

Cabinet – 11 February 2021

Overview and Scrutiny Committee – 12 January 2021

148. Question and Answer Session with the Leader of the Council and the Chief Executive

The Chair opened the Question and Answer session, explaining that it was part of the Council's general annual consultation process on the budget. He outlined the order of the session, stating that the Committee would first receive a Covid-19 update from the Chief Executive, before moving on to opening statements from the Director of Finance and Portfolio Holder for Finance and Resources. The Committee will then move on to a question and answer session, focusing on the following priority areas:

In his opening statement, the Chief Executive provided a brief update on the latest Covid-19 position, outlining a number of key points:

- Covid-19 cases remained very high across all London boroughs, including Harrow, although there was some early evidence that the national lockdown was starting to have an impact in slowing the rate of transmission.
- pressure on the NHS and hospitals was expected to remain significant for at least a fortnight, with Harrow's Northwick Park Hospital already at capacity with Covid-19 patients; however, significant amount of work and resources were being invested in supporting the situation.
- work around enforcement and ensuring public compliance with lockdown rules continued, with an overall good level of response and cooperation from Harrow residents and businesses observed.
- significant economic impact across the borough remained but the Council continued to work towards supporting local businesses through the provision of grants.
- good cooperation and response from schools. However, concerns over increased risk of transmission remained due to the higher number of schools were had remained open compared to previous lockdown.
- Council was investing in a number of key areas including:
 - lateral flow testing continued and extra funding from government had been extended until end of March 2021.
 - enforcement of rules and directing resources toward employment of Covid-19 marshals as well as ongoing communication and community engagement in order to break chain of infection.
 - vaccination programme – two primary care centres and one mass vaccination site (Byron Hall) had been set up. Social care

staff expected to be invited for vaccination in due course. A further mass vaccination site at Wembley was also going to open and would be available to Harrow residents. However, Council facing challenges around large scale availability of vaccines.

By way of conclusion, the Chief Executive acknowledged the challenge the pandemic had had on the council's workforce. He thanked all staff for continuing to work tirelessly throughout the pandemic and paid tribute to their ongoing dedication.

The Committee then heard a statement from the Portfolio Holder for Finance and Resources on the Council's budget for 2021/22. A number of key points were outlined:

- despite the challenges posed by the substantial financial loss and expenditure, the scale of uncertainty and pressure due to Covid-19 and the insufficient government funding which had led a significant budget gap, the Council had succeeded in producing a balanced budget for 2021/22, with no proposed front line service cuts;
- Government's spending review in November 2020 was changed from a 3 to 1-year period, which further underlined the level of financial uncertainty the Council was facing. This included several areas such as availability of funding, wider impact of Covid-19 on the Council's income and volatility due to fees and charges;
- following a recent government announcement on the adult social care precept, council tax across all of England had been levied at 5% on all council taxpayers.
- Majority of business grants were being paid out automatically or using discretion in an effort to support businesses, with the Council exploring further opportunities to support local residents and business.

Members thanked the Chief Executive and the Portfolio Holder for Finance and Resources for their statements. In the session which followed, questions centred around several key areas as set out below.

Q1: What was the cost to the Council for dealing with Covid-19 and how much of that cost had been refunded by the government so far?

The Portfolio Holder for Finance and Resources explained that the estimated cost for dealing with Covid-19 was constantly changing. Acknowledging the significant gap between the total impact on income and costs and the amount of support received, he stated that some detail had already been provided through the Quarter 2 financial report, which was included in the published agenda pack for the meeting, with more up to date information expected over the coming weeks as part of the Quarter 3 report.

The Director of Finance added that a total of £18.1 million in general emergency funding and £4.3 million in compensation from income loss funding had been received from the government to date. The funding was

expected to increase and would be spent on essential services required for tackling the pandemic.

Q2: Taking into consideration that the total amount of direct government grant, not including business grants, is £27 million and the additional costs to the Council due to Covid-19 equate to £23 million, why is the Council still in a position where it claims that its costs had not been covered?

In response to the question, the Director of Finance stated that the amount of £27 million was money the Council had in grants. She continued by explaining that the government funding was split into two categories – general expenditure funding (including general emergency funding and compensation of loss) and a number of grants (e.g. business grants). Those grants were allocated for very specific areas of expenditure, which sat outside of the authority and did not replace money which had been lost in the budget for the year.

The total cost to the Council for dealing with the pandemic equated to £23 million, which did not include any new activities or projects the Council was currently undertaking. The information set out in Appendix 3 to the budget report showed the areas where the Council could spend money on and therefore put against the total budget. The money that the Council had spent so far and had an actual impact on its budget were covered in the emergency funding.

The Portfolio Holder for Finance and Resources added that the most recent update on the Council's costs was set out in the Medium Term Financial Strategy (MTFS) Update report, presented to Cabinet in October 2020, according to which the total financial impact prior to any government funding being received was £36 million. Subsequently the Council received £50 million in emergency funding and £4.7 million in compensation payments bringing the net impact of the pandemic to £60.7 million.

Noting the Member's concerns over tracking and understanding the exact impact of Covid-19 on the Council's budget gap, the Chair requested that officers undertake to prepare an analysis of an "alternative universe" including a comparison of what the Council would have spent in 2021 had it not been for Covid-19 versus what its current expenses were; what had the Council spent so far and the what proportion of that spending was from government funding and what from other areas; and impact of Covid-19 in current financial year versus total impact of Covid-19.

Q2 – With the Covid-19 crisis going on for over 10 months, what contingency plans does the Council have in place should the crisis continue?

The Chief Executive said that from a policy perspective it was difficult to know how the pandemic would unfold. The longer the crisis continued, the more resources would be required from the government to enable councils to respond adequately.

The Portfolio for Finance and Resources assured the Committee that Harrow Council was in a good position compared to other local authorities. However, he added that it was important to be prudent when setting the budget and focus on recovering some of the lost income as well as addressing the uncertainty over additional funding. He emphasised that the emergency reserves remained intact and the Council was determined to minimise use of any additional reserves.

Q3 – How do we know that key workers are genuinely “key”? What is the Council’s human resources “forward plan”?

The Chief Executive acknowledged the significant debate on the topic. In terms of support to schools and parents, who were key workers, latest government guidance included a clear definition on what constituted a “key worker” and was seen as a step forward. However, the guidance had also posed a further strain on schools particularly around requirements over online learning and schools were much busier now than during the previous national lockdown with key worker parents more likely to send their children to school. He added that even though children were less likely to contract the virus, they were still able to transmit it to older people. Overall public compliance with the lockdown rules was good and majority of the people were acting responsibly.

In terms of the human resources aspect, the Chief Executive stated that there was no large-scale funding reductions or job loss envisioned in the budget proposals, except for some budgets in the Community Directorate where council’s income projections did not match what had been delivered. As a result, there may be a need to change how some services were delivered and instigate a restructure, affecting only a small proportion of council staff, in order to better match income with expenditure budgets.

The Committee Member thanked the Chief Executive for his response and emphasised the importance of not losing sight of the human aspect/staffing issues.

The Committee also expressed their appreciation to the officers responsible for managing the business grants processes and acknowledged the improvement and positive feedback received.

Q4 – Comment on the importance of having consistency in figures and availability of the most up to date information for scrutiny.

The Director of Finance explained that some of the reserves mentioned in the report was money the Council had to have on its balance sheets but was not available for the Council to spend and therefore could not be considered as part of the general fund budget. Other general reserves were factored into the total figure which were available to use instead.

The Portfolio Holder for Finance and Resources noted that papers presented before the Committee were prepared back in October 2020 as part of the Council’s regular reporting schedule. More up to date figures would be produced in the next few weeks as part of the Quarter 3 monitoring and final budget reports.

In terms of reserves, he added that some came from specific areas (e.g. CIL fund) and other were built through surpluses (e.g budget planning reserve). He reminded the Committee that the Council had set balanced budget for the next financial year without the need for service cuts or using emergency funds and defended the approach.

The Chief Executive stated that in most councils, the biggest impact of Covid-19 had been on additional costs and having to operate with less funds due to loss of income. Although the government did provide the Council with some funds by way of compensation, the total amount of resources in income replacement and grants did not match the amount of additional expenditure/loss income the Council had received. Whilst more emergency funding was expected to be provided for the next financial year, it was unlikely to be sufficient to balance the budget, so it was important for the Council to be prepared and set aside as much reserves as possible.

Q5 – Can separate tables for each of the different reserves be prepared to give better reflection of the actual reserves the Council has?

The Portfolio Holder for Finance and Resources noted the suggestion but stated that the Council needed to be careful in how it categorized its reserves.

Q6 –Why did the Council decide to use reserves in order to deliver a balanced budget, what reserves is it going to use and how would that impact on the overall budget stability?

The Portfolio Holder for Finance and Resources explained that having to use reserves was not unique to this year's budget and whilst the preference remained to retain as much of the reserves as possible, the Council was comfortable with its decision to use them if necessary. He explained to the Committee that a structural problem in local government existed and assured Members that Harrow was not an outlier in trying to bridge budget gaps every year. A contributing factor in the budget gaps was also adult social care (ASC). Although the government had promised a plan to address issues with ASC funding, it remained to be delivered.

The Director of Finance added that a major challenge for the Council in setting the budget for 2021/22 was doing so before the indicative government settlement had been received. This meant that the Council was forced to set a budget before knowing what funds it was going to get for the following year. As a result of this uncertainty, a decision was made to put some reserves in the budget with the intention to use the minimum amount possible.

The Chief Executive also noted the issues of practicality and complexity of dealing with Covid -19, as a result of which it was unlikely for the Council to achieve any savings in its budget. Acknowledging the gravity of taking such decision, he explained that using reserves instead of taking the cost out of the Council was agreed because of the uncertainty around future government funding but also because of the pressures arising from dealing with the pandemic.

Q7 – How much of the income had been lost from parking and how much of that was down to on-street parking bays taken out of action, particularly due to schemes such as StreetSpace?

The Portfolio Holder for Finance and Resources said that the StreetSpace scheme had had a minimum impact on parking income. Transport for London data showed significant reduction in number of journeys people made due to the pandemic, which resulted in limited use of council car parks and fewer penalty notices being issued.

Q8 – The Budget assumes a £2 million underspend for this financial year but the report refers to an overspend - can you give an confirm which is correct?

The Director of Finance confirmed that upcoming Quarter 3 figures were expected to report an achievable £2 million underspend in the Council's budget.

Q9 – The budget shortfall exceeds balance of remaining non-earmarked reserves – if this happens, is the Council effectively going to be bankrupt?

The Director of Finance acknowledged the challenges arising from the significant budget gap between guaranteed income and predicted expenditure coupled with the uncertainty over future funding but assured the Committee there was no risk in the Council going bankrupt. The Council was taking a proactive stance with the budget planning process playing a key role in managing potential shortfalls and plans were already being put in place in anticipation for the 2022/23 budget. If the gap exceeded the available reserves and action needed to be taken, the Council had several options at its disposal including an increase in Council Tax as well as taking a number of decisions on funding including Adult Social Care.

The Chief Executive said that the information set out in report was representative of what local authorities had been facing over the past decade. He noted that other factors such as change in political control and more recently Covid-19, could also have an impact on a council's budget. Current decision to use reserves was based on the assumption that more funding would be provided and that there would be an increase in income, but it was possible that further calibrations may need to be made later in the year. He assured the Committee that the Council was prepared to take difficult decisions in order to balance the budget if it thought that a bankruptcy situation could occur.

Q10 – What is the Council going to do about the budget shortfall and when, so it is not put in a position where it has to made drastic decisions?

The Portfolio Holder for Finance and Resources explained that the Council ended up in a similar position every year in order to achieve a balanced budget. The reason for this was prudent budgeting with projections of a slightly larger budget gap being made. He also acknowledged increasing

amount of revenue coming from the government and said that additional funding would be available. He said that it was too early to make any decisions on the budget gap. More detailed proposals were expected by the summer when the Council would have a better understand of the financial situation as well as a better indication of the government's policy agenda and be able to act accordingly.

Q11 – Does the Council have sufficient capacity to bring forward proposals in good time to carry out the required consultations? What discussions has the Council had with the trade unions and other partners to deal with the budget gap in the coming years?

The Portfolio Holder for Finance and Resources and Director of Finance acknowledged that capacity across the Council was strained and any consultations had to be targeted. He noted that some consultations were already ongoing and expressed willingness to involve trade unions and other partners on any future major changes as early as possible. The Council was in the process of planning how to address financial challenges including targeting extra capacity.

Q12 – A Committee Member sought clarification on the following issues: 1) new homes bonus reversal and putting money back into the budget; 2) how much of the £100m approved for the investment income programme had been borrowed; and 3) is Harrow in line to benefit from the projected reduction in public works loan interest rates?

With regards to the new homes' bonus, the Director of Finance said that the grant would not be phased out as previously advised but would continue in some form.

With regards to the £100 million investment income, the Committee was informed that it had been removed from the budget due to challenges around securing investments which meet the criteria. The amount of £100 million was not borrowed by the Council and only one property had been purchased so far.

In response to the query on Public Works loans, the Committee was informed that the Council had not borrowed any money over the last twelve months. However, when it received its financial forecast and was in a position to take on new borrowings, it would ensure that it makes best use of the lower rates.

Q13 – How does the budget gap compare to other London boroughs? What is the Council doing to prioritise the government fair funding review?

The Portfolio Holder for Finance and Resources said that compared to other London boroughs Harrow sat on the lower end of the scale when it came to its reserves (circa £10m). However, its overall financial position was fairly strong not just because of its consistently prudent budgeting approach but also because it did not have to take large loans.

He noted the delays with regards to the Fair Funding Review and the London Council's concerns over its impact. He added that a balanced multi-year funding settlement was the most desirable outcome for all London boroughs but sub-division of the funds remained a major challenge as it depended not only on the total funds available but also on the specific needs of each borough. Harrow was closely engaged in the process and was in regular contact with London Councils and other London boroughs.

Q14 – Considering the size of the capital costs and the amount of spending on servicing the capital debt, what is the Council doing to bring down the level of debt in order to reduce its spending financing it?

In response, the Director of Finance said that the current Council's debt stood at £421 million. She assured the Committee that it was being managed carefully and the Council had not borrowed any money during the pandemic in order to keep capital financing costs down. Although the overall aim was to reduce the level of debt as much as possible, managing it was ultimately a balancing act between having sufficient funds for essential services provision but also keeping debt levels to a minimum through careful cash flow management.

Q15 – Can the Committee have an indication of how the Council's debt compares to other local authorities and when are the Council's projections for repaying it? Why 25% of the budget is going for re-servicing debt instead of providing services to residents?

The Director of Finance explained that it was common for local authorities to have a level of debt. In theory, for a Council to pay its debt off completely it would need to set a clear repayment strategy and make contributions over an agreed period of time. In reality, this was much more challenging, making it likely that a Council would retain a level of debt for the foreseeable future. Instead local authorities such as Harrow were focusing on maintaining an achievable level of debt that could be contained within the revenue account.

With regards to the amount of money going towards re-servicing the Council's debt, the Director of Finance stated that this was about £ 7 million and did not impact on the revenue accounts. She explained that the minimum revenue provision was an oddity in local government finance, with Councils required to set a notional amount within their budgets aside for loan repayment. Those funds were used to fund the debt, so the Council did not have to take up additional capital financing to fund that expenditure.

Q16 – What is the Council's position on the regeneration programme, how much of the original cost had been written off and what happens to that expenditure? Will there be any costs sharing and money coming back to Council?

The Director of Finance explained that the Council had been working on the abortive revenue costs from the old regeneration programme which were not relevant or viable within the new regeneration programme in order to ensure that the final level of write off was correct. Cost sharing on costs already

incurred was unlikely, with any money previously charged to capital being transferred to the Council's revenue account.

While no specifics could be given on the exact level of write off at this stage, the Director of Finance said that more details were expected to be included as part of the Council's Financial Outturn report in June 2021.

Q17 – Noting the issues that London Borough of Croydon had experienced in managing its the regeneration scheme, what is the Council doing to prevent the same problem happening in Harrow?

The Director of Finance explained that Harrow's situation was different from Croydon in that it did not have its own trading entity to which to lend a huge amount of money to. She assured Members that the only loan Harrow had was made to the LLP Consortium, which managed a housing property on behalf of the Council. The loan given was just over £1 million and had already been paid off in full.

Q18 – Is the Council still expecting a level of income from the Depot's redevelopment? Why hasn't that income been kept in the budget? The Council didn't obtain planning permission for commercial use of the Depot, so can it still receive an income from it?

The Director of Finance explained that when the draft budget for 2021/22 was set, the income from the original depot target of £631 million had been removed on account that some income had been achieved from the Depot. The amount of money remaining in the budget that related to the Depot was approximately half a million. She added that part of the Depot would continue to be operational building and as such would generate some income to the Council.

The Director of Finance acknowledged the planning permission issues from the letting of the Depot for commercial purposes but confirmed that it related specifically to the recent two storey extension of the Depot.

Q19 - Can you confirm that the regeneration project will not cause a strain on the Council's budget and what kind of contingencies are planned should anything go wrong? With Council Tax going up again, what reassurance can you give to residents that core services will not be adversely affected?

The Director for Finance explained that whilst there was no guarantee that no pressures will arise, the new regeneration project was set up very differently from the previous. Under the new programme, the Council had formed a development partnership and would be working alongside a preferred bidder (Wates), with a strong focus on cost neutrality for some of the elements of the regeneration programme.

The Portfolio Holder for Finance and Resources stated that despite the challenging circumstances complaints on the provision of services were low and the Council was committed to maintaining its core services to the highest possible standard.

Q20 – How would you justify the decision to move some of the helplines online and doesn't that discriminate against those people who are less technologically competent or have no access to the internet? What is the Council doing to ensure that no one falls through the net?

The Portfolio Holder for Finance and Resources said the decision to move some services online had been largely welcomed. Significant energy and investment were being put into ensuring the Council was as easy as possible to transact with online (e.g launching a new more user friendly website) but also that the Digital Cohesion Strategy recognised the needs of those residents who couldn't use online services and offered sufficient alternative support through the use of libraries, one stop shop and advice services.

Q21 – Has any consideration been given to how Council Tax would be collected in a different environment, one which reflects rising levels of unemployment?

The Portfolio Holder for Finance and Resources acknowledged the impact of unemployment on council tax collection and the significant number of people who were now in receipt of council tax support. However, he reminded the Committee that since April 2020 the Council had taken a proactive stance and had been encouraging residents to pay their council tax, fully or partially or get in touch with the Council if requiring help. As a result, the overall council tax collection rate in Harrow was relatively good, with a number of residents benefiting from a discount.

He assured the Committee that the Council was committed to supporting council tax recipients and avoid the use of bailiffs whenever possible. A local strategy focusing on local investment and council tax recipients was being developed with more details to be provided over the coming months. A further positive development had also been the recent government increase in Universal Credit allowance which had been a lifeline for many people and the Council was determined to ensure the support was extended beyond end of March 2021.

Q22 – What does the Council do to steer people towards debt management where required?

The Portfolio Holder for Finance and Resources said that people who needed help were signposted to specialist local charities. Residents struggling with council tax payments were also being encouraged to contact the Council and arrange a personalised payment plan that best suited their circumstances.

Q23 – Does the Council Tax figure in the budget report include precepts expected from the Greater London Authority (GLA)? Does the furlough scheme affect council tax collection?

The Portfolio Holder for Finance and Resources said that GLA precepts were not included in the budget.

In terms of the impact of the furlough scheme, he stated that the scheme had made a significant difference to a number of groups, particularly to those who had experienced biggest changes in their financial circumstances.

Q24 – A Committee Member expressed their concerns about the health of residents and suggested that it be prioritised as part of the Council’s overall health strategy across the borough.

The Portfolio Holder for Finance and Resources noted the Member’s comments.

At the end of the question session the Chair thanked the Chief Executive, Director of Finance and Portfolio Holder for Finance and Resources for their attendance and responses. On behalf of the Committee, the Chair also expressed his gratitude to all council staff for their hard work throughout the pandemic.

RESOLVED: That the reports and responses received on the Council budget during the Question and Answer session, be noted.

For Information.