

Overview & Scrutiny Committee

Review of Budget Proposals for for 2023-24

20/01/2023



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Foreword

Cllr Musthak Ahmed, Overview & Scrutiny Committee Chair

I'm pleased to introduce the Overview & Scrutiny Committee's (OSC) Budget Report 2023-24. This is my first year as Chair of the Committee, and alongside Members from my Committee, many of whom are also new to the role, we have taken great care and consideration to understand the complex issues involved in the budget setting process. Our role as a critical friend is to provide a constructive challenge which will ensure the Mayor and Cabinet set a budget which supports our most vulnerable residents, reflects the voice of residents and is robust and sustainable.

Unfortunately, the last few years have been marked by times of great difficulty for many residents, as we have moved from the Covid-19 pandemic into a cost-of-living crisis. Throughout the pandemic, the community showed incredible resilience in the face of unprecedented tragedy and I'm confident they will meet this current crisis with the same vigour and perseverance. However, as many residents are facing a squeeze on living standards, with current projections that UK income is likely to fall by £2000 a year as interest rates rise and the tax burden increases, it is imperative that we do not leave our residents to face these difficult challenges alone. Therefore, perhaps more so than in previous years, the role of OSC in constructively challenging and testing the budget to ensure the Council is stretching its resources as far as possible is crucial. We must ensure it meets the challenges posed by the cost-of-living crisis and supports our residents.

I would like to commend the Mayor, Cabinet and officers for the work that has gone into ensuring the Council has a balanced budget and is in a relatively firm financial position. It is encouraging to see a budget which sets out an ambitious plan to protect our residents in times of hardship, fund the delivery of key services, and invest in a vision to bring about social and economic change. In particular, I'm pleased to see investment in our young people through the Mayor's Education Maintenance Allowance and University Bursary schemes, targeted support for residents through the Mayor's £5 million cost of living package, and the withdrawal of charges for homecare.

Of course, it is this Committee's role to perform a robust check of the proposals put forward by the Mayor and Cabinet. This report makes a number of recommendations which aim to help provide support to residents, consider the longer-term position, and calls for a prudent approach to ensure the financial sustainability of the Council.

Finally, I would like to thank my scrutiny colleagues for their invaluable participation, knowledge, and insights in undertaking our review of the budget. I would also like to thank Councillor Saied Ahmed for his engagement with the Committee. I hope we can continue to work together to deliver a budget which truly helps to improve the lives of our residents and make Tower Hamlets the best place to live for all.

Recommendations

Recommendation 1

Devise a financial strategy that delivers a sustainable budget without the need to rely on reserves

Recommendation 2

Provide the pro formas detailing growth and saving proposals in sufficient time for OSC to review as part of its budget scrutiny

Recommendation 3

Explore increasing Educational Maintenance Allowance for those children above the threshold – even if only temporarily during cost-of-living crisis

Recommendation 4

Review funding arrangements for the Resident Support Scheme

Approach to Budget Scrutiny

- 2.1. Budget scrutiny is aligned to the council's annual budget process, which starts with challenging how the budget has been constructed (i.e. during budget setting) before it is agreed.
- 2.2. OSC undertakes quarterly monitoring of the budget and engages regularly with the Cabinet Member for Resources and the Cost of Living as a key component of its work programme.
- 2.3. The Scrutiny Lead for Finance & Resources engages the Resources Directorate to understand and query the budget setting processes and relevant budget policies.
- 2.4. Recommendations in this report are based on the Committee's discussions at the Budget Scrutiny meeting held on 09 January 2023, where Scrutiny Members reviewed proposed Fees and Charges for 2023-24, the 2023-24 Budget position and the longer term MTFS over the next three years. The Committee held a further review of the Budget at its meeting on 23 January and considered the specific details of the growth and savings proposals, and further updates on capital finance and the housing revenue account.
- 2.5. The beginning of the Scrutiny year coincided with the start of a new political administration at the Council. As the administration began to quickly set its strategic priorities for the council, OSC invited the new Cabinet Member for Resources and the Cost of Living to its meeting on 04 July 2022 to set how what the financial position and what budget implications of this will be.
- 2.6. To support Members in their Scrutiny of the budget, OSC undertook a training session with the Centre for Governance and Scrutiny. The session focused on treasury management, budget setting, councils reserves and outturn monitoring and risk management

Findings

- 1.1. The Committee considered it crucial to develop knowledge of the Council's financial position, and engage with the budget setting process, as early as possible and as such looked at the Medium Term Financial Strategy (MTFS) and Budget Scene Setting 2023/26 on 04 July 2022.
- 1.2. The Committee reviewed the budget proposals on 09 January 2023. The Committee discussed the proposals with Councillor Saied Ahmed, and the Council's Director of Finance.

Long term financial strategy

- R.1 Devise a financial strategy that delivers a sustainable budget without the need to rely on reserves

- 1.3. At the meeting on 9th January 2023, the Committee expressed its concerns about how the funding gap will be addressed in future years. It was noted that £22.3 million will be drawn from reserves to cover the planned level of expenditure in 2023-24. Furthermore, to address additional growth of £33.4m projected for 2024-25, a further drawdown from reserves of £15.8m will be made in addition to achieving savings of £30.8m. However, as set out by the Chief Financial Officer, such an approach to achieving a balanced budget is not feasible in future years:

‘The planned level of expenditure in 2023-24 is significantly greater than our level of planned recurrent funding, as it is over the medium term, and therefore there is a need to draw down £22.3m which is a very significant sum from one off reserves to reach balance in 2023-24. This usage of one-off reserves is deemed as affordable in the short term but the high level of recurrent net expenditure forecast to continue would require further significant drawdowns from reserves in future years, which is clearly unsustainable as the Council’s usable reserves would be exhausted in the medium term.

It is, therefore, vital that the Council reduces this level of expenditure and identifies on-going savings in the region of £30m from 2024-25 onwards, thus eliminating the need for further significant drawdowns from the Council’s reserves to bring our budget back into a sustainable position.’

- 1.4. Whilst it is commendable that the Council is investing in services and supporting residents at a time of significantly increased need, which the Committee endorses, the message from the Chief Financial Officer must be heeded. The Committee calls for the development of a financial strategy which will ensure the Council has long term financial stability without the need to draw on significant reserve funding.

Growth and Savings Pro Formas

R2 Provide the pro formas detailing growth and saving proposals in sufficient time for OSC to review as part of its budget scrutiny

- 1.5. In recent years OSC has made several representations which expressed concern that the Council’s assumptions for income were significantly lower than actual income, which led to cuts to services which may not have been needed. Similarly, in the Committee’s consideration of the MTFs and Budget Scene Setting 2023-26 paper, the Committee queried the assumptions for the funding requirement in the next three years which appear questionably high, presenting a funding gap which will need to be addressed. The budget proposal sets out an increase in funding requirement from £446.2m 2023/24 to £496.9m in 2025-26. The Committee identified the main drivers behind this are projected estimates for inflation and contributions to the Local Government Pension Scheme. The Committee asked that careful consideration is given to these assumptions to ensure that we do not echo the

mistakes of previous years and unnecessarily discourage much needed investment in services.

- 1.6. As the Council continues to fund significant growth of £33.4 in 2024-25, it has set a savings target of £30.8m. It has also set a savings target of £37.8m in 2025-26. Whilst this suggests a gradual movement away from a reliance on reserves, the Committee is unable to develop a clear understanding of the validity and effectiveness of these savings in the absence of further information. In previous years, OSC has received detailed pro formas which set out in detail the specific growths and savings to be made, how much this will save, and the impact it will have on residents. The Committee requests that this information is provided to them to allow them to review the savings which will be made and the possible impact this will have on residents and services. In future years, the Committee requests that this information is provided in sufficient time to allow them to perform a robust and effective scrutiny of saving proposals at the time the budget is being scrutinised.

Educational Maintenance Allowance

R3 Explore increasing Educational Maintenance Allowance for those children above the threshold – even if only temporarily during cost-of-living crisis

- 1.7. The Committee applauds the decision to invest £1.1m into the Mayor's Educational Maintenance Allowance and University Schemes. This will help alleviate the financial burden on many families and young people and help to increase participation of those from lower income households in further education. The Committee also welcomes the decision to provide £5.7million of investment to extend universal free school meals to all primary and secondary school pupils – making Tower Hamlets the only Borough in the country to do so.
- 1.8. However, the Committee feels that at a time when inflationary pressures are causing the cost of living to impact many families in the borough, including households with middle-higher incomes, EMA eligibility needs to be extended. Earlier in the year, the Committee heard from the Youth Council as part of a review of food poverty in the borough. The Youth Council detailed how some of their peers, who are ineligible for EMA, are forced to go without food or opt out of further education to find employment to support their families. The Committee would like the Council to explore extending the EMA further, perhaps only for 2 years, whilst we live through this crisis otherwise we risk more children leaving education early to support their families.

Resident Support Scheme

R4 Review funding arrangements for the Resident Support Scheme

- 1.9. The Committee endorses the support the Mayor and Cabinet have given to residents to face the challenges presented by the cost-of-living crisis. The Mayor's £5m Cost of Living package, which includes an emergency energy fund to help with soaring energy costs, demonstrates a significant commitment to support our residents at a time when they need it the most.

The introduction of universal free school meals for both primary and secondary school pupils, universal free home care, and youth services funding will have a tangible impact on outcomes for residents and mitigate the impact the cost-of-living will have.

- 1.10. However, the Committee noted that the Resident Support Scheme, which supports the Council's aim to tackle poverty in the borough, is funded for by the Household Support Fund. Whilst the Committee supports the purpose and implementation of the Resident Support scheme and recognises it as a key resource to support residents facing increased living pressures, the Committee does not think it is appropriate to use funding received for one purpose on a different purpose. The Committee requests that the Resident Support Scheme is maintained but a different funding stream needs to be identified to support this.

Food Poverty Scrutiny Review

- 3.1. In making recommendations on the Budget proposals 2023/24, the Committee would also like to highlight an ongoing Review of food poverty which has called for more funding support to combat the cost-of-living challenges.
- 3.2. The initial findings have been deeply concerning with some of our residents facing an imminent and desperate food poverty crisis. The situation is getting worse during the winter months and the demand for support is exceeding pandemic levels. During this difficult winter we have a duty to be more compassionate. In December, despite only being midway through the review, the Committee made a number of 'emergency' recommendations to Cabinet that called for an urgent response to intensify the support to residents facing hunger and food insecurity, including additional financial support to the food banks and food pantries which will allow them to increase the amount of food parcels and resources they can provide.
- 3.3. The Committee was pleased to see that an additional £200,000 was allocated for food bank funding. This will not only ensure more food packages are available but will also increase the availability of healthier and diversified dietary options.

Conclusion

- 4.1 The Committee has put forward four recommendations which it hopes the Mayor and Cabinet will consider in their final budget proposal to Full Council. We welcome a formal response from the Mayor and Cabinet to our recommendations.

- 4.2 Going forward we will continue to review quarterly budget monitoring reports and will use this to undertake any deep dive into particular areas of concerns.