial resources available to the council;
- the cost of providing existing services; and
- the overall level of savings that have been and still need to be identified to give a balanced, sustainable budget over the medium term planning period.

A summary of the projected General Fund budget for each of the three years is shown in [Appendix 1a](#) with a more detailed service analysis in [Appendix 1b](#).

The 2017/18 provisional local government finance settlement was announced on the 15th December 2016 following the Chancellor's Autumn Statement which was made in late November.

The council has previously estimated that cuts to its main government grant – the Revenue Support Grant (RSG), together with increases due to inflation and demand pressures over the next three year period, from 2017 to 2020 results in a budget shortfall of around £58m. As a consequence it has been developing net savings of that amount and consulting widely to ensure that residents, businesses and other stakeholders have been able to make their views known on the budget proposals and issues.

RECOMMENDATIONS

The Mayor in Cabinet is recommended to propose a draft budget for consultation with the Overview and Scrutiny Committee in accordance with the Budget and Policy Framework. A further report will then be submitted to the next Cabinet meeting in February detailing feedback from Overview and Scrutiny committee; inviting The Mayor in Cabinet to recommend a Budget Requirement and Council Tax for 2017/18 to Full Council.

The Mayor in Cabinet is asked therefore to propose:

1. A draft General Fund Revenue Funding Requirement of £338.896m subject to any changes arising from the Final Local Government Finance Settlement.
2. A proposed Band D Council Tax at £966.80 for 2017/18 to be referred to Full Council for consideration.
3. Consider and comment on the following matters:

General Fund Revenue Budget for 2017/18 and Medium Term Financial Plan 2017/18 to 2019/20

The initial budget proposal and Council Tax for 2017/18 together with the Medium Term Financial Plan set out in Appendix 1a.

Budget Consultation

The outcome of consultation with business ratepayers, residents and other stakeholders as reported to The Mayor in Cabinet in December 2016 and attached for ease of reference at Appendix 10.

Funding

The funding available for 2017/18 and the indications and forecasts for future years set out in Section 3.4.

Growth and Inflation

The risks identified from potential growth and inflation commitments arising in 2017/18 and future years together with new initiatives identified as Mayoral Priority Growth as set out in Section 3.5 and in Appendix 3.

Savings

New proposed saving items to be delivered in 2017 - 2020 as set out in Section 3.6 and Appendix 4 of the report.

Financial Risks: Reserves and Contingencies

The strategic budget risks and opportunities as set out in Section 3.7 and the assessment of risk at Appendix 6.

Reserves and Balances

The proposed approach to the strategic use of reserves set out in Section 3.8 and the projected movement in Reserves in Appendix 7.

Dedicated Schools Grant

The position for the Dedicated Schools Grant as set out in Section 3.9.

Housing Revenue Account

The position for the Housing Revenue Account as set out in Section 3.10 and Appendix 8.

Capital Programme

The capital programme to 2019/20; including the proposed revisions to the current programme, as set out in Section 3.11 and detailed in Appendix 9 (a – c) in advance of the proposed refresh of the council's capital programme following consideration of revised Capital and Investment strategies in 2017.

To adopt a capital estimate for new schemes detailed in Appendix 9b.

1 REASONS FOR THE DECISIONS

- 1.1 The council is under an obligation to set a balanced and sustainable budget and to set a Council Tax for the next financial year by 11th March 2017 at the latest. The setting of the budget is a decision reserved for Full Council. The council's Budget and Policy Framework requires that a draft budget is 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.
- 1.2 The announcements that have been made about Government funding for the council in the Autumn Statement and the Provisional Local Government Finance Settlement require a robust and timely response to enable a balanced budget to be set.
- 1.3 Through its successful application for a 'guaranteed' multi-year settlement from the government and the adoption of an outcomes based approach over a 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.
- 1.4 A Medium Term Financial Plan (MTFP) 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.
- 1.5 As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFP; in particular as the Council becomes ever more dependent on locally raised sources of income through the Council Tax and retained business rates these elements become fundamental elements of its approach and strategies.

2 ALTERNATIVE OPTIONS

- 2.1 The council is required to respond to the budget reductions in Government funding of local authorities and to set an affordable Council Tax and a balanced budget, while meeting its duties to provide local services. This limits the options available to Members. Nevertheless, the council can determine its priorities in terms of the services it seeks to preserve and

protect where possible, and to the extent permitted by its resources, those services it wishes to prioritise through investment, during a continued period of budget reductions.

- 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. It is also inconsistent with the Council's Efficiency Plan which underpins agreement of a Four Year funding settlement from government.

3 DETAILS OF REPORT

3.1 BACKGROUND

- 3.1.1 The council's integrated financial and business planning process together with an outcomes based budgeting approach are the key mechanisms for reviewing its plans and strategies to ensure priorities are being delivered and that resources are allocated effectively to underpin their achievement. The process culminates in changes to the budget and medium term financial plan that reflect the Mayor's priorities, the Community Plan and Strategic Plan objectives.
- 3.1.2 The 2016/17 final settlement gave indicative levels of government grant for councils covering the period until 2020; this shows the continued decline of Revenue Support Grant (RSG). The government has also confirmed that from 2020 it is proposing to implement a 100% Business Rate Retention Scheme that will replace general government support for local authorities.
- 3.1.3 The development of the Medium Term Financial Plan (MTFP) presented to The Mayor in Cabinet in September: October and December 2016 showed that the economic base of the council, which comprises income through Council Tax and Business Rates is growing which will serve to offset some of the central government grant reductions however, such growth will also bring additional demands for services.
- 3.1.4 This report updates members on the Provisional Local Government Finance Settlement, and identifies the current savings, growth and investment proposals, to inform consideration of the budget package by the Overview and Scrutiny Committee. It also updates members on any further changes to resource assumptions.
- 3.1.5 The main body of the report is in twelve sections:
- Strategic Approach (Section 3.2)
 - Medium Term Financial Plan & Proposed Budget (Section 3.3)
 - Financial Resources (Section 3.4)
 - Budget Pressures and Growth Allocations (Section 3.5)
 - Savings Proposals (Section 3.6)
 - Risks and Opportunities (Section 3.7)
 - Reserves (Section 3.8)
 - Schools' Funding (Section 3.9)

Housing Revenue Account (Section 3.10)

Capital Programme (Section 3.11)

Treasury Management Strategy (Section 3.12)

Budget Consultation (Section 3.13)

- 3.1.6 The key planning assumptions that support the draft budget proposals are set out below and in the attached appendices. Those planning assumptions have taken account of the Autumn Statement announced by the Chancellor of the Exchequer on the 25th November and the subsequent Provisional Local Government finance settlement that was published on the 15th December 2016.
- 3.1.7 In developing these proposals the Council has taken account of the government's measure of the total resources that it believes are available to each Council. This is known as Core Spending Power (CSP) and reflects the government's assumptions for a number of key grants, retained business rates and Council Tax. Tower Hamlets CSP shows that over the period to 2020 our resources are expected to fall by £7m (-2.5%) in cash terms (higher in real terms).
- 3.1.8 The Council's CSP calculation is attached as Appendix 2; the most recent calculation reflects the following changes:
- The impact of changing the New Homes Bonus methodology;
 - The introduction of a new Adult Social Care grant for 2017/18 only; and
 - Revised assumptions on the level of assumed Council Tax increases for inflationary purposes (from 1.75% to 1.99%).

3.2 Strategic Approach

- 3.2.1 The Council has adopted an Outcomes Based Budgeting approach to delivering its MTFP for the period 2017 to 2020. This approach puts the Council's Strategic Priorities and outcomes for its residents at the heart of financial planning and decision making and aims to directly link how resources are allocated through budgeting mapped to the strategic priorities of the Council.
- 3.2.2 An outcomes based approach considers the efficiency and effectiveness of the Council's services by evaluating comparable information such as financial benchmarking and outcome performance measures. This information provides the starting point for critically reviewing the Council's relative performance and provides the basis and evidence for its budget decisions.
- 3.2.3 The Council's Strategic Plan sets out two key priority aspirations for the Council which have been arrived at following consultation with residents:
- Priority 1 - To create opportunity by supporting aspiration and tackling poverty.
 - Priority 2 - To create and maintain a vibrant and successful place.
- 3.2.4 These priorities are supported by a third enabling objective of 'a transformed Council that makes best use of resources and develops a culture of transparency and trust'.

- 3.2.5 The Council aims to deliver its two key priority outcomes by designing and delivering services that meet the following objects:
- 1.1 A dynamic local economy, with high levels of growth benefiting us .
 - 1.2 More residents in good-quality, well-paid jobs
 - 1.3 Young people realising their potential
 - 1.4 More people living healthily and independently for longer.
 - 1.5 Reducing inequality and embracing diversity.
 - 2.1 An improved local environment.
 - 2.2 Better quality homes for all.
 - 2.3 Less crime and anti-social behaviour
 - 2.4 Engaged, resilient and cohesive communities.
- 3.2.6 A process of mapping the Council's budgets to these strategic priority objectives began in April 2016 and the budget proposals set out in this report have been developed in the context of these priorities.
- 3.2.7 Net spending in 2016/17 allocated against each priority area is detailed in Table 1 below, although in developing its budget proposals the Council has recognised that it is equally important to consider both the gross expenditure and income components of the budget when reviewing outcomes and performance.

Table 1 – Net Expenditure 2016/17 – Priority Analysis

| Priority Area | 2016/17 Budget £m |
|---|--------------------------|
| 1.1 A dynamic local economy, with high levels of growth benefiting us | 2.298 |
| 1.2 More residents in good-quality, well-paid jobs | 1.749 |
| 1.3 Young people realising their potential | 67.933 |
| 1.4 More people living healthily and independently for longer | 128.652 |
| 1.5 Reducing inequality and embracing diversity | 0.176 |
| 2.1 An improved local environment | 49.334 |
| 2.2 Better quality homes for all | 4.444 |
| 2.3 Less crime and anti-social behaviour | 6.940 |
| 2.4 Engaged, resilient and cohesive communities | 2.749 |
| Enabling services | 72.808 |
| No Strong alignment | 24.904 |
| Net General Fund Budget | 361.985 |

3.2.8 The Council's outline Strategic Plan also contains five transformation principles which have been used to shape the approach to reviewing the way that Council services are delivered:

- **Better targeting** – ensuring that those who are in greatest need receive the services necessary to support them at the time that they need it to avoid further more costly interventions at a later date.
- **Redesign and integration for better outcomes** – making sure that Council services and those provided with the Council's key partners, are structured in ways which enable complex needs to be met effectively without duplication.
- **Empowering communities and citizens** – developing services alongside our communities and providing signposting and support for services.
- **Harnessing economic growth** – recognising the importance of employment as a lever for improved prosperity, attracting investment in the borough and working alongside businesses to maximise the benefits to our residents.
- **Economies of organisation** – maximising the efficiency of the Council as a provider of large and diverse services through technology; focussing on our priority outcomes and maximising the best use of our assets in the delivery of services.

3.2.9 The Council's approach to strategic and financial planning has been informed by an understanding of the opportunities and potential in the borough. This includes:

- Ongoing economic growth and a rising employment rate;
- A vibrant population with a high proportion of young people;
- An active voluntary and community sector; and
- A partnership committed to collaborative working around priority outcomes.

3.2.10 It also recognises that there are long term and emerging challenges, including:

- Growth and development impacting on local infrastructure and services;
- Lower employment levels, particularly for women and some ethnic minorities;
- Significant child poverty and the impact of welfare benefit reductions;
- Local people priced out by spiralling housing prices, and the danger of a polarised community;
- Low levels of health and life expectancy; and
- The need to be vigilant and tackle the potential for radicalisation and extremism.

3.3 MEDIUM TERM FINANCIAL PLAN & PROPOSED BUDGET

3.3.1 The revised Medium Term Financial Plan is set out at Appendix 1a, and the detail by service area at Appendix 1b. The detailed figures and assumptions incorporated in these tables are explained more fully in this report. This summary shows that the Council has a balanced budget for 2017/18. The February 2016 approved MTFP relied on the use of £4.4m of reserves over

the period to 2020 and it is now proposed, over that same period to utilise £2.8m of balances. In 2019/20 the in year position is also balanced supporting the on-going sustainability of the budget proposals.

- 3.3.2 Given the risks identified more generally in this report but in particular those risks associated with undertaking transformation change which has tended to deliver savings later rather than sooner this, in conjunction with a robust approach to managing risk through appropriate contingencies and reserves, is considered to be an appropriate strategic response.
- 3.3.3 In the December 2015 provisional local government finance settlement 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; conditional upon production of an Efficiency Plan. As previously reported the Council received confirmation from the Minister for Local Government (Marcus Jones MP) that the Council's Efficiency Plan has been accepted and that it is now formally on the multi-year settlement. The MTFP has been prepared on that basis.
- 3.3.4 On 15th December 2016 the government announced the provisional local government finance settlement for 2017/18. This confirmed the level of Revenue Support Grant (RSG) for those authorities on a multi-year settlement as those set out in the final local government settlement for 2016/17 and covering the years 2017 – 2020.
- 3.3.5 In addition the government announced changes to the Adult Social Care precept, the outcome from the consultation on New Homes Bonus (NHB) allocations, a new Adult Social Care Grant for 2017/18 only and changes to the Core Spending Power calculation.
- 3.3.6 Further information relating to the current Business Rates Retention Scheme was also announced reflecting in particular the changes to the Top-up and Tariff amounts for individual authorities as a result of the 2015 business rate revaluation exercise which are intended to be revenue neutral.
- 3.3.7 At this stage these announcements are provisional pending a period of consultation which will conclude with the publishing of the final local government finance settlement in late January or Early February 2017; however for the purposes of planning the Council's budget the provisional settlement data has been reflected in this report. A formal response to the provisional settlement will be drafted for agreement with the Lead Member for Resources and the Mayor before the deadline of 13th January 2017.
- 3.3.8 In previous years the Council's MTFP has extended to cover the forthcoming and 3 subsequent financial years (i.e. four years in total) however, the government has not published any indicative figures beyond 2019/20 pending further announcements on the 100% business rate retention Scheme that is expected to apply after that date. Given the uncertainty about the future arrangements for local authorities and the lack of information only the period to 2020 has been exemplified. Once details of the new scheme are known future years' projections can be added.

3.4 FINANCIAL RESOURCES

3.4.1 Council Tax

- 3.4.1.1 The Mayor in Cabinet has been asked separately on this agenda to agree the Council's 2017/18 taxbase at 88,784 and this has been used in the MTFP projections. For the Council Tax rate there are two separate components – an Adult Social Care precept and a more general inflationary element limited by the government's referendum principles.
- 3.4.1.2 As part of the provisional settlement the government announced changes to the Adult Social Care (ASC) precept. In 2016/17, the ASC Precept on Council Tax was originally set at a maximum of 2% per annum increase for the period 2016/17 to 2019/20. The terms of this precept have now been changed for the period 2017/18 to 2019/20. Local authorities will now be able to increase the ASC precept by up to 3% per annum in 2017/18 and 2018/19. However, authorities are only permitted to go ahead with a maximum of 3% increase each year provided that the total increase over the three-year period does not exceed 6%.
- 3.4.1.3 To ensure that the income from the precept is being used for adult social care, council's will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Chief Finance Officer (section 151 officer). Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 must also show how they plan to use this extra money to improve social care. The DCLG have said that they will write to adult social care authorities with further details on the conditions of the scheme in the near future.
- 3.4.1.4 The government has adopted this approach in response to the increasing pressures being seen for Adult Social Care services; the Local Government Association (LGA) estimated in its November 2016 Adult Social Care 'State of the Nation' report that the shortfall in Adult Social Care funding by the end of the decade would be £1.3Bn of an overall £5.8Bn shortfall in funding for local government services. Locally the Council estimates that demographic and cost pressure demands for Adult Social Care services will require additional resources of at least £8m over that same period.
- 3.4.1.5 As set out above in paragraph 3.1.7 this is happening at a time where, even by the government's measurement of changing resources the council will have £7m less resource in cash terms. Their Core Spending Power calculation itself reflects the assumed maximisation of the additional funding for ASC services such as the ASC precept, the new ASC Grant for 2017/18, the Better Care Fund and the Improved Better Care Fund.
- 3.4.1.6 In February 2016 the Council agreed to implement the 2% ASC precept each year over the period to 2020. However, in the context of the need for savings being front loaded and the significant cost pressures being seen in ASC services, it is now considered appropriate to phase the remaining maximum 6% rise in the ASC precept over the period to 2020 on the basis of increases of 3%, 2%, and 1%.
- 3.4.1.7 Council Tax rises not associated with the ASC precept are governed by referendum principles that limit increases. For this Council the amount that

the Council Tax can be increased by without undertaking a referendum has been set such that a 2% or higher increase would trigger a referendum. This limit reflects the government's broad view of inflation and an assumed rise of 1.99% which is also now reflected in their calculation of Core Spending Power (CSP).

- 3.4.1.8 As the Council becomes more dependent on locally generated sources of funding as a consequence of the on-going reductions in government support it is important that it maintains its taxbase to protect services from what would be otherwise higher cuts. The government's own CSP calculation shows a 2.5% reduction in available resources over the planning period and this assumes that both the ASC precept and inflationary element of the Council Tax are fully implemented.
- 3.4.1.9 However clearly there are further considerations before implementing Council Tax increases. Currently Tower Hamlets has one of the lowest Council Tax levels across the 33 London Boroughs (6th lowest out of 33). It is probable that even after implementing the maximum permissible Council Tax rise this Council would still be levying one of the lowest tax rates in London.
- 3.4.1.10 The outcome from the Council's consultation exercises with residents have also demonstrated support for Council Tax rises where they support the continuation of key services; 48% of respondents to the online survey supported a rise (with 38% against) 58% of those who participated in the telephone consultation supported a rise (with 34% against).
- 3.4.1.11 Each 1% increase in the Council Tax rate generates around £800k, allowing that amount to continue to be spent on key services such as Adult Social Care (from the ASC precept) or other core services such as Children's Social Care. Each 1% rise equates to approximately 18 pence per week; so at the level of a 4.99% increase (3% for ASC precept and 1.99% for inflation) the increase equates to 88 pence per week.
- 3.4.1.12 Taking all of these factors into account it is proposed to increase the Council Tax by 4.99% in 2017/18.

Local Council Tax Support Scheme

- 3.4.1.13 The Welfare Reform Act 2012 abolished the national Council Tax benefits system (CTB) and replaced it with the Local Council Tax Support Scheme (LCTSS) under the Local Government Finance Act.
- 3.4.1.14 At its meeting held on 20th January 2016 the Full Council resolved to continue with the current LCTSS scheme, affording 100% maximum reduction for low income households, for one year only. It also resolved to review that scheme alongside the impact of the government's proposed welfare reform changes and carry out an options review for the future LCTSS during 2016. Tower Hamlets is currently one of only 41 Councils that continue to implement a scheme giving maximum benefits of 100% other than to those protected groups defined by the government.
- 3.4.1.15 There is a statutory requirement to approve the Local Council Tax Support Scheme (LCTSS) by Full Council before 31st January each year. A report

outlining a proposed revised LCTSS for 2017/18 is included elsewhere on the agenda.

- 3.4.1.16 When the new arrangements were implemented only 90% of the funding previously used for the CTB scheme were passed to Local Government through Revenue Support Grant (RSG) Additionally since that time the funding reductions for Local Government have all been transacted through RSG meaning that the resources for supporting such schemes have continued to fall and by 2020 will have been completely removed. Funding to support such schemes has, and will continue, to fall upon a combination of service reductions, and increases to Council Tax and business ratepayers through the respective locally retained income arrangements.
- 3.4.1.17 A number of options have been considered and consulted upon. In the context of the broad range of options possible, the potential financial benefit to the Council from implementing variants of the above schemes has been estimated to range from £400k to £4.4m.
- 3.4.1.18 Whilst the Scheme is being considered separately officers have been asked to assume, for the purpose of the MTFP, options which generate an estimated £1.4m of additional income through the implementation of a revised scheme; this is considered to be a reasonable approach although it should be stressed is subject to the decision of the Mayor in Cabinet on that agenda item.

3.4.2 Settlement Funding Assessment (SFA)

- 3.4.2.1 Settlement Funding Assessment (SFA) reflects the government's current approach to funding local authorities through Revenue Support Grant and retained Business Rates.
- 3.4.2.2 Each authority's SFA is based on a needs assessment established at the beginning of the funding arrangements and thereafter reflecting the impact primarily of government funding reductions. The Baseline Funding Level represents the amount of retained business rates that the government expects each local authority to generate assuming no increase in the tax base since the scheme inception (i.e. it continues to increase only in line with the increase in the small business rate multiplier).
- 3.4.2.3 The difference between SFA and the Baseline Funding Level is the amount of RSG an authority receives. For Tower Hamlets this calculation is shown below.

Table 2 – Settlement Funding Assessment 2016 - 2020

| £m | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Settlement Funding Assessment | 170.728 | 158.105 | 151.292 | 144.602 |
| Revenue Support Grant | 68.665 | 53.958 | 43.795 | 33.281 |
| Baseline Funding Level | 102.063 | 104.147 | 107.497 | 111.321 |
| <i>Change in SFA:</i> | | | | |
| <i>Annual change</i> | | -7.4% | -4.3% | -4.4% |
| <i>Cumulative change</i> | | -7.4% | -11.4% | -15.3% |

3.4.2.4 The table highlights, for the period 2016 to 2020, the 15.3% reduction in SFA for the Council comprising a 52% reduction in RSG together with a 9% increase in its Baseline Funding Level. Table 3 below illustrates how the Council has been affected compared to other similar authorities; suggesting that the Council has fared better overall than the average of all authorities and against other London Authorities.

Table 3 – Comparable SFA Changes 2017 – 2020.

| Authority group | Change in SFA from previous year | | | Cumulative change between 2016/17 and 2019/20 |
|-----------------------|----------------------------------|---------|---------|---|
| | 2017/18 | 2018/19 | 2019/20 | |
| Tower Hamlets | -7.4% | -4.3% | -4.4% | -15.3% |
| Inner London Boroughs | -7.9% | -4.6% | -4.7% | -16.3% |
| Outer London Boroughs | -11.0% | -6.7% | -7.2% | -23.0% |
| England | -10.6% | -6.2% | -6.5% | -21.6% |

3.4.3 Revenue Support Grant (RSG)

3.4.3.1 As previously reported the council is now on the government's multi-year settlement. The provisional local government finance settlement confirmed that there are no changes to the level of the previously announced RSG which has been set out in Table 2 above; this confirms no additional change have been made to the overall level of government resources for Local Authorities compared to previous announcements.

3.4.4 Retained Business Rates

3.4.4.1 In the December 2016 Cabinet report members received details of the impact of the business rate revaluation process which has resulted in the Council moving from being a top-up authority to a tariff authority; one of only two authorities in London to have done so. This reflects a c20% increase in the business rates in Tower Hamlets compared to 11% nationally.

Table 4 – Components of the Business Rate Retention Scheme

| Element | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---------|---------|---------|---------|
| Baseline Funding Level (£m) ^a | 102.063 | 104.147 | 107.497 | 111.321 |
| Baseline Business Rates (£m) ^b | 97.634 | 109.852 | 113.386 | 117.419 |
| Top Up or (Tariff) (£m) ^c | 4.429 | (5.705) | (5.889) | (6.098) |
| Levy Rate (pence in the £) ^d | 0 | 5.1936 | 5.1936 | 5.1936 |

- (a) *The Baseline Funding Level is the share of SFA that DCLG intends to be funded via locally retained business rates (with the remainder coming from RSG).*
- (b) *Baseline Business Rates are DCLG's projection of retained business rates, assuming there has been no change in the physical tax base since the start of the scheme. It increases each year in line with the small business rate multiplier.*
- (c) *Tariff / Top Up is calculated such that, if your authority's actual business rates were equal to its Baseline Business Rates, then its final revenue would equal its Baseline Funding level.*
- (d) *The Levy Rate is applied to growth in your authority's business rate revenue which exceeds its Baseline Business Rates.*

3.4.4.2 The February 2016 MTFP estimated that income over the next three years through Retained Business Rates would be as follows:

Table 5 –Retained business rates income 2017/18 to 2019/20 (Current MTFP)

| | 2017/18 £m | 2018/19 £m | 2019-20 £m |
|-------------------------|---------------|---------------|---------------|
| Retained Business Rates | 131.4 | 134.5 | 139.2 |

3.4.4.3 However, Table 4 above illustrates that, following the revaluation, the Council's baseline Business rates are now above its Baseline Funding Level – moving the Council to be a tariff authority.

3.4.4.4 Table 5 below sets out the current position taking into account the position on business rate levels at December 2016 and the need as a tariff authority to pay a levy on business rates growth above the level of its baseline business Rates at a levy rate of 5.136%; this ensures that only simple (and not compound) growth above the Baseline Business Rates is retained by the Council.

Table 6 – Revised business rates income estimate 2017/18 to 2019/20

| Detail | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|--------------------------------|---------------|---------------|---------------|
| Forecast Business Rates Income | 138.5 | 142.6 | 147.2 |
| Tariff | (5.7) | (5.9) | (6.1) |
| Levy | (1.4) | (1.5) | (1.5) |
| Adjusted Business Rates Income | 131.4 | 135.2 | 139.6 |

- 3.4.4.5 This relatively small change has been used to update the current MTFP which already included provision for an increase in business rates which it is still believed to be a reliable estimate of the likely business rate yield.
- 3.4.4.6 However, there remain risks from the revaluation changes both from business rates appeals but also from the methodology changes. Because the final position for 2016/17 will not be known until after the end of the year the revaluation changes are based on the latest draft list. An exercise will be undertaken after the end of the year to reflect the actual business rates level and as a consequence there will be an adjustment to the 2018/19 position for all authorities – this will affect both the tariff amount and therefore the levy rate.
- 3.4.4.7 All of these issues have been reflected in the assessment of risk set out in section 3.7 below.

3.4.5 Core Grants

- 3.4.5.1 In addition to RSG, the Council receives a number of other grants to support specific service priorities. These are summarised in the table below and further details on how they have been treated in the MTFP are provided in the sections that follow.

Table 7 – Summary Core Grants 2017 - 2020

| Core Grants | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|---------------------------|-----------------------|-----------------------|-----------------------|
| New Home Bonus | 24.189 | 18.301 | 17.559 |
| Improved Better Care Fund | 1.640 | 7.711 | 12.777 |
| Public Health Grant | 35.974 | 35.393 | 34.663 |
| Education Services Grant | TBC | TBC | TBC |
| Local Lead Flood Grant | 0.032 | 0.034 | 0.036 |
| Total | 61.835 | 61.439 | 65.035 |

New Homes Bonus

- 3.4.5.2 The New Homes Bonus (NHB) scheme was introduced in 2011-12 as a means to help tackle the national housing shortage. The scheme was designed to reward those authorities who increased their housing stock either through new build or by bringing empty properties back into use. Under the original scheme each additional band D equivalent property attracts grant funding equivalent to the national average band D tax rate and the funding was proposed to operate on a rolling six year basis.
- 3.4.5.3 Tower Hamlets is a high growth area, and has attracted the highest level of NHB in the country. In the autumn statement 2015 the government announced plans to reform the scheme. In the most recent provisional settlement the Government confirmed that the New Homes Bonus (NHB) payments to councils will be reduced from six years to five years in 2017/18, (and to four years in 2018/19) They have also confirmed that they will introduce a 0.4% baseline so that local authorities will need to achieve tax

base growth of greater than this level before they receive any NHB funding. Nationally this is expected to reduce the income of councils in receipt of the New Homes Bonus by £241 million next year. This money will be used to fund the new one-off 2017/18 Social Care Support Grant referred to below.

- 3.4.5.4 Because Tower Hamlets was the largest recipient of NHB it has received the largest reduction as a result this change. The table below sets out the impact on the council's NHB between the 2016/17 final local government settlement and the most recent figures announced on 15th December.

Table 8 – Changes in levels of NHB

| | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|-----------------|-----------------------|-----------------------|-----------------------|
| February 2016 | 29.0 | 18.2 | 17.5 |
| December 2016 | 24.2 | 18.3 | 17.6 |
| Variance | (4.8) | 0.1 | 0.1 |

- 3.4.5.5 The Council had already started to reduce its reliance on NHB as a funding source in support of its revenue budget from 2016/17 instead choosing to provide for increasing investment on affordable housing and infrastructure in line with its strategic priority of better quality homes for all. It had only assumed using £12.3m in 2017/18 – below the level of the revised 2017/18 NHB following the provisional settlement.

The Improved Better Care Fund

- 3.4.5.6 The Better Care fund (BCF) was announced as part of the 2013-14 spending review. The Fund is a pooled budget, bringing together local council and NHS funding to create a £3.8bn national pot designed to integrate care and health services.
- 3.4.5.7 In addition to this an Improved Better Care Fund (IBCF) was announced in the 2016/17 budget to support local authorities deal with health and social care pressures and this was allocated to local authorities from 2017/18 onwards. An additional £1.5bn was to be made available by 2019/20 and this has been part funded through a top slice reduction to the NHB scheme. This funding takes into account local authorities' ability to raise resources locally. In this case, it factors in the amount that each council can raise from the 2% Adult Social Care precept.

Public Health

- 3.4.5.8 The Public Health Grant allocation for Tower Hamlets in 2017/18 has been confirmed at £35.974m which represents a decrease of £0.7m from the 2016/17 grant allocation. As this funding source does not form part of the government's four year guarantee, figures for later years have not been confirmed although the MTFP continues to assume the levels announced for 2018/19 and 2019/20 that were set out in the 2016/17 final settlement.
- 3.4.5.9 The government has previously indicated its intention to move the funding for the Public Health Grant from the current system to being funded from within the proposed 100% retained business rates scheme.

3.4.5.10 The provision for free school meals over and above current government policy will continue to be partly made from the public health grant, to ensure that all children in primary schools receive free school meals. The total cost to the Council is estimated to be approximately £3.300m per annum and £1.000m has been included in the MTFP to be funded from the Public Health grant with the balance to be funded from a specific general fund reserve in line with the Councils strategic priorities around getting it right for our young people.

Education Services Grant (ESG)

3.4.5.11 Education Services Grant (ESG) replaced the former Local Authority Central Services Equivalent Grant (LACSEG) in 2013-14. This facilitated the payment of resources for central services, which had formerly been paid to Local Authorities for service provision to schools, to also be paid direct to academies for their pupils.

3.4.5.12 In the 2015 spending review the Chancellor announced that the Education Support Grant would be phased out. The funding guidance for 2017/18 informed Local Authorities that the ESG general funding rate of £77 per pupil would be cut, and that the ESG retained duties funding rate of £15 per pupil would be added to the DSG schools block.

3.4.5.13 The Department for Education (DfE) recognised that local authorities would need to continue to fund a range of education services for pupils in maintained schools and the guidance states that Councils can therefore agree with its schools forum to retain the £15 per pupil element for maintained schools in support of these services. It follows that the £15 per pupil must first be added to the funding formula

3.4.5.14 Tower Hamlets received £3.8m of Education Service Grant (ESG) in 2016/17. Out of this £640k is for retained duties which will transfer into the DSG in 2017/18 and £3.1m that is for general funding. The general funding allocation will cease to exist from September 2017.

3.4.5.15 Transitional ESG funding for 5 months (April 17-September 17) would equate to £820k approximately and this will be made available between April and September 2017 to allow authorities to adjust to the removal of the general funding rate component.

3.4.5.16 A £50 million fund for local authorities to “continue to monitor and commission school improvement for low-performing maintained schools” was also recently announced. This will be “allocated to local authorities on the basis of the number of maintained schools, an area cost adjustment and top-up to ensure each local authority receives a minimum allocation of £50,000”. Further details are expected alongside the forthcoming DSG allocation announcements.

3.4.5.17 In addition, a further £140 million ‘Strategic School Improvement Fund’ for academies and maintained schools “most in need of support to drive up standards, use their resources effectively and deliver more good school places”. The distribution mechanism for both of these funds are uncertain.

3.4.5.18 In light of these changes and uncertainties, the MTFP continues to assume that levels of ESG will reduce from the £3.8m in 2016/17 to at least £2.8m in

2017/18 and £0.720m by 2019/20. The figure for 2017/18 may need to be revised down further as more details emerge around the transitional arrangements and the impact of how these new funds will be allocated are known.

3.4.5.19 The government has said that announcements on the level of ESG and DSG will be made on 20th December which is too late for inclusion in this report; a further update will therefore be made for the February Cabinet meeting which will also reflect discussions with the Schools Forum.

3.5 BUDGET PRESSURES, GROWTH AND INFLATION

3.5.1 Budget pressures and Re-basing

3.5.1.1 Part of the budget setting process is the review of budget demands across the Medium Term Financial Plan period whether they arise from demographic changes, new requirements or responsibilities or inflation provisions. As part of the budget process, directorates have reviewed and updated existing provisions and have also submitted a number of new bids, generally to meet unavoidable growth in 2017/18 and beyond.

3.5.1.2 However, it is apparent both from the 2015/16 outturn position and also the 2016/17 budget monitoring process that there are elements of the council's budget that require re-basing as budgets are misaligned; this is most pronounced in the critical area of children's social care. This situation has previously been masked through the use of contingencies and the application of one-off reserves. However, given that there is evidence of systemic budget failure neither of these approaches is sustainable. For example in 2015/16 the Children's Service utilised £3m of reserves to offset expenditure pressures and in the current financial year these pressures continue to be evident.

3.5.1.3 It is not good financial management practice to continue to allow reserves to be used to cover on-going budget pressures as the reserves are one-off in nature and will eventually not be available.

3.5.1.4 There are a number of areas in Children's Services where the Chief Financial Officer is proposing that budget adjustments are made between centrally held provisions for growth, relating to previous years' that remain unallocated and a small number of those areas where re-basing is considered appropriate.

Table 9 – proposed areas for budget re-basing

| Area | £000 |
|-------------------------------|--------------|
| Looked After Children | 999 |
| Family Group Conferencing | 323 |
| Children's Services re-design | 1,597 |
| Total | 2,919 |

3.5.2 Service Demand

- 3.5.2.1 A number of areas face significant growth pressures resulting from demographic changes and as well as increasing unit costs. The list of unavoidable growth requirements are detailed in Appendix 3. In the main they support the strategic objectives of ensuring more people living healthily and independently for longer and getting it right for our young people.
- 3.5.2.2 The single biggest area facing cost pressures over the MTFP remains Adult Social Care services and this is principally as a result of demographic changes within the borough. The borough's population is estimated to grow by at least 20% by 2023. This combined with the high levels of deprivation prevalent in the borough mean that people requiring social care support across the different client groups including older people, those with learning or physical disabilities and those with mental health issues are set to grow year on year. The Mayor has also committed to implementing the ethical care charter recommendations which will ensure equity in social care pay.
- 3.5.2.3 These financial pressures are reflective of the position nationally which was also discussed in the section above on the Adult Social Care element of the Council Tax.
- 3.5.2.4 The Children's Social Care service is undertaking extensive transformation and there are a number of elements to achieve their vision, which is to identify through the partnership the right children as early as possible and undertake the most effective intervention with families to reduce harm for them within their families or seek alternative carers.
- 3.5.2.5 Their service transformation includes:
- A new structure and more focused practice model – This restructure will be critical to delivery of the vision and will ensure our current improvement work is sustainable and we have an offer for families that reflects best practice and appropriate standards.
 - A developing workforce strategy to ensure that we have the professional high performing workforce needed to improve outcomes for children. A key part of this is a refreshed recruitment and retention offer, suitable learning and career progression opportunities.
- 3.5.2.6 For the service transformation to be effective the service has identified the need to:
- Rebase our budget in line with spending patterns which are appropriate to the boroughs profile of need as described above, especially around our Looked after Children numbers and to ensure that the impact of key programmes such as that supporting the Troubled Families initiative are maximised.
 - Invest in actions that will actively reduce late intervention in children's lives- such as Family Group Conferences and Social Impact bond funded interventions.
- 3.5.2.7 In addition there are a number of demands that have only been partially funded by the government and where the Council now needs to ensure that its base budget contains adequate provision e.g. Looked after Children or

care leavers who are unaccompanied asylum seekers, and families with children whom have No Recourse to Public Funds.

- 3.5.2.8 There are also pressures in other services, for which an estimated provision has been made, caused by a number of factors such as an increasing population leading to demands on the waste collection and disposal services. In Corporate costs provision for the Apprenticeship Levy, agreed in February 2016 as an estimate of the Council's commitment under the government's scheme, together with the impact on Council properties from the 2015 rate revaluation process has needed to be made. In addition the government's assumed reduction in the level of the 2017/18 Housing Benefit Administration grant as Universal Credit is implemented does not reflect the current level of demand in that area which is actually increasing meaning short term support has been provided for until demand subsides.
- 3.5.2.9 In view of the uncertainty governing future years' estimates some resources for growth have been retained pending subsequent reviews of the Council's growth requirements including uncertainty around resources from the payment by results element of the supporting stronger families (SSF) work in 2017/18.

3.5.3 Inflation

- 3.5.3.1 In addition to the specific service demand pressures a further financial risk facing the Council is the impact of inflation.
- 3.5.3.2 The Government's target projection for inflation which is reflected in the MTFP is 2.0% throughout the review period. Most of the council's contracts for goods and services which span more than one year contain inflation clauses and although service directorates have been successful in negotiating annual increases which are below inflation this will be a difficult position to maintain.
- 3.5.3.3 The council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The MTFP anticipates that staffing costs will increase by 1% in each year of the three year plan. Provision has also been made for the payment of the London Living Wage to Council staff.

3.5.4 Mayoral Priorities

- 3.5.4.1 The Mayor has also identified a number of priority areas, consistent with Strategic Plan objectives, where it is proposed to target resources in order to improve specific outcomes for residents and businesses.
- 3.5.4.2 This includes a range of initiatives to maximise residents' access to jobs and training. Priorities include supporting people in overcoming barriers to employment, including specific measures for care leavers and women, the creation of a Mayor's Apprenticeship Fund, and making provision for a new Tackling Poverty Fund to assist with the impact of welfare reform.
- 3.5.4.3 There are also a number of proposals that will improve the look and feel of neighbourhoods across the borough, including extra funding for roads and

pavements, more enforcement to help make streets cleaner, and an Air Quality Fund to tackle air pollution.

- 3.5.4.4 These have been mainly funded from reserves or will be included in the proposed capital programme, to minimise on-going costs on the Council's budget, but will be subject to evaluation to measure the impact of the proposals and consider whether the outcomes support on-going provision.

3.6 SAVINGS PROPOSALS

- 3.6.1 The Council has also adopted an Outcomes Based approach to the identification of savings opportunities. As part of the 2017/18 Medium Term Financial planning process, savings opportunities have been identified which largely meet the estimated £58m budget gap across the MTFP to 2019/20. The schedule of savings and the associated pro-forma are detailed in Appendix 4.
- 3.6.2 By adopting an outcomes based approach officers and members have reviewed financial benchmarking and performance information in order to identify and develop proposals that seek to maximise the efficiency of expenditure which meets the Council's priorities.
- 3.6.3 The table below illustrates the extent to which this objective has been met. In particular it demonstrates the significant reductions targeted at enabling functions against the broad maintenance of expenditure in the two priority areas.

Table 10 – Summary of changes against priority areas.

| Priority Area | 2016-17 Budget | Growth | Inflation | Mayoral Priority | Savings | 2019-20 Budget |
|---|----------------|---------------|---------------|------------------|-----------------|----------------|
| | | 2017-20 | 2017-20 | 2017-20 | 2017-20 | |
| | £m | £m | £m | £m | £m | £m |
| 1.1 A dynamic local economy, with high levels of growth benefiting us | 2.298 | 0.000 | 0.000 | 0.000 | 0.000 | 2.298 |
| 1.2 More residents in good-quality, well-paid jobs | 1.749 | 0.000 | 0.000 | 0.804 | 0.000 | 2.553 |
| 1.3 Young people realising their potential | 67.933 | 4.659 | 1.125 | 0.761 | (6.741) | 67.737 |
| 1.4 More people living healthily and independently for longer | 128.652 | 6.591 | 4.669 | 5.169 | (8.371) | 136.710 |
| 1.5 Reducing inequality and embracing diversity | 0.176 | 0.000 | 0.000 | 0.435 | 0.000 | 0.611 |
| 2.1 An improved local environment | 49.334 | 2.032 | 2.514 | 0.591 | (5.447) | 49.024 |
| 2.2 Better quality homes for all | 4.444 | 0.000 | 0.000 | 0.000 | (0.800) | 3.644 |
| 2.3 Less crime and anti-social behaviour | 6.940 | 0.000 | 0.000 | 0.150 | 0.000 | 7.090 |
| 2.4 Engaged, resilient and cohesive communities | 2.749 | 0.000 | 0.000 | 0.000 | 0.000 | 2.749 |
| Enabling services | 72.808 | 1.187 | 1.097 | 0.000 | (30.272) | 44.820 |
| No Strong alignment | 24.904 | 0.000 | 0.000 | 0.000 | 0.000 | 24.904 |
| Pay Inflation (To be awarded) | 0.000 | 0.000 | 4.416 | 0.000 | 0.000 | 4.416 |
| Net General Fund Budget | 361.985 | 14.469 | 13.821 | 7.910 | (51.631) | 346.556 |
| | | | | | | |
| Civic Centre provision (2016/17) | | | | | | (20.000) |
| One off Growth (2016/17) | | | | | | (3.080) |
| Reduction in Public Health Grant | | | | | | (2.220) |
| | | | | | | |
| Revised Net General Fund Budget | 361.985 | 14.469 | 13.821 | 7.910 | (51.631) | 321.256 |

3.7 RISKS AND OPPORTUNITIES

- 3.7.1 When setting the draft MTFP, Service Directors have provided their best estimate of their service costs and income based on the information currently available. However there will always be factors outside of the council's direct control which will vary the key planning assumptions that underpin those estimates.
- 3.7.2 There are a number of significant risks that could affect either the level of service demand (and therefore service delivery costs) or its main sources of funding. In addition there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services.
- 3.7.3 Similarly there are opportunities either to reduce costs or increase income which will not, as yet, have been fully factored into the planning

assumptions. The main risks and opportunities are summarised below.

Risks

Regulatory Risk

- Changes from the proposed business rate retention scheme
- Increase in business rate appeals following revaluation
- Uncertainty around changes to local authority role in school improvement

General Economic Factors

- Impact of decision to leave European Union
- Impact on business solvency following business rate revaluation
- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- Further reductions in Third Party Funding
- Further reductions in grant income
- Reductions in the level of income generated through fees and charges
- Increase in fraud

Increases in Service Demand

- 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
- Housing (and homelessness in particular)
- General demographic trends (including impact of an ageing population)
- Impact of changes to Welfare Benefits

Efficiencies and Savings Programme

- Slippage in the expected delivery of the savings programme
- Non-delivery of some savings proposals

Opportunities

- Growth in local Taxbase for both housing and businesses
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs
- Income generation opportunities

3.7.4 In addition to the above there is a risk that the combined impact of some of these factors will adversely impact on service standards and performance.

3.7.5 An assessment of the possible impact of these risks and opportunities is

shown in the risk analysis in Appendix 6. This will form the basis of an on-going review of Reserves and Contingencies. This illustrates that there are a range of risk outcomes at medium and high level ranging from £26m to £50m. The Chief Financial Officer has concluded that, based on the level of contingencies, earmarked and general reserves, that there is sufficient cover to accommodate this level of risk.

3.8 Reserves

- 3.8.1 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience.
- 3.8.2 The Council's key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- 3.8.3 There are two main types of reserves:
- Earmarked Reserves – which are held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year(s); and
 - General Reserves – these are held for 'unforeseen' events
- 3.8.4 The Council maintains reserves both for its General Fund activities and in respect of its Housing Revenue Account (HRA). In addition it accounts for the reserves of schools.
- 3.8.5 The amount of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained, and the Council's potential financial exposure to risks. A Reserves Policy is included as Appendix 5.
- 3.8.6 The Council holds reserves in order 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 Council Tax. Capital reserves play a similar role in funding the Council's capital investment strategy.
- 3.8.7 The Council also relies on interest earned through holding reserves to support its general spending plans.
- 3.8.8 Reserves are one-off money. The Council aims to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long term future planning.
- 3.8.9 Reserves are therefore held for the following purposes, some of which may overlap:
- Providing a working balance i.e. Housing Revenue Account and General Fund.
 - Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying

forward expenditure between years.

- Holding funds for future spending plans e.g. Capital Expenditure plans, and for the renewal of operational assets e.g. Information Technology renewal.
- Meeting future costs and liabilities where an accounting 'provision' cannot be justified.
- Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
- To provide resilience against future risks.
- To create policy capacity in a context of forecast declining future external resources.

3.8.10 All earmarked reserves are held for a specific purpose. A summary on the movement on each reserve, is published annually, to accompany the annual Statement of Accounts.

3.8.11 The use of some reserves is limited by regulation e.g. reserves established through the Housing Revenue Account can only be applied within that account and the Car Parking reserve can only be used to fund specific spending. Schools reserves are also ring-fenced for their use.

3.8.12 The Council is facing some significant challenges as it moves forward with an ambitious 3 year transformation programme. The strategic use of reserves is a key part of delivering those savings whilst maintaining financial stability and recognising the increased risks that faces all local authorities as austerity continues and major changes to the system of financing local government evolve.

3.8.13 It is apparent that the originally intended use for some of the reserves has been overtaken by the more pressing priorities now facing the Council and therefore a review of the level and proposed use of the Council's reserves has been undertaken.

3.8.14 The other key issues to be recognised going forward are:

- i. The need to maintain resources to meet the cost of service transformations over a multi-year period. This will cover service investment to identify best practice and implement change, together with the costs of meeting any associated one-off costs such as severance costs. A review of existing reserves held previously for this purpose has consolidated some of those reserves into a single Transformation Reserve of £25m with the balance from reserves previously held to support transformation activities being incorporated into the Risk Reserve for more general risks as considered in (vi) below.
- ii. The Council has recently commissioned work from AtoS to establish what ICT developments might be needed in the Council over the next few years; the initial findings are that a sum of £20m - £25m is required and a ICT Strategy is being developed to take this work forward. It is proposed that this be supplemented from the reallocation of other earmarked reserves to be at a more realistic level of £25m.

- iii. The continuation of the Government's Welfare reforms including the introduction of Universal Credit brings a risk of residents being adversely affected by these welfare changes. In addition, the Council is having to consider as part of its evolving budget proposals for 2016/17 onwards areas where residents may also be affected by such things as changes to its Local Council Tax Reduction Scheme (LCTRS). In the light of these issues it is considered sensible to create a Mayor's Tackling Poverty Reserve of £5m which can be used over the medium term as support to a locally designed and targeted tackling poverty support fund for those where the cumulative impact of the changes requires time for them to adjust. A reserve would provide some, time limited, targeted support based on those criteria members consider most important; the level of the reserve can be reviewed once the outcome from issues such as changes to the LCTRS scheme are clearer. This has been identified as a Mayoral priority area.
- iv. The impact of funding Free School Meals (FSM) on the reducing Public Health Grant has been discussed at length in the Outcomes Based budget sessions. Given the commitment to maintaining FSM over the Medium Term Financial Plan period but recognising that the Public Health Grant is under significant pressure and the Health benefits from FSM are not well correlated, an alternative strategy of releasing £6m of reserves over a three year period is proposed. In order to achieve this it is suggested that a Free School Meals Reserve of £6m be created from the reallocation of other reserves. This has been identified as a Mayoral priority area.
- v. Mayors Investment priorities. A number of further priorities have been identified through the Outcomes Based Budgeting discussions; Appendix 3 details the areas that are being proposed some of which are capital in nature and are included in the capital programme for other investment initiatives it is suggested that a sum of £10m be set aside in a reserve to support the investment in those areas which are one-off in nature.
- vi. There are a number of specific risks which it is appropriate to set aside a formal Risk reserve to accommodate; these have been considered in section 3.7. A sum of £15m is proposed to cover the risks set out below:
 - (i) The impact of the Business rates revaluation process will move the Council from receiving a top-up payment to having to make a tariff payment and also being affected by the levy arrangements which applies to additional growth. Because of the limited time available before making the 2017/18 funding announcements there will need to be an adjustment in 2018/19 to the arrangements for the tariff and levy payments relating to 2016/17, the impact of which is currently unknown.
 - (ii) Business Rate revaluation changes will also have an impact on the level of appeals and the move to a fully retained business rate arrangement will place the risk for settling appeals substantially with the Council. There is likely to be a need to increase the level of provision for Business rate appeals.

- (iii) The move to 100% retention of Business Rates by Councils is currently being developed. Until the implications can be fully understood and evaluated there is a risk of volatility in the underlying financial resources available to the Council.
- (iv) The delivery of £52m of saving proposals over a three year period carries significant risk of non-delivery and there is therefore a need to provide some resource to cover project slippage or non-delivery whilst alternative proposals are developed.
- (v) Councils continue to experience significant pressures from population change. Tower Hamlet's population is forecast to grow significantly over the coming years and the demographic changes and pressures that this will bring on a range of services such as Adults and Children's Social Care cannot be estimated with absolute precision; there is therefore a need to retain resources in order to manage and smooth any changes on the Council's finances.
- (vi) The impact of the country leaving the European Union has not been estimated and there is potential for a number of risks to Council services and funding sources from this area.

3.9 Education Funding – Dedicated Schools Grant

- 3.9.1 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 schooling.
- 3.9.2 The Dedicated Schools Grant budgets are ring-fenced to schools, but there have been a number of emerging pressures, specifically in relation to the High Needs element of the funding which is retained and managed by the Council on behalf of the schools. The Government had recently extended the scope of the High Needs funding, which meant that it had to cover educational costs of children and young people up to the age of 25. This expansion of the age range, coupled by an increase in the number of children who are applying for Education, Health and Care plans is placing unprecedented pressure on both the locally retained budget and schools' own budgets.
- 3.9.3 The government has previously indicated that it would be implementing a National Funding Formula to address the disparity on funding levels between pupils in different parts of the country. In July 2016 the Secretary of State issued a statement setting out that the national funding formula would be delayed until 2018/19 and announced funding rates, and the requirements of the school funding formula, would be unchanged for 2017/18.
- 3.9.4 On 14th December 2016, the Department for Education published the second round of its consultation into school funding reform. Alongside confirmation of the factors and weightings that will be included in a new national funding formula from 2018/19, illustrative allocations were published at local authority and individual school level.
- 3.9.5 Initial analysis suggests that the overall impact on London will be less severe than expected because of the introduction of at least £200m of additional

funding to the schools block in 2018/19, along with a funding floor that permanently limits school-level funding reductions to 3 per cent. London is also likely to benefit from the decision to include pupil mobility as a formula factor and the relatively high weighting placed on deprivation factors. Nevertheless, 70 per cent of schools in London will still experience a cash reduction in funding as a result of the new schools funding formula, including 97 per cent of schools in inner London and 53 per cent of schools in outer London.

3.9.6 Other key points from the consultation include:

- An annual minimum funding guarantee will limit reductions in funding to 1.5% a year at individual school-level
- A one year transitional period will begin in 2018/19 where local authorities will still be responsible for distributing funding through local formulas. From 2019/20, a “hard” formula will be introduced and the vast majority of funding will be allocated directly to schools
- A fourth, area cost adjusted “central schools block” of DSG will be introduced from 2018/19
- Additional funding will be introduced to ensure that no local authority loses funding as a result of the new high needs funding formula.

3.9.7 The Education Funding Agency confirmed that 2017/18 allocations for the dedicated schools grant and ESG transitional grant will be published by 20th December 2016. The Schools Forum will receive a detailed budget strategy report at their meeting being held on 18 January 2017 and which will also be shared with the Cabinet at their February meeting in advance of formal budget proposals being considered by the Full Council.

3.10 HOUSING REVENUE ACCOUNT

3.10.1 HRA Self-Financing has been in effect since April 2012, when £236 million of the Council’s housing debt was redeemed. Under Self-Financing, the Council retains all rental income, but must finance all revenue and capital costs relating to its council housing stock.

3.10.2 A number of changes to government policy have come into force since the start of Self-Financing, such as the reinvigorated Right to Buy scheme and the imposition of four years of 1% rent reductions, and these will have a substantial impact on the HRA. The most recent 30 year financial modelling indicated that over that period, the HRA was forecast to remain above the minimum £5million balance, the current projected capital programme could be financed over the 30 years although a substantial amount of re-profiling of capital spend would be necessary; the HRA would not breach its debt cap but only very minimal amounts of debt repayment would be possible. Given the pressures on the HRA, Mayor in Cabinet in July 2016 agreed an HRA savings target of £6 million over the medium-term financial period.

3.10.3 The Housing and Planning Act became law in May 2016, and originally this introduced a compulsory ‘Pay to Stay’ scheme whereby social tenant households with incomes of £40,000 or more would be charged higher levels of rent, however, the government has recently confirmed that the policy will

now be voluntary.

- 3.10.4 The Housing and Planning Act also requires local authorities to consider selling their higher-value stock when it becomes vacant, with local authorities set to make an annual upfront payment to the government based on assumptions about their stock values and void rates, and the money used to compensate housing associations for the Right to Buy discount offered to their tenants. There are currently no further details of how the scheme will operate and what the cost implications will be for each local authority, but the government has recently confirmed that the policy will now not come into effect in April 2018 at the earliest.
- 3.10.5 Since the reinvigoration of the Right to Buy (RTB) scheme in April 2012, there have been 809 sales (to the end of November 2016). Although the council retains part of each RTB receipt to be spent on replacement social housing, this is insufficient to replace the number of properties sold. In addition, there are restrictions on the use of these receipts, including having to spend them within three years, not being allowed to use them in conjunction with HCA/GLA funding, and the fact that the receipts cannot constitute more than 30% of the cost of replacement social housing, meaning that the council must fund the remaining 70% from other resources.
- 3.10.6 The latest HRA 30 year financial modelling concludes that only the £49.6m of Right to Buy one for one receipts that had been retained as at the end of 2015/16 could be spent within the HRA as a result of the need for the additional funding requirement. A report being considered by Cabinet elsewhere on the agenda recommends that Right to Buy one for one receipts be used to purchase properties for use as temporary accommodation, and a further report to be considered by The Mayor in Cabinet in February 2017 will recommend establishing a number of approaches for utilizing fully the additional receipts
- 3.10.7 The HRA rent report elsewhere on this agenda provides more details on some of these issues, and Appendix 8 shows a summary of the draft HRA medium-term financial plan for 2017/18 to 2021/22, although this is indicative at this stage given the uncertainties around the new policies detailed above. The 2017/18 HRA budget will be considered by The Mayor in Cabinet in February after receiving approval from the Tower Hamlets Homes Board.

3.11 CAPITAL PROGRAMME

- 3.11.1 The current capital programme has been restated at Appendix 9a. The programme has been amended during the year to take account of decisions taken by the Council, Mayor and officers, including the application of additional grant resources that have become available. Appendix 9b includes a list of indicative schemes.
- 3.11.2 However, it is apparent from the current programme and the 2016/17 capital budget monitoring position that the level of expenditure implied by the 2017/18 and subsequent years' programme is unlikely to be achieved in full.
- 3.11.3 The capital strategy was last updated in February 2011 and this sets out priorities and objectives for using capital resources in the context of rapid population growth but in an environment of reducing resources; it is equally important that the use of capital resources are both prioritised and the impact

on outcomes are maximised in the same way as for revenue resources. Therefore in its February report, the Cabinet and Council will have an opportunity to review the capital strategy in the context of significant demographic, service and financial changes that are likely between now and 2020 and including developments such as those elements of the mayoral priorities which are capital in nature.

3.11.4 Increasingly capital investment decisions are reliant on local funding, be that through generation of capital receipts, prudential borrowing or development agreements, as government grant reduces.

3.11.5 The refresh of the capital strategy will ensure that the council has a consolidated strategy and capital programme based on a corporate approach to the prioritisation of all capital resources which is aligned to the Community and Strategic Plan priorities.

3.12 TREASURY MANAGEMENT STRATEGY

3.12.1 The Treasury Management Strategy Statement will be revised and presented to Full Council in February 2017 in accordance with the CIPFA Treasury Management Code of Practice. The Statement will set out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

3.12.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the capital programme as detailed in Section 3.11 above and Appendix 9. Prudential indicators may need to be revisited subject to Government capital funding announcements and decisions relating to the capital programme and if necessary revised. Any revisions to the indicators will need to be approved by Full Council.

3.13 BUDGET CONSULTATION

3.13.1 On 6th December the Mayor in Cabinet received an updating report on the progress of the council's MTFP including specifically details of the consultation exercises that had been carried out with residents and stakeholders.

3.13.2 Since that time further consultation has taken place at a business breakfast meeting held on 2nd December 2016 which was attended by 48 representatives of the business rate paying community. In addition to hearing about the context for and the Council's approach to its 2017/18 budget participants gave their views on the following issues:

- How do we meet our funding challenges?
- Can we work together to achieve the best outcomes for residents
- What are the income generation opportunities?

3.13.3 The outcome from all of the budget sessions together with the outputs from both the residents and businesses online and survey has been analysed and used to inform the development of the Council's MTFP and budget strategy for 2017/18.

3.13.4 The Your Borough Your Future campaign will continue to engage and involve residents and other stakeholders in the design of key services as the

Council's proposals are developed and implemented.

- 3.13.5 This report also forms the basis for formal consultation, in accordance with the Council's Budget and Policy Framework, with the Overview and Scrutiny Committee.

4 COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 As this report is primarily financial in nature the comments of the Chief Financial Officer have been incorporated throughout this report.

5 LEGAL COMMENTS

- 5.1 The Council is required by section 31A of the Local Government Finance Act 1992 ("the Act") to calculate for each financial year the basic amount of its council tax. The basic amount of council tax must be calculated according to a prescribed formula that uses the amount which is calculated by the Council as its council tax base. The council tax base is in turn calculated by reference to a formula prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 ("the Tax Base Regulations").
- 5.2 The Council is required to submit its council tax base to the major precepting authority, namely the Greater London Authority ("GLA") between 1st December and 31st January in the financial year preceding the financial year for which the calculation of council tax base is made. If the Council does not submit its council tax base to the GLA, then the GLA is required to determine the calculation for itself, in the manner prescribed in the Tax Base Regulations.
- 5.3 Whilst the making of a calculation in accordance with section 31A of the Act is for Full Council, the preparation of estimates of the amounts to be aggregated in making the calculation or of other amounts to be used for the purposes of the calculation and estimates of the calculation for consideration is the function of the Executive as per regulations 4(9) to 4(11) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended).
- 5.4 The calculation of the budget requirement are matters that may only be discharged by the Full Council. The Council's Constitution reflects the statutory requirement. Article 4 of the Council's Constitution specifies that approving or adopting the budget is a matter for Full Council. The Budget and Policy Framework Procedure Rules in Part 4 of the Constitution specify the procedure to be followed in developing the budget.
- 5.5 Before calculating the budget requirement, the Council is required by section 65 of the 1992 Act to consult with persons or bodies who the Council considers representative of persons who are required to pay non-domestic rates under the Local Government Finance Act 1988. The procedure in the Budget and Policy Framework Procedure Rules requires the Executive to publish its timetable for making proposals for adoption of the budget and its arrangements for consultation. There must be consultation with the Overview and Scrutiny Committee. The report sets out proposals for the budget consultation for consideration by the Mayor in Cabinet.

- 5.6 Where consultation is carried out for the purposes of assessing budget impacts it should comply with the following criteria: (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, including other areas in which savings may be made.
- 5.7 In circumstances where the Council is calculating the budget requirement, the Chief Finance Officer (the Corporate Director of Resources) is required by section 25 of the Local Government Act 2003 to report on the following matters: the robustness of the estimates made for the purposes of the calculations; and the adequacy of the proposed financial reserves. The Council is required to have regard to the chief finance officer's report before calculating the budget requirement. This report provides information from the chief finance officer about these matters.
- 5.8 The Council is obliged by section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is 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. The medium term financial plan informs the budget process and may be viewed as a related function.
- 5.9 The Council has a duty 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 preparation and consideration of a medium term financial plan as part of the budget setting process may assist to ensure compliance with the best value duty.
- 5.10 The report provides information about risks associated with the medium term financial plan and the budget. This is consistent with the Council's obligation 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.
- 5.11 The report provides details of the revised capital programme. The capital programme does not form part of the determination of the budget requirement, but is nevertheless a closely related matter and it is appropriate for information to be provided about it at this time. Before the capital programme is agreed, there will be a need to ensure that projects are capable of being carried out within the Council's statutory functions and that any required capital finance will meet the requirements of Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

- 5.12 The report provides information about a variety of grant funding, the application of which may be governed by agreement or legislation. The application of dedicated schools grant, for example, is governed by the School Standards and Framework Act 1998 and the School and Early Years Finance (England) Regulations 2014 made under that Act. The report outlines in broad terms the different limitations on grant funding and the Council will have to ensure that it complies with the relevant agreement or legislative requirement, as the case may be, in respect of each grant. It will be for officers to ensure this is the case.
- 5.13 The Care Act 2014 created a general duty on the Council to promote an individual's well-being when exercising a function under that Act. Well-being is defined as including protection from abuse, participation in work and suitability of accommodation. The well-being principle should inform the delivery of universal services which are provided to all people in the local population as well as being considered when assessing those with individual eligible needs.
- 5.14 The Equality Act 2010 requires the council in the exercise of its functions to have due regard to the need to avoid discrimination and other unlawful conduct under the Act, the need to promote equality of opportunity and the need to foster good relations between people who share a protected characteristic and those who do not (the public sector equality duty). A proportionate level of equality analysis is required in order to enable the Council properly discharge this duty and in some cases, such as where savings are made which impact on service users, consultation will be required to inform the equality analysis.

6 ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The Equality Act 2010 and the Public Sector Equality Duty that is part of it incorporates previous anti-discrimination laws into one act and places a duty to embed equality considerations into the day to day work of public bodies, so that they tackle discrimination and inequality and contribute to making society fairer. The PSED requires that public bodies have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity between people from different groups; and foster good relations between people from different groups. As a council we undertake equality analyses in policy making, initiating service change or undergoing a savings proposal as part of having due regard and in meeting our public sector equality duty. An equality analysis is a useful tool to enable us to assess the implications of our decision on services users and staff and to highlight any adverse impacts on one or more of the nine protected characteristics, as well as identify any active mitigation.
- 6.2 The borough is characterised by some of the highest average earnings in the country alongside extensive levels of deprivation with Two thirds of the borough's wards (13 out of 20) being in the most deprived ten per cent of wards in England.

- 6.3 Whilst there have been improvements in the most acute levels of deprivation with no areas being in the 5% most severely deprived areas, Tower Hamlets still has the highest levels of child poverty (42% of all children) and the highest levels of pensioner poverty (50%) in the country. We also know that the borough is very diverse, ranked as the 16th most diverse local authority in England alongside high levels of unemployment and worklessness, particularly within some of these BME groups. With many public services responding to needs of children and young people, older people and minority groups savings to budgets and therefore changes to services targeting these groups are very likely to impact on protected characteristic groups across these cohorts. In developing the budget the council has undertaken equality impact screening exercises as part of the development of business cases for savings proposals.
- 6.4 Where proposals have a direct impact on service users and are scheduled to take effect from April 2017 services are undertaking direct service user engagement to consult on proposals and the anticipated impacts will be set out in the full EAs. Where proposals are likely to have a direct impact on service users but are scheduled to take effect in 2018/19 and in 2019/20 which are years 2 and 3 of the period covered by the Medium Term Financial Strategy, these proposals will be further developed including analysis of impact on equality groups and will be reviewed for final decision before the proposal is agreed for implementation.
- 6.5 Proposals which are related to support functions and will have impacts on staffing and expected redundancies the profile of potential and actual redundancies will be kept under review to assess the impact on equality groups within the councils staff. Some proposals are not expected to have a direct impact on service users, the resident and business engagement on the budget priorities have helped to shape the proposed MTFP.
- 6.6 The equality screening information is provided in Appendix 4 as part of the summary proposal and comments on impact are sought at this stage to help inform the ongoing Equality Analysis required particularly for proposals which have a direct impact on service users and are expected to be implemented from April 2017.

7 BEST VALUE (BV) IMPLICATIONS

- 7.1 The preparation of the MTFP has taken 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.

8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 The sustainable action for a greener environment implications of individual proposals in the budget are 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 are set out in Section 3.7 of this report.

10 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

11 SAFEGUARDING IMPLICATIONS

- 11.1 Any safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.
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Linked Reports, Appendices and Background Documents

Appendices

- Appendix 1a Summary of the Medium Term Financial Plan
- Appendix 1b Detailed analysis of the Medium Term Financial Plan by Service Area
- Appendix 2 Tower Hamlets Core Spending Power
- Appendix 3 New growth proposals 2017- 2020
- Appendix 4 New Savings proposals 2017- 2020
- Appendix 5 Reserves Policy
- Appendix 6 Risk Evaluation
- Appendix 7 Projected Movement in Reserves
- Appendix 8 Draft Housing Revenue Account Medium Term Strategy
- Appendix 9a Current Capital Programme 2017 - 2020
- Appendix 9b Indicative schemes 2017 - 2020
- Appendix 9c Summary of Proposed Capital Programme 2017 - 2020
- Appendix 10 Budget Consultation Feedback

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

- None

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