

Cllr James King
Chair of the Overview and Scrutiny Committee
Tower Hamlets Council

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Dear Cllr King

Thank you for your committee's report and your detailed work on this year's draft council budget. As the committee's report rightly highlights the context to this year's budget making process has been fraught with uncertainty both as a result of the ongoing Covid-19 pandemic and the Government's somewhat sporadic approach to funding announcements.

Despite well laid plans, the 2020/21 financial year has been extraordinary in that the council's overriding focus has been on responding to the Covid-19 pandemic. This has meant significant additional expenditure and lost income which, despite a range of one-off funding announcements by the Government, looks likely to remain necessary for many months to come. Longer term, the economic impact of the pandemic, increased unemployment and changes to the job and housing markets resulting from the work at home revolution threaten to fundamentally change the nature of inner London boroughs such as ours. Such changes could lead to dramatic reductions in our business rate and council tax income.

The pandemic has shown our council at its best, transforming the way we work to protect local people. To give just a snapshot, in 2020 alone we provided:

- 6,000 food parcels directly delivered to residents and many more supported through our work with food banks.
- Over 18,000 children receiving food packages or vouchers during school closures
- 7,000 books and almost 6,000 laptops provided to support children's learning
- More than £200m distributed to local businesses in grants and rate relief.
- A quarter of a million pounds awarded in grants to support those self-isolating
- Almost £100,000 in rent relief for community organisations.
- Over two and a half thousand volunteers recruited through our Covid-19 hub
- Hundreds of Covid-19 champions and over 20,000 residents supported.

Throughout the pandemic it has been local authorities who have delivered where Whitehall could not.

Yet alongside the economic uncertainty, government reforms continue to threaten core pillars of our income adding yet more uncertainty and risk. The business rates reset, while delayed by the pandemic, threatens over £14m of our funding and the wider council funding review will likely lead to yet more reductions. A consultation also opened on 10th Feb on reforming New Homes Bonus with a focus on raising the growth baseline and targeting lower land value areas, this would likely have a further negative financial impact.

Continuing reductions for councils, despite growing demand for their services is a betrayal not only of the millions of public sector workers who have given their all to support our community through this crisis, but of the residents we are here to serve.



Until such time as Government takes a new course the council will face significant uncertainty and a challenging financial outlook. Against this backdrop we welcome your Committee's work and will respond each of the recommendations in turn below.

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.*

As set out above there remains massive uncertainty in the coming years. As the Committee highlights, reserves are an important mechanism to allow the council flexibility in times of uncertainty such as these. Over the past year we have spent £17m in reserves. This has funded our transformation work and key priorities such as our additional police officers, free school meals and the tackling poverty fund. We have also relied on reserves to cover overspends resulting from the ever-increasing demand for adult and children's social care as well as the shortfall in government funding for temporary accommodation.

As a result, between 2019 and 2023 our total earmarked reserves are estimated to reduce by 53%. While it is right to use reserves in this way when needed, it is clearly not a sustainable position long-term. We welcome the proposal to review our approach to reserves and our forecasting assumptions including for New Homes Bonus. While the uncertainty of Covid-19 and the one-year finance settlements of recent years has made planning far less robust, it is right we do all we can to ensure we are making sensible assumptions when forecasting income. We should however also resist the temptation to become overly optimistic in our forecasting. This year has shown numerous councils forced to apply to Government for emergency funding, partly as a result of insufficient contingencies and unrealistic income projections. Reviewing our approach will give the council confidence in our reserves approach going forward.

On commercialisation and income generation I would welcome the O&S Committee reviewing this area. Covid-19 has dramatically changed the landscape we are operating within and the government's moves to tighten rules around council borrowing for commercial investment have made new opportunities harder to pursue.

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.*

The council's approach to fees and charges is broadly to increase in line with CPI. Where changes are greater, often they are driven by benchmarking against neighbouring authorities, policy changes or the introduction of new initiatives for example the introduction of the diesel surcharge as part of our commitment to tackle dangerous levels of air pollution in the borough.

We will ask officers to review how they formulate and present changes to fees and charges and to consider how the impact assessment process may be further improved in future. This will of course link in with the work

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on commercialisation the committee refers to in recommendation one as increasing income will likely lead to a need to increase some fees and charges or levy new ones. This is particularly the case as the Council has previously agreed an MTFs target of increasing income from fees and charges by £1m over three years (SAV / ALL 003 / 20-21).

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.*

Clearly the pandemic has changed the context in which we work. It will also doubtless have longer term impacts which remain unclear. As you will expect we will continue to review all of our work to ensure that it remains viable and to make changes in approach where they are needed.

Our recovery from Covid-19 is a top priority. The public health and economic impact of the pandemic has already hit our community hard and like the committee we want to see our borough bounce back quickly. As the report identifies, the end of furlough is a particular concern for the thousands of residents in our borough currently benefitting from it. We will be closely monitoring this in the coming weeks and months and pressing Government to ensure transitional support arrangements are in place when furlough is ended.

We share the Committee's concerns about the support for food banks and our Residents Support Grant and will be bringing forward proposals shortly for a programme of recovery focused work which should help to address these areas. This will build upon the work we have already done providing support for food banks and sourcing 300 tonnes of food for them. On the RSG we have awarded £863,000 in grants in the past year and remain committed to ensuring residents can access the support they need.

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.*



We understand the Committee's request for further information as part of their deliberations on the Budget and agree in future it would be preferable to be able to publish all elements of the Budget at the same point, this will be an ambition in future however the scale of the work involved, at the same time as significant other demands, some Covid-19 related, some not, did not make that possible on this occasion. Regarding the wider suite of information, the committee refers to, it is clearly right that the committee requests information pertinent to its consideration of the budget. This doesn't however mean needing to include what would be thousands of pages of additional documents in the draft budget papers.

While we recognise the great uncertainty of the current situation, only setting a 'minimal essential elements budget' now would leave the council at even greater risk. Even before Covid-19, last year's MTFS had identified a £12.7m budget gap for 21/22. Not taking steps to introduce savings to bridge this gap would have meant even greater savings being needed in future. We believe the administration's proposals strike a balance between protecting services and the need to face up to the serious financial gaps facing the council in this and coming years. Longer term, Covid-19 and the various reforms promised by Government are only likely to make that challenge harder, so inaction is not an option.

Council Tax Support

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

This year's budget has not proposed any amendments to the Council Tax Reduction Scheme (CTRS) and we are proud to continue to be one of the only councils in the country to continue to offer a 100% council tax discount to our lowest income households. In total 17,534 households benefitted from a 100% CTRS discount in 2020/21 with a further 13,774 benefitting from a lower reduction. The pandemic has greatly increased the number of households eligible for CTRS, increasing the cost of the scheme by millions of pounds this year.

As the Committee note, we have also used our Section 13A relief powers to reduce the bills of others who, while not eligible for the 100% CTRS discount, have struggled to pay their council tax. In total we are told we have spent a further £1.85m on these additional payments in 20/21.

We will continue to monitor the effectiveness of the CTRS and Section 13A relief funds, particularly as furlough is ended.

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.

Ultimately it is a matter for the Council to consider which Committee it delegates responsibility to for scrutinising and agreeing the Treasury Management Strategy. While clearly related to the budget the TMS is a separate policy and is of course there for O&S to refer to once the Audit Committee have considered it.

Social Care Grant

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

The Social Care Grant is provided by Government to help councils respond to the growing social care



demands of their populations. Despite the freedom to levy additional income from the Adult Social Care precept, past years have seen demand outstripping budgets in both adults and children's services. Our intention is that the additional social care grant is allocated to adult and children services to ensure they have the necessary resources to be able to absorb any similar increases in demand, particularly given the likelihood of addition needs flowing from Covid-19. This will have the effect of targeting the additional funding on the most vulnerable adults and children in our community, as well as reducing the potential for overspends in this area which could otherwise necessitate further in-year savings. Using the grant to delay savings proposals, ignores the structural deficit in our budget and would require greater savings in future years. This would also reduce our financial flexibility to respond to concerns raised through redesign and consultation processes.

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.*

A report on the Revised Approach for IDEA Stores and Library Service is due to come to Cabinet on the 3rd March for consideration. This will include proposals which take into account the recommendations of the scrutiny challenge session and the wider public consultation results.

Recommendations raised in previous years (still applicable):

Start the Budget setting process earlier.

The process to develop this year's budget was initiated in June 2020 with an initial report to Cabinet on the projected MTFs budget gap in July. Throughout the Summer and Autumn initial proposals were explored and developed with public consultation carried out through the Autumn. Despite Covid-19 limiting in-person engagement, this year's budget consultation still saw just under 2,000 residents and businesses offer their views which were considered ahead of the Cabinet debating and agreeing the draft budget in January.

While we agree the consultation could have begun slightly earlier, significantly earlier would mean the gap between the consultation and the March Council Budget setting meeting would be problematic. We will explore further options for increasing the period of consultation in the coming year.

We should also recognise that Covid-19 has meant extreme pressure placed on council services throughout the year. Since the initial lockdown the council has focused massive resources supporting residents and adapting services for the reality of a Covid-19 world.

While we should be very proud of the many programmes we have undertaken to keep our community safe there is little doubt they have stretched the council and that, as well as the continuing uncertainty from government, reduced our ability to bring forward the timeline for consultation and Budget development.

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.

Each budget saving and growth proposal clearly relates to one of our strategic plan outcomes and generally features mitigations designed to reflect the priorities set out in the Strategic Plan and Borough Plan. At a high-level, while it includes difficult decisions driven by the challenging financial circumstances we face, the budget



invests in our priority areas; for example funding additional police officers, free school meals and a 100% Council Tax Reduction Scheme. These and the many other areas of council spending match closely to our stated Strategic Plan objectives or our statutory duties. We would however welcome proposals from the Committee on improvements in this element of the Budget's presentation and formulation.

We also note the Committee's observation in paragraph 1.25 that unmet savings from previous years continue to impact the Budget and we would have welcomed a recommendation from the Committee on how we might best improve the track record of savings delivery given the continuing concern about the financial risk associated with non-delivery of savings.

We want to thank the Committee for your considered scrutiny of this year's budget. While the level of uncertainty caused by the pandemic, a further one year settlement and upcoming Government reforms has made this year more difficult we are confident that the investment this budget makes in community safety, poverty reduction and our young people will help us to keep our services on a sustainable financial footing and help put our community on the right path to recovery as we emerge from Covid-19.

Yours sincerely,



Mayor John Biggs
Executive Mayor of Tower Hamlets



Cllr Candida Ronald
Cabinet Member for Resources
and the Voluntary Sector

