

## **REPORT OF THE BUDGET SCRUTINY PANEL – 2019/20 DRAFT BUDGET**

### **1. Background**

Following a decision of the Scrutiny Management Board at its meeting on 28th March 2018, the Budget Scrutiny Panel has undertaken scrutiny of the Council's budget for 2019/20.

### **2. Panel Membership**

Chair: Councillor Miah  
Councillors Draycott, Gerrard, Parsons and Seaton

### **3. Meetings and Terms of Reference**

The Scrutiny Management Board agreed a budget scrutiny process for the Panel setting out the timing of its meetings and discussion topics. The process was different to that followed in previous years because of the decision taken by the Council to establish a Loughborough Area Committee. The Committee's roles include considering the draft budget proposals regarding the Loughborough Special Expenses for the forthcoming financial year.

In addition, the Panel refined the process that had been agreed by the Scrutiny Management Board to bring forward its consideration of the draft revenue budgets and, therefore, give itself more time to consider the content of its draft report.

The Panel's work was carried out as set out below.

#### Panel Meeting 1 – 26th June 2018

Focus: Scrutiny of outturn information for the 2017/18 financial year in respect of the Council's revenue (General Fund and Housing Revenue Account (HRA)) and capital budgets.

Information received: Reports of the Head of Finance and Property Services setting out the revenue outturn position of the General Fund and HRA for 2017/18, and the Capital Plan outturn for 2017/18 which had been considered by the Cabinet on 14th June 2018, and a summary of the revenue outturn position for 2016/17.

#### Panel Meeting 2 – 2nd October 2018

Focus: Scrutiny of the draft Medium Term Financial Strategy (MTFS) including a review of the underlying assumptions and the implications of the calculations for efficiency plans and future budgets.

Information received: Report of the Strategic Director of Corporate Services setting out the draft MTFs 2019 to 2022 which had been agreed by the Cabinet on 13th September 2018.

#### Panel Meeting 3 – 12th December 2018

Focus: Scrutiny of the draft General Fund and HRA budgets including inviting relevant Cabinet Lead Members and officers as witnesses.

Information received: Report of the Head of Finance and Property Services setting out the draft General Fund and HRA Budgets 2019/20 considered by the Cabinet on 13th December 2018.

#### Panel Meeting 4 – 8th January 2019

Focus: Consideration of the Panel's draft report and finalisation of its conclusions and recommendations.

The information received is available at:

[https://www.charnwood.gov.uk/committees/budget\\_scrutiny\\_panel](https://www.charnwood.gov.uk/committees/budget_scrutiny_panel) (meeting held on 26th June 2018)

and

<https://charnwood.moderngov.co.uk/ieListMeetings.aspx?CId=136&Year=0> (all other meetings).

#### **4. Evidence and Witnesses**

In addition to the reports referred to above, the Panel heard evidence from the Cabinet Lead Member for Finance and Property Services in respect of general issues relating to the Council's finances and budgets and the following Cabinet Lead Members and officers in respect of particular issues identified by the Panel:

<b>Issue</b>	<b>Relevant Cabinet Lead Member and Officers</b>
Use of reserves	Councillor Barkley Strategic Director of Corporate Services
Impact of reductions in County Council services on Borough Council's budget	Councillor Barkley Strategic Director of Corporate Services
HRA budget including conclusion of the decent homes contract	Councillor Harper-Davies Councillor Mercer Strategic Director of Housing, Planning & Regeneration and Regulatory Services Head of Landlord Services Head of Strategic and Private Sector Housing

The Panel was supported by Simon Jackson – Strategic Director of Corporate Services.

## **5. Issues Considered at Panel Meetings**

The following section identifies and summarises the main issues considered by the Panel. Further information regarding of the matters considered and issues discussed at the meetings of the Panel is set out in the minutes of those meetings which are attached as Appendices A, B and D to this report.

### Net Underspends

The Panel received evidence that there had been net underspends in the General Fund budget of several hundred thousand pounds in 2016/17 and 2017/18 and that it was predicted that there would be a net underspend of £500,000 in 2018/19. It was recognised that net underspends included situations where income budgets were exceeded but they were identified as a concern for the following reasons:

- It could result in necessary services not being delivered
- It made financial planning for the following year more difficult as the opening balances would not be as set out in the budget. The variances could be much greater than the sensitivity analysis undertaken as part of developing the Medium Term Financial Strategy.

The Panel received evidence that there was not a policy to encourage underspends but that it was recognised that there was a history of underspends at the end of the financial year. The issue had been looked at by officers and for the 2019/20 budget each directorate would be expected to find £100,000 of savings arising from underspends as they became apparent during the year.

### Use of Reserves

The Panel considered what an appropriate level of reserves for the Council should be.

The Panel was informed that the Council used guidance from CIPFA to determine a minimum level for the working balance reserve. That was calculated on the basis of six weeks of General Fund expenditure and came to £2million. The Council's Medium Term Financial Strategy proposed that the Council would reach 2020, by which time there should be more certainty regarding local authority funding, with a working balance reserve of £2million plus a cushion of £1million. The Council had built up its reserves in the past but was now using them in accordance with that strategy.

The Panel was provided with an outline of the planned use of reserves along with other measures to reach a balanced budget over the period covered by the Medium Term Financial Strategy. The Council was seeking to save £350,000 in each of the next three years. It was also seeking to increase the amount of income that it generated in order to become more self-reliant. That included income from investments, which had been assisted by the recent increase in interest rates, and making best use of the Council's assets. The Panel was also informed that the Administration wished to protect frontline services and reserves were being used in order to do so.

### Draft Medium Term Financial Strategy

In addition to considering the issue of reserves as set out above, the Panel scrutinised the draft Medium Term Financial Strategy.

The Panel was informed that net service expenditure was projected to increase over the three years covered by the Strategy. A significant part of that increase was due to the ending of the first extension period of the environmental services contract and the requirement to replace the refuse fleet alongside the second extension period. It had been known when preparing previous Strategies that a new contract or contract extension would be required and that would result in an increase in costs. However the size of the increase had not been expected and that had resulted in a higher projected net service expenditure than in previous Strategies. The Strategy also now included an assumption that there would be annual pay rises of 2% rather than 1%, which had been assumed in previous Strategies. These were examples of the Strategy being developed each year as more information became available.

The Borough Council had dealt with the impacts of decisions taken by Leicestershire County Council in respect of recycling credits and the Lifeline and warden services. Those decisions had devolved costs of £1million on to the Borough Council. The Panel was informed that should similar issues arise again the Council would have to consider what was the most appropriate course of action and that it was acknowledged that the possibility of that happening was not specifically identified in the reports considered by the Panel.

### Budget-setting Process

The Panel was keen to explore the framework for setting the budget, including how decisions were made, the options that were considered and whether different approaches were applied to statutory and other services. The Panel was advised that one-off savings and pressures were removed from the current year's budget to produce a base budget. Savings and pressures for the following year were identified and for any pressures of more than £10,000 a business case was prepared. The results of that work were considered by relevant Cabinet Lead Members, the Council's Senior Management Team and the Lead Member for Finance and Property Services. The Panel also received the following response from the Lead Member for Finance and Property Services:

*“Generally, and specifically for the forthcoming financial year, in setting the budget the priority of this administration is to protect existing front line services as far as possible within what we believe to be a sensible affordability envelope. Having said this, we do however recognise that certain elements of our services need to be reduced whilst other areas would benefit from expansion. This administration adopts a Lead Member-led approach where each portfolio holder has responsibility for assessing their own services and in the event that service changes are considered appropriate, sponsor individual business cases (prepared by the relevant Head of Service) setting out the case for change. These are then assessed by both the Senior Management Team and Cabinet and a view is taken as to whether proposed changes are to be included in the draft budget report which is scheduled for Cabinet in December.”*

In relation to the issue of underspends described above, the Panel considered the extent to which net underspends were considered in the budget-setting process. The Panel was informed that because work on preparing budgets for the following year began halfway through the current year it was not possible to take into account net underspends when preparing the base budget for the following year. Material variations that were known about were highlighted in the Medium Term Financial Strategy and more granular changes were considered alongside other savings and pressures in preparing the draft budgets.

The Panel noted that the report accompanying the draft budgets was well written and that it was helpful that information was provided in the report to support the proposed savings and pressures.

#### Income, Assets and Commercialisation

At various stages the Panel considered the opportunities for the Council to become more self-sufficient through raising income, making best use of its assets and commercialisation.

In the case of the garden waste collection service, the Panel noted that the recent decision to raise the charge for the service had generated negative comments from customers. The Panel was informed that there had not been the expected reduction in subscriptions for the service and additional income was being projected in the draft budget for 2019/20 based on the number of subscriptions continuing to rise. Further options for marketing the service were being considered and the Panel considered that there were opportunities to extend the service and make it more commercial, for example by offering gardening services or delivering compost.

The Panel was informed that projections contained within the MTFs relating to the interest the Council would receive were based on a number of factors. Previous projections had assumed a quicker increase in interest rates and the new projections had been updated accordingly. Assumptions regarding the Council's property fund investments had been based on the past performance of those funds and what returns were considered to be achievable in the future. In

addition the Transformation and Efficiency Plan within the MTFs identified that further proactive treasury management could result in greater income generation.

The Panel considered that the volatility of the projections for the Council's treasury management activities was greater than would be expected. In response the Lead Member for Finance and Property Services stated:

*“We have now started to see the benefits of a more proactive treasury management approach, particularly the initiatives introduced by Clare Hodgson [the Council's previous Head of Finance and Property Services], where we now invest in different financial instruments – loans to other local authorities and more latterly in property funds – which has seen us generate greater returns against a stagnant interest rate environment. In the MTFs we assume that we can maintain this new normal but overall project a pretty flat picture for interest receivable based on the existing mix of treasury activities – this reflects our expectations that interest rates will rise a little over the period of the MTFs (in small incremental steps) but that our average balances available for investment will also reduce slightly (as we expect some use of our reserves), offsetting the rate effect. A line to this effect has been added to the final version of the MTFs.”*

It was noted that work had been done to increase the income received from the Messenger Close site and the Council was continuing to look at options for the Limehurst Depot site. In relation to the latter the Lead Member for Finance and Property Services stated:

*“Limehurst has complex planning constraints (principally relating to the current Environment Agency view on flood risk). We are undertaking some follow up work looking to see if and how those constraints can be overcome and, being optimistic, I hope that we can bring forward a proposal for the future use of this site in the next few months.”*

The Panel also noted that Council intended to provide a trade waste collection service. The projections in the MTFs were based on the need to fund set-up costs in 2019/20, the service beginning and breaking even in 2020/21 and generating a small profit in 2021/22. It was expected that the service would produce greater returns in subsequent years.

#### Draft Housing Revenue Account Budget

The Panel expressed concern regarding the increase in the provisions for bad debts as a result of the introduction of Universal Credit. The Panel noted that the Council had put in place plans to address the impact and that those plans included lessons that had been learnt from other councils where Universal Credit had been introduced earlier. The Panel also noted that the matter was considered regularly by the Housing Management Advisory Board.

The Panel received assurance that any backlog in disabled adaptations could be made up using funding from existing Housing Revenue Account (HRA) budgets.

Work would be undertaken where required as the Council had a statutory duty to make those adaptations.

The Panel also scrutinised matters relating to the conclusion of the decent homes contract and received assurance that this would not affect the HRA budget for 2019/20.

### Capital Plan

Although the Council was not preparing a new Capital Plan for 2019/20, the Panel also considered matters relating to the Council's capital budgets.

The Panel identified that there had been a 30% underspend in the 2017/18 General Fund capital schemes budget. The Panel received assurance that slippage on General Fund capital projects which were delivered directly by the Council was generally low. There could be significant slippage on projects that were outside the Council's direct control, for example those funded by Section 106 funds. It had been recognised that there could be improvements in the budgeting and project management of schemes in the Capital Plan, especially regarding the timeframe for delivering projects.

However, concerns regarding underspends in both the General Fund and HRA capital budgets for 2018/19 were identified by the Audit Committee at its meeting on 27th November 2018. The Panel noted that the Cabinet will respond to the issues raised by the Audit Committee at its meeting on 17th January 2019.

### Risks

The Panel has identified a number of risks facing the Council in relation to its financial planning and budgeting.

There was considerable volatility in the Collection Fund, particularly relating to changes in Government policy on non-domestic rates relief and rating appeals, and those fluctuations were significant with respect to the size of the Council's budget. The Panel was informed that there was a backlog in appeals being determined by the Valuation Office and more recent revaluations would generate further appeals. The Panel was informed that the MTFS included a reasonable estimate of the financial impact of appeals and that it was assumed that the volatility would decrease from 2020/21 onwards following the move to the localisation of non-domestic rates and the potential rebasing of rates.

There was considerable uncertainty regarding Government funding from 2020/21 as a result of the Fair Funding Review, potential changes to New Homes Bonus and changes to the retention of business rates. The impact of the United Kingdom's exit from the European Union could also affect the amount of funding that the Government was able to provide to local authorities. The draft MTFS considered by the Panel describes the situation in the following terms:

*“The numbers presented above come with a very significant health warning. Whilst prepared with all information available, the outcome of the government’s Fair Funding review, due for completion in the latter part of 2019, could result in a fundamental reset of the Council’s funding base. This review will inform the future share of business rates that the Council is able to retain under the prospective new business rates retention scheme (due for implementation from 2020/21) and, in particular, the future of the New Homes Bonus Scheme which currently generates around £4m per annum for the Council but which in a worse-case scenario could be discontinued. **The financial projections for the latter years of the MTFS (2020/21 and 2021/22) therefore carry a significant downside risk.**”*

## Scrutiny

The Panel notes that the Council is in a much better financial position than many other councils but scrutiny needs to be rigorous. It was therefore disappointing that the Lead Member for Finance and Property Services did not attend either of the Panel’s first two meetings. The Lead Member did however respond in writing to the Panel regarding the matters that were discussed at those meetings and that response can be found in Appendix C to this report.

The Panel also identified that it was a concern that there had been a reduction in the Internal Audit Control Environment Assessment compared to previous years. The Lead Member responded to that concern by stating:

*“As was recorded in the notes, the Council is in a sound financial position, but the value of rigorous scrutiny is appreciated. The Internal Control Environment Assessment for last year was somewhat disappointing but from my perspective it is important to know that we continue to carry out internal audit reviews of our controls, and that, as members, we have visibility of their outcomes.”*

As set out in section 3 above the budget scrutiny process was conducted differently this year compared to previous years.

## **6. Recommendations and Conclusions Not Requiring Further Action**

Following its scrutiny work, the Panel agreed the following in respect of the draft 2019/20 General Fund and HRA Budgets:

### Recommendations to the Cabinet

### Reasons

## Recommendations to the Scrutiny Management Board

### Reasons

### Conclusions Not Requiring Further Action

### Reasons

#### **7. Background Papers**

No further papers to those already identified in/appended to this report.

#### **8. Appendices**

Appendix A – Minutes of the Budget Scrutiny Panel meeting held on 26th June 2018.

Appendix B – Minutes of the Budget Scrutiny Panel meeting held on 2nd October 2018.

Appendix C – Written response provide by Cabinet Lead Member for Finance and Property Services in response to issues raised by the Panel at its meeting on 2nd October 2018

Appendix D – Minutes of the Budget Scrutiny Panel meeting held on the 12th December 2019.