

Cabinet – 10 February 2022

Reference from the Overview and Scrutiny Committee – 11 January 2022

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

The Chair opened the Question and Answer session. He outlined the order of the session, stating that that the Committee would first receive a presentation on the Council's strategic overview from the Chief Executive. The Committee would 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 Council's strategic overview, outlining a number of key points:

- The last 20 months had been dominated by the Covid-19 Pandemic, which had presented a substantial challenge for Harrow Council which had heavily impacted: Harrow Council's budget; the capacity of Harrow Council and finally the Government's spending review had been delayed and had not been released until October 2021.
- It was hoped that by May 2022 Harrow Council would be less dominated by the Covid-19 pandemic and due to the Government's spending review release and a settlement prior to Christmas there would be a greater degree of financial certainty.
- Ongoing response to Covid-19 had remained a priority for Harrow Council and how core services would be delivered as a result of the Covid-19 Pandemic.
- Key priorities would be continued to be worked on, these included the regeneration programme, the borough plan, modernisation plans and the medium-term financial strategy with planning for 2023/24.
- Medium term plans included: Covid-19 recovery plans, borough plan activities and for the regeneration plan to be delivered.

Members thanked the Chief for hi statement. In the session which followed, questions centred around several key areas as set out below.

Q1. Since 2010 there had been a large cut to the money coming into the Council from the Government, what was the impact of these cuts?

The Chief Executive explained that Harrow Council's core grant received from the Government in 2010 was circa £50m compared to today's core grant of £1 to £2m and that there had been a long period of austerity in the amount of resources councils had received from the Government, which had led to decisions to be made by Harrow Council in order for the budgets to be balanced, but that council funding had been more stable compared to the previous ten years.

The Leader of the Council added that since 2015 the overall revenue support grant had dropped from £52m to £1m and that small percentage annual increases of circa £50,000 limited the council on what could be done for pressures in their millions to be mitigated. In addition, over the past few years only 1-year settlements were received which had made long term planning difficult. Secondly, though core government funding had increased so had the need for council tax to be raised. It was noted that 80% of Harrow's expenditure is now funded by council tax compared to circa 50% in other London authorities'. He concluded that cuts had impacted Harrow Council.

Q2. What were our guiding principles for formulating this budget?

The Portfolio Holder for Finance and Resources explained that Harrow Council had been a low funded Council, that it was essential for the budget to be balanced and that services needed to be delivered. There remained a priority to protect vulnerable people within the community and for those on the lowest incomes to be supported had been a guiding principle. In addition, financial prudence in order for shortfalls to be met from funding no longer received and thanked the directorate at Harrow Council for their continued efforts in delivering services within budget.

The Leader of the Council added that where costs could be reduced they had been but also there had been investment into services in order for these services, albeit small, but these had been done well.

Q3. The budget gap of £15.7m, it appears that that this had been met by the budget planning reserve and that by next year that would need to be reversed out, which would imply that there was going to have to be savings in the year in order to in order to enable that gap to be reversed out. What were the plans for addressing that and what do you have in mind achieve the savings necessary to be able to reverse out that call on the reserves?

The Chief Executive clarified that due to a lack of clarity and a delay from government on their position regarding the medium-term financial settlement, it was a strategic decision to do everything the council could over recent years to grow the budget planning reserve in order to have the resources available in the absence of the medium-term financial settlement. The Chief Executive concluded to say that because of this decision, the budget for 2022/23 had been balanced and that there was no need to make any further savings to balance 2022/23. The substantial increase in the budget planning reserve

had allowed the Council time to understand what would be needed for the 2023/24 budget for the medium term to be balanced. This would also allow for a new administration's priorities to be applied to the future budget.

Q4. Could the budget gap be dealt with by the increased Government funding that would come from the medium-term strategy?

The Chief Executive explained that Harrow Council had no clarity on Government policy regarding updates on the spending review for local government. The announcement came during October 2021 which had allocated resources to the spending departments over the medium term. This had provided a greater degree of clarity. Prior to this it had been unknown how much of the projected budget gap could be filled by additional government funding and that the final budget report would reflect the new information. The additional budget resource had not closed the budget gap and that proposals by the Council would need to be developed by February 2023 for how the budget gap would be filled.

The Member went on to ask if it would be up to the next administration to find the necessary savings or extra income in order to fill the budget gap. The Chief Executive explained that there had not always been £15m in the budget planning reserve, it had been a deliberate strategy in order for the Council to be prepared in the face of uncertainty for 2022/23 and that it was not required for this reserve to be replenished. The Chief Executive agreed that the challenge would be for the budget to be balanced for 2023/24.,

Q5. On the point of the spending review, what had been assumed as the government settlement for next year in the draft budget compared to where we think things have come out?

The Director of Finance explained that the indicative financial settlement meant that Harrow Council would be better off by £1m compared to what had been estimated in the draft budget. This meant that the Council would reduce the level of reserves by £1m to balance the 2022/23 budget

Q6. What are the biggest risks within the budget both in terms of 2022/23 and the medium-term?

The Director of Finance explained that one of the biggest risks identified across local authorities had been meeting demand for social care, however Harrow Council had continued to develop their service and provide growth and along with a reserve in place, this had ultimately led to a lot of risks mitigated. In addition, due to Harrow Council's chosen strategy the budget could be managed within the budget envelope. In terms of the medium term the biggest challenge identified was for the ability to bring expenditure back in line with the budget. In addition, the impact of inflation, rise in national insurance and energy costs had been identified as a future challenge.

The Portfolio Holder for Finance and Resources added that the lack of clarity over what the financial settlement would be had been a challenge and for capacity to be identified in all departments and for our current position to be maintained.

The Leader of the Council added that the backlog within the hospital system had also been noted to be challenge presented to the Council, with additional demands and staff shortages put on social care were deemed as financial and social concerns.

Q7. It was important to remember that when looking at the budget figures that every reduction of difficulty directly affects peoples lives. In 2010/11 48,000 people were homeless, by 2019/20 there were 92,000 homeless people. Do we know if that upward trend continued, both in terms of finance on council spending in terms of providing extra accommodation but also the social impact this had, could you make comments on these figures please?

The Director of Finance explained that the number of homeless households in temporary accommodation had doubled of a ten-year period and that there were a number of families that remained on the list for temporary accommodation.

The Chief Executive added that one of the pressures within London, due to the housing market had been the cost of temporary accommodation and that there had not been enough social housing as well as a rising cost in social housing over this period time. The Council had done a number of things for this to be mitigated, such as input £30m into a scheme that allowed property to be bought by councils. While this had been a driver around the management of the revenue budget this had linked to the council regeneration plans in order for our supply of affordable housing to be increased.

Q8. How had the £15m budget planning reserve been generated?

The Director of Finance explained that it had been generated from previous years underspends including capital financing where the Council had not needed to borrow as per budgeted plans. . If directorate budgets had not been spent in year then this would also be transferred to the reserve and it was an accumulation of these over a 5 to 6 year period that had resulted in what could be seen in the budget planning reserve.

Q9. Could the 1.9% rise in council tax be avoided if circa £6m could be found throughout the next financial year?

The Chief Executive explained that there was a difference between the use of a one-off resource and a recurring resource and that a rise in council tax would act as a permanent resource within the budget. While it had been sensible to use a one off resource to gain time in order to not remove money from the budget a recurring resource would allow for long term stability.

The Leader of the Council added that one off grants had not helped the council in terms of budget planning for the future, there would be no guarantee of find that money each year through one off resources.

Q10. What was the process to cope with the £15m cuts next year?

The Director of Finance explained that an underspend would need to be achieved in the year so that drawdowns from reserves would be avoided and to allow for year end capacity to be realised. Therefore, planned borrowing would be avoided where possible and for the treasury to be robustly managed in order to be under budget. In addition, a strategy would need to be implemented in how Harrow Council would lower its expenditure. The Director of Finance acknowledged that this would be a challenge.

The Director of Finance added that there is an option for this to be undertaken over a two-year period with a priority set for immediate savings to be realised within 2022/23 budget but that bigger decision would be considered over a two-year period.

The Chair of the Committee noted that if this had been done, then dependant on the underspend there would be very little capacity left in the reserve budget, there would be around £5m and that the underspend would have to be quite large for this to be met, notwithstanding anything that could happen next year.

Q11. This year the Council took out £2m of savings because it didn't have capacity to make those savings because of the pandemic and wanted to understand the capacity if this year the council was unable to save £2m but to have capacity to save £14m for 2022/23?

The Chief Executive explained that the Council were unable to identify savings throughout 2021/22 because of the pandemic, however there was confidence that the Council would be in a good position to smooth the budget gap over more than one year. The Chief Executive noted that the medium-term financial strategy could identify how this budget gap could be bridged and that it meant that there was a need for it to be managed over a longer period of time.

Q12. Regarding children services, was there a reserve budget for this service, also with regard to demand of children in care, mental health, backlogs for the educational health care plans and assessments. So as it was a demanding service there was concern that savings for this service had been exhausted. Therefore, what caveats had been put in place with reserves just in case to help this service?

The Director of Finance explained that demand for children services had seen a rise which had been seen in the last few years prior. There was a children's social care reserve in place with circa £1m in place, it was planned to be used in 2022/23 because a forecast pressure had been identified. Permanent growth had been built into the budget for year two of medium-term strategy and that the growth requirement will be regularly reviewed

Q13. The budget gap of £14.8m, there had not appeared to be a plan as it stood to close that gap in either 1 year or 2 years, was that not a black hole? Was this budget as it stands passing on a blackhole to the next administration to somehow deal with over the next 1 or 2 financial years?

The Chief Executive clarified that there had been budget gaps over the medium-term financial strategy in past years and that it had not been unusual for there to not be a detailed plan at this point in time, where a three-year settlement had not been provided. The Chief Executive added that financial savings could have been implemented prior to knowledge of the settlement which had only been provided after the draft budget plan had been published.

The Member added that clarity within the budget as to how the budget gap could be met was desired and that it would be useful for these details to have been in place.

The Chair noted that on this occasion that for year one of the medium-term strategy to be balanced by reserves could be said to be unusual compared to previous years.

The Chief Executive understood the points made but reiterated that the delay of the settlement and the pandemic had resulted in an approach that differed to previous years, both of which had impacted the Council's certainty and capacity.

The Leader of the Council added that since budget cuts had taken place over the past ten years services had been redesigned to work in a completely different way. It had been known that Harrow Council was a low funded council and that services had been paused because of the pandemic, this was due to the lack of capacity of staff who had to work priorities that revolved around the pandemic. In addition, Harrow Council were not in a position to cut services further and that a decision may need to be taken whether certain services continued.

Q14. Regarding education, schools were approached to not take on some of their delegated monies when they were supposed to because there was an issue around budgeting in education. Was that the case?

The Director of Finance noted that they were not aware of this and for this to be checked.

Q15. Are there any problems with the proposed final funding formula for school funding for 2022/23 as it was believed that the school payroll service would no longer pay, therefore were there implications on the revenue after April?

The Director of Finance explained that it would not be because schools had opted out of the Council's payroll service therefore the schools had chosen not to pay for this service and would use a different provider. Their budgets should not be impacted and that the Council's provision for dealing with the service would be reduced due to the lowered income from this service.

Q16. In terms of the capital budget, the impact on revenue on the capital budget was 18% and the following year went up to 20% and then 21%. This is servicing the debt, what had been done to address that to reduce

that impact? This was because that is quite a large proportion of the revenue budget going towards servicing the capital budget.

The Director of Finance explained that the figures quoted were a mixture of the interest payments on the Council's borrowings and the minimum revenue provision, an amount which has to be set aside to repay debt. The Director of Finance agreed that it was a significant proportion but as a Council no borrowing had been done over a number of years for it to be ensured that the council had not added to the debt portfolio. Significant savings had been made over the pandemic as borrowing was avoided as much as possible and that debts were paid where possible.

Q17. These are still capital financing costs, so this had this still been an impact on the revenue budget in order to finance that capital?

The Director of Finance confirmed this but highlighted that they were made of interest paid on debt and that money had been set aside to go towards debt repayment, that money was used to fund the capital programme so that borrowing was avoided.

Q18. Presumably the capital budget would be impacted by the business plans that were currently being drawn up for the HSDP and those business plans were due to come to Cabinet in February 2022 before the budget was passed and was due to be considered in March after the budget had been passed. What would the impact of that be on the assumptions within the capital budget?

The Director of Finance explained that there had not been any impact on the capital budget because capital provision had been made for regeneration. It was added that that there was sufficient money within the capital programme for the business plans to be funded in 2022/23.

Q19. It was referred to that there were £2m of savings no longer going ahead in this budget, was there a strategy for these savings to be achieved?

The Director of Finance raised that the pandemic had negatively impacted on the councils ability to find these savings and struggled in terms of capacity for more robust plans to be made. Therefore, it was reversed out and had been planned to be put back into the budget when capacity allowed.

The Chief Executive added that these savings had first appeared in the 2020/21 budget and at the time it was reasonable to assume these savings were achievable and should be expected to be seen in the 2023/24 budget.

The Member added if it had been better for a plan to have been made prior to adding it to the budget. To which the Chief Executive noted that the Council had given 12 months for this savings to be planned but due to the Pandemic had not been possible.

Q20. For the reserves to exist, would that mean that the council had £80m in the bank to be able to liquidate these reserves promptly or as required?

The Director of Finance explained that the reserves were money that the Council had earmarked which totalled £64m at the end of Quarter 2 and that a substantial proportion were earmarked which could not be liquidated. For example, £8.9m within the collection fund reserve had to be paid back into the general fund. It was important to for it to be noted that some reserves (earmarked reserves) could not be spent due to their specific purposes. If a reserve was used for an unintended purpose, this would create pressure on services that had expected these funds. The Director of Finance concluded by confirming that Harrow Council had enough money in the bank at this time for reserves to be covered.

At the end of the question session the Chair thanked the Chief Executive, Director of Finance, the Leader of the Council and Portfolio Holder for Finance and Resources for their attendance and responses and for the work that they had done on the budget.

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

For Consideration

Background Documents:

Agenda of Overview and Scrutiny Committee – 11 January 2022:

Reports on:

- Draft Revenue Budget 2022/23 and Medium Term Financial Strategy 2022/23 to 2024/25
- Draft Capital Programme 2022/23 to 2024/25
- Quarter 2 Revenue & Capital Budget Monitoring 2021/22

Supplemental Agenda of Overview and Scrutiny Committee – 11 January 2022

Presentation on: Council Strategic Overview January 2022

Minutes of Overview & Scrutiny Committee – 11 January 2022

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