



BUDGET SCRUTINY PANEL

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To: Councillors Parsons (Chair), Baines, Bolton and Miah (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Budget Scrutiny Panel to be held in Preston Room - Woodgate Chambers on Wednesday, 4th December 2019 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

26th November 2019

AGENDA

1. APOLOGIES
2. MINUTES OF THE PREVIOUS MEETING 4 - 11
To confirm as a correct record the minutes of the previous meeting.
3. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS
4. DECLARATIONS - THE PARTY WHIP

5. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions were submitted.

6. IMPACT OF REVISED MEDIUM TERM FINANCIAL STRATEGY ON BUDGET 12 - 13

A report of the Strategic Director of Corporate Services setting out the impact of revisions to Medium Term Financial Strategy 2020-2023 on the draft budget.

7. DRAFT GENERAL FUND AND HRA BUDGET 2020/21

A report of the Head of Finance and Property Services setting out the draft General Fund and HRA Budget 2020/21, to be considered by Cabinet on 16th December 2019, for scrutiny by the Panel. **To Follow.**

Having undertaken scrutiny of this matter, the Panel will need to identify any observations or recommendations that it wishes be included in its draft report.

8. DRAFT CAPITAL PLAN 2020/21 TO 2022/23

A report of the Head of Finance and Property Services setting out the draft Capital Plan 2020/21 to 2022/23, to be considered by Cabinet on 16th December 2019, for scrutiny by the Panel. **To Follow.**

Having undertaken scrutiny of this matter, the Panel will need to identify any observations or recommendations that it wishes be included in its draft report.

9. FURTHER MEETING OF THE PANEL

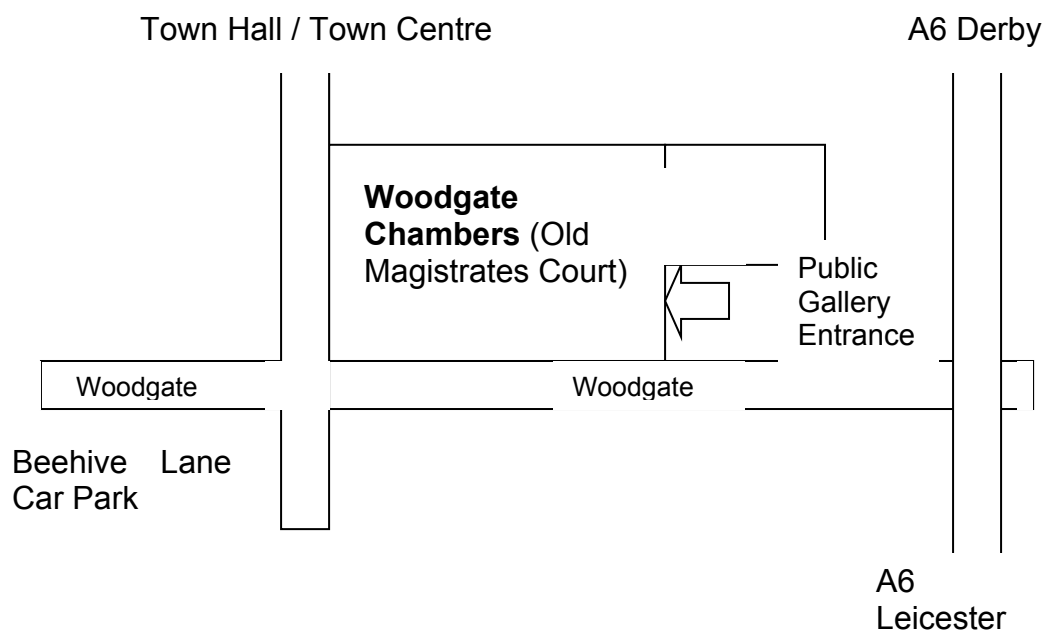
For information, a further meeting of the Panel has been scheduled as follows:

Wednesday, 8th January 2020 at 6.00pm (to agree the Panel's report).

The Panel's report is scheduled for consideration by the Scrutiny Commission on 13th January 2020. The Commission will be requested to recommend the report to Cabinet at its meeting on 13th February 2020.

WHERE TO FIND WOODGATE CHAMBERS AND PUBLIC ACCESS

Woodgate Chambers
70 Woodgate
Loughborough
Leics
LE11 2TZ



SCRUTINY QUESTIONS

What topics to choose?

- What difference will scrutiny make?
- Is this an area of concern – public/performance/risk register?
- Is this a corporate priority?
- Could scrutiny lead to improvements?
- What are the alternatives to pre-decision scrutiny?

Pre-decision scrutiny

- What is Cabinet being asked to agree?
- Why?
- How does this relate to the overall objective? Which is ...?
- What risks have been identified and how are they being addressed?
- What are the financial implications?
- What other options have been considered?
- Who has been consulted and what were the results?
- Will the decision Cabinet is being asked to take affect other policies, practices etc.?

Basic Questions

- Why are you/we doing this?
- Why are you/we doing it in this way?
- How do you/we know you are making a difference?
- How are priorities and targets set?
- How do you/we compare?
- What examples of good practice exist elsewhere?

BUDGET SCRUTINY PANEL 25TH SEPTEMBER 2019

PRESENT: The Chair (Councillor Parsons)

Councillors Baines, Bolton and Miah

Councillor Barkley (Deputy Leader of the Council
and Cabinet Lead Member for Finance and
Property Services)

Strategic Director of Corporate Services
Head of Finance and Property Services
Democratic Services Officer (LS)

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

1. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

2. DECLARATIONS - THE PARTY WHIP

No declarations were made.

3. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

4. DRAFT MEDIUM TERM FINANCIAL STRATEGY 2020-23

Considered a report of the Strategic Director of Corporate Services setting out the draft Medium Term Financial Strategy (MTFS) 2020-23, to be considered by Cabinet on 19th September 2019, for scrutiny by the Panel (item 5 on the agenda filed with these minutes).

Assisting with consideration of the report: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services.

The Cabinet Lead Member briefly set out the key issues and risks for the MTFS 2020-23, highlighting in particular the value of having put aside reserves, the uncertainty of the environment in which the Council was operating and the need for

transformation/efficiency plans to deliver. He considered that the MTFs was as accurate as it could be based on the information currently available.

For context, the Chair referred to there currently being considerable activity taking place in the area of the Council's finances, including the new Capital Plan for 2020-23 due to be considered by Cabinet (and this Panel) in December 2019 and the Investment Strategy agreed by Cabinet in September 2019 that and the Treasury Management Strategy for 2019/20 (part of Capital Strategy) agreed by Council in February 2019, both of which were of crucial importance and included changes in approach. All illustrated a new environment in which to manage and move forward with the Council's finances, taking as a starting point the position stated by the Cabinet Lead Member that the Council wished to maintain front line services. The role of this Panel was to scrutinise the budget being proposed to achieve that.

Councillor Baines arrived at 6.10pm.

Summary, key points of discussion:

- (i) All suggestions to assist the Council with achieving the outcome needed were welcomed by the Cabinet Lead Member.
- (ii) Agenda page 9, reference to proposed use of £1.1m of reserves in 2020/21 assuming delivery of £0.5m of transformation and delivery savings. Confirmed that this was a separate matter to the proposed request for funding of £220,000 from the Reinvestment Reserve to facilitate the mobilisation of the Council's Transformation Programme that had recently been notified by a General Exception Notice. The latter was a new request, further explanation of the funding for which was provided.
- (iii) Reference to the challenge presented in finding required savings, together with the concern expressed by the Corporate Services Scrutiny Committee at its last meeting when considering the 2019/20 Period 4 revenue position that budgeted for managed savings were not yet being achieved. Very important to continue to monitor the position in that respect.
- (iv) The settlement from the Government for 2020/21 had not yet been confirmed. Brief discussion regarding the uplift anticipated, together with the likely direction towards adult social care and children's services.
- (v) Agenda page 17, reference to MTFs assuming maximum permitted annual increase in Council Tax of 2%. If the Council did not have reserves, that increase would not be sufficient to maintain front line services. Question as to whether consideration had been given to establishing the position of residents on a higher increase. In response, that had been considered, but would require a referendum, the cost of which would likely exceed any increase in income. The Cabinet Lead Member did not consider such an approach to be appropriate, rather the Council needed to work towards transformation to reduce costs and increase income over the period of the MTFs.
- (vi) Representation could be made to the Government department or local Members of Parliament that district council funding was not sufficient, either by the Council if it so wished, or by individual councillors. Representation on the issue was being made by the Local Government Association, also via the District Councils' Network. In respect of the latter, reference to discussion regarding a possible relaxation of the capping limit on district councils to 2% or

£12. Any £12 increase would be a decision for the Council but would be of considerable financial assistance. This was currently only being discussed and the assumption should be that this would not be an option.

- (vi) The Council had put aside reserves for the purpose of the resilience now needed.
- (vii) View that residents may not be averse to an increase in charges if that allowed good local services to be maintained.
- (viii) Agenda page 18, reference to expected increase in (Council) tax base of 1.9% year on year for the period of the MTFS and the number of properties that represented? In response, stated as between 1,500-1,700 a year. View that developments around the Borough seemed to involve more than that, noted that time lag to properties being completed and on the Council Tax Register.
- (ix) Agenda page 20, question regarding the level of risk associated with outstanding business rates appeals? In response, explanation was provided of the likely risk, knowledge held on the matter and the substantial provision held by the Council in that respect, the conclusion being that the provision for both the 2010 and 2017 valuation lists was at a sufficient and realistic level. The provision could be seen in the Council's Statement of Accounts and was available should it be required (as a provision rather than cash). Hoped that that represented an over-provision that would realise a windfall in the future.
- (x) Agenda page 20, confirmed that £450,000 from 75% Business Rate Retention pilot represented a one-off income in 2019/20 and was not included in the 2019/20 budget. It could not be used towards budgeted for managed savings, rather for spend to save initiatives and public realm works in line with the pilot bid.
- (xi) Agenda page 20, reference to Empty Property costs (business rates) for which reliefs could not be claimed back, estimated at £500,000 each year from 2020/21. That was a cost to the Council. While the Council was able to claim back some reliefs, that was not the case in respect of Empty Properties. The estimated cost was considered to be realistic and prudent, based on detailed consideration of the position with business rates and a recognition of an increase in empty properties. The position was being monitored regularly as an important area of risk, also revised for the final MTFS if needed.
- (xii) Agenda page 20, question regarding whether business rate income growth factor of 3% per annum was realistic given number of shops closing? In response, this was based on information from the Council's financial consultants looking at national trends. Many other, less visible businesses were trading successfully, for example logistics and warehousing, such that 3% was not unrealistic. The position would be monitored. A similar growth rate had been applied last year.
- (xiii) Agenda page 22, question as to why the housing growth forecast in the New Homes Bonus calculation and the housing growth projections by the Council's Planning Service differed? Noted that that question had been asked by the Cabinet when it had considered the draft MTFS and that a more detailed explanation therein might be useful. In summary, the key difference was a Government termed "deadweight" which assumed, in calculating the New Homes Bonus, a 0.4% growth anyway, which added approximately 300 homes.
- (xiv) Agenda page 27, concern regarding the Government proposal that councils provide a garden waste collection service free of charge, given the effect that would have on the income to the Council from its current service, which was

substantial. In response, the Cabinet Lead Member and officers present confirmed that they were aware of the issue/risk at this stage, but that the proposal was unlikely to be realised within the period of this draft MTFs. No action could be taken until further information was available on the proposal. The likelihood of compensation for councils that would lose income was briefly discussed.

- (xv) Agenda page 29, question as to whether work had started to identify the efficiencies required by the draft MTFs and the process for that, particularly the £0.5m required in 2020/21? In response, reference made to Table 25 in the MTFs (agenda page 34), that set out proposals for £300,000 of the £467,000 in 2020/21, some of which were firmer than others at this stage. Efficiencies required in years 2 and 3 of the MTFs presented more of a challenge and required a more rigorous identification approach. Reference to the focus on transformation by the Council's new Chief Executive, such that efficiencies to be made would be increasingly firmer. In terms of keeping councillors informed, significant service changes would require Cabinet approval and would be available for scrutiny. The Chair concluded discussion of this issue by stating that it was incumbent on the Panel to consider whether the savings promised were delivered as time progressed. To that end, he hoped that membership of the Panel would be a constant, also to enable the Panel's knowledge and understanding to increase.
- (xvi) The Head of Finance and Property Services provided a brief outline of how the draft MTFs would form the basis of the 2020/21 budget working papers and the role of Heads of Service in finding percentage reductions.
- (xvii) Agenda page 30, reference to the Investment Strategy agreed by Cabinet in September 2019 and the £10m stated therein to expand the Council's commercial property portfolio. It was explained that that represented a statement of intent to invest the amount and financing of that would be based on professional advice as to the best way to do so at the time (borrowing or internal funds or a mix of the two).
- (xviii) The Cabinet Lead Member referred to financial parameters and checks in place, including Minimum Revenue Provision and capital ratios which could not be exceeded, also the stringent due diligence that would be undertaken where significant investment was proposed. Brief discussion regarding risk appetite, being risk aware not risk averse.
- (xix) Agenda page 33, view that the Council should be looking to more shared service arrangements with other district councils to achieve back office cost savings. Net loss on Building Control trading activities could not be afforded, particularly non-statutory elements. Recent move to shared service arrangement for Internal Audit. Shared arrangements sometimes needed for resilience rather than saving.
- (xx) Agenda page 35, reference to stated shortfalls in Housing Rent Allowance budgets and the reason for that as stated in the MTFs. In response, this was a national trend, expected to further increase and was demand-led (the driving cost was Supported Living Allowance and the Borough had two major providers/centres), further details of which were outlined. The Council could only work to monitor the position. The final version of the MTFs would look to more accurately reflect what was expected in relation to this risk. This was a key area of concern.

- (xxi) Agenda page 36, Table 26, question as to why planning fee income risk was stated as zero? In response, based on limited information currently available and experience to date (the income was currently on target at Period 4, 2019/20, would review position for final MTFS.
- (xxii) Agenda page 38, reference to the interest and principal payable on loans for commercial investment being an ongoing 'revenue' charge to the Council. Minimum Revenue Provision would ensure that an appropriate charge was made in the accounts for such repayments, further information on which was briefly outlined, including how that provided for replacement assets.
- (xxiii) Agenda page 41, it would be useful if Table 28 could also provide the information referred to in the note to that table, as the balances brought forward were calculated based on that information, to better understand the history of the matter.
- (xxiv) Agenda page 42, the Chair referred to his observation, in relation to the draft MTFS and other Council financial documents referenced earlier in the meeting, that reserves had been put aside to meet a more challenging financial environment, but a more stringent/aggressive approach was now needed to secure future finances. He reiterated this Panel's role in helping to achieve that.
- (xxv) Agenda page 43, housing rents, question as to whether there was a further 1% reduction in rents required for 2020/21, or whether rents would stay the same or increase, as that would affect the Housing Revenue Account position? That was not known at this meeting.

In respect of (xxiii) above, the Head of Finance and Property Services agreed to include that information in the next version of the MTFS.

In respect of (xxv) above, the Head of Finance and Property Services agreed to send a response by email to members of the Panel.

RESOLVED that the draft MTFS 2020-23 and the Panel's scrutiny of the matter, summarised above, be noted.

Reason

To acknowledge the Panel's consideration of the draft MTFS 2020-23 as part of its budget scrutiny role.

5. APPROACH TO BUDGET SETTING

Discussed, the approach taken by the Council to budget setting.

Assisting with the discussion: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services.

Summary, key points of discussion:

- (i) The budget setting process was briefly outlined. The Council's objective had been to maintain front line services whilst achieving a balanced budget, through

- a mix of commercialisation and efficiency savings. The existing service provision was considered to be appropriate, but the financial challenge ahead may require that to change.
- (ii) Substantial savings had been achieved in recent years and further substantial savings would be needed over the next three years. Achieving those would become increasingly difficult and transformation and investments to produce income were also being looked to.
 - (iii) Reference to budget information being net (of income) rather than gross. The gross figures had been provided to the Panel and were useful in illustrating true costs and how much was being spent to produce the income.
 - (iv) Elements of the Council's costs could not be touched as part of the process, for example contract costs which were increased by the contract inflation amount each year. Such costs amounted to around £10m. There were approximately £6m of costs that could be targeted for savings.
 - (v) Question as to whether crowdsourcing within the Council has been undertaken to identify potential savings/income generation? In response, previous year's concept of Big Ideas within the Corporate Management Team and the outcomes of that were briefly outlined. Reference was made to the use of crowdsourcing by the Coalition Government that followed the 2010 General Election and the good ideas that had generated from many sources, including the public. A member of the Panel considered that input from members of the public could be useful.
 - (vi) Reference to the benefit of a properly resourced audit function in identifying efficiencies and cost savings in commercial organisations and whether the new internal audit shared service arrangement at the Council might contribute to that through its Value for Money work? In response, the Council's internal audit remained a small team and was primarily tasked with assurance.
 - (vii) Question regarding non-statutory services and how those were considered in the budget process? Also, how spending was considered and evaluated against other spending? That was undertaken by relevant Cabinet Lead Members, the aim being to maintain front line services. Reference to a good starting point being a list of statutory and non-statutory services and the income and costs relating to those. That exercise had been undertaken, further details of which were outlined. The information from that could be provided to Councillor Baines to assist his work as Chair of the informal scrutiny panel on generating commercial income, if he so wished.
 - (viii) The Chair referred to the approach of maintaining current services and whether budget scrutiny should ask for clearer information on the long-term direction of travel, as that affected the questions the Panel needed to ask, also to consider whether a different approach was necessary.
 - (ix) Reference to the challenge of recent years in maintaining front line services and balancing the budget and the considerable work needed on transformation moving forward. All suggestions to assist that were welcomed.
 - (x) Question as to why the shortfall now stated had not been identified earlier and services remodelled such that the shortfall did not exist at this stage and an MTFs could be presented in which expenditure and income were equal and savings did not need to be found? Reference also to the Council having been in the position of having a shortfall for several years. In response, the MTFs was updated on an annual basis with continual changes in circumstances being contended with. Last year's MTFs had indicated a surplus in year 3 based on

the information and circumstances at that time. Significant changes since that time meant that the Council now dealing with a different scenario and that was being recognised in the draft MTFS 2020-23. It was likely that the position would continue to change moving forward. The Council had managed to build up reserves despite the challenging environment in which it had been operating over recent years and that had improved its current position and provided it with a period of time to make the changes now needed.

- (xi) Processes by which suggestions for savings or income generation were considered and taken forward were briefly outlined, that depended on the source and/or nature of the idea.

RESOLVED that the Panel's consideration of the approach taken by the Council to budget setting, summarised above, be noted.

Reason

To acknowledge the Panel's consideration of this matter as part of its budget scrutiny role.

The Cabinet Lead Member for Finance and Property Services was thanked for attending the meeting and assisting the Panel with its scrutiny work.

6. EFFECTIVE BUDGET SCRUTINY

Discussed, information and advice from the Strategic Director of Corporate Services to assist effective scrutiny of the draft budget 2020/21, following a request by the Chair that this be provided to the Panel.

The following information was circulated at the meeting and explained in brief: The Comprehensive Income and Expenditure Statement and the Balance Sheet as at 31st March 2019 (as set out in the Council's Statement of Accounts 2018/19).

The Director also presented a more detailed analysis of the General Fund budget to assist the Panel with a more in-depth understanding of gross expenditure and budget challenges. He agreed to send that information by email to members of the Panel, together with a similar analysis of the Housing Revenue Account, for use moving forward.

RESOLVED that the information and advice from the Strategic Director of Corporate Services to assist effective scrutiny of the draft budget 2020/21 be welcomed and noted.

Reason

To acknowledge the Panel's consideration of the information and advice as part of its budget scrutiny role.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 4th November 2019 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.
2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

MTFS - BRIEFING NOTE FOR BUDGET SCRUTINY PANEL

IMPACT OF CHANGES TO MTFS PROJECTIONS IN THE FINAL VERSION

4 DECEMBER 2019

Timings

- DRAFT MTFS – Submitted to Cabinet 19 September
- FINAL MTFS – Scheduled for Cabinet 14 November
- Then FINAL MTFS - Due at Council for approval 20 January

Principal difference between DRAFT and FINAL MTFS reports

The FINAL version of the MTFS shows a significantly more negative position in latter years of the projection - 2021/22 and 2022/23. This is due to new information being made available by the MHCLG on the New Homes Bonus (via a 'Technical Consultation' on the 2020/21 financial settlement issued on 3 October).

COMPARATIVE POSITION – NEW HOMES BONUS PROJECTIONS

	2019/20	2020/21	2021/22	2022/23
Net additional properties (draft MTFS - June)	686	749	710	710
Deadweight percentage applied	0.4%	0.4%	N/A	N/A
Standardised council tax rate	£1,670	£1,750	N/A	N/A
Associated NHB (£000)	988	1,114	N/A	N/A
Cumulative NHB (£000)	3,731	4,129	2,186	988
Mitigation (estimate) (£000)	N/A	N/A	1,102	1,662
Total NHB + Mitigation (£000)	3,731	4,129	3,288	2,650
Comparator – DRAFT MTFS (£000)	3,731	4,151	4,411	4,333

- It should be noted from the above that the projections show a deterioration versus 2021/22 and 2022/23 of **£1.1m** and **£1.7m** respectively
- It should also be noted that this is not a worst-case scenario in that it assumes the Government will offer mitigation equivalent to half of the lost NHB funding – if no mitigation were forthcoming this would equate to a deterioration versus 2021/22 and 2022/23 of **£2.2m** and **£3.3m** respectively

Target use of reserves and additional financial challenge

In order to move the Council towards financial sustainability the FINAL MTFS sets a target use of reserves in each of the MTFS years. This then identifies an additional 'financial challenge' (ie more income or less savings) as follows:

	<i>2020/21</i>	<i>2021/22</i>	<i>2022/23</i>
Target use of reserves	£1.0m	£0.5m	Nil
Associated additional financial challenge	£0.4m	£1.7m	£2.6m

The additional financial challenge are amounts to be found – reducing our net cost base by £2.6m for 2022/23 – over and above amounts identified in the Transformation and Efficiency Plan presented within the MTFS.

Key messages

- Still no certainties – but the scale of the challenge appears significant
- Plans are being developed to address financial challenges via commercialisation and transformation initiatives