BUDGET SCRUTINY PANEL
29TH SEPTEMBER 2020

PRESENT: The Chair (Councillor Hadji-Nikolaou)

Councillors Bolton, Draycott, Hamilton, C. Harris, Parsons, and Seaton.

Co-opted member Mr Angell

Strategic Director; Commercial Development, Assets and Leisure
Strategic Director; Environmental and Corporate Services
Head of Financial Services
Democratic Services Officer (NC)

APOLOGIES: none

The Chair stated that the meeting would be livestreamed 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. REVISED BUDGET 2020-21 (DRAFT)

The Strategic Director of Environmental and Corporate Services presented a Finance Update setting out the details of the revised 2020/21 budget, the updated MTFS 2020-2023, the revised Capital Plan 2020-2023 and the Capital Strategy 2020-21.

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and the Head of Finance Services.

Summary, key points of discussion:

- revenue contributions to capital of 213K for 2019/20 - this was an indicator of the Council's capital purchases and contributions from the revenue budget. It was not proposed to budget for this in 2020/21.
- less interest on balances - money earnt by the Council through investment in money markets was used as a balance to support returns, earn interest and undertake commercialisation.
- changes from the original budget to revised budget highlighted - DCLG COVID income loss claim and DCLG COVID emergency grant approx. £3mill difference. The Council had received £2.1mill to cover additional COVID costs and anticipated a further £1.2mill from the Government. This was based on estimates of the predicted total claim by the end of the year. Three claims would be made (September, December and April) and with this support the budget position was more favourable. With the Government grant, balances had not depleted significantly in the first half of the year, but interest received had reduced to £300K in comparison to previously stated £500K.
- in-year cost savings – it was indicated that the Town Hall was expected to be closed for the remainder of this year and that the Panto for 2020 had been cancelled; this had been budgeted for.
- salary savings of £700K – this did not impact service delivery. This had been calculated after a thorough exercise reviewing vacancy provision. The Council usually budgeted for a 100% filled vacancy factor but over time as certain positions reduced in hours or were not filled, extra money had been carried over. This has resulted in a history of underspend by the Council although the money had also been allocated towards agency costs. The monitoring exercise completed in period 4 had resulted in the salary savings and would be taken forward into the following year's budget.
- Minimum Revenue Provision (MRP) would be paid to replenish borrowing. This was perceived as beneficial and it was noted that it related to a policy change whereby there would not be an MRP charge until a year after the asset had been acquired.
- interest on General Account – the previous year had resulted in good interest gains. It was noted that the 'interest marketplace' was volatile, would be monitored on a quarterly basis and that figures reflected a lower amount than previously conjectured. Currently the Council had not seen a reduction in its cash holdings although interest rates had not risen as much as anticipated. The Council had benefited from investments in the portfolio receiving a good rate of interest from before the pandemic and the decrease in national interest rates.
- potential depletion in Council Tax - the collection rate at present had diminished to 0.9% of its target. The situation would be monitored, and it was likely that the end of the furlough scheme in the new year could impact this.
- recruitment process – there was not an embargo on recruitment, but the process had been adjusted to allow the Senior Leadership Team oversight of all recruitment requests to approve/reject as required. It was not discounted that there may be a need to reduce headcount in the future.
- supported living (Housing benefit) - an explanation of how this affected the Borough was given. It was noted that due to the introduction of Universal Credit the Council was unable to re-claim housing benefit unless the housing provider was a registered provider. It was important to state that this was a

national issue and the Council fully supported the provision of supported living, but the burden was applied unevenly across local authorities and added £0.4mill pressure on top of budgeted cost of £0.5mill to the Council's finances.

- concerns were raised for people being affected by homelessness or ejections from rented accommodation – a budget had been allocated for additional spending this year, the MTFS projections included this. It was currently unknown what additional Government support would be available and if the regulations would change.
- the confidence of the Council in obtaining government funding for COVID losses – the bulk of the losses had been incurred in the first 4 months and the Council considered it reasonable to claim £700K in September. The Council would claim for less if its income improved with lockdown restrictions lessening, but the revised budget reflected income reductions for the whole year.
- whether costs for a second wave of coronavirus had been included in the budget - a reasonable estimate of costs had been included going forward beyond 31st March, although it was noted it was a challenge to determine an accurate figure.
- MTFS projections 2020-23 (Service Pressures, Planning) – the Planning service pressure of £332K was based on reduced fees and reduced numbers of applications. There were no plans currently to reduce staff numbers but the ongoing service review and the recent changes to planning procedure indicated in the Planning White Paper could affect this. Budgetary structural changes could be required, and the data provided by the Heads of Service would be challenged robustly before submission of a final draft MTFS projection.
- substantial overspend – in previous years it had been challenging to make savings. It was planned to continue to build cost savings going forward. A Service Review programme was underway and a review of major contracts, asset procurement and the Council's commercial approach would be progressed.
- that the working balance was showing a negative position and that it would be beneficial in the meeting scheduled in December to look in more detail at savings proposals.
- the draft revised budget presented was considered challenging and it was noted that not all issues highlighted were as a result of the pandemic.

Councillor Harris left the meeting.

The Lead Member for Finance and Property Services noted that the budget was an honest appraisal of the current circumstances, reducing costs where possible, but acknowledged that there were many uncertainties and challenges to face. The Cabinet was aware that the Council was moving into a high-risk environment and noted that although a report from the recent Audit Committee meeting had not been drafted to submit to Cabinet, Cabinet members were particularly aware of the situation.

The Director of Environmental and Corporate Services stated that the information presented to the Panel at this meeting of the revised budget for 2020-21 was to provide background information and aid the Panel in scrutinising the 2021-22 budget at its next meeting.

Cllr Bolton had issues with her connection and left the meeting partway through this item.

RESOLVED

1. that the impact of Supported Living (housing benefit) on the Council's finances is highlighted to members, and that an explanation of the process by which this had an impact is included, if appropriate, in the Council Tax Member training scheduled for November;

2. that the Panel wished to acknowledge the work carried out by officers to draft the revised budget for 2020-21 and to express their full understanding of the seriousness of the decisions that had been made and would be required in the future for the Council regarding its finances.

Reasons

1. Members wished to highlight this aspect of the Council's finances and considered that all councillors would benefit from further awareness of the supported living financial position.

2. Members of the Panel were mindful of the difficult financial decisions to be made by the Council in the near future and wished to acknowledge this.

5. REVISED CAPITAL PLAN 2020-23 (DRAFT)

Considered a report of the Head of Financial Services setting out details of the revised Capital Plan 2020-23 (item 6 on the agenda filed with these minutes). It was noted that details in this report had been partially covered during item 5.

Assisting with consideration of the report: the Cabinet Lead Member for Finance and Property Services, Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and Head of Financial Services.

Summary, key points of discussion:

- the Environmental Services fleet would be partially funded using reserves earmarked for capital expenditure, allowing the reduction in MRP to create savings of £350K per year. Previously the Council had stated the funding would be through prudential borrowing, but this was now being applied to other projects. If the fleet had been funded through prudential borrowing the costs would have depended on the interest rate but could have cost up to £700K a year rather than the proposed £350K costs.
- the deferral or postponement of pre-existing capital schemes was disappointing as they appeared to relate to local or neighbourhood schemes. As these projects were the responsibility of the Council, local groups did not require notifying and Heads of Service had reviewed carefully which capital schemes could be deferred. Schemes under S106 agreements or by Parish councils would not be impacted.

- the proposed increase of investment in commercial property acquisitions from £10mill to £25mill appeared high risk, particularly as Government rules were likely to change. The Council would cease operations if regulations required but powers given under 1972 legislation entitled the Council to make commercial property acquisitions. Issues seen at other local authorities in purchasing commercial property had related to the types of assets acquired and level of due diligence performed. The Council would mitigate risk by completing due diligence on the property, the tenant and the economic viability before acquisition. A member briefing would be arranged to inform members on the process and explain further the rationale behind the expansion of funding for commercial property.
- concerns were raised in relation to recommendation 6 of the Budget Scrutiny Panel 2019-20 report. 'Random' amounts of money were being committed for general as yet unspecified revenue generation and this appeared to be an inappropriate way of proceeding. It was acknowledged that it was challenging to provide the rationale, risk profiles and detailed strategy for increased funding for the Town Deal, the Enterprise Zone and commercial property acquisition as individual projects had not yet been identified and it would be based on conjecture. Any commercial investment by the Council would require a minimum 3.5% net income target to be met. All potential commercial property purchases would be subject to a robust due diligence process and be available for scrutiny.
- an explanation regarding the allocation of £15mill to the Town Deal was given. Although funding was provided nationally by the Government for Town Deals, some projects identified could require match funding or additional funds to be viable commercially. The Council wished to be ready to take advantage of these opportunities, but submission of a robust business case with risk assessments would be required prior to investment.
- the 2.4mill deficit was anticipated to be reduced by Service Reviews and commercial investment. With the appointment of an experienced Strategic Director for commercial development, the Council had the required skills to move forward.

Councillor Parsons momentarily lost his internet connection.

- it was strongly questioned whether appropriate governance procedures were in place. The increase of borrowing up to £57mill over three years should be scrutinised effectively, to provide confidence of proper use of public funds. Before a commercial property was acquired, the Chair of Scrutiny Commission would be requested to approve the exemption from call-in; this was a statutory requirement of the Local Government Act 1972 (schedule 12a, paragraph 3/5) due to commercial sensitivity. The Chair and other invited councillors could choose not to approve the exemption if wished.
- it was important to have a quick robust process as commercial property transactions usually completed within 15 days, unlike domestic property purchases. Legal assessments and scrutiny by the executive would be undertaken during the 15 days. It was not possible to fit within usual committee timeframes due to the limited time available, but all delegated decisions would be reported to the next available ordinary Council meeting and the exemption

from call-in would no longer apply at this point. It was noted that the Capital Plan and Strategy could be amended within a financial year.

- the increase of borrowing from £10mill to £25mill was not linked to the risk appetite of the Council. Although guidance was lacking, the figure had been calculated by assessing its proportionality to the size of the Council and was considered an appropriately sized fund for the Council's size, concerns would be raised by the Treasury and CIPFA if the Council were to invest more than was proportionate. If the Council achieved an average return of 4% from its commercial property portfolio this would generate £1mill towards the general fund.

It was noted that it could be beneficial to provide further information regarding the process undertaken to assess the commercial viability of the first commercial property acquisition with Audit Committee Members at its meeting scheduled in December.

RESOLVED

1. that the following information be submitted to the Panel at its next meeting:

    a. a breakdown of the benefits, assessment of profit, risks and liabilities, and it impact on council tax rates in relation to the Enterprise Zone and the Town Deal;

    b. the criteria for assessing the suitability of properties, how it is determined that a net income of 3.5% will be achieved, the checks and balances that will be done and its impact on council tax rates in relation to commercial property acquisitions;

    c. an explanation of the rationale behind increased funding that has been allocated for Commercial property acquisition, Enterprise Zone and Town Deal.

2. that a draft of the proposed Commercial Development training to be scheduled for councillors is submitted to the Panel at its next meeting**

<u>Reasons</u>

1. The Panel was strongly concerned about the level of prudential borrowing and wished to receive further detailed information to scrutinise the Council's approach.

2. The Panel wished to clarify the process for commercial property acquisitions to support its scrutiny of budgetary matters.

*** Post meeting note – the proposed commercial development training has been arranged before the next meeting of the Budget Scrutiny Panel (2nd November).*

6. BUDGET SCRUTINY PANEL REPORT 2019-20

Considered a report of the Head of Strategic Support setting out details of the Budget Scrutiny Panel 2019-20 recommendations (item 7 on the agenda filed with these minutes).

The Panel had no questions.

RESOLVED to note the report**.**

Reason

Members acknowledged that circumstances had altered significantly since the Budget Scrutiny Panel of 2019-20 had made its recommendations.

Items for the next meeting

Members considered items to be submitted to its next meeting and discussed the benefits of scrutinising the Outturn Accounts for 2019-20 to aid its scrutiny of the 2021-22 Budget. After consulting with the Lead Member of Finance and Property Services and the Director of Environmental and Corporate Services it was suggested scrutinising the Outturn Accounts for 2019-20 would not add value as circumstances had since changed dramatically and it was the Panel's remit to scrutinise the draft Budget for 2021-22.

RESOLVED that the following items and other requests for information as agreed during this meeting be submitted to the Budget Scrutiny Panel meeting scheduled for 1st December 2020:

1. Reflection on 2019-20 outturn accounts to inform its scrutiny of draft 2021-22 budget;
2. Draft Budget for 2021-22 – to include proposed areas for savings and pressures;
3. Further information regarding the Environmental Services Fleet clarifying why it has been proposed to finance with reserves, an analysis of other options that were considered and the benefits of proposed approach.

Reasons

1-3. to support the Panel's scrutiny of the finances of the Council.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 9th November 2020 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.