Medium Term Financial Plan
2009/10 to 2011-12

April 2009

Corporate Finance
London Borough of Tower Hamlets

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London Borough of Tower Hamlets

MEDIUM TERM FINANCIAL PLAN 2009/10 – 20011/12

1. INTRODUCTION

1.2 Medium term financial planning is an important component of the Council's strategic planning framework. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are constrained in what they can achieve.

1.3 The Council established its first three budget in February 2008 and set balanced budgets for each of the years 2008-09 to 2010-11. This has enabled the Council to concentrate on more strategic issues such as significantly improving service delivery in key areas.

1.4 The development of the 2009/10 budget has taken place within the context of a longer term strategic and resource planning process. The Financial Outlook and Review reported to the Cabinet on 30th July 2009 identified the financial pressures facing the Council in the medium term and projected the level of resources that would be available to meet them.

1.5 That report concluded that the Council's future financial outlook was likely to be more challenging over the next few years, because of constraints on the rate of growth of public spending and associated tighter grant settlements. Cabinet was advised that meeting new cost pressures would require an increasingly rigorous approach to identifying efficiencies, enhanced productivity, and re-prioritisation of spending within services.

1.6 The report identified a potential funding gap of £9.9m in the 2011/12 financial year, and the Cabinet agreed that Corporate Directors would be requested to identify proposals for efficiencies to address this.

1.7 It is important that resource allocation is seen in terms of the outputs and outcomes that are expected from financial decisions. For example, where funding is provided for growth, a budgeted increase in spending should be matched by a comparable increase in output or performance to demonstrate value for money. The allocation of funding has been considered in the light of the Cabinet's Strategic & Resource Planning priorities and its impact on the delivery of targets, especially those included in the Local Area Agreement.

1.8 As part of the planning process, Members have examined information provided by Directorates relating to the existing allocation of financial and non-financial resources to services, including the number of staff employed in each area, and compared this with performance data and benchmark information from other similar authorities where available. All budget options have been considered in the context of current service performance and 'direction of travel' . They have been evaluated against a range of financial and non-financial information including unit costs, benchmarking data and VFM profiles; residents, user and staff consultation and feedback; core performance indicators and audit and inspection reports; sustainability, equalities and national and local change drivers.

1.9 This approach is designed to ensure that:-

- A forward looking financial forecast influences the development of service plans
- Service plans identify the financial consequences of proposed actions, including the resource implications associated with achieving the objectives set out in the Strategic Plan.
- Financial plans allocate resources to address changing community needs and priorities.
- Resources are directly related to performance improvement in order to maximise value for money.
- Different options for delivering policy outcomes are examined and taken into account. .
- Service and financial plans address key risks to budgets and performance.

1.10 The use of the Prudential Borrowing system also requires the Council to be clear about its proposed capital spending plans for three years ahead and explicit about the impact of the associated debt charges on Council Tax and Housing Rents.

1.11 Effective financial planning contributed in 2008 to the Council's Comprehensive Performance Assessment of 4*, the highest category; and 'improving well'. Also, the Council has the sixth lowest Council Tax charges in London in 2009/10. The Council's Use of Resources score, which reflects its financial management is a '3'.

Each year, the authority considers and establishes;

a. The overall revenue budget requirement for the forthcoming year.

b. Detailed budgets for each service, showing how funding will be provided to services in accordance with the Council's priorities. This includes a separate budget for the Housing Revenue Account.

c. The Tower Hamlets Council Tax and Council Housing rents for the forthcoming year.

Items a. b. and c are dealt with in Section 3 of this Plan

d. A Capital Strategy and capital programme showing resources available for investment in assets and infrastructure for three years ahead. (Sections 4-7 of this Plan)

e. Levels of reserves and balances based on an assessment of the potential financial risks facing the authority. (Section 8 of this Plan)

f. A treasury management strategy and prudential indicators showing how the Council's borrowing and investments will be managed for the year ahead. (Section 9 of this Plan)

1.12 Summary statements outlining the Council's financial plans are included as appendices to this document. The Medium Term Financial Plan should also be read in conjunction with the Council's Budget Book, which sets out detailed, approved budgets for 2009/10 and 2010/11 and indicative budgets for 2011-12 and a provisional three-year capital programme. The Budget Book is available by request from the Corporate Finance Service, Town Hall, or on the Council's website at-

www.towerhamlets.gov.uk/data/your-council/data/accounts/budget.cfm

2. THE COUNCIL'S PLANNING FRAMEWORK

2.1 Planning is a major thread running through any organisation. It is through an effective planning framework, with explicit processes for monitoring and evaluating progress, that all stakeholders – inside and outside the Council – can understand exactly what goals the Council is working towards and assess its progress. An effective planning framework also reflects the role of each organisation and its services and teams – and also of each individual within those services and teams – in achieving those goals, and sets out how our performance will be judged.

2.2 The Medium Term Financial Plan is one of a series of interconnected plans.

Community Plan

2.3 The Tower Hamlets Partnership has refreshed its community plan through to 2020. It is based on consultation with local people, businesses, third sector and statutory organisations about their hopes and aspirations for the borough, as well as research and information about the way our borough is changing.

2.4 The community plan keeps the existing vision 'to improve the quality of life for everyone living and working in Tower Hamlets'. It sets out the challenges and priorities for the borough through to 2020, as well as the specific targets – drawn from the Local Area Agreement – that we will focus on until 2011.

2.5 At the heart of the new community plan is the idea of One Tower Hamlets. This is all about trying to reduce the inequalities that exist in the borough and bringing local communities closer together.

2.6 The borough's new priorities have been developed under 4 new themes:

- **a great place to live** - including housing, transport and waste
- **a prosperous community** – covering learning, worklessness and enterprise
- **a safe and supportive community** – bringing together support for the most vulnerable residents with community safety issues
- **a healthy community** – including public health, access to primary care and mental health

To find out more about the community plan, visit the One Tower Hamlets website.

2.7 The Council is only one of many providers of services in Tower Hamlets. The need for co-ordination and integration has become all the more important because so many of the key issues affecting local communities cross organisational boundaries. The work of the Council and that of other agencies is guided by an overarching Community Plan, which sets out the vision for the borough as envisaged by key stakeholders. The Council takes the lead in the development and co-ordination of the Community Plan and works with local residents and partners in its preparation, implementation and review.

Strategic Plan

2.8 The Strategic Plan sets out the council's key targets and activities for the coming year and incorporates the priority outcomes from the borough's Local Area Agreement. As in previous years, the Plan shows our current performance and outlines the improvements planned for all services in the coming year.

2.9 The Strategic Plan represents the council's contribution to delivering the Community Plan. Both plans set out how we will continue to work together to improve the quality of life for people living and working in the borough.

The Community Plan has recently been updated and reflects the same four themes as the Community Plan.

2.10 The Strategic Plan enables us to be clear about our purposes, our sense of direction and discipline in managing change and development. It enables the Council to anticipate need and develop its services to meet new and emerging challenges so we are more able to improve the quality of life for everyone living and working in Tower Hamlets. The objectives set out in this Strategic Plan are related to each of the key elements of the Council's vision and the Community Plan.

2.11 The Strategic Plan is Member-led, reflects community needs, involves and informs staff, and incorporates the Council's contribution to partnerships and other joint initiatives. Many other statutory and local plans both inform and are informed by the Strategic Plan. These include, for example, the Housing Investment Programme and Strategy, the Crime and Disorder Reduction Strategy, Local Development Framework, the Asset Management Plan and many others.

2.12 Performance against our strategic objectives and targets is evaluated annually and the Strategic Plan updated accordingly. The Annual Report incorporates the Council's Best Value Performance Plan, a statutory document detailing the Council's performance and future targets for a wide range of services.

Resource plans

2.13 Financial plans cover the annual budget and medium and longer-term financial strategies for both revenue and capital expenditure. They provide a framework for allocating resources to support corporate objectives and service priorities. Service and financial plans have been brought together in a single strategic planning and resource allocation cycle. This is important in ensuring that the allocation of resources takes account of changing community needs and service priorities. As a result:

- Service planning is informed by medium term projections of financial resources.
- Financial implications of service improvement and development are clearly identified.
- Resources are directed to meeting the Council's strategic objectives.
- Quarterly corporate budget monitoring includes service performance data.

2.14 The Asset Management Plan represents the Council's strategic approach to the management of its property assets. It provides a statement of the current property portfolio and the aims, objectives and strategic management plans for land and building assets over a five-year period.

2.15 The Capital Strategy provides a framework to ensure that capital resources are administered efficiently and effectively and are allocated to projects which correspond to the Council's corporate objectives, including priorities identified in the Asset Management Plan.

2.16 The major strategic plans are supplemented by service plans, team plans and Personal Development Plans for individual members of staff, which go into progressively greater detail about how the various parts of the organisation contribute to its objectives.

3. REVENUE BUDGET 2009/10-2011/12

3.1. The development of the 2009/10-2011/12 Medium Term Plan has taken place within the context of the strategic and resource planning process. A "Resource Allocation and Budget Review 2009/10- 2010/11" was reported to Cabinet in July 2008. This revisited the three year budget set by Members earlier in 2008 and identified the planning parameters to be applied to service and financial planning for 2009/10- 2010/11, with the overall aim of providing sufficient flexibility to deal with risk and provide scope for a degree of policy choice.

3.2. The service and financial planning process also set a forecast for the three year period, 2011-2014 after the current Comprehensive Spending Review period and the Council's approved three year budget, and outlined the challenges the Council is expected to face in that period and the actions required to enable the authority to respond.

3.3. The baseline for the three year General Fund budget established for 2008/09-2010/11 was the £295.498m set by Council for 2008/09 on 27th February 2008 The review indicated that future financial outlook will be more challenging than in recent years following the announcement of the government's three year local government finance settlement 2008/2011. This confirmed that the Council's Formula Grant settlement will be at the 'grant floor', an increase below the level of inflation, for at least the next three years and, the Council estimates, probably for the next 6-7 years. In this context the Council faces cost pressures associated with maintaining services over the next three years, but the tighter resource outlook means that the funding available for these services increases by less than in previous years. The difference will need to be funded by identified savings proposals, which will be delivered through efficiencies wherever possible Nevertheless, in view of the successful identification of savings in setting the three year budget, a limited amount of additional resource was available in 2009/10 to fund key priorities.

3.4. Consequently, at the July meeting the Cabinet set five budget priorities as follows:-

- Reducing over-crowding
- Raising GCSE results to be the best in the country
- Reducing levels of youth unemployment
- Tackling anti-social behaviour and crime
- Improving cleanliness and quality of the public realm;

Committed Growth

3.5. Committed growth is additional spending that, for all practical purposes, is unavoidable. It includes new statutory requirements, responsibilities transferred from the Government and other bodies, new taxes and demand led growth (which arises when there is an increase in the number of clients requiring statutory services).

3.6. Committed growth in 2009/10 totals £7.223M as set out in Table 1 below. The table also indicates the additional growth anticipated over the remaining two years of the Medium Term Financial Plan.

Table 1	**2009/10**	**2010/11**	**2011/12**
Committed Growth	£000	£000	£000
Adult, Health & Wellbeing	883	1,607	2,891
Children's Services	2,013	1,984	788
Development & Renewal	1,001	1,314	989
Communities. Localities & Culture	1,786	2,861	500
Resources Directorate	1,540	1,580	1,000
Total Committed Growth	7,223	9,346	6,168

3.7. Since the Three Year Budget was set, budget pressures have been kept under review by officers, with a view to mitigating the impact and remaining within the original budget parameters. All bids for committed growth have been reviewed collectively by the Chief Executive and Corporate Directors and the following working definition has been applied: Where additional Committed Growth has been identified after the Three Year Budget was set, Directorates have been required to identify offsetting savings.

Inflation

3.8. Inflation in 2008/09 has been provided for at the following levels;

- ♦ 2.25% for other pay (pay award now agreed)
- ♦ 2.5% for general costs.

The amounts set aside in the Medium Term Financial Plan are as follows;

Year	Inflation Provision £m
2009/10	6.222
2010/11	6.494
2011/12	7.026

The Schools Budget

3.9. The details of the provisional Dedicated Schools Grant settlement for 2009/10 were announced by the Minister for Schools on 12th November 2008. For Tower Hamlets, the provisional DSG for 2009/10 is £242.336m, which is a 5.9% increase on the equivalent figure for the current financial year. The average increase for all authorities is 3.3%. Under the DSG settlement, schools are guaranteed a minimum funding increase (the 'Minimum Funding Guarantee') of 2.9%. The 2009/10 DSG settlement will be updated for pupil number changes recorded in the annual survey of pupils in January. For this reason, the final DSG figure for 2009/10 will not be known until May or June 2009.

Efficiency Savings

3.10. The Financial Review projected a tightening financial position for the Council for 2009/10 and beyond, principally as a consequence of planned reductions in overall public spending announced in the Government's 2007 Spending Review (CSR). . This will result in lower Government grant increases than have been experienced in recent years. At the same time the Council continues to face significant and largely unavoidable spending pressures. The Government has set an efficiency target for Local Government of £4.9bn for the next three years, which equates to 3% cashable efficiencies for every local authority.

3.11. The Financial Settlement confirms projections of a tightening financial position for the Council for 2009/10 and beyond. At the same time the Council will continue to face significant and largely unavoidable spending growth and inflation pressures.

3.12. The Council agreed a programme of savings and efficiency initiatives for 2009/10 and 2010/11 in setting the three year budget. However, additional budget pressures identified as part of the 2009-10 "budget round", however, have led to the need to identify additional and offsetting efficiency savings in 2009/10 and 2010/11 to ensure that the three year strategy is maintained. Offsetting savings and efficiencies identified by each directorate and the total savings and efficiencies for the next three years are identified in table 2 below.

Table 2	Savings & Efficiencies Identified		
	2009/10	2010/11	2011/12
	£000	£000	£000
Adult, Health & Wellbeing	1,036	1,152	-
Children's Services	2,610	4,173	1,922
Development & Renewal	417	668	414
Communities. Localities & Culture	697	1,489	-
Resources & Chief Executives	914	1,378	250
Total Savings	**5,674**	**8,860**	**2,586**

Formula Grant

3.13. The Local Government Finance Settlement announced in January 2008 provided Formula Grant figures for the three years of the financial settlement 2008-2011 for the first time. The three year settlement has been of considerable benefit to the authority in planning for the next financial period and the fact that the Government has confirmed the remaining two years of the settlement is a welcome development. The Council has been able to formulate its medium term financial plans with a high degree of certainty over the financial resources available from the Government for this three year period.

3.14. The Formula Grant settlement for 2009/10 is £228.816million. This represents a 1.7% increase over 2008/09 and continues the recent trend of lower rates of increase in Government grant. The final grant figures for 2010-11 and 2011-12 were also announced at the time and are incorporated into the Medium Term Financial Projection.

Table 3 Formula Grant Provisional Settlement 2009/10 Block	Formula Grant 2008/09 £m	Formula Grant 2009/10 £m	Formula Grant 2010/11 £m
Relative Needs Amount	201,198	206,982	212,847
Relative Resource Amount	-28,158	-30,374	-32,612
Central Allocation	40,959	42,550	44.097
Floor Damping	10,998	9,657	7,872
Total Formula Grant	**224,997**	**228,816**	**232,204**

3.15. There is as yet no announcement of funding beyond 2010/11. This will depend upon the Comprehensive Spending Review which is scheduled to take place in 2009 or 2010, and will clearly be heavily influenced by economic conditions and the condition of the UK's public finances.

3.16. The 2007 review of the Formula Grant left Tower Hamlets with a settlement at the grant floor and the Council is unlikely to receive grant increases above the grant floor for 5-6 years from 2008/09 onwards. At this stage it appears unlikely that the review of Formula Grant to take place in 2009 will improve this position. Until then, Tower

Hamlets' grant increase is likely to be determined by the level set by the Government for the grant floor which, as can be seen from the table above, will be below inflation for the next two years. While the floor applies, the authority will receive no additional Formula Grant funding for population growth, which is currently running at twice the national average. It is therefore possible for us to be fairly certain that the grant settlement for 2011/12 will depend upon the level at which the Government sets the grant floor and will mean a further period of grant reductions in real terms. For the purposes of this Medium Term Financial Plan, it is assumed that the grant floor which will determine Tower Hamlets' settlement, will be set at the same level as for 2010/11, which is 1.5%.

Collection Fund

3.17. Council Tax collected on behalf of the Council and the Greater London Authority is paid into the Collection Fund. Any surplus on the fund is available to the authorities to reduce the Council Tax in future years; any deficit must in turn be recovered from Council Tax.

3.18. It is estimated that the Collection Fund will have a deficit as at 31st March 2009 of £2.20m between the Council and the GLA. The distribution of the deficit serves to increase the Council Tax and therefore have a direct impact on the Council's finances.

Council Tax Base

3.19. The Council Tax base in Tower Hamlets has been growing for some years and continues to do so, reflecting the scale of development in the borough. However, although the projections suggest continuing upward trend for the next three year period the significant recent adverse changes in the economy have led the authority to revise down these projections

Other Resources

3.20. With effect from 2008/09, the Government has introduced a new arrangement for the distribution of a number of specific grants. Over 40 specific grants were brought together to form a pool of Area Based Grants (ABG). The Government has made it clear that the use of grants in the ABG 'pool' is not ring-fenced in any way. ABG is distributed to local authorities in a variety of different ways depending upon the Government Department from which it derives, but the authority is not restricted as to how the grant can be applied.

3.21. The table below sets out the amount of ABG allocated to Tower Hamlets for 2009/10 and 2010/11. Supporting People grant, which will be allocated as a specific grant, has also been unring-fenced for 2009/10. The totals of Area Based Grants allocated are summarized in the table below;

Table 4 Area Based Grants	Amount allocated by the government £m
2008/09	17.256
2009/10	18.981
2010/11	18.724

3.22. The “unringfencing” of Area Based Grant provides the opportunity to review the way the grants are used to support services and to identify efficiencies in the way they are applied. This exercise has taken place over the last few months as part of the 2008 Strategic & Resource Planning process. The proposed allocations of Area Based Grant has “freed up” to £3.501m in 2009/10 and £3.796m in 2010/11 which is expected to be allocated to the priorities identified in the July 2009 Cabinet.

3.23. The authority hopes to continue to receive funding under the Local Authorities’ Business Growth Incentive (LABGI) Scheme for 2009-10 Following changes to the original LAGBI scheme. The new scheme is based on allocation to economic regions (which in Tower Hamlets case is Greater London) with funding allocations based on a per capita basis. The recent history of Tower Hamlets involves a high level of business growth, and it is still anticipated that growth in the taxbase over the last year will have exceeded this historic trend.

Other Issues Concerning the Projection

3.24. The Medium Term Financial Projection carries some health warnings. In particular:-

- There is a tendency for cost pressures to be understated as new responsibilities and issues emerge over the lifetime of a forecast.
- The authority will need to contribute to the Local Government target for efficiencies of at least 3% per annum up until 2011-12 as part of the Comprehensive Spending Review 2007.
- Financial projections are particularly sensitive to assumptions about Government Grant which finances 77% of the General Fund budget requirement. In this context the Government’s introduction of multi-year grant settlements is particularly welcome.

Revenue Resources for Capital Purposes

3.25. The authority’s revenue budget and its capital programme are closely linked. In policy terms, each supports the other, while in financial terms, there are revenue implications associated with capital investment. Part of the capital programme is directly funded by the revenue budget, while any borrowing undertaken by the authority impacts on revenue through the costs of interest and debt repayment.

3.26. The resources available to fund the capital programme are expected to reduce over the next few years although this reduction now appears to have halted. This arises from changes to the rules governing the right to buy Council housing as well as the ongoing reduction in the Council’s housing stock. Furthermore, funding for the Council’s own capital spending priorities (the Local Priorities Programme) in future will be largely dependent upon a few large scale asset sales and in setting the capital programme for 2009/10-2011/12, key strategic decisions have been made about how to address this issue.

3.27. Authorities can set their own level of borrowing to finance capital investment but must show that it is prudent, affordable and sustainable. This flexibility enables authorities to come to their own view as to the appropriate balance between revenue and capital spending, to undertake options appraisal for revenue-intensive and capital-intensive options on a consistent basis, and also to borrow for capital purposes as needs arise instead of when Government gives its approval. Currently, prudential borrowing powers are used to:-

- Provide ‘bridging’ finance where there is a mismatch between capital investment and capital receipts, but where a capital receipt is certain;
- Finance Invest to Save schemes, which are self-financing in the long run.

3.28. Where the scope exists within any one year’s revenue budget, the authority may make direct revenue contributions to the capital programme to provide additional capital funding in that year or subsequent years. The use of revenue funding in the approved capital programme for 2009/10-2011/12 is set out in detail in Section 4 below.

Housing- General Fund Impact

3.29. The achievement of the Decent Homes standard will involve an ongoing review of housing management service costs to ensure that resources for front-line delivery are optimised. This is likely to affect those General Fund support services which support front-line housing management activity. The majority of the costs of these services would need to be saved, although any costs associated with downsizing these services would need to be borne by the General Fund. Any ongoing costs which could not be saved would need to be met on an ongoing basis by the Council. The reserve will stand at £23.6m by the end of the financial year.

3.30. There remains a potential ongoing impact to the General Fund of achieving the Decent Homes Standard, but officers believe, that while there is some risk involved, this can be managed within existing budgets providing a General Fund Decent Homes reserve of an estimated £8.5m is retained.

3.31. Contributions to the Decent Homes Reserve of £1.978m can therefore be removed from the budget with effect from 2009/10. This also means that £15m of the General Fund Decent Homes Reserve is potentially available for allocation to other one off priorities, potentially to fund capital expenditure. The size of this reserve, however, coupled with existing pressures on the capital financing and investments budget described elsewhere in this report means that if this sum were allocated and spent, an additional cost of £600,000 a year would be incurred by the General Fund revenue budget representing a reduction in investment income.

3.32. The residual risk around this strategy is that the absence of a permanent provision in the budget means that if General Fund charges to the HRA in general or to Tower Hamlets Homes in particular are reduced, the services concerned will either need to down size to absorb the loss of income, or a Genera Fund growth bid will be necessary. This risk is mitigated by retaining the £8.5m in the reserves.

General Fund Medium Term Financial Plan

3.33. The budgets and projections set out above have been incorporated into a medium term financial projection following approval of the 2009-10 budget. This is set out at Appendix A. Figures for 2010/11 and 2011/012 are approved projections and detailed decisions on these will be taken as part of future budget rounds.

Balance Sheet Forecast

3.34. The Medium Term Financial Projection includes a summary balance sheet which provides forecast financial information on key asset values, liabilities and reserves for the forthcoming period. The forecast reflects the revenue budget and prudential borrowing limits approved by the Council, and capital spending forecasts as reported to Cabinet .This is set out in Appendix A

Housing Revenue Account

3.35. The Council is the Landlord of its Council Housing Stock. Income to the Housing Revenue Account is primarily derived from Government subsidy and rents, and expenditure relates to the provision of services to manage the council's housing stock. Expenditure not met by Housing Revenue Account subsidy should mainly be met from Council tenants and leaseholders as rent income and service charges.

3.36. A number of substantial elements of the HRA such as rent income, subsidy and capital charges are either totally or largely out of the control of the Council. The major areas within the control of the Council are management, special services and maintenance.

3.37. The introduction of rent restructuring has severed the link between the level of expenditure in the HRA and the rent increase necessary to finance that expenditure. Rents now must be fixed in accordance with the DCLG rent restructuring formula. Levels of expenditure have to match the income available.

3.38. Governments policy for 06/07 and 07/08 was to restrict rent increases to an average of 5% (and protected Council's funding through the Rent Constraint Allowance). The DCLG have described in a recent consultation document two options for setting guideline rents in 2008/09 and 2009/10. Option 1 was to return to the basic rent restructuring with caps and limits and convergence in 2011/12. Option 2 was similar to option 1 except convergence was put back to an unspecified date. The draft determination has proposed Option 2 with convergence being put back until 2016/17 (five years).

3.39. The medium term financial forecast for the Housing Revenue Account has been reviewed in the light of the draft housing subsidy determination and taking into account the near completion of the Housing Choice programme. At current service levels and anticipated future funding levels (i.e. before efficiency savings and growth) a balanced medium term financial forecast will be maintained.

3.40. Through careful budget planning and control of expenditure during the stock transfer programme, the level of financial turbulence has been managed effectively. This has allowed £6m of reserves held to manage the transitional period to be considered for release to fund service improvements. Proposals in respect of this will be included in the budget report for consideration in February.

NB During the preparation of this Plan, the Government has announced changes to the Housing Revenue Account Subsidy arrangements for 2009/10 which will allow the Council to revisit its decision on rents. This information will be included in this plan when it becomes available.

4 THE CORPORATE CAPITAL STRATEGY & CAPITAL PROGRAMME 2009/2012

4.1. The authority agrees a Capital Strategy on an annual basis. It has three objectives: -

- It sets out how capital contributes to the achievement of the Council's corporate objectives.
- It provides a framework for the administration of capital projects and monitoring of outcomes and
- It establishes the criteria for the allocation of capital resources.

The strategy provides a basis for the preparation of the current year's Medium Term Capital Outlook and Capital Programme.

4.2. The Capital Strategy provides a link between the Community Plan and individual Directorate capital programmes. It places individual capital projects and programmes in the context of how these contribute to the achievement of the strategic priorities. It also provides a strategic and operational framework for the administration of the capital programme, the outcomes of capital schemes, and the efficient use of capital resources.

4.3. This process entails establishing :-

- Targets and objectives for Directorate capital programmes. This provides the basis for Directorates to develop their three-year capital programmes.
- Criteria to prioritise capital investment.
- Responsibilities and processes to ensure resources are effectively deployed and key targets met.

Capital Outlook

4.4. The Capital Outlook report made to the Cabinet in August 2008, identified that the resources available to fund the programme will be considerably reduced over the next few years. Annual capital programmes were finalised following announcements on Government capital allocations in December 2008/January 2009. Major projects, and in particular those which entail significant financial commitment, remain subject to specific approval by Members.

The Capital Programme

4.5. The Capital Programme comprises two main components: -

- Mainstream Programmes: comprising projects corresponding to the spending areas for which the Government allocates Supported Capital Expenditure (Revenue) or other service specific resource i.e. Housing, Education, Transport and Social Services. These services receive capital grants from the Government to fund specific projects and priorities.

- The Local Priorities Programme (LPP) : comprising projects which involve an element of discretionary Council funding or alternatively for which there is an explicit undertaking to provide such funding should external funding not be obtained

4.6. The distinction is critical because: -

- The Mainstream programme is financed by resources that are related to individual schemes. If the projected resources are not realised the expenditure will not be incurred.
- The Local Priorities Programme contains no such mechanism. There are a number of major capital commitments, which cannot be readjusted should the level of available resources fail to reach projected levels. In addition there is considerable uncertainty associated with the realisation of these resources.

4.7. In developing a capital investment strategy, the link between capital and revenue budgets is of key significance because of:-

- the revenue implications of the capital programme.- running costs and borrowing costs.
- the funding of elements of the capital programme directly from revenue budgets .
- the trade-off between routine maintenance (which should normally be funded from revenue) and structural maintenance and renovation (capital).

4.8. Two developments in particular now make it imperative that the capital and revenue planning processes are closely inter-linked;

- the abolition of Government-imposed borrowing controls and the advent of prudential borrowing, so that the size of the capital programme is now only limited by ensuring an affordable and sustainable overall financial position.
- the loss, from the 2006/07 revenue settlement onwards of the link between ‘supported’ borrowing and Formula Grant.

This means that the question of the affordability and sustainability of the capital programme is thrown into sharper relief as part of the revenue budget process. The changes to capital planning enforced by the current funding position, present an opportunity for reassessing the relationship between revenue and capital funding.

4.9. The individual projects comprising the overall 2009/10 to 2011/12 capital programme are as set out at Appendix C.

<u>The Mainstream Programme</u>

4.10. The resources for the mainstream programme are principally provided by Central Government, or other external funding providers, and are directed at specific projects or programme areas. The main areas are Housing, Education and Highways.

4.11. The Council’s projected mainstream funding for 2009/10 to 2010/11 and how this is allocated to schemes is set out in Appendix C.

4.12. The Government and other contributions to the funding of this investment is derived from two main sources:-

Supported Capital Expenditure (Revenue)	This represents the Government's assessment of how much individual Councils should spend on individual services to enable national targets and priorities to be met, based on bids by individual Councils and formula allocations. The funds are provided by Council borrowing. The Government supports the expenditure by partially reimbursing Councils for the annual debt charges associated with this borrowing through the Formula Grant settlement. From 2008/09 onwards, Tower Hamlets Formula Grant is on the grant floor and it will receive no additional revenue funding for supported borrowing while this remains the case.
Supported Capital Expenditure (Capital Grants)	This represents cash payments made by the Government to finance expenditure incurred in each financial year on specific projects. Capital grants are also received from other funding bodies, notably Transport for London.

4.13. The sources of funding for the 2009/10 mainstream capital programme and also the next three years to 2012-13 is as set out in Table 5.

Table 5: Mainstream Funding 2009/10

Mainstream PROGRAMME 2009/10 TO 2011/12	**2009/10**	**2010/11**	**2011/12**	**2012-13**	**Total**
Directorate	**£M**	**£M**	**£M**	**£M**	**£M**
Adults Health & Wellbeing	43.417	32.140	28.390	3.129	107.076
Children's services	0.387	0.392	-	-	0.779
Communities, Localities & Culture	2.456	0.895	0.270	-	3.621
Development & Renewal (Includes Housing General Fund)	17.730	17.000	17.300	-	52.030
TOTAL	63.990	50.427	45.960	3.129	163.506
Funded By					
Revenue	1.750	-	-	-	1.750

Grant	45.927	36.840	35.690	3.129	121.586
Other	16.313	13.587	10.270	0.000	40.170
Total	63.990	50.427	45.960	3.129	163.506

4.14. It has been Council policy in previous years to allocate supported borrowing allocations to services in accordance with the Government’s indicative allocations. Council policy priorities with respect to capital expenditure are reflected in the allocation of other resources, including capital receipts and prudential (i.e. unsupported) borrowing. The approved programme therefore allocates resources to services at a level that corresponds to their Supported Capital Expenditure (Revenue) and capital grant allocations.

4.15. The Mainstream Capital Programme for 2009/10 initially totals £63.990 million, as detailed in Appendix C. It is expected that more funding announcements will be made by the Government as the year goes on and these will be reported to the Cabinet for formal inclusion in the Capital Programme as appropriate.

4.16. The Council’s Formula Grant settlement in future years will be restricted by the fact that increases will be at the grant ‘floor’. This means that where funding is allocated in the form of supported borrowing, the Formula Grant will not automatically fund this expenditure and mainstream capital priorities funded by supported borrowing will therefore need to be taken into account alongside other revenue funding priorities.

5. Funding for Local Priorities

5.1. The Local Priorities Capital Programme comprises projects which meet local priorities identified in the Strategic Plan and not otherwise funded as part of the mainstream programme. This part of the Capital Programme is financed primarily from the proceeds of asset sales, but also from prudential borrowing and from any decisions to redirect elements of revenue funding.

5.2. The scope of the programme has been constrained in the current period because of reductions in the level of capital receipts available This relates principally to the reduction in the level of usable Right to Buy (RTB) receipts resulting from changes in the maximum level of discounts allowable. This has diminished a buoyant and continuing source of funding for the Local Priorities Capital Programme.

5.3. On this basis, the following table 6 sets out the resources currently available from capital receipts to fund Local Priority Schemes, and identifies that £3.036m is available for this purpose.

Table 6	£m	£m
Funding requirement for slippage from 2007/08. (Net deficit carried forward)	0.436	-
Review of spending against previous year's programmes	-0.500	
Capital receipts funding required for the Local Priorities Programme 2008/09.	5.137	-
Capital receipts funding required to complete in 2009/10, 2010/11 of schemes started in 2008/09 (Bishop Challoner Community Facilities)	0.490	-
Osmani Youth Centre	3.300	-
Victoria Park	5.050	-
Sub total		**13.923**
Capital Receipts in hand	15.324	-
Madani School	1.330	-
British Prince PH	0.305	-
Sub total		16.959
Total Available for allocation	-	**3.036**

5.4. The table reflects:-

- net funding deficit carried forward at the end of 2007/08 of £446,000, as reported to Cabinet in the Capital Outturn in September. The figure of £5.137m required to fund the current year's capital programme reflects the decisions taken by Council in February, in addition to which a £1.500m capital receipt from St Matthias School has since been committed to fund leaseholder buybacks on Blackwall Reach as subsequently agreed by Cabinet.
- sufficient funding (£0.490m) to complete the scheme relating to the Bishop Challoner community facilities during 2009/10 and 2010/11. Without this funding the scheme would remain incomplete.
- decisions by Cabinet on 10th September 2009 to agree in principle to set aside capital resources to fund the redevelopment of the Osmani Youth Centre and the Council's contribution to the Victoria Park Heritage Lottery Bid.

5.5. Capital receipts forecasts are always subject to realising disposals and sales. In particular the availability of capital receipts may begin to be affected if there is an economic downturn in the forthcoming period. This could affect the price of land locally and tenants' ability to buy their homes under Right to Buy.

5.6. Revenue expenditure is normally concerned with the day-to-day running of services, while capital is concerned with investment in the assets required to deliver services successfully. Both aspects of service delivery are important and decisions concerning one clearly impact upon the other in relation to:

- The ongoing running costs and upkeep of new buildings;
- Any revenue costs of financing capital expenditure;

- Decisions whether to invest in assets as a Council, or seek partnership arrangements for alternative delivery options.

5.7. Furthermore, subject to the decisions taken on revenue budgets, direct revenue financing of the capital programme may be made available from revenue budgets. This can be a useful way of maintaining investment in assets when capital budgets are temporarily more constrained than revenue budgets.

6. LOCAL PRIORITIES CAPITAL PROGRAMME 2009/10

6.1. Criteria for the evaluation and prioritisation of capital investment proposals are set out in the Capital Strategy 2009/10 to 20011/12 approved by Cabinet on 9 January 2009.

6.2. Potential capital investment proposals were reviewed against those criteria to determine if capital funding was appropriate, if alternative provision could be identified and to evaluate the contribution of individual projects towards the achievement of the Council's corporate objectives. The evaluation also took into account the ongoing revenue consequences of investment on the basis of whole life costing.

6.3. The Local Priorities Programme resulting from this process is set out in detail at **Appendix C**, funded by a mixture of capital receipts, revenue contributions and prudential borrowing and includes a schedule of leveraged amounts. These are amounts of funding that will become available from external funding bodies if Members agree to fund the related Local Priority bid.

7. REVENUE IMPLICATION OF THE CAPITAL PROGRAMME

7.1. Directorates are required to ensure that the revenue implications of capital expenditure are reflected in their budget proposals and, if necessary, in growth bids and savings. Any revenue implications arising from other schemes are being met within Directorates' existing budgets.

7.2. The greatest risk, in view of the constraints now existing, relates to the availability of funding from capital receipts, and as reported above, the additional risk around economic uncertainty must now be considered. The local priorities programme is particularly dependent on a small number of high value asset sales. If the sales do not take place as planned, or generate the receipts projected, it may be necessary to revisit the programme or seek alternative sources of funding.

7.3. The programme has also been managed flexibly in the past by allowing expenditure and funding to slip between years. The more constrained nature of the funding means that there will be less scope for this in the future.

7.4. The capital programme will therefore be monitored closely to ensure that these risks are minimised.

8. BUDGET RISK – CONTINGENCIES & RESERVES

8.1. A critical element of the Medium Term Financial Plan is to ensure that the financial consequences of risk are adequately reflected in the Council's finances, in the context of a sustainable medium term financial plan.

8.3. **Appendix D** sets out the position on reserves and balances to take account of the latest information. It also sets out the planned use of the Council's earmarked reserves and highlights the extent to which they are available to support the medium term financial strategy.

8.4. The Audit Committee and the Corporate Management Team receive quarterly reports on the key strategic and corporate risks impacting on the authority. Senior Finance Officers have evaluated these risks to assess their potential financial impact and identify how they should be reflected in the Council's financial planning. Three categories of financial risk are identified:

- Where the implications would be accommodated within existing financial provisions, such as directorate budgets or earmarked reserves.
- Where specific risk financing arrangements are in place, such as those covered by insurance.
- Those which need to be taken into account at a corporate level as part of the budget process.

8.5. Issues which fall into the final category include:-

- Business continuity issues, such as systems breakdowns, contractor failure or loss of a key administrative building.
- Risks associated with large-scale projects.
- Risks associated with the implementation of legislation and guidelines.
- Strategic financial risks, including changes in budgetary assumptions, overspends and major financial control failures

8.6. **Appendix E** sets out those strategic and corporate risks (drawn from the Council's risk register) which would be likely to have a financial impact if they were to materialise, together with the key risk areas in service/Directorate budgets and associated mitigating measures.

8.7. There are three ways in which risks can be dealt with within the budget;

- By having regard to risks in setting levels of general balances and earmarked reserves
- Through setting aside specific contingencies within the budget for allocation during the year as and when required.
- By funding specific risk mitigation programmes with the aim of reducing the potential financial impact on the Council in the future.

8.8. These approaches can be thought of in a hierarchy:-

- General balances are used in the main to cover unknown and unforeseen eventualities.

- Earmarked reserves are set aside for specific issues that are more likely to occur, but where the financial impact and the timing is uncertain.

- Contingencies are used for risks that, if they arise, are almost certain to materialise during the next budget year.

- Funding of risk mitigation measures is appropriate for large and relatively certain risks, where it can be shown that allocating funding is likely to prevent larger risks from developing later.

8.9. Having regard to the potential for volatility in the medium term financial outlook, the time-limited nature of the Collection Fund surplus and the strategic financial risks highlighted in this report, the authority seeks to maintain general reserves at between 5% and 7.5% of non-schools service spending. This broadly equates to a target range of £15m to £22.5m.

8.10. A projection of the level of general reserves anticipated as at 31st March 2009 indicates that reserves are currently expected to stand at £22.3M as at 31st March 2009.

8.11. The fact that reserves are projected to stand at the top end of the range mitigates the risk of the budget uncertainties highlighted earlier in this report, while allowing for the allocation of funding from reserves for one-off priorities and unavoidable costs during 2008/09. In view of this, it does not seem to be necessary to allocate further contributions to general reserves in 2009/10. This position will be kept under review and may be revised if the overall risk profile changes further.

8.12. The Corporate Director of Resources has a responsibility to report to the Council his views as to the robustness of the Council's budgeting process. The Director has reported that the budget process for 2009/10 was sufficiently robust to enable Members to deliver a balanced, sustainable budget. The table below sets out the key strategic budget risks and the principal mitigating measures as identified in the budget process:-

Strategic Budget Risk	**Principal Mitigating Measures**
The allocation of resources does not reflect the Council's priorities as set out in the Strategic Plan.	The Council's budget and service planning processes are aligned. Financial plans are developed concurrently with service plans and reviewed against a performance digest that consolidates information on performance and inspection; cost, procurement and value for money; user consultation and feedback; and policy developments and other pressures for change. Annual budget decisions are set in the context of a longer term financial outlook which identifies the resource implications of achieving the objectives set out in the Strategic Plan. All growth and savings options are evaluated for their impact on the Council's key priorities and the Tower Hamlets Index.
Net spending exceeds the approved budget.	There are both service level and corporate budget monitoring procedures in place. Responsibility for monitoring budgets and meeting budget targets is clearly allocated in Financial Regulations to Corporate Directors and Service Heads.

Core assumptions on pay and price inflation are unrealistic.	Corporate budget preparation guidelines are issued during the summer providing common assumptions about pay and price inflation to ensure consistency between service budgets and between the General Fund and the HRA. The assumptions are reviewed and agreed at a Corporate Financial Services Managers' Forum. Directorate budgets are cash limited.
The budget does not incorporate unavoidable cost pressures and known developments.	The medium term financial planning process is now embedded in the Council's strategic management framework and the budget for 2008/2009 has been substantially derived from the Financial Outlook and Review. The Capital Strategy ensures that the revenue impact of capital investment is identified and incorporated in financial plans. There are both service level and corporate budget monitoring procedures. Budget variances in the current year arising from unavoidable cost pressures have fed into the 2006/2007 budget process in the form of committed growth bids.
Savings are not achieved and/or budget growth does not deliver the intended service benefits.	The Council has a process of review of budget options firstly by directorate finance managers and secondly by peers overseen by the Corporate Management Team. In addition, Lead Members have individually and collectively performed a rigorous review role. Savings option are reviewed for eligibility and achievability. The service impact of agreed growth will be monitored as part of the 2008/09 Strategic Plan.

9. TREASURY MANAGEMENT, BORROWING AND INVESTMENTS

9.1. Each year the Council must approve;

- the prudential indicators relating to capital financing for the year ahead.
- the level of any prudential borrowing to be undertaken in that year .

These indicators are consistent with the Council's revenue and capital budgets.

The Prudential Code

9.2. The Council is required to set prudential indicators by the Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003.

9.3. The prudential indicators underpin the Council's investment plans and demonstrate that they are financially prudent, affordable and sustainable. These indicators are intended to be used to monitor and regulate the decision making process.

9.4. The Council's Capital Strategy ensures that the use of capital resources is optimised by allocating funding to those programmes or projects that contribute most to the objectives set out in the Strategic Plan. Prudential borrowing is at the discretion of individual local authorities and the debt charges must be funded locally and are therefore unsupported by Government grant. Current policy, as set out in the Capital Strategy, is that unsupported borrowing is only used for projects which are

- expected to generate sufficient revenue resources to finance the associated debt charges either through existing revenue budgets or on the basis of Invest to Save or

- a capital intensive service improvement which has been approved as part of the budget strategy.

9.5. The prudential indicators establish limits on the amount of borrowing the Council can undertake in the medium term and demonstrate that such borrowing will not over-commit subsequent year’s revenue budgets.

9.6. Prudential indicators are a control mechanism which ensure that projections within the capital budgets are consistent with those within the revenue budgets. The Prudential indicators ensure that adequate provision for the debt charges and any other revenue costs associated with the capital expenditure in the Capital Budget exists within the revenue budgets and that such costs are affordable.

9.7. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- Affordability, e.g. implications for Council Tax/ impact on the Housing Revenue Account.
- Prudence and sustainability, e.g. implications for long term external borrowing
- Value for money, e.g. option appraisal
- Stewardship of assets, e.g. asset management planning
- Service objectives, e.g. strategic planning for the authority
- Practicality, e.g. achievability of the forward plan.

9.8. The Prudential Code also emphasises that local authorities must have effective risk identification and management arrangements in place to cover eventualities that may occur over the lifetime of their capital programmes such as:

- Incomplete or inaccurate estimates
- Delays in securing capital receipts or grants
- Third party funders not meeting commitments to provide finance
- Anticipated future savings and revenue funding targets not being achieved
- Project management problems
- Adverse movements in interest rates
- Depreciation and impairment of assets
- Other future developments in proper practice
- Political changes

9.9. There are three categories of indicators under the Prudential Code developed by CIPFA :-

- Prudential Indicators relating to Capital Investment.

- Prudential Indicators for External Debt.

- Prudential Indicators relating to Treasury Management.

Prudential indicators relating to capital investment

9.10. This set of indicators assesses the affordability of the Council's capital plans by determining the Council's expenditure plans and then calculating the proportion of revenue resources which will be required to provide finance for the associated loan charges and the potential increase in Council Tax levels.

9.11. The actual capital expenditure that was incurred in 2007/08 and the estimates of capital expenditure to be incurred for the current and future years are as set out in Table 8:-

Table 8: Capital Expenditure					
	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Housing	31.315	30.790	39.917	32.140	28.390
Adult Services	0.286	0.129	0.387	0.392	0.000
Children's Services	11.300	15.580	17.730	17.000	17.300
Communities Localities and Culture	7.316	5.524	7.081	0.895	0.270
Development & Renewal	0.261	10.230	3.500	0.000	0.000
Local Priorities Programme	11.454	8.164	22.579	18.289	4.033
	£61.932	£70.417	£91.194	£68.716	£49.993
Represented by:-					
HRA	31.315	30.790	51.117	43.340	28.390
General Fund	30.617	39.627	40.077	25.376	21.603
	£61.932	£70.417	£91.194	£68.716	£49.993

Housing expenditure includes improvement grants to private landlords which is classified as general fund expenditure, in addition to capital expenditure relating to investment in dwellings maintained by the Housing Revenue Account.

9.12. The ratio of financing costs to net revenue stream sets out the loan charges associated with capital expenditure as a proportion of the income the Council receives from Council Tax and Government grants. Broadly it corresponds to the proportion of the Council's income that will need to be allocated to finance interest and debt repayments. An increasing proportion indicates that revenue budgets will be committed in the medium term and the scope to adjust budgets will be constrained. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2007-08 are as set out in Table 9:

Table 9: Ratio of Financing Costs to Net Revenue Stream

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
HRA	20.18%	18.76%	20.50%	21.56%	22.11%
General Fund	2.22%	2.50%	2.88%	3.06%	3.30%

9.13. The capital financing requirement represents the capital expenditure within each year, which is to be financed by borrowing together with the cumulative amounts of borrowing in previous financial years. Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2009 are as set out in Table 10:

Table 10: Capital Financing Requirement

	2007/08 Actual £million	2008/09 Estimate £million	2009/10 Estimate £million	2010/11 Estimate £million	2011/12 Estimate £million
HRA	301.217	316.717	328.607	340.497	352.387
General Fund	157.202	165.473	179.764	194.524	210.543
	£458.419	£482.190	£508.371	£535.021	£562.930

9.14. It should be recognised that the Council has to borrow both to provide temporary finance for its revenue transactions and for capital purposes. The Council manages its treasury position in terms of its borrowing and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

9.15. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

9.16. The authority had no difficulty meeting this requirement in 2009/10, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

9.17. The Prudential Code requires the Council to calculate notional figures which indicates the impact of planned borrowing on Council Tax levels. In practice, decisions on capital investment are taken as part of the wider budget and service planning process so that investment needs, revenue budget levels and Council Tax are considered together rather than in isolation. For the HRA the ability to undertake unsupported borrowing is effectively limited by subsidy levels and rental income which are both regulated by Government. There is therefore no direct impact on rent levels arising from the Prudential Borrowing limits proposed in this report.

Table 11: Impact of Capital Investment Decisions

	Annual Band D Council Tax £	Average Weekly Housing Rents £
2007/08	20.13	0.00
2008/09	14.72	0.00
2009/10	16.11	0.00
2010/11	8.95	0.00
2011/12	11.64	0.00

9.18. The figures in the table 11 are based on the gross borrowing costs of both discretionary and supported capital expenditure. It should be recognised that a proportion of the borrowing costs are financed by the Government through the revenue support grant and housing subsidy systems.

Prudential indicators for external debt

9.19. The Prudential Indicators relating to external debt set out the maximum level of debt the Council can borrow consistent with its capital expenditure plans and the parameters within which the Director of Resources can undertake borrowing under delegated authority.

9.20. The CIPFA Code requires Councils to determine the maximum level of external debt and other long-term liabilities for the current and succeeding three financial years. The Director of Resources has calculated the limits on the basis of an estimate of the most likely, prudent scenario, with a contingency sum to cover unforeseen eventualities.

9.21. The Director of Resources is required to obtain Council approval to subsequently revise the Authorised limit as described in Table 12.

Table 12: Authorised Limit for External Debt

	2008/09 £million	2009/10 £million	2010/11 £million	2011/12 £million
Borrowing	339.000	528.000	576.000	626.000
Other Long Term Liabilities	0.000	0.000	0.000	0.000
Total	339.000	528.000	576.000	626.000

9.22. The Code also requires the Council to set an operational boundary for external debt for the same time period. The operational boundary differs from the authorised limit for external debt in that it excludes the contingency sum and it can be exceeded without requiring the approval of Council. The operational boundary represents a key management tool for in year monitoring by the Director of Resources as described in Table 13 below.

Table 13: Operational Boundary for External Debt

	2007/08 £million	2008/09 £million	2009/10 £million	2010/11 £million
Borrowing	319.000	508.000	556.000	606.000
Other Long Term Liabilities	0.000	0.000	0.000	0.000
Total	319.000	508.000	556.000	606.000

9.23. The Council's actual external debt at 31 March 2009 is estimated to be £517.084 million.

Prudential indicators relating to treasury management

9.24. The Prudential Code requires that the Council sets a number of indicators to set the parameters within which the Director of Resources can undertake treasury related transactions under delegated authority.

9.25. The Council sets a maximum level of 100% for its fixed interest rate exposure and a maximum variable rate exposure limit of 20%.

9.26. It will be necessary for the Council to undertake additional borrowing to finance both capital expenditure and debt maturities. To minimise the Councils potential exposure to adverse movements in interest rates the debt portfolio is managed to ensure that debt matures evenly throughout the debt term. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings is as set out in Table 14.

Table 14: Debt Maturity Profile

	Upper limit	Lower limit
under 12 months	10%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	100%	0%
10 years and above	25%	0%

9.27. There are no proposals for the Council to invest sums for periods longer than 364 days.

ARMS LENGTH MANAGEMENT ORGANISATION (ALMO)

10.1. The Council has established Tower Hamlets Homes in 2008 to take responsibility for the management of its housing stock. and was a successful in a bid to CLG for investment in social housing improvements under the Government's Decent Homes (DH) programme.

10.2. Under current Government policy, access to DH funding will only be permissible if the Housing Service achieves at least a two star rating following Audit Commission inspection.

10.3. Funding for Tower Hamlets Homes (THH) and for managing the stock comes from the Housing Revenue Account (HRA) and a decision was made to split the HRA into three elements:

1. Budget for THH covers the day-to-day cost of operating the ALMO (salaries, office rents, utilities, and other running costs)

2. Delegated budget to fund expenditure incurred in maintaining housing tenancies and the properties themselves (rental income is also a delegated budget) belongs to the Council but managed by THH
3. Budget to cover HRA activities that the Council continues to carry out

Detailed budgets have been drawn up and the overall HRA budget for 2009/10 is approved.

BUILDING SCHOOLS FOR THE FUTURE (BSF)

10.4. The Council successfully bid for Wave 3 and Wave 5 of the BSF programme. Tendering is continuing to identify a private sector consortium to work with the authority to form a Local Education Partnership. An indicative capital allocation has been agreed for 2009/10 of £9,657,063 for drawdown with PfS.

OTHER PARTNERSHIPS

In addition to these major partnership arrangements, the Council works in partnership in many other ways to secure benefits for the local area.

SUMMARY

This three year Medium Term Financial Plan sets out the main financial issues facing the Council over the next three years and its planned response. The plan is updated each year on a rolling basis to ensure that it reflects the latest available information.

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MEDIUM TERM FINANCIAL PLAN 2009/10 - 2011/12

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Initial Budget		295,498	297,926	305,453
Inflation		6,222	6,494	7026
Committed Growth				
Approved In February 2008		3,618	2,479	
Reported to January 2009 Cabinet		3,605	-356	2919
Savings				
Approved in February 2008		-3,970	-2,694	
Reported to January 2009 Cabinet		-1,704	-702	-195
Other Adjustments Required				
Facilities Management		2,950		
London Pensions Fund Authority Levy		411	353	235
Concessionary Fares		-800		
Capital Financing and Investment		-2,438	2,365	72
Pensions Fund				4,501
One off spending in 2008/09		-2,701	-317	
Changes in Contributions to Reserves				
Asset Management		-500		
Decent Homes		-1,978		
General Reserves		-1,200		
Changes in Contingency budget		-194		
Additional contribution from Parking Control A/c		-90	90	
Other Funding				
Prioritisation of Area Based Grant		-3,501	-295	3796
Service Improvement Growth				
Service Improvement Growth approved during 2008/09		1,600		
LAP Budgets		2,380		-2,380
London Living Wage		260		
Tackling overcrowding		90	110	
Enforcement Officers		368		
Savings target for 2011/12				-9910
Budget Requirement	295,498	297,926	305,453	311,517
Formula Grant	-224,997	-228,816	-232,204	-235,687
Collection Fund Surplus / Deficit	-1,505	2,000	0	0
	68,996	71,110	73,249	75,830

PROJECTED BALANCE SHEET

	As at			
	31.3.2009 £ m	**31.3.2010 £ m**	**31.3.2011 £ m**	**31.3.2012 £ m**
Fixed and other long term assets (Note 1)	2,048.7	2,136.4	2,201.5	2,249.9
Borrowing & other long term liabilities	-285.0	-298.8	-312.9	-291.9
Working Capital	70.7	64.7	58.8	35.0
TOTAL ASSETS LESS LIABILITIES	1,834.4	1,902.3	1,947.4	1,993.0
Non-cashable Reserves (Note 2)	1,685.2	1,759.1	1,812.9	1,858.5
Collection Fund	-2.7	0.0	0.0	0.0
Other Earmarked Reserves	129.6	120.9	112.2	112.2
General Balances	22.3	22.3	22.3	22.3
TOTAL EQUITY	1,834.4	1,902.3	1,947.4	1,993.0

All figures at current prices. Does not reflect inflation or revaluation of assets/ liabilities

(1) Increase reflects expenditure on capital investment less value of anticipated disposals
(2) In the main, reserves representing the value of capital assets that have been paid for in the past

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HRA INCOME & EXPENDITURE ACCOUNT

2008-2009 Approved Budget	Housing Revenue Account	2008-09 Latest Budget	2008-09 Projected Outturn	2009-10 Draft Estimates
£,000		£,000	£,000	£,000
	INCOME			
52,982	Dwelling Rents	52,982	54,214	56,614
3,311	Non Dwelling Rents	3,311	2,939	2,815
6,212	Tenants Charges for Services & Facilities	6,212	6,185	6,718
10,888	Leaseholder Charges for Services & Facilities	10,388	8,825	9,613
115	Contributions towards expenditure	115	115	115
-	Reduced provision for Bad Debts	-	-	-
21,323	HRA Subsidy Receivable	21,323	20,569	16,634
94,831	**GROSS INCOME**	94,331	92,847	92,509
	EXPENDITURE			
26,442	Repair & Maintenance	26,842	26,842	22,901
25,158	Supervision & Management	25,158	25,158	25,477
13,278	Special Services	13,278	13,278	13,402
2,686	Rents, Rates, Taxes and Other Charges	2,686	2,686	2,947
1,480	Subsidy Limitation transfer to Gen Fund	1,480	800	-
810	Provision for Bad Debts	810	810	900
19,742	Interest Payable - Item 8	19,742	19,084	16,756
11,555	Depreciation - HRA dwellings	11,555	11,812	12,558
1,088	Depreciation - HRA non dwellings	1,088	789	789
205	Debt Management Costs	205	205	209
102,444	**GROSS EXPENDITURE**	102,844	101,464	95,939
7,613	**NET COST OF HRA SERVICES**	8,513	8,617	3,430
666	Amortisation of Premiums & Discounts	666	666	585
-910	Supporting People Contribution	-910	-910	-538
-815	Interest & Investment Income	-815	-1,000	-907
6,554	**SURPLUS OR DEFICIT ON HRA**	7,454	7,373	2,570
	Appropriations			
	Revenue Contribution to Capital Expenditure	750	750	1,750
-5,466	Net Contribution from Housing Choice Reserve	-5,466	-5,466	-1,181
-1,088	Transfer for Major Repairs reserve	-1,088	-789	-789
-	**Net Position**	1,650	1,868	2,350
	Balances			
-17,116	Balances at the beginning of the year	-19,188	-19,188	-17,538
-	Surplus/(Deficit) on HRA	1,650	1,868	2,350
-17,116	**Balances at end of year**	-17,538	-17,320	-15,188

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Mainstream PROGRAMME 2009/10 TO 2011/12		**2009/10**	**2010/11**	**2011/12**	**2012-13**	**Total**
Directorate	**Project**	**£M**	**£M**	**£M**	**£M**	**£M**
						-
D & R	Bishop Square	3.500				3.500
Housing HRA	Improving Local Environment Initiatives	0.850				0.850
	Housing Stock	22.640	22.140	21.640		66.420
	Overcrowding Incentive Scheme	0.500	0.500	0.500		1.500
	Overcrowding Incentive Scheme	0.750				0.750
	Disabled Adaptations	0.150				0.150
	Capitalised Voids	1.750	1.750	1.750		5.250
	Ocean	13.277	3.000			16.277
	Ocean		4.750	4.500	3.129	12.379
D & R		**43.417**	**32.140**	**28.390**	**3.129**	**107.076**
Adults, Health & Wellbeing	Common Assessment Framework-ICT-AHWB01	0.095	0.099			0.194
	Mental Health Grant-AHWB02	0.169	0.170			0.339
	Social Care Grant-AHWB03	0.123	0.123			0.246
Adults, Health & Wellbeing		**0.387**	**0.392**	**-**	**-**	**0.779**
CLC	TFL -CLC01	**2.456**	**0.895**	**0.270**		**3.621**
Childrens	Programme-CHILD01 GRANT	9.970	12.300	10.000		32.270
	Programme-CHILD01 Capital Allocation	7.760	4.700	7.300		19.760
Childrens		**17.730**	**17.000**	**17.300**	**-**	**52.030**
TOTAL-MAINSTREAM		**63.990**	**50.427**	**45.960**	**3.129**	**163.506**

LOCAL PRIORITIES PROGRAMME 2009/10 TO 2011/12
BIDS AGREED

Director	Project	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012-13 £'000	Total £'000
Adults, Health & Wellbeing						
	Single Assessment Process-	0.150				0.150
	Prior approval for Invest to Save	0.150				0.150
	Bid for LBTH funding	0.000				0.000
	AHWB TOTAL BIDS for LBTH funding - AGREED	**-**	**-**	**-**	**-**	**-**
Children's Services						
	Bishop Challenor Community Facilities	0.935	0.055			0.990
	of which, externally funded	0.500	-			0.500
	Bid for LBTH funding	0.435	0.055	-	-	0.490
	Osmani Youth Centre	2.000	2.000			4.000
	of which, externally funded	0.700				0.700
	Bid for LBTH funding	1.300	2.000	-	-	3.300
	CHILDRENS TOTAL BIDS for LBTH funding - AGREED	**1.735**	**2.055**	**-**	**-**	**3.790**
Communities, Localities & Culture						
	Victoria Park Masterplan	0.250	3.234	3.233	3.233	9.950
	of which fundable from lottery bid		1.634	1.633	1.633	4.900
		0.250	1.600	1.600	1.600	5.050
	CLC TOTAL BIDS for LBTH funding - AGREED	**0.250**	**1.600**	**1.600**	**1.600**	**5.050**
Development & Renewal						
	Private Sector & Affordable Housing	2.500	1.000			3.500
	of which, funded from sale of short life properties to RSLs	1.500	-			1.500
	of which, developer contribitions	1.000	1.000			2.000
	Bid for LBTH funding	-	-	-	-	-
	Whitechapel Centre	0.750				0.750
	of which fundable from capital grants	0.514				0.514
	Revenue contribution included in three year budget	0.236				0.236
	Bid for LBTH funding	-				0.000
	D&R TOTAL BIDS for LBTH funding - AGREED	**-**	**-**	**-**	**-**	**-**
	Capital Programme					
	Adults, Health & Wellbeing	0.150	0.000	0.000	0.000	0.150
	Children's Services	2.935	2.055	0.000	0.000	4.990
	Communities, Localities & Culture	0.250	3.234	3.233	3.233	9.950
	Development & Renewal	3.250	1.000	0.000	0.000	4.250
	Total Expenditure	**6.585**	**6.289**	**3.233**	**3.233**	**19.340**
	Funded By					
	Capital Receipts	1.985	3.655	1.600	1.600	8.840
	Capital Receipts-CPO	1.500	-	-	-	1.500
	Prudential borrowing	0.150	-	-	-	0.150
	Revenue	0.236	-	-	-	0.236
	Leveraged funding	2.714	2.634	1.633	1.633	8.614
	Total Funding	**6.585**	**6.289**	**3.233**	**3.233**	**19.340**

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General Reserves

1.1 Local authorities are legally required to set a balanced budget and the chief finance officer has responsibility to report should serious problems arise (including in relation to the adequacy of reserves). External auditors are responsible for reviewing and reporting on financial standing but are not responsible for recommending a minimum level of reserves.

1.2 Under provisions introduced by the Local Government Act 2003, the level and use of reserves must be formally determined by the Council, informed by the judgement and advice of the chief finance officer. When calculating the budget requirement, the chief finance officer must report to Members on the adequacy of reserves. There are also now reserve powers for the Secretary of State to set a minimum level of reserves.

1.3 The Council needs to consider the establishment and maintenance of reserves as an integral part of its medium term financial planning. Reserves are held for three main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of a general reserve.
- To hold funds for specific purposes or to meet known or predicted liabilities – these are generally known as earmarked reserves. Schools' balances and insurance reserves are examples of these.
- As a contingency to cushion the impact of unexpected events or emergencies, including budget overspends – this also forms part of a general reserve.

1.4 In order to assess the adequacy of general reserves, account needs to be taken of the strategic, operational and financial risks facing the authority. The level of general reserves is also just one of several related decisions in the formation of a medium term financial strategy and the budget for a particular year. Factors affecting judgements about reserves include the key financial assumptions underpinning the budget and an assessment of the Council's financial health, including:-

- Overall financial standing (level of borrowing, Council Tax collection rates, auditors' judgements, etc.)
- The track record in budget management.
- Capacity to manage in-year budget pressures.
- The strength of financial information and reporting arrangements.
- The external financial outlook.

1.5 There is therefore no 'correct' level of reserves. Furthermore a particular level of reserves is not a reliable guide to the Council's financial health. It is quite possible for reserves to increase but for financial health to deteriorate, if for example, the authority's risk profile has changed.

1.6 Financial reserves also have an important part to play in the overall management of risk. Councils with adequate reserves and sound financial health can embark on more innovative programmes or approaches to service delivery, knowing that if the associated risks do materialise the Council has sufficient financial capacity to manage the impact. Conversely, Councils with inadequate reserves can either find it more difficult to introduce change, or in extreme cases can be forced to develop very high-risk service strategies simply in order to restore their financial health.

1.7 General reserves are projected to stand at £22.3m as at 31st March 2009.

1.8 The authority is currently projecting an under spend of just under £2m in 2008/09. However, there are currently projected overspends in service budgets in five out of the six Directorates, with only the Adults, Health & Wellbeing currently projecting an under spend. These overspends can probably be attributed in part to the general tightening of the Council's resources and this in turn increases the risk that unforeseen pressures may cause more temporary over spends in future years.

1.9 The Council continues to face a range of uncertainties which carry attendant financial risks.

1.10 Economic risk has increased substantially since the Three Year Budget was set. The UK economy is now in recession on the back of banking crisis and a shortage of credit. This has a number of potential effects for the Council;

- The fact that the economy is in recession may impact on the demand for some services putting upward pressure on costs.

- Economic downturn is leading to a reduction in income from charges that are linked to economic activity, such as planning and building control fees and land charges, as well as capital receipts. The general economic conditions could also make other debts harder to collect.

- In 2008/09, inflation in the economy has risen driven by the costs of fuel and food. These commodities do not form a large proportion of local authority costs, so the immediate impact on the Council is limited. However, the general increase in inflation may create upward pressure on staff pay awards. Inflation is now falling again, which has been taken into account in budget provisions.

- In a bid to stimulate credit, the Bank of England has drastically reduced interest rates. The Council has around £100m invested at any one time and reductions in interest rates impact directly upon income to the Council. The proposals in the budget assume that interest rates will recover to around current levels by 2009/10. However some commentators are predicting a more pessimistic scenario in which interest rates stay low or reduce even further. If that happens there will be an additional cost to the Council which will need to be dealt with during 2009/10.

- The Government expenditure that has taken place to counter the banking crisis and the recession will in the long run need to be funded. Since tax rises may be politically and economically unacceptable, this could only come by reducing public expenditure in the medium-long term and this may affect future funding settlements to local authorities.

- The predictable economic conditions that have prevailed for the last 10-15 years have gone and financial planning is now very much more unpredictable again. There has never before been a recession born out of a credit crisis, and experts are unclear as to what will happen next.

- All of these factors tend to increase risk to the authority and should be taken into account in setting the level of reserves for 2009/10 and the medium term.

1.11 The Council remains highly dependent upon Government grant and therefore has a high exposure to Formula Grant settlements, changes in specific grant regimes, and tightening public finances. The three-year settlement announced last year reduces uncertainty but the tightness of the settlement increases the financial risks for the forthcoming period, because there will be less financial flexibility. Last year's three year settlement now covers just the next two years; 2009/10 and 2010/11 and no definite funding announcements have been made for the third year of the Medium Term Plan, 2011/12. A new Comprehensive Spending Review is expected in 2009. However extrapolating from current figures, further Formula Grant settlements below inflation are anticipated until around 2015/16. Since the population of the authority is expected to grow substantially in that period, any additional costs arising will need to be met from savings. A healthy level of reserves would enable the Council to plan for these savings and increase the chances that they can be met from efficiencies, avoiding sudden cuts in spending.

1.12 As with Formula Grant, no announcements have been made of Area Based Grant or any specific grants beyond 2010/11. Some specific grants, including Dedicated Schools Grant, and capital allocations continue to be announced on a year-by-year basis. The Medium Term Plan and the level of reserves needs to set so as to avoid over-dependence on income streams that could be temporary.

1.13 The Council continues to have an ambitious improvement programme, and a number of major and interdependent projects, with significant financial implications, which will come to fruition in similar timescales over the next few years. These factors point to the need for a solid financial position to underpin the risks involved.

1.14 Against this background, the chief financial officer has considered whether to change the current advice to the Council that reserves need to be maintained at between 5-7.5% of budget requirement. On balance this does not seem necessary, although it would seem prudent to maintain reserves in the mid to upper end of this range for the time being.

Insurance Reserve

1.15 The Financial Outlook and Review identified continuing pressure on insurance costs to meet both higher numbers of claims payments and higher external insurance premiums. The Council self-insures a substantial proportion of its insurable risks and an external actuarial review of the level of internal insurance reserves is commissioned at regular intervals.

1.16 Contributions to the insurance reserve are made by all Directorates from their budgets based on their relative size, risk profile, and level of claims, representing the equivalent of a 'premium'.

1.17 The Council last year recently joined the London Authorities Mutual Limited (LAML), which has been established by a number of London Boroughs to provide insurance to local authorities in London, and reduce the costs of premiums. Tower Hamlets is currently one of three member authorities, which is expanding to eight in April 2008. Any risks associated with membership of the LAML fall initially on the Insurance Reserve.

1.18 The value of the Council's insurance reserves and provisions was £29.0m at the end of 2007/08. A contribution of £500,000 to the Insurance Reserve is recommended for 2009/10.

E-Government Loan Repayment

1.19 On 6th December 2000, PIC (the former Policy Implementation Committee) provided £2.7m for the Public Service Strategy/E-Government in 2001/2002 on a one-off basis. These proposals entailed the temporary application of reserves and their eventual repayment with interest on the principle of Invest to Save. The repayments were agreed to be made from savings at a rate of £0.65m 2002/2003 and £0.689m each year from 2003/2004 onwards.

Parking Control Reserve

1.20 The Parking Control Account (PCA) is ring fenced. The surplus can only be used for reinvestment within the service and for highways and transport initiatives. Tower Hamlets uses the surplus for a variety of measures relating to street works and transportation including to part fund the cost of the concessionary fares scheme which forms part of the Communities, Localities and Culture Directorate budget.

1.21 The Parking Control Account has now largely recovered from the deficit incurred in 2006/07 and through a series of policy measures and management interventions, income has increased to the point at which the account can contribute more significantly to General Fund expenditure. However, the account remains subject to the buoyancy of income collection from parking and is kept under constant review.

Schools' Reserves

1.22 Schools' reserves represent unapplied revenue resources accumulated by schools with delegated spending authority. These totalled £28.3m at 31st March 2008. Schools' reserves are technically earmarked reserves of the Council but are controlled by schools and are not available to the Council for other purposes.

Developer Contributions

1.23 The Council receives monies under agreements entered into under Section 106 of the Town and Country Planning Act 1990. These agreements specify the purposes to which the monies can be applied. Unapplied sums are held in an earmarked reserve until such time as they are applied.

Capital Programme

1.24 The Council's Local Priorities Capital Programme is dependent largely upon the sale of large scale assets. Such sales are subject to risk, arising from the tendering process and contract negotiation and market factors. In addition, the economic slowdown has reduced demand for land and buildings and depressed prices. In view of this, officers advice to Members in setting the capital programme is not to project capital receipts which have not already been received or are receivable under contract.

Service Specific Earmarked Reserves

1.25 A number of earmarked reserves are held to meet specific service objectives or fund potential liabilities which do not qualify as provisions for accounting purposes. The principal ones provide for:-

- One-off costs relating to the organisational changes required to ensure the delivery of decent homes.
- The carry-over of budgetary under spends from one financial year to the next.

1.26 Use of these reserves is subject to specific Cabinet approval. The nature of these reserves means they are not generally available to support the Council's medium term financial strategy.

1.27 The Capital Programme report elsewhere on this agenda includes advice relating to a number of earmarked reserves which can be made available for on-off investment.

Sensitivity Analysis

1.28 The following table shows how assumptions made in this budget process would affect the budget if they proved to be incorrect. This gives a guide to the kind of risks which need to be allowed for in considering the level of reserves or contingencies made available as part of this exercise.

Scenario	2009/10		2010/11		2011/12	
	Estimated financial impact		Estimated financial impact		Estimated financial impact	
	£000s	(% age of estimated balances) (£22.3m)	£000s	(% age of estimated balances) (£22.3m)	£000s	(% age of estimated balances) (£22.3m)
Inflation – pay rises 0.5% higher than forecast of 2.5%	610	(2.7%)	636	(2.8%)	688	(3.1%)
Inflation – price inflation 0.5% higher than forecast of 2.5%	633	(2.8%)	662	(3.0%)	717	(3.2%)
Committed growth 10% higher than forecast	759	(3.4%)	248	(1.1%)	339	(1.5%)
Interest rates – average investment rate in 2009/10 is 1% less than estimate.	1,312	(5.9%)	1,312	(5.9%)	1,166	(5.2%)

10% 0f projected savings not delivered	567 (2.5%)	340 (1.5%)	1,009 (4.5%)
Budget requirement overspent by 1%	2,980 (13.4%)	3,060 (13.7%)	3,120 (14.0%)

Opportunity Costs

1.29 When a decision is made to set resources aside against risks, it is important to consider the opportunities that are foregone and to balance this against the risk. Each £1million set aside in reserves adds to the amount invested by the authority, and currently this generates around £30,000 a year in investment income, or reduces the Council's need to borrow by a similar amount. However, the allocation of resources to reserves does temporarily deny the authority the opportunity to spend this money. However, the ability to set money aside in reserves allows the authority to plan with more certainty and thus to take more short term risks than it would do if, for example, it had no balances or reserves to fall back on.

1.30 It is therefore important that reserves are held at a level that takes account of risks and that the reserves strategy is neither reckless nor risk averse.

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APPENDIX E

STRATEGIC & CORPORATE RISKS 2009-12

Risk	***Principal Risk Financing Mechanisms***			
	General Reserves	**Earmarked Reserves/Provisions**	**Insured**	***Service Budgets/Budget Process***
OPERATIONAL RISK				
Decent Homes Standard/ALMO	*	*		*
Delivery of the customer promise				*
Development of ICT/eGovernment				*
Disruption to business continuity	*		*	
Facilities Management	*			*
Harm to vulnerable people	*		*	
Maintenance of assets and premises	*		*	*
Procurement of waste disposal contract	*			*
Sickness Absence	*			*

APPENDIX E

STRATEGIC & CORPORATE RISKS 2009-12

	Principal Risk Financing Mechanisms			
Risk	General Reserves	Earmarked Reserves/Provisions	Insured	Service Budgets/Budget Process
ECONOMIC and SYSTEMIC RISK				
External uncertainty	*			*
External funding uncertainty	*			*
INFRASTRUCTURE RISK				
Building Schools for the Future		*		*
Health & Safety		*		*
Disruption to revenue collection systems	*			
Procurement of waste disposal contract	*			*
Major capital schemes		*		*
Failure of business critical IT application	*			*

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Debt Collection Rates The economic downturn could have an impact on the collection rates of debts. An impact on the collection rate for Council tax in particular has an impact on the level of tax set in future years, as any deficit on the Collection Fund must be recovered in the year after it is incurred. On all debts, provisions for bad debts are regularly reviewed and any increase required in provision is a charge to the accounts. Even where final collection rates are not impacted, the risk of slow payment and any additional cost of debt chasing must be considered.	Corporate	1% reduction in collection rates on invoiced debt = approx 1,300	Strong debt management and maintenance of high collection rates. Adequate reserves to cover risk of overspend.
Efficiency programmes Many change programmes and projects will be running in tandem on a corporate and directorate basis to narrow the funding gap identified. Examples creation of back office shared service centres, channel management and thin client. The scope and breadth of the organisational changes may threaten effectiveness of business operations. Since allocating sufficient management capacity to the many change projects in addition to managing the regular business is considered critical, priority setting is monitored closely.	Corporate	11,000 of efficiency savings	Clear target setting and project management in place on achieving the main change objectives. Risk management structures are overall well embedded, Sufficient programme and project management skills need to be ensured.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Population demographic profile. - Retirement benefit obligations Increased retirement benefit obligations may require additional contributions to be made combined with actuary estimates in an uncertain and volatile financial market may also lead to increase in contributions to the pension fund. Such contributions could have a material impact on the Council	Corporate	3,500 shortfall	We perform regular pension strategy reviews with the Council's pension advisors, and monitor developments in the pension scheme we operate.
Market Risk. Value of property on the market is falling and with the economic and credit crunch outlook looking poor returns on sale of assets may remain depressed for some time reducing the Council's ability to develop the capital programme.	Corporate		Capital Programme assumes capital receipts can only be allocated to schemes once received.
National Non Domestic Rates The authority has discretion to grant charities operating in the Borough relief from business rates. There has been considerable growth in the number of charities locating in the Borough, principally because of growth in the financial centre at Canary Wharf. Should this increase continue, pressure on the budget set aside to pay discretionary relief will not be containable.	Corporate	250	A review of the Council's policy is proposed. However it should be noted that decisions are demand led and cannot be based on cost.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	***Directorate***	**Value of Risk £000s**	***Budget Treatment/Measures to Mitigate Risk***
Inflation Inflation has been above Government targets during 2008/09, and has exceeded the figures built into Council budgets on particular items such as food and energy. The 2008 Local Government officers pay award has yet to be agreed. Inflation is now beginning to decline and is forecast to continue to do so during the economic downturn. However, some costs remain susceptible to geo-political pressures on markets, and pay awards are subject to annual agreement.	Corporate	2,000 for each 1% variation from estimated inflation.	Central Purchasing is tasked with securing the best possible prices for bought in items. Adequate level of reserves to cover temporary risk of higher inflation than anticipated.
Economic Outlook The UK now appears to be entering its first recession since the early 1990s. Economic turbulence creates less stability and predictability which makes financial forecasting more difficult. An economic downturn could increase demand for some local authority services while impacting upon income from activities which are susceptible to economic pressures, such as planning, building control and capital receipts. The Government's response to the credit crisis has been to increase Government spending and reduce taxation, which in due course will put pressure on Governments to reduce public spending.	Corporate	3,000 for each 1% variation in budget require-ment	Government may stimulate growth through an injection of funds while the central bank fights inflation through interest rate increases. Adequate level of reserves to cover risk of these effects.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Investment Income The Council generates an income from the investment of reserves and balances on the money markets. Interest rates have reduced sharply and suddenly in recent months and are no longer following the historic pattern. Predictions of future rates are therefore extremely hazardous. Rates are expected to fall further, but the rate of recovery will depend upon such unknown factors as the depth and duration of the recession and Government's response to any further impact of interest rate reductions on the value of the pound. The authority's current estimates assume that if rates fall further over the remainder of 2008/09, they will have recovered to current levels by the beginning of 2009/10. However this prediction could turn out to be optimistic. In addition, some local authorities have recently suffered contingent losses on their investments in Icelandic banks. Although the worst of the banking crisis appears to be over, it is not impossible that further shocks may occur.	Corporate	£1.3m for each 1% reduction in interest rates	The budget takes what is hoped to be a realistic, but not a very optimistic or pessimistic view of rates, Adequate level of reserves to cover risk of these effects. Treasury Management Strategy used to limit the risk of loss from investment and to optimise returns relative to risk.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	***Directorate***	**Value of Risk** **£000s**	***Budget Treatment/Measures to Mitigate Risk***
Demand Led Budgets Given the range of National and Local service pressures in Adult Services, the demand led commissioning budgets remain potentially volatile and the level of continuing risk needs to be noted. There is a particular pressure in the projected number of older people with dementia.	Adults, Health & Wellbeing	Up to £2,200	There is an inherent, but managed risk that anticipated volume growth could be exceeded, as identified in 2008/09 growth proposals. Tight monitoring of commissioning budgets is a high priority.
Homelessness –Prevention Agenda **The Government has announced national targets to reduce numbers in temporary accommodation by 50% by 2010.** If the Authority was successful in meeting this target, the consequence would be an increased budget pressure because there would be a consequent loss of administration fee income to the Authority.	Adults, Health & Wellbeing	1,000	Regular monitoring of the temporary accommodation portfolio and associated administrative costs budgets.

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DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	***Directorate***	**Value of Risk £000s**	***Budget Treatment/Measures to Mitigate Risk***
Government review of Housing and Benefit subsidies for Homelessness The government is reviewing the above and there are potential changes to Housing Benefit - which will take effect from 2010/11. The financial impact is yet to be quantified.	Adults, Health & Wellbeing	Unknown	The implications would need careful consideration when they are finally known.
Change in Government Policy The Government is currently considering a review by CSCI of eligibility criteria. If decisions made were to lead to a significant extension of eligibility, this would have substantial budget implications	Adults, Health & Wellbeing	Unknown	There is a need to monitor the situation closely.

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DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Building Schools for the Future The commitment to Building Schools for the Future is substantial. Resources have been allocated to support the procurement phase of BSF but, will remain under review. The funding mechanism allows for this as we enter the procurement stage but it is likely that the Council will need to look at ways of supporting the front end of the programme, particularly in making links across the various regeneration programmes..	Children's Services	Not quantified- BSF program totals c. 300,000	A formal risk register is maintained for this project and reviewed at each meeting of the Project Board. BSF is monitored by Partnerships for Schools, a Government sponsored body. A compulsory Gateway Review process is a requirement of PFS. Gateway reviews assess readiness to proceed based on an evaluation of progress and programme management. Initial funding to manage the programme has been allocated.
PFI In order to progress the BSF programme, the Council will need to renegotiate in whole or in part the PFI contracts it has in place covering secondary schools. The options surrounding this are currently being assessed, and costing work is in train but the costs are yet unknown.	Children's Services	As yet unknown	It is likely that part of the cost would be a significant capital contribution, which would either need to be funded from capital receipts available or reserves. Although £2m has been notionally set aside from general reserves to meet this requirement, this appears unlikely to be sufficient.

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DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Charitable Funding Charitable funding - risk of charitable benefactors withdrawing extra cash available for out of schools hours learning and Key Stage 3 science support, as grant becomes more mainstreamed.	Children's Services	850	Maintain links with external funding providers and continue to embed and where possible 'mainstream' effective practice to secure on-going activity for the long term Maintain links with external funding providers;

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DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Access to Employment External Funding Potential loss of funding due to the expiry of various external sources of income including the DWP's Action for Jobs programme. At the same time there are increasing demands on the Skillsmatch service arising from local and Government employment targets, together with additional pressures resulting from the need to ensure that local people benefit from the job opportunities that will arise from the new Royal London Hospital development and from the staging of the Olympics and Paralympics in East London.	Development and Renewal	400	Some budgetary provision but alternative sources of external funding are actively being sought.
Planning Fee Income Planning Fee income is affected by many macro-economic factors. A reduction in income from planning fees, particularly the high earning major applications that the projected income is heavily dependent upon, will result in resourcing problems for the Directorate. This is now a significant risk in light of the current economic climate.	Development and Renewal	500	The budget estimate is in excess of £1.3 million. Planning fee income levels fluctuate greatly. Income is demand led and dependent upon external economic factors. The Directorate is closely monitoring all receipts and investigating alternative income sources. Updates will be provided to Members as part of the quarterly budget monitoring reports to Cabinet.

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DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Energy Costs – Street Lighting A new Street Lighting contract is currently being retendered and will be operative from 1 April 2009. Current indications are that rising energy costs will impact significantly on prices offered to the Council with increases anticipated to be in the region of 60% - 70%. This would result in a budget pressure of approximately £500k in 2009/10.	Communities Localities and Culture	500	Rollout of programme to install energy efficient lighting will continue resulting in reduced maintenance costs which will be utilised to ameliorate impact of energy cost increases.
Major Contracts Inflationary Uplifts Inflationary uplifts on major contracts within the Directorate (Waste Disposal, Waste Collection, Horticulture, Leisure Management, Recycling) are anticipated to exceed budgetary provision in 2009/10 ranging from 3.5% - 4%. For each percentage point in excess of the 2.5% provided within the 3 year budget an increase of £250k would result.	Communities Localities and Culture	250 - 300	A review of contract terms and conditions will be undertaken in partnership with contractors to identify opportunities for reducing the impact of inflationary increases which are above Budgetary provision.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Municipal Waste Procurement Strategy Cabinet agreed in September 2007 to the implementation of interim services to provide Landfill Disposal through the existing Waste Disposal Contract with Veolia for a period of up to 6 years whilst officers undertake a thorough review of all Waste Treatment Technologies to determine which would provide the best Value for Money for the Council. Sufficient funding is available in the medium term, until the end of 2010/11 to meet Landfill Disposal costs. However, based on information currently available it will be necessary for increased funding to be made available from 2011/12, this funding is likely to be required regardless of the waste disposal option pursued by the Council.	Communities Localities and Culture	Committed Growth 2011-12	Robust procurement process to obtain most economically advantageous Waste Disposal option for the Council.

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Concessionary Fares – Taxicards Taxicards are charged for by London Councils on the basis of the number of cards issued plus a yearly 3% increment. Any spend above the budget figure is currently met by TfL. TfL propose to freeze the future contribution at the current TFL base level which for LBTH is £126k in 2008/09. Currently there is a projected 45% increase in Taxicard trips for LBTH for 07/08-08/09 (compared to a 15% London Borough Average increase). If LBTH are to be responsible for future increases in taxicard usage in 2008/09, at the current rate of increase of taxicard usage there is a financial risk to the Council of approximately £200k in 2009/10.	Communities Localities and Culture	200	Options to mitigate risk will be pursued as outlined below. • Reduce trip limits by applying to those Taxicard members responsible for generating significant numbers of trips. • Increase subsidy per trip or increase taxicard member charges.

APPENDIX E

DIRECTORATE RISKS 2009-12

Risk Area & Nature of Risk	*Directorate*	Value of Risk £000s	*Budget Treatment/Measures to Mitigate Risk*
Benefit Funding Expenditure on benefits, and the consequential subsidy received from the DWP, is traditionally difficult to estimate. Although most benefits payments are fully reimbursed, some payments attract different rates of subsidy, depending on the type of benefit involved. Overpayments of benefits, in particular, attract subsidy at a much reduced amount and result in a net cost to the Authority.	Chief Executive/Resources	total benefits paid total c. 200,000	The Directorate is closely monitoring benefit expenditure and the corresponding subsidy entitlement. Updates will be provided to Members as part of the quarterly budget monitoring reports to Cabinet. The current economic downturn is being reflected by increased Benefits caseloads. This additional demand coupled with the complexity of the Benefits system and associated Subsidy rules may require additional resources.
Council Tax Benefits Volatile area with costs of council tax benefits and the uncertainty around prior year adjustments after an audit.	Chief Executive/Resources	1,000	The monitoring of base data has assisted in ensuring that actual performance remains consistent with source data output. Due to the large volumes, there will always be a level of uncertainty difficult to mitigate

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