

# OSC Budget Scrutiny

January 2021



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## Foreword

The past year has been an unprecedented tragedy. For councils like Tower Hamlets to respond to the Covid-19 pandemic and continue to keep services running as appropriate is testament to the continued resilience of local government and local communities after a decade of reduction in government grants.

The Committee recognises that in this context, setting a local budget has been extremely difficult. Uncertainty of what will unfold in the next 12 months has carried over into the government's planning and response, which has tested local authorities.

We commend the Mayor, his Cabinet and officers for the work which has gone into achieving a balanced budget and the placing the Council in a relatively firm financial position.

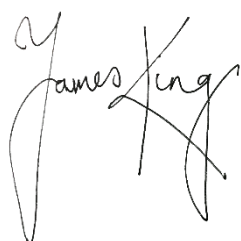
I thank my scrutiny colleagues for their participation and efforts in their review of the Budget, and thank Mayor John Biggs, Cllr Candida Ronald, and Cllrs Danny Hassell and Rachel Blake for engaging with scrutiny in attending the January budget scrutiny session, and for being generally helpful and open providing information and answering questions, often in detail.

The Committee have reflected on the budget making process, the overall outlook and direction the budget takes and how individual proposals shape that.

This year the Committee has particularly felt that the proposals are fiscally conservative – to the point where savings (and reduction of services) have to be made in order to maintain levels of reserves during this dire period.

The Committee feels that using reserves now is as prudent during the Covid-19 pandemic as it will be in the long term aftermath of the pandemic.

The Committee has also tried to interrogate how proposals might affect a recovery from COVID-19 in the future. The council needs to demonstrate how its budget and strategic direction is geared towards the pandemic and its effects.

A handwritten signature in black ink that reads "James King". The signature is written in a cursive style with a large initial 'J' and 'K'.

Councillor James King

Overview & Scrutiny Committee Chair

## Summary Recommendations

### **Funding and Reserves**

**Recommendation 1** - Establish a funding approach that includes a refreshed Reserves' Policy – so that it doesn't operate in isolation, and is integrated; attach confidence levels/levels of assurance against items and aspects projected to happen, and reflect on past projections to learn from those things we have previously predicted/assumed that have not eventuated.

**Recommendation 1A:** Revisit the estimates of the New Homes Bonus.

### **Fees and Charges**

**Recommendation 2** - Review approach to comparing increases (i.e. percentage vs absolute - £/p); establish a method to understand impact on affected residents and communities for this annual process BEFORE making decisions, or even proposing changes.

### **COVID-19 impacts**

**Recommendation 3** - Looking beyond the council's response, and into recovery – ensuring infrastructure, services and staff are planning to support communities and residents in dealing with the expected economic shock which will last for months/years.

### **Budget information**

**Recommendation 4** - Include more detail on assumptions, and actuals (past quarters/years budget headline numbers) to provide better understood context for budget proposals; this includes service/function budgets (i.e. more resolution than directorate) so that multiple impacts within portfolios can be better viewed and cumulative impacts to resident and communities can be evaluated.

### **Council Tax Support**

**Recommendation 5:** Improve Council Tax Support offer for self-employed residents

### **Risk Management**

**Recommendation 6** - Scrutiny should be sighted of risk management approach that is to be tabled (Treasury Management Strategy) at Audit Committee – the TMS is fundamental to the annual budget approach and setting the MTFS.

### **Social Care grant**

**Recommendation 7** - Use the social care grant to delay the implementation of key savings proposals.

**Recommendations raised in previous years (still applicable):**

- Start the Budget setting process earlier.
- Link the Council's strategic priorities directly to the budget.

# 1. Recommendations

## Funding and Reserves

**Recommendation 1:** Establish a funding approach that includes a refreshed Reserves' Policy – so that it doesn't operate in isolation, and is integrated; attach confidence levels/levels of assurance against items and aspects projected to happen, and reflect on past projections to learn from those things we have previously predicted/assumed that have not eventuated.

- 1.1. The Committee queried cutting services (£13.5M savings proposals for 2021-22) to allow for topping up of reserves (e.g. £7M New Homes Bonus)
- 1.2. Further, the Committee suggested that such a situation arises from an under-estimation of projected income, which has happened in previous years, which then needs to be offset by increased savings (reduction in services). The problem highlighted is that actual income increased, negating the need for savings/service cuts – but these have then been already made, perhaps with long-term impact (given increasing service demand in some areas).
- 1.3. Of particular concern to the Committee for any changes to services and support proposed (saving proposals) is the ability of the following services to continue to meet existing demand, and be flexible to rise to meet increasing demand in the short to medium term:
  - Support for Learning Service - decision/details pending
  - Libraries - £600K
  - Drug and Alcohol Treatment Services - £552K
  - Children with Special Education Needs & Disabilities (SEND) – decision/details pending
- 1.4. In order to increase confidence, a fundamental review of the performance of projections/modelling of income must occur.
- 1.5. The Committee considered that the funding approach isn't integrated: there is no relationship between the reserves policy and new and additional government grants over years
- 1.6. The establishment, monitoring and review of the levels of reserves and balances are an important element of the council's financial management approach. While reserves are an important mechanism for setting aside sums for future use, they are also an opportunity to mitigate against unexpected or unprecedented events. The current Reserves Policy makes no provision for emergencies or unexpected events, not even in a strategic context.
- 1.7. The Reserves Policy does discuss or set minimum levels of reserves
- 1.8. Given the Reserves policy is reviewed annually, reserves' balances (general fund, HRA, earmarked) could be listed along with targets or projections for the

MTFS period. Some local authorities go further, providing a breakdown of key line items (e.g. earmarked, capital reserve items) with purpose and projected timings for use.

### **Recommendation 1A:** Revisit the estimates of the New Homes Bonus

- 1.9. The Committee notes the Government's intention to replace the New Homes Bonus (NHB) grant scheme with one that rewards those local authorities that facilitate the development of new housing.
- 1.10. However, members have consistently questioned the original estimate of income from over the next three years - £10 million in 2021/22, £3.8 million in 2022/23 and nil in 2023/24. The sum actually provided by the Government for NHB in 2021/22 stands at £17 million.
- 1.11. While it is acknowledged that this total was only announced at the beginning of December, this £7 million additional funding simply being applied to top-up existing reserves. Additionally, this under-estimate of NHB funding for next year hasn't led to any revision to the estimates for 2022/23 and 2023/24. These very conservative estimates are one of the main drivers of the projected deficits in those years and the assumed need for further savings and increased fees and charges.
- 1.12. It is recommended that the Lead Member for Resources and Divisional Director of Finance urgently revisit these estimates. The council should explore whether those other London boroughs that are significant beneficiaries of NHB are also assuming they will receive a fifth of the 2021/22 funding in 2022/23 and nothing at all in 2023/24, and report back on this to the Mayor and Cabinet.
- 1.13. We also urge the Mayor and Lead Member to reflect upon the appropriateness of the proposal to simply place this in reserves instead of using it to ease the financial burden on residents struggling financially during the economic crisis brought on by the pandemic.

## **Fees and Charges**

**Recommendation 2:** Review approach to comparing increases (i.e. percentage vs absolute - £/p); establish a method to understand impact on affected residents and communities for this annual process BEFORE making decisions, or even proposing changes.

- 1.14. The Committee considered that increases for resident parking permits (up to 135% increase) and market traders (up to 263% increase) are significant and inconsistent – with little empirical justification for the specific increases proposed.

- 1.15. The Committee noted that proposed increases to fees and charges are predicated on the level of inflation (CPI as a key factor), then service demand, projected cost of services, benchmarking with other local authorities and impact of economic factors, including COVID-19, on the Council's residents. However, The Committee suggested there needs to be much greater clarity for justifying increases above CPI.
- 1.16. The Cabinet Member for Resources and the Voluntary Sector reflected that evaluation of fees and charges based on percentage increases alone does not provide a well-rounded view. The Committee agrees, and challenges the Cabinet Member and her services to develop a better method in determining increases in the first instance, and then presenting them clearly in a public report so that residents and communities can understand the logic in proposed specific increases. Where the justification is to balance fees and charges income to the costs of providing a service, e.g. street markets, then more information needs to be supplied as to the actual income and costs of each service so that the increase in charges can be more easily understood.
- 1.17. Additionally, the Committee continues to be concerned about our understanding of impacts on individuals (particularly those with protected characteristics) and communities, and doesn't feel that sufficient impact assessment is being done to enable evidence-based decision-making.
- 1.18. As OSC has said previously, there are several models that can be used to quantify and measure impact. The Centre for Public Scrutiny recommends the 'Nesta' model for instance.

## COVID-19 recovery

**Recommendation 3:** Looking beyond the council's response, and into recovery – ensuring infrastructure, services and staff are planning to support communities and residents in dealing with the expected economic shock which will last for months/years.

- 1.19. The Budget paper recognises the COVID-19 dimension to the Council's activities in 2020 and the cost of our COVID-19 response – referencing some items such as the rise in cost to Local Council Tax Reduction Scheme of £5M, and how the pandemic has impacted the business rates income – a £10.2M deficit.
- 1.20. The Committee considered that a further view is needed, to medium term impacts on residents and communities as they manage economic shock which are still unfolding – and services and infrastructure need to be planning for the next economic shock, particularly once furloughs and payment holidays end.

## Budget information



**Recommendation 4:** Include more detail on assumptions, and actuals (past quarters'/years' budget headline numbers) to provide better understood context for budget proposals; this includes service/function budgets (i.e. more resolution than directorate) so that multiple impacts within portfolios can be better viewed and cumulative impacts to resident and communities can be evaluated.

- 1.21. No actual historical information has been provided for comparison purposes (as even 2020/21 is based on that year's budget). When asked why, the response was that the departmental structure had changed making year on year comparison difficult. But this ignores three points;
1. Income can still be compared with previous years - it is only the departmental cost structure that changed.
  2. Costs can be broken down in other ways e.g. total staff costs, total utilities etc to allow year on year comparison in other ways.
  3. It should be possible to isolate those functions which moved departments in both actuals and budget to allow comparisons at a more detailed level and not all departments changed structure.
- 1.22. We should have at least the last two years of actual income and costs 2019/20 and 2018/19 as a comparison (as 2020/21 will be such a strange year it might make sense to only include the original budget for this year).

## Council Tax Reduction scheme

**Recommendation 5: Improve Council Tax Support offer for self-employed residents**

- 1.23. The Committee discussed with the Lead Member for Resources at the outset of the pandemic about the impact of the lockdown on their income after the Chancellor had announced a £500 million Council Tax Hardship Fund in his March Budget. Members noted that the Government had suspended its use of the Minimum Income Floor (MIF) to determine entitlement to Universal Credit. It was understood that self-employed residents would be similarly helped through LBTH's own Council Tax Reduction Scheme.
- 1.24. However, claimants have been required to apply under the Section 13A relief from Council Tax provisions, which require a very strict and intrusive assessment of their expenditure as well as their income.
- 1.25. The Committee considered that the extra £4.2 million provided was insufficient to cover the extra costs incurred by LBTH's CTS scheme given an estimated extra 3,000 claimants; and that there is insufficient financial support for self-employed residents at this time of financial crisis.
- 1.26. The Committee suggests that the Council needs to have a better understanding of the number of self-employed CTS claimants who have

benefitted from becoming entitled to CTS or via the section 13A relief route, and what last year's £4.2 million Hardship Fund was used for.

## Risk Management

**Recommendation 6:** Scrutiny should be sighted of risk management approach that is to be tabled (Treasury Management Strategy) at Audit Committee – the TMS is fundamental to the annual budget approach and setting the MTFS.

- 1.27. The global economy has shifted significantly in 2020 and it would be expected that changes continue to unfold in 2021 and beyond. Therefore, details around borrowing and investment performance for 2020 and projections into next year are of particular interest.
- 1.28. The Committee reflected that in order to scrutinise the Council's complete financial position, review of the proposed Treasury Management Strategy is essential.

## Social Care Grant

**Recommendation 7:** Use the social care grant to delay the implementation of key savings proposals

- 1.29. The sum of £2.9 million provided as Social Care Grant over and above the £9 million originally expected – making a total of £12.3 million in 2021. The Committee agrees that this sum will not fill the deficit in Adults Services budgets caused by demographic pressures and cannot therefore be a substitute for utilising the maximum 3 per cent Adult Social Care Precept recommended by the Chancellor.
- 1.30. However, the Committee notes that the £2.9 million is not clearly referenced in 2022/23 and 2023/24. Like the New Homes Bonus Grant, the Committee considers this is overly-conservative, given past experience with the SCG and the Better Care Fund, and more accurately presenting income/funding.
- 1.31. The Committee asks the executive to use part of this additional sum to delay the implementation of any changes to those services (i.e. new savings proposals for 2021-22) with impacts on service users, particularly vulnerable people.
- 1.32. The Committee suggests a delay should apply to the following proposals:
  - Early Years' Service
  - Education and Partnerships Service
  - Day Opportunities
  - Substance Misuse services

- 1.33. A moratorium or delay would better allow council to understand impacts on residents, and allow time for a redesign of services to meet needs and provide best support to those who need it most.

### Other recommendations – raised in previous years:

#### A. Start the Budget setting process earlier

- 1.34. The Committee believes that the public consultation process should begin earlier to allow for a longer lead time to consider and reflect consultation feedback from local residents, members, partners and businesses.

#### B. That the Annual Budget and MTFS reflects the Council's priorities, specifically matching spend, funding and savings to Strategic Plan and Borough Plan priorities and outcomes – including assessment of beneficial and adverse impacts at the proposal stage

- 1.35. The Committee's responsibility in scrutinising the budget includes questioning how the proposed spending plans fit with the council's overall aims, objectives and priorities. Current budget proposals do not go beyond referring to the Strategic Plan in the introduction, and do not link the budget approach (for all elements such as funding, reserves, savings) for 2021-22 to the delivery of LBTH priorities and outcomes.

## 2. 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. The Overview and Scrutiny Committee (OSC) undertakes quarterly monitoring of the budget and engages regularly with the Cabinet Member for Resources and the Voluntary Sector as a key component of its work programme.
- 2.3. The Scrutiny Lead for Resources engages the Resources directorate to understand and query the budget setting processes and relevant budget policies.
- 2.4. In setting the budget for the upcoming 2021-22 financial year, OSC were asked to provide their budget scrutiny report earlier than usual: before Cabinet's consideration of the final draft budget on 27 January, and submission to Full Council on 24 February.
- 2.5. Should it be noted that the committee were updated regarding the Business rates? Candida confirmed that the Government's guarantee is for 75% of 2020-21 irrecoverable local tax losses.
- 2.6. Recommendations in this report are based on the Committee's discussions at the Budget Scrutiny meeting held on 11 January, where scrutiny members reviewed proposed Fees and Charges for 2021-22, the 2021-22 Budget position (particularly funding, savings and reserves) and the longer term MTFs over the next three years.

### Pre-decision Scrutiny Questions – Cabinet 6 January 2021

- 2.7. OSC looks at decisions before they are made by Cabinet. This is an important opportunity to challenge assumptions, consider what risks might arise from decisions, and influence decisions. Scrutiny members bring a different perspective to the decision-making process than that provided by Cabinet members or officers, which can help decisions to be more robust.
- 2.8. Ahead of the draft budget being considered by Cabinet on 6 January, OSC tabled a number of pre-decision scrutiny questions. These and their answers can be found [here](#).

### OSC Budget Briefing

- 2.9. On 7 January, OSC received a briefing from the Cabinet Member for Resources and the Voluntary Sector, Cllr Ronald and officers on business rates, COVID-funding and gaps, and Council Tax support.

- 2.10. The Committee heard how the Business Rates Retention Scheme works, and the impact of a reset on the baseline funding level, tariff to be paid back to the government, and the Council's budget.
- 2.11. The Committee was also briefed on how business rates are calculated and the challenges and variation in this funding stream which makes budget forecasting difficult. The impact of the pandemic on collection rates and net collectable debit was also highlighted.
- 2.12. Lastly, the Committee heard about the Council Tax Reduction Scheme and about the overall costs of the scheme, over MTF5 years, and the mechanisms for determining eligibility for residents.

### **OSC Budget scrutiny session**

- 2.13. On 11 January, the Overview and Scrutiny Committee held its budget scrutiny session with time spent discussing:
  - Fees and Charges proposed for 2021-22
  - Budget proposals, including the MTF5
  - Focus on two areas given their impact on the budget: Health, Adults & Community; and Children and Culture

Further details of these discussions and key issues can be found in the minutes of the meeting on the council website [here](#).