

OSC Budget Scrutiny

February 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 of the council in a relatively firm financial position.

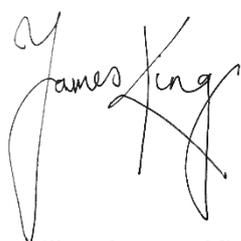
I thank my scrutiny colleagues for their participation and efforts in their review of the Budget, and thank Mayor John Biggs, and Cllrs Candida Ronald, Danny Hassell and Rachel Blake for engaging with scrutiny in attending the January budget scrutiny session, and for being generally helpful and open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

Recommendation 1B: Scrutiny to review the council's approach to commercialisation and income generation.

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.

Recommendation 3A: Provide further poverty relief by making up to £100k available (one-off for 2021-22) to foodbanks who are under financial pressures in meeting community needs; and expand the Resident Support Grant to £150k (one-off for 2021-22) for vulnerable people to access – funded from additional £7million New Homes Bonus which is earmarked for reserves.

Recommendation 3B: Given the continuing pandemic conditions, scrutiny would like to see evidence that decisions made last year to reduce funding services and be more self-sustaining under normal circumstances, are now no longer viable, and needs reviewing including mitigation approaches.

Budget information

Recommendation 4: Include more detail on assumptions, actuals (past quarters'/years' budget headline numbers) and risks (HRA project breakdown and consultants' reports, including Savills reports, and reviews) to provide better 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.

Recommendation 4A: Progress the minimal, essential elements of budget setting now, but delay major decisions until more information is available to better understand impacts and respond in the summer.

Council Tax Support

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

Risk Management

Recommendation 6 - Scrutiny should be sighted on the 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.

Savings

Recommendation 8: The Committee asks that Cabinet consider the recommendations arising from a scrutiny challenge session on a Revised Approach for IDEA Stores and Library Service held on 28 January.

Recommendations raised in previous years (still applicable):

- Start the Budget setting process earlier.
- 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. 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) when the Committee considers that reserves are sufficient.
- 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 not a clear 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 Committee feels that the current Reserves Policy makes no explicit provision for emergencies or unexpected events, not even in a strategic context.
- 1.7. The Committee considered that given the Reserves Policy is reviewed annually, it could be made clearer that 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

- 1.8. 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.
- 1.9. However, members have consistently questioned the original estimate of income from over the next three years - £10m in 2021/22, £3.8m in 2022/23 and nil in 2023/24. The sum actually provided by the government for NHB in 2021/22 stands at £17m.
- 1.10. While it is acknowledged that this total was only announced at the beginning of December, this £7m 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. In the Committee's view 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.
- 1.11. It is recommended that the Cabinet Member for Resources and the Voluntary Sector 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.
- 1.12. 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.

Recommendation 1B: Scrutiny to review the council's approach to commercialisation and income generation.

- 1.13. In further discussions, the Committee reflected that more could be done in income generation, and that the Budget paper does identify this opportunity: 'Income generation opportunities including through a more commercial approach'. Scrutiny has not yet seen the detail of this commercial approach.

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 against 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. 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 the Committee 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.
- 1.19. In further discussions, the Committee continues to be concerned about raising fees and charges, and proposing savings, in such unprecedented times for communities. Putting impact measurement systems in place will allow the council to demonstrate value and justify its decisions to the public.

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.

- 1.20. 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.

- 1.21. The Committee considered that a further view is needed, for 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.

Recommendation 3A: Provide further poverty relief by making up to £100k available (one-off for 2021-22) to foodbanks who are under financial pressures in meeting community needs; and expand the Resident Support Grant to £150k (one-off for 2021-22) for vulnerable people to access – funded from additional £7m New Homes Bonus which is earmarked for reserves.

- 1.22. Further, the Committee considers that given the continued and, in many cases, amplified tragedies in Tower Hamlets, there is responsibility for the council to respond accordingly and provide poverty relief in recognition and response to current hardship.
- 1.23. The Committee suggests £100k is made available to foodbanks in recognition that they are under financial pressure to continue to provide support to those in need of food; and an expanded sum of £150k is available for the Resident Support payments programme again recognising that there are people in dire need of support – and that both should be funded from the £7m New Homes Bonus proposed to be put into reserves.

Recommendation 3B: Given the continuing pandemic conditions, scrutiny would like to see evidence that decisions made last year to reduce funding services and be more self-sustaining under normal circumstances, are now no longer viable, and need reviewing including mitigation approaches.

- 1.24. The Committee discussed whether the council understands the impacts of previous reductions to services in the context of new proposed changes and COVID-19, and how the resilience of communities is now reduced. For example, last year's decision that the Community Learning Service should operate more sustainably, is now not possible in pandemic conditions.
- 1.25. The Committee reflected that unmet savings from previous years continue to impact the current budget, and along with the pandemic severely impacting communities, there needs to be more focus and recognition of these aspects to the council's approach.

Budget information

Recommendation 4: Include more detail on assumptions, actuals (past quarters'/years' budget headline numbers) and risks (HRA project breakdown and consultants' reports and reviews) to provide better 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.

- 1.26. The budget presented to Cabinet on 6 January was without HRA, capital programme details and assets proposals. In future years, the budget papers

should be presented to the Committee as a complete draft budget prior to the scrutiny meeting so that the budget proposals can be holistically scrutinised.

- 1.27. 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
- 1.28. 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).
- 1.29. In further discussions by the Committee, it is felt that more information is needed regarding a budget breakdown of HRA projects – with clarity sought about the phase 2 infill – there is substantial risk identified in Cabinet's September 2020 Capital Programme report.
- 1.30. Also, Savills reports are mentioned throughout but their findings are not presented regarding the 1k new homes. For transparency it is important to understand which projects are delivered by which housing companies. Finally, regarding asset transfer, there is a need to understand what risk there is for specific projects and what this means for different vehicles, and the impact on 30 year plan.

Recommendation 4A: Progress the minimal, essential elements of budget setting now, but delay major decisions until more information is available to better understand impacts and respond in the summer.

- 1.31. The Committee reflected that even at the national level there are difficulties in setting a budget during such a volatile environment impacted by the pandemic, with the Chancellor delaying the Spending Review until the summer. At this point we will be better placed to understand budget allocation for local government.

Council Tax Reduction scheme

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

- 1.32. The Committee discussed with the Cabinet Member for Resources and the Voluntary Sector at the outset of the pandemic about the impact of the

lockdown on their income after the Chancellor had announced a £500m 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 the council's own Council Tax Reduction Scheme.

- 1.33. 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.
- 1.34. The Committee considered that the extra £4.2m provided was insufficient to cover the extra costs incurred by the Council Tax Support (CTS) scheme given an estimated extra 3000 claimants; and that there is insufficient financial support for self-employed residents at this time of financial crisis.
- 1.35. 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 £4.2m Hardship Fund was used for.

Risk Management

Recommendation 6: Scrutiny should be sighted on the 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.

- 1.36. 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.
- 1.37. The Committee reflected that in order to scrutinise the council's complete financial position, review of the proposed Treasury Management Strategy is essential.
- 1.38. Further, the Committee requested further details around the HRA and capital programme and noted that the changes between the 23 September, 6 January and 27 January Cabinet meetings needed further consideration. There was concern expressed at the lack of the detail within the proposals regarding the council's housing vehicles, specifically in respect of risk modelling. A further report on the progress of the vehicles and their impact should be submitted to the Committee.

Social Care Grant

Recommendation 7: Use the Social Care Grant to delay the implementation of key savings proposals

- 1.39. The sum of £2.9m provided as Social Care Grant over and above the £9m originally expected – making a total of £12.3m 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% Adult Social Care Precept recommended by the Chancellor.

- 1.40. However, the Committee could not clearly reference £2.9m in 2022/23 and 2023/24. This needs to be included to more accurately represents funding in the MTFs. 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.
- 1.41. The Committee asks the Cabinet 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.
- 1.42. The Committee suggests a delay should apply to the following proposals:
 - Early Years' Service
 - Education and Partnerships Service
 - Day Opportunities
 - Substance Misuse services
- 1.43. 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.
- 1.44. On 8 February 2021, the Health and Adult Scrutiny Sub-Committee raised questions regarding Grant Thornton's recommendation around 2021/2022 budget savings proposals and at the time of this report the Committee were awaiting an update. The Committee noted that in future, the schedule for budget scrutiny should take into consideration the timing of sub-committee meetings, so that recommendations can align with the Committee's budget recommendations.

Savings

Recommendation 8: The Committee asks that Cabinet consider the recommendations arising from a scrutiny challenge session on Revised Approach for IDEA Stores and Library Service held on 28 January

- 1.45. The Committee questioned whether the time is right for such a substantial change to library services, as was proposed in the public consultation ending 29 January.
- 1.46. The Committee has already drafted recommendations as a result of the scrutiny challenge session held on 28 January.

Other recommendations – raised in previous years:

A. Start the Budget setting process earlier

- 1.47. 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

- 1.48. 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 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, the Committee was 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. 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 and 27 January 2021

- 2.6. The Committee 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.
- 2.7. Ahead of the draft budget considered by Cabinet on 6 January and the revised Budget papers on 27 January, the Committee tabled a number of pre-decision scrutiny questions. These and their answers can be found at Appendix 1.

OSC Budget Briefing

- 2.8. On 7 January 2021, the Committee 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.

- 2.9. 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.
- 2.10. 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.
- 2.11. 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 Sessions

- 2.12. On 11 January 2021, the 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 and Community; and Children and Culture
- 2.13. Further details of these discussions and key issues can be found in the minutes of the meeting on the council website [here](#).
- 2.14. On 1 February, the Overview and Scrutiny Committee held a follow-up budget scrutiny session to review Cabinet's 27 January amendments to the council's 2021-22 Budget Report and Medium Term Financial Strategy 2021-24, with a particular focus on the capital programme and new section on Housing Revenue Account.
- 2.15. Further details of these discussions and key issues can be found in the minutes of the meeting on the council website [here](#).