REPORT OF THE BUDGET SCRUTINY REVIEW PANEL
24th NOVEMBER 2016
REVIEW OF THE PROVISIONAL BUDGET PROPOSALS 2017/18

Present: Councillor N.D. Harrison (Chairman); Councillors M.S. Blacker, R.W.Coad, J.C.S. Essex, J.P. King, B.A. Stead, and J.M. Stephenson.

Also present: Councillor T. Schofield, Executive Member for Planning Policy & Finance
Councillors R.H. Absalom, R.S. Mantle, R.C. Newstead

Apologies: None

INTRODUCTION
1. The Chairman welcomed Councillor T. Schofield, Executive Member for Planning Policy & Finance; John Jory, Chief Executive; Bill Pallett, Head of Finance; and Gavin Handford, Head of Corporate Policy and Performance to the meeting, all of whom assisted the Panel in responding to its advance questions.

2. The Chairman reminded all present of the Panel’s aims, which were to determine whether the Service and Financial Planning proposals for 2017/18 were achievable, realistic, and based on sound financial practices.

BACKGROUND
3. The Panel received the Service & Financial Planning (Provisional Budget) 2017/18 report as approved by the Executive on 10 November 2016 for consultation and containing the following:
   - the Medium Term Financial Plan 2017/18 to 2021/22;
   - savings totalling £1.552m and growth totalling £0.703m, providing net savings of £849,000; and


5. Members of the Panel had submitted a total of 125 advance questions and sub-questions, which had been grouped according to the document to which they referred. The Panel noted that some of the questions cross-referred to
other documents. The responses to these questions had been circulated in advance and are set out at Appendix 1.

6. The Panel reviewed the responses to the advance questions received and the Executive Member for Planning Policy & Finance and attendant officers provided further information in response to supplementary questions and additional points of discussion. These are set out in Appendix 2.

TIMETABLE

7. It was noted that the recommendations of the Panel would be reported to the Overview and Scrutiny Committee on 8 December 2016, with recommendations as agreed by the Committee subsequently reported to the Executive on 5 January 2017. Final budget proposals were due to be considered by the Executive on 26 January 2017, and by Full Council on 9 February 2017.

CONCLUSIONS

8. The Panel thanked the Executive Member for Planning Policy & Finance, the Chief Executive and Officers for their work to prepare the Service and Financial Planning report for 2017/18, and thanked them also for the detailed and timely responses to the advance questions. These responses together with the clarifications and further explanations provided through the supplementary questions thoroughly tested the budget assumptions and risks and gave the Panel a sound basis to reach its conclusions.

9. The Chief Executive was invited to give an overall summary. The Chief Executive noted that this budget for 2017/18 presented less risk than budgets of recent years and was a robust proposal. The risk of a Surrey County Council refuse and recycling direction was a major concern, but this budget reacted appropriately to that concern. Property activity and the development of other new revenue streams remained crucial to the Council’s ambitions and financial sustainability. Increasing the borrowing limit was directly linked to that, as without an increased borrowing limit the Council would be unable to resource its ambitious programme without selling assets. The Council was reluctant to sell existing assets solely for cash flow purposes.

10. Beyond 2017/18 the Chief Executive noted a revenue budget gap of £3.9m, as shown in the Corporate Business Plan 2016-20. He added that this did not include the potential loss of £1m from the withdrawal of funding by Surrey County Council, nor did it include the desire to fund more of the rolling capital programme from revenue budgets.

11. The Panel expressed concern that this budget could come under pressure in the event of further external funding reductions. The Panel noted that staff and resources were lean and efficient which was not a bad thing, but it confirmed there were few opportunities to cut operating costs should the need arise, without corresponding service level reductions. The Panel expressed
some concern that some areas might be under budgeted, such as Legal Services, but noted that there was some capacity in other areas which might offset this.

12. The Panel expressed concern regarding the potential increase in CPDF spending during 2017/18, which showed an increase from £994k in the current year up to £1,503k. This would largely exhaust the current balance in the CPDF. Although the Panel was told that all the items listed may not be progressed in 2017/18, the Panel was mindful of the revenue gap identified in future years. Therefore, the Panel recommended a review by the Executive of the proposals to see if all of the items listed were required.

13. Specifically, some members of the Panel expressed concern regarding the level of CPDF expenditure relating to Community Development, Homelessness (which would run beyond 2 years) and additional internal and campaign communications roles. It appreciated that the Community Development and Homelessness items had been debated at length by the Executive prior to the production of the Service & Financial Planning Report of 10 November. Some members of the Panel suggested that consideration be given to imposing a minimum capital reserve figure to alleviate the concern that capital reserves were projected to diminish significantly.

14. Some members of the Panel requested that consideration be given as to whether any allowance should and could be made within the budget in anticipation of construction or enforcement cost increases resulting from the Parking Strategy review that would take place either before or during 2017/18.

15. The Panel noted that the external imposition of costs was understated in the budget, by reference to Annex 3 Growth Proposals. The Panel agreed that the Council should not be shy about identifying those costs and by whom they had been imposed. It was noted that this was symptomatic of the wider picture which was the necessity of the Council relying upon its own resources to achieve the desired quality and level of services it provided. Beyond health and social care resources, the Government was reducing funding to local government.

16. The Panel noted that the financial risks of providing bed and breakfast accommodation for homeless families and the impact of recyclate prices on the refuse and recycling services were a challenge in 2015/16. It was pleased to note that these budgets for 2016/17 had been rightsized and future risks addressed in this budget to avoid potential additional costs.

17. The Panel noted the projected growth of about £700k in property income for 2017/18 and that it was soundly based on projects already in progress. It also noted that the budget catered for the loss of its remaining £0.5m in Revenue Support Grant from Government.
18. The Panel noted that there was a substantial general reserve (£8.7m) and New Homes Bonus reserve (£7.7m). However, the Panel also noted the likely loss of Retained Business Rates in the years beyond 2017/18 down from £2.22m to £0.82m, a significant element of the budget gap in future years.

19. Despite the concerns raised, the Panel considered this to be a feasible budget overall for 2017/18 and supported the direction of travel the Council was taking. In particular, the Panel noted its support for the work of the Property Company. The Panel agreed that the Executive and Officers were aware of the financial risks faced by the Council and that the budget had accounted for these as far as possible.

20. Moreover, the Panel was pleased to note that the budget for 2017/18 did not present any noticeable impact upon services and certainly little loss of services.

21. Based on the information and explanations provided, and its assessment of the risk factors, the Panel had no significant concerns in the context of the budget for 2017/18. Therefore overall, the Panel concluded that the 2017/18 budget proposals were achievable, realistic and based on sound financial practices and reasonable assumptions. The Panel was mindful of the serious budget challenges that remained in the years to come.

22. The Panel thanked the officers, particularly the Finance Officer, for their efforts and in particular in responding to 125 Advance Questions.

RECOMMENDATIONS

23. The Panel recommended:

i) That in response to the Service and Financial Planning (Provisional Budget) 2017/18 report, the following comments be submitted for the consideration of the Executive:

   a. That the Overview and Scrutiny Committee thanks the Executive Member for Planning Policy & Finance, Executive and Officers for preparing balanced budget proposals for 2017/18;

   b. That the Overview and Scrutiny Committee considers the following to be achievable, realistic and based on sound financial practices and reasonable assumptions:

      i. The provisional budget proposals for 2017/18 and Medium Term Financial Plan for 2017/18-2021/22

      ii. Savings proposals totalling £1.552m

      iii. Growth proposals totalling £0.703m

      iv. Updated Capital Programme
c. That the Overview and Scrutiny Committee considers the potential impact of the savings and growth proposals on service delivery to be limited;

ii) That the Executive be asked to consider the list of CPDF expenditure items, taking particular note of the comments made by the Budget Scrutiny Panel and set out in the conclusions of their report.

The meeting closed at 8.34pm.
24. The Panel reviewed the responses to the advance questions received and the Executive Member for Planning Policy & Finance and attendant officers provided further information in response to supplementary questions and additional points of discussion as follows. The numbered references below are to the relevant advance question as provided at Appendix 1.

SERVICE & FINANCIAL PLANNING 2017/18 REPORT TO EXECUTIVE

25. National and Regional Context
   Question 1c). Officers explained that the 256 people receiving Universal Credit were residents of the borough. The DWP were unable to provide details of residents receiving Universal Credit from Jobcentres in neighbouring boroughs.

   Housing & Planning
   Question 2. Officers explained that funds received pursuant to the Right to Buy scheme were treated as capital reserves.

   Family Support Programme
   Question 6. The Panel noted that the growth bid of £50,000 was the cost of the existing Family Support team since the Council was due to receive less funding for it but the work was continuing.

   People: supporting residents to enjoy healthy and happy lifestyles
   Question 9. The Chief Executive explained that a drawdown facility of £350,000 from CPDF was in place to fund Pathway in its initial stages and that it was anticipated that this would be drawn upon this financial year. The drawdown was repayable in full once Pathway became profitable. In 2017/18 it was anticipated that Pathway would be both financially self-sufficient and profitable, but it was too early to determine the level of profitability so this had not been included in the 2017/18 revenue budget. The Panel noted that any business proposals or investments relating to Pathway that were considered commercially attractive would be treated as separate business items and would therefore be considered by the Executive in the usual way.

   Organisation: a great Council
   Question 11. The Panel questioned the impact on community events of increased fees and charges for the use of parks and open spaces, and suggested that further thought be given to how any potential adverse impact could be mitigated.
Financial Context

30. Question 14. The Panel heard that the reduction in Retained Business Rates/NNDR from £2.22m in 2017/18 to £0.82m for 2019/20 had been confirmed by the Government. The Government was currently conducting a review of the NNDR arrangements but it was expected that this would inevitably result in a further reduction. The Panel noted that the Council was legally obliged to collect NNDR on behalf of the Government. The Panel noted that commercial properties, even if vacant, were still liable to contribute NNDR.

31. Question 16a). The Panel queried whether there were any substantial single site property investments under consideration by the Council. The Chief Executive explained that there were no such opportunities available in the borough and noted that even if there were, investment in substantial single site single use property was contrary to the Council’s approach to risk. The current property portfolio consisted of a wide range of property types and uses, and provided a degree of protection against vulnerability to changes in the property market.

32. Question 16b). The Panel heard from the Chief Executive that whilst capital reserves were reasonable, if the Council were to proceed with its Five Year Plan ambitions it was essential for the Council to secure further funding through borrowing. The Marketfield Way development had constituted a significant acquisition and once planning permission was obtained would involve significant construction costs. In the absence of the ability to borrow, this would preclude the Council from pursuing any further opportunities. The Panel noted that when considering further investment opportunities the Council considered not only the investment value and regeneration possibilities but also the affordability of any funding required to acquire an investment asset.

33. Question 16c). The Panel noted that the 6% interest on the loan to the property company could alternatively be described as 5.75% above base rate. Officers confirmed that the public sector was not permitted to take advantage of the preferential Public Works Loan Board lending rate to undercut commercial competitors.

Council Tax

34. Question 17. The Panel requested that references to the £5 increase in Council Tax clearly state that the figure related to Band D properties and applied proportionately to properties in other bands. Officers explained that the effect of the increase was 2.38% on all properties in percentage terms. The reason for the use of that particular phrasing rather than percentage terms was that it was the wording used in the statutory legislation that set out the parameters within which a council was permitted to raise council tax.
without a referendum. The Panel noted that the Council had been permitted to raise council tax by £5 last year but had chosen not to do so, limiting the increase to 1.99%.

35. Question 20. The Panel noted that the Council’s share of the Collection Fund surplus of £250,000 was additional to the reserves.

36. Question 22. Officers confirmed that the effect of the Council Tax Reduction Scheme was offset by the reduction in council tax discounts to owners of empty or second properties.

**Reserves**

37. The Panel noted that paragraph 86 referred to the current unallocated General Fund balance standing at £6.9m. This was a typographical error and the correct figure is £8.7m, as referenced in the Medium Term Financial Plan 2017/18 to 2021/22.

**Capital Programme 2017/18 to 2021/2022**

38. Question 26. The Panel noted that the sale of assets to strengthen capital reserves applied to both existing assets and acquisitions. The Panel noted that some Members considered the development of existing assets to generate income to be preferable to the sale of existing assets. The Panel understood from the Chief Executive that in order to develop existing assets either for sale or for income generation purposes, if the existing borrowing limit were not increased, the Council would have no option other than the sale of existing assets to provide the funding for asset development.

**Human Resource Implications**

39. Question 27. The Panel noted that bonuses were paid to staff last year and the details were provided to the Overview & Scrutiny committee and the value disclosed in the published Accounts in September 2016. The staff bonus cost was included within the overall salary budget.

40. Question 29. The Executive Member for Planning Policy & Finance explained that some roles, such as planning policy roles, were very difficult to recruit to at present. The Chief Executive told the Panel that the Council’s staff were operating more efficiently than ever. The Panel noted that there were 19 vacant posts that had not yet been recruited to whilst their need was being reviewed. For example, the Chief Executive explained that Legal Services staffing was currently being reviewed to determine how to improve the service and as a result the Legal Services staff vacancies would not be filled until completion of the review.
ANNEX 1 MEDIUM TERM FINANCIAL PLAN 2017/18 TO 2021/22

41. Question 36. The Panel noted that a small portion of the New Homes Bonus reserve of £7.7m had been allocated to the redevelopment of Redhill Town Centre but otherwise the reserve had not been allocated and it could indeed be employed to supplement the council’s growth plans.

42. Question 37. Officers explained that the superannuation increase of £41,000 would be funded from the base budget. It had yet to be incorporated into the growth bids because the figure had only been confirmed recently by the pension fund actuary. The Panel were pleased to hear that the pension fund was performing better.

ANNEX 2 BUDGET 2017/18: SAVINGS AND INCOME PROPOSALS

43. Question 44. Officers confirmed that not only had a number of London Boroughs established delegated or self-management of allotments, some had also extended this practice to their parks. Officers confirmed that the London Boroughs of Croydon, Lambeth and Barnet; and Epsom & Ewell and Runnymede Borough Councils had self-managed allotment sites.

44. Question 45. The Panel questioned reducing the use of contractors in Greenspaces, and the Chief Executive assured the Panel that there was sufficient staff capacity to do so whilst maintaining the current service level. The Panel also heard that there was sufficient funding to acquire any additional equipment required to carry out the additional duties.

45. Question 46e). The Panel requested that Officers obtain an estimate of the possible costs that could result from the Homelessness Reduction Bill because it was possible that the Act could be passed and in force by 2017/18. The Chief Executive explained that in the Autumn Statement the Government had said that if the Act were passed its implications would be fully funded. Officers advised that the cost could be £250,000 if the Council and not the Government, had to fund it.. The Chief Executive noted that the Council had made representations opposing the obligation to fund the first 56 days of homelessness as proposed in the Homelessness Reduction Bill.

46. Question 50a). Officers confirmed that additional income of £250,000 had been achieved this year by Refuse and Recycling. It was confirmed that dry mixed recycling attracted a very low recyclate price but in comparison to last year it is achieving an income now rather than a gate fee to dispose of it. It was confirmed that food waste did not possess any value so that the “£” in the answer to this question was a typographical error. The performance of the recyclate market was always a budget risk but if the market continued to perform as anticipated, refuse and recycling would generate additional income over that included in the budget. In the interests of prudence, an income of £250,000 was budgeted to minimise exposure to the market failing to perform. The Chief Executive noted that the greater risk was the withdrawal of funding,
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reduction in subsidies and/or the issue of a direction from Surrey County Council, all of which would affect the Council financially. The Council was doing all it could to reduce the impact of these possible changes as well as seeking the best rates for recyclates.

47. Question 50c). Officers confirmed that the £411,000 for the introduction of the new recycling service to flats was included within the waste blueprint. Officers confirmed that the estimated spend in 2017/18 for inclusion of more flats in the new refuse and recycling service was £100,000 given the current pace of introduction.

48. Question 50d). In relation to extending the new recycling service to flats, the Chief Executive noted that this was a challenging piece of work because each building containing flats had to be consulted on an individual basis to determine the best basis upon which to provide the scheme and to ensure that flat occupants adhered to the scheme requirements to avoid recyclate contamination. Officers confirmed that in 2016/17 3,000 of the 13,000 flats in the borough were receiving the new refuse and recycling service. At present, 3,000 flats had been identified as being capable of receiving the new service and it was anticipated that, of those 3,000, 1,500 would be added to the new service in the upcoming year given the present workloads of the refuse and recycling staff.

49. Question 52. The Panel questioned the increased fee for the garden waste collection service. The Panel felt comfortable that the £60 charge was reasonable in the light of a comparison with other local councils’ fees.

50. Questions 54c), 54d) and 68a). Officers confirmed that there would be an increase in the few tens of thousands of pounds of staff salaries which would be capitalised, relating to the assets to which they applied. In addition £140,000 of Property Department costs would be taken out of the base budget and transferred to the new Property Company, reflecting the resources to be applied to property investments. A loan would be provided by the Council to the Property Company to fund the transfer of assets and resources to it. The loan would be recorded as an asset of the Council, as long as the it was regarded as a debt collectible from future earnings of the Property Company. Consolidated Accounts would be published to show the performance of the Property Company and Health Company. The auditors were aware of the arrangements and had approved them. The Chief Executive emphasised that the Property Company needed to succeed to enable the Council to meet its future funding gap of £3.9m and become financially self-sufficient. He expressed the importance of employing the best staff such as the Head of Property who had successfully driven recent developments such as Warwick Quadrant which were essential to the Council’s income stream. The Panel noted that in the event of abortive
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property deals any associated salary costs could not be capitalised and would remain a cost to the Council.

ANNEX 3 GROWTH PROPOSALS

51. Question 65, 85 and 97. The Panel noted that due to the Legal Services staff structure review only a modest increase in the base budget had been included. The Chief Executive explained that the forecast for 2016/17 showed there would be a Legal Services overspend due to two unrelated issues. The first was that there were salary costs that had yet to be allocated to capital projects and capitalised, and which therefore would reduce the forecast. The second issue was that Land Charges had generated less income than expected this year. Whilst the review of Legal Services would ascertain the best way of improving the quality and speed of delivery of legal services, the current costs and budget would be maintained and an adjustment would be made in the following year once the final structure of Legal Services was implemented.

52. Question 66b). Officers confirmed that the reduction in financial transfers was a reference to the reduction in recycling credits to be received from Surrey County Council. The Panel noted that the Council was making representations against this reduction.

53. Question 69a). Officers confirmed that the target level of income from property was stated by way of return rather than income, being a 6% return on any property investment acquisitions and a 10-12% return on development opportunities. The Chief Executive added that in order to meet these return aspirations the borrowing limit needed to be increased. The Panel agreed that whilst there was access to favourable lending rates and terms from the Public Works Loan Board the Council should take advantage of this resource. Officers noted that a lot of councils had sought funding recently and this might give rise to the Government reassessing the availability of this resource to local authorities, so it would be wise to take advantage sooner rather than later. The Panel asked if there had been any instances of local authorities borrowing to acquire what turned out to be highly unsuccessful investments. Officers confirmed that to their knowledge there had been no such instances, at least locally, in the last ten years. The Chief Executive drew the Panel’s attention to recent successes by the Council such as the Court Lodge development which, if it were to be appraised now, would show a significantly higher return than had been anticipated at the beginning of the development. This illustrated to the Panel the success of the Council’s cautious yet ambitious approach to investment and development.

54. Officers confirmed that any borrowing would only be incurred in relation to anticipated project cash funding needs and drawn upon only as required by the project. Repayment of the funding would be the primary concern. By way of example, for Marketfield Way borrowing would be required over two years
to fund construction. By achieving the pre-letting of a number of units, it would be possible to pay back the majority of the borrowing in a very short time after completion.

ANNEX 4 EXPENDITURE: DETAILED PROGRAMME

55. Question 72. Officers advised that the New Homes Bonus was currently paid for 6 years after completion of the build. It was anticipated that the New Homes Bonus would be withdrawn completely in the near future. It was not yet known if this would be retrospective or only applicable to new properties after a cut-off date. In the interests of caution and prudence Officers had assumed the former. The Panel queried why CIL anticipated receipts were so much lower (£195,000) than this year’s s.106 income (£1,274,000). Officers explained that the difference arose from cautious budgeting - S.106 income derived from confirmed contracts whilst CIL was a new arrangement so there were no confirmed levels yet. In addition, whilst CIL was anticipated to achieve similar income for the Council, it was determined by the actual location of developments as well so that added to the difficulties in predicting the receipts it would generate. The Council was hopeful that CIL would outperform the conservative forecast.

56. Question 73. The Panel noted that there had been no Right to Buy receipts so far this year but that these were reported quarterly by Raven, so there were still two more quarter reports to be received this year.

57. Question 75. The Panel queried what benefit was received from the production of Air Quality Monitoring Reports for DEFRA. The Chief Executive explained that where air pollution occurred the Council was legally required to produce an Action Plan to address the problem. In the past 6 years the Council had produced 3 such reports.

58. Question 77. In relation to ICT investment, the Panel noted that the answer to this question had been cut short. The final sentence should have read “This project was purely a capital investment and did not affect the overall revenue budget with the exception of the savings indicated above through the reduction of the team”.

59. Question 82. The Panel noted that the significant budget cost for Additional Pension Contributions of £2.2m was not within the control of the Council.

Q2 BUDGET MONITORING REPORT

Revenue Annex 2 – Budget Monitoring: Summary 2016-17

60. Question 86. Officers confirmed that there was a need within Finance and Procurement for expert staff to support the new company structures and the reason for the underspend was that these staff vacancies had not been filled at the commencement of the financial year. Most of them have now been
filled, and as such, the underspend merely constituted a year to date variance.

_Reserves applied to revenue budget 2016-17 and 2017-18_

61. Question 98. The Panel expressed concern at the increase in CPDF spending from £994k this year to £1,503k in 2017/18. The Chief Executive explained that before any proposed activity could receive confirmed CPDF funding it had to be scrutinised by the Leader and Deputy Leader of the Council. It was not the case that every proposal on the list had yet been agreed and confirmed. The Panel noted that the response to question 107c) included a list of CPDF items identifying those which were one off costs, those which were continuing and those for which the duration was unknown. CPDF was often utilised to fund pilot schemes. The Panel expressed concern that the CPDF spending was increasing, accelerating the diminution of the fund. The Chief Executive agreed that the fund would need to be topped up and this had been done several times in recent years using budget underspends.

62. Question 101. The Chief Executive explained a bursary to fund two students at the Royal Alexandra and Albert School who passed the entrance exam but were unable to pay the school fees. The bursary had commenced 4 years ago and the intention was to fund the two pupils throughout their time at the Royal Alexandra and Albert School. Upon leaving the school the bursaries would then be offered to new pupils. Therefore at any time only two pupils were in receipt of the bursary.