

**Agenda Item No:** 4  
**Report To:** Overview and Scrutiny Committee  
**Date:** 22 January 2013  
**Report Title:** Report of Budget Scrutiny Task Group  
**Report Author:** Senior Scrutiny Officer



<b>Summary:</b>	The Overview and Scrutiny Budget Scrutiny Task Group has scrutinised the Council's draft 2013/14 budget and regards it as achievable.
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**Key Decision:** NO

**Affected Wards:**

- Recommendations:**
1. **The O&S Committee recommends that the Cabinet:**
    - **Be advised that the O&S Committee regards the Council's draft 2013/14 budget as achievable**
    - **Endorses the Risk Matrices and the risks identified within them, particularly noting those that fall in the shaded part of the matrix**
    - **Note any future risk items in the main issues tables**
  2. **The O&S Committee is asked to:**
    - **consider including the items from the Task Group's report as part of their work programme**

**Policy Overview:** Under the Council's Constitution the O&S Committee has a duty to scrutinise the Council's draft Revenue and Capital Budgets.

**Financial Implications:** As noted in the report

**Risk Assessment** N/A

**Equalities Impact Assessment** N/A

**Other Material Implications:** As noted in the report.

**Exemption  
Clauses:** N/A

**Background  
Papers:** All individual services draft 2013/14 budgets

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## **Foreword**

### ***Budget Scrutiny Task Group – Scrutiny of the 2013-14 Draft Budget***

I am pleased to present the report of the Budget Scrutiny Task Group to the Overview and Scrutiny Committee. I would like to thank my colleague members Cllrs Apps, Chilton, and Mrs Martin and the regular support of Cllrs Davidson and Smith. I would also like to thank the officers who worked hard to present budget data when, for most of the period, no Formula Grant had been forthcoming from central Government.

Because of this absence of data two “bottom lines” were offered by officers; one based upon no increase in Council Tax, a second showing the balance with an increase of 2%. The Council was informed of the Formula Grant just before Christmas 2012 and only the January 2013 meetings were conducted in the certainty of a known level.

Contemporaneously to the Grant data release DCLG drew a number of the lowest taxing Councils’ attention to the significant loss they are making against inflation by not raising Council Tax. The lowest quartile of local authorities was encouraged to increase their tax by £5 per annum on Band D properties.

The Council has a number of options to close the gap between expenditure and projected income. Without any increase in Council Tax this would be £259,000. With a 2% increase and including Council Tax Benefit support Grant this gap would be reduced to £203,000.

The draft budget does not include the latest round of New Homes Bonus, which in-line with Cabinet recommendations cannot be defrayed until it has been received. The selection of the most appropriate option for closing this gap and balancing the budget must be the responsibility of Cabinet and should be presented to Full Council in February.

The Task Group recognised that reserves had been secured through a risk averse approach to investment, however this may be the time to reconsider and re-evaluate this approach.

Unlike the Budget Scrutiny process last year many Portfolio Holders were unable to attend the scrutiny process. This was a disappointment as it is important that the Task Group is comfortable that the Portfolio Holders have been fully involved in drafting the budgets for which they have responsibility. It is recommended that Portfolio holders attend next year’s scrutiny process.

Last year the Task Group highlighted that there was little resilience in many services as a consequence of staffing reductions. We were reassured at that time that most services were able to respond to peaks and troughs in their work load. In this year’s scrutiny process it appeared that departments were more aware of their exposure and were nearing a “tipping point”. This has been the subject of a recent report by the consultants Grant Thornton which identifies that there is a significant risk nationally.

The Task Group felt that officers were still keen to provide a Rolls-Royce service on a Mini budget but this was having an impact. Whilst we recognise that staff absence has declined, we recommend that Overview and Scrutiny review the 'Best service resources allow' activity to ensure that the Council is not prejudicing our ability to deliver core services at an acceptable level.

Significant risks remain in budgetary terms with the retention of NNDR. Whilst there are clear benefits, we also carry risks. The success of the management of the process must be reviewed by Cabinet with the quarterly budget reports. The risks associated with the Makro case appear to have been included in contingencies but the Task Group recommends that the Council takes a robust approach to countering claims. This should, if necessary, include supporting lobbying to overturn the case-law and supporting any other Council that challenges it in the higher courts.

A reduction in Council Tax benefit carries some risk as does Universal Credit, where tenants are required to pay their own Council Tax and it is not deducted at source.

The Task Group was grateful for the excellent work carried out by officers to present this year's rather more complex Draft Budget. It recognises that the Succession Plan agreed in Senior Management Team will make the alignment of service delivery diverge somewhat from the service budgets presented. It is recognised that the expenditure should not differ but the responsibility for each budget element in Environmental Services will change.

I commend the budget to the Overview and Scrutiny Committee as deliverable and achievable. I would also recommend that unlike last year the Committee does not maintain the Task Group beyond this report but dissolves that Group and re-appoints a new Group for the next budget round.

Graham Galpin

Chairman, Budget Scrutiny Task Group

## Summary

Achieving a balanced budget is a fundamental requirement for the Council. The Council's provisional draft budget for 2013/14 was presented to the Cabinet on 6<sup>th</sup> December 2012. This budget has been built against a backdrop of continued economic stress, continued reductions in Government spending, radical reforms to the way local government is funded and the potential that the level of cuts may be greater than previously announced. It is important to note that the government's welfare reforms will also impact on the council's income - especially of council tax – but the level of impact cannot be predicted.

When the draft budget and Medium Term Financial Plan were being prepared the local government settlement figures had not been announced and an estimation of the figures was used. Two scenarios were presented – one assuming a council tax freeze, the other showing an increase in council tax at the maximum permitted (2% or about £2.80 per year for a property in Band D). The announcement of the settlement just before Christmas may mean that adjustments have to be made.

A decision on any increase in council tax will be made when the final budget is presented to Cabinet for approval in February.

This provisional draft budget presented to the Cabinet was then submitted to the Overview and Scrutiny Committee's Budget Scrutiny Task Group for formal scrutiny.

This draft budget was scrutinised by the Overview and Scrutiny Budget Scrutiny Task Group over a series of meetings. The Task Group met on six occasions and at each meeting Members asked the relevant Officers to give the Group an overview of their service, the risks and uncertainties facing them and their proposed service developments.

This report highlights the areas that the Task Group considered could be a risk to the 2013/14 budget and places them in a Risk Matrix which shows the probability of the event occurring and the material impact it would have on the Council if it were to occur. The Risk Matrix is separated into Financial risk and Operational (i.e. service quality) risk.

Where necessary additional explanatory notes – (e.g. an explanation of the background to the issues) are attached to the table. The Minutes of the meetings are available to Members and should be read in conjunction with this report for more information.

There were some issues/risks highlighted in the papers that would not be risks for this year but for the future. These are also noted. The 2013/14 budget is for the third year of the council's 5 year business plan, a key point of which was that the council will deliver 'the best service

resources allow'. On the whole the levels of service provided had been maintained, but it was important that Members and Officers acknowledged that this may not always be the case. There was awareness of some concern, across all service budgets, of whether income levels would be sufficient and of pressure on staff to cope with rising demands.

By the end of the Budget Scrutiny process the Task Group had not raised any issues that caused it to be concerned that the Budget for 2013/14 would not be achievable and were encouraged to know that financial position of the Council was being regularly monitored.

With regard to the Risk Matrix, members of the main O&S Committee are asked to be particularly aware of any issues which fall into the shaded areas of the matrix i.e. any issues of high probability or materiality. Any such issues could impact on the 2013/14 Budget and would require careful monitoring during the year.

Julia Vink  
Senior Scrutiny Officer

	Main issues	Probability	Materiality	Responsibility For Action
		Financial/Operational risk		
1	<b>10 December 2012 – Cultural &amp; Project Services</b>			
1.1	Stour Centre Utilities – ALT has worked closely with the council to save energy where possible and officers are seeking to lessen the impact of any future increase in charges. However expenditure on utilities will continue to be an unpredictable expense.	M	M	MC
		F		
1.2	Courtside/Pitchside – if an agreement for ALT to take on the management of the site cannot be reached, the facility will continue to be managed by the council during 2013/14 and there is a risk that income levels may be insufficient to cover expenditure.	L	L	CF
		F		
1.3	There is continued pressure on staffing levels as Cultural Services will be involved in work to deliver upcoming corporate projects and major built infrastructure.	L	L	MC + CF
		O		

Additional Notes

### Cultural & Project Services

1.1 Should be seen to include the impacts of ageing equipment in the short term

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
2	<b>10 December 2012 – Business Change &amp; Technology, Communications</b>			
2.1	IT has limited capacity to deliver projects that are in addition to maintaining the routine availability of systems.	L	L	RN
		O		
2.2	The increasing stringency of central government security requirements for the Public Services Network connection could result in unexpected expenditure if the Code of Connection requirements change.	L	L	RN
		F/O		
2.3	Increasing numbers of FOI and EIR requests, and of internal reviews, could result in statutory timescales for responses not being met.	L	L	RN
		O		

Additional Notes

**Business Change & Technology, Communications**

1. Kent Public Services Network – original posts supporting this have been removed from KCC establishment but new staffing structure in place to protect members of the partnership. No additional cost to ABC.



	Main issues	Probability	Materiality	Responsibility For Action
		Financial/Operational risk		
3	<b>11 December 2012 – Customers, Homes &amp; Property (General Fund)</b>			
3.1	Welfare reform – benefit changes and the introduction of Universal credits will be a risk to the council but the scale of the financial impact is difficult to estimate at this moment in time. There will also be a knock-on effect with an increase in the number of enquiries to both the Housing Options and Customer Services teams.	H	M	TK
		F/O		
3.2	Economic environment – the economic downturn along with the reduction in Government spending continues to have an adverse impact on housing: rising homelessness, increased demand and cost of B&B (already increased in 2012/13 and expected to grow further in 2013/14)	H	M	TK
		F		
3.3	Affordable housing – provision will be adversely affected by changes to the Homes and Communities Agency funding and the reduction in building by private sector developers.	L	L	TK
		O		
3.4	Disabled Facilities Grants (DFGs) – financial pressure will continue as elderly population increases and more adaptations are required to help people maintain their independence. Additional funding from government was available for 2011/12 and 2012/13. Confirmation of 2013/14 funding expected at the end of March – provision expected to be similar to current year but always a risk of a reduction.	M	L	TK
		F		
3.5	Occupancy levels at Civic centre – income from renting out spare office space will be at risk if current occupancy levels not maintained.	L	L	TK
		F		
3.6	Customer Services – pressure on call centre and frontline services is unpredictable but welfare reform and implementation of new waste contract likely to increase enquiries. Channel shift project should help to reduce this pressure.	H	M	TK
		O		

Additional Notes

Customers, Homes & Property (General Fund) - none

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
4	<b>11 December 2012 – Customers, Homes &amp; Property (Housing Revenue Account)</b>			
4.1	Welfare reform – it is expected that the ‘bedroom tax’ and the changes to payment methods will have an adverse impact on income collection and arrears, but, at this moment in time, it is difficult to predict the scale of this effect.	H	H	TK
		F/O		
4.2	HRA business plan – the reform of council housing finance enabled service improvement opportunities and projects that have been agreed by cabinet to be built in to the 2013/14 budget and business plan financial projections. Important to monitor the position regularly to ensure that flexibility is maintained to manage any developments/ changes arising in the future.	L	L	TK
		O		
4.3	Local Authority New Build (including rebuilding/remodelling sheltered schemes) – key priority for council but dependant in part on Homes & Communities Agency funding. HRA funding limited by HRA debt cap. Financial risks associated with each scheme but Business plan allows future pressures/risks to be managed by repositioning future delivery proposals.	L	L	TK
		F		
4.4	Supporting people – continued funding reduction by KCC has been built into 2013/14 budget, it is expected that funding will continue to reduce in future years.	M	L	TK
		F		
4.5	Disabled Adaptations – demand for disabled adaptations for tenants is strong (as also seen above with DFGs in the General Fund) and funding for this has increased as part of the council’s HRA priorities. Demand is managed in line with the resources that are available	L	L	TK
		F		

#### Additional Notes

#### Customers, Homes & Property (General Fund)

1. HRA income is presented in ‘pre welfare reform’ mode i.e. the figures are potential, not guaranteed. The impact of the reforms on HRA income have yet to be seen.

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
5	<b>14 December 2012 – Financial Services</b>			
5.1	The high level of people out of work claiming benefits could continue during 2013 and thus the pressure on resources to maintain performance would remain. The recession grant from government will help fund a small contingency to deal with this service pressure, also the Housing Benefit Admin grant has not been cut for 2013/14.	H	M	PN
		F		
5.2	Council Tax benefit scheme will be replaced by Council Tax support on 1 <sup>st</sup> April 2013, there will be a 10% reduction in funding for the replacement scheme. A pressure on cost recovery staff is expected, however, as KCC has agreed to contribute to the administration of the scheme and to underwrite the rising caseload risk this should reduce the pressure.	H	L	PN
		F		
5.3	Localisation of Business rates – from April 2013 the council and the major preceptors will retain a 50% share of the business rates collected (this then becomes part of the councils' overall funding along with the formula grant the councils will receive), but then this council's share is subject to a proportion then being a contribution it must make back to government (called the tariff) that is redistributed to other councils. The council will then retain a proportion of any increase in business rate yield. However, the council (and the major preceptors) will have to cover the risk of any local business failures, up to a safety net threshold when government support kicks in.	M	L*	PN
		F		
5.4	The proposed creation of a Single Fraud Investigation Service has been delayed until 2015 due to the uncertainty of plans from DWP – creating job uncertainty for staff.	L	L	PN
		O		

Additional Notes

Financial Services.

\*5.3 – Low materiality based on the assumption that an element of New Homes Bonus will be used to cover the risk.

1. When Universal Credit is rolled out in October 2013, there will be a future risk due to loss of ABC responsibility for Housing Benefit admin – will start to have an effect in 2014 and increasingly through 2015 -17. Transfer of responsibility to Department of Work & Pensions (DWP) will reduce staff requirement and create uncertainty about job security. Staff reductions/retentions/ redundancy payments will create management and financial issues for the council.
2. Following advice from treasury management advisers, cautious approach to treasury management will continue to ensure credit risk is managed. As banks begin to recover there will be the possibility of greater income from investment.

	Main issues	Probability	Materiality	Responsibility For Action
		Financial/Operational risk		
6	14 December 2012 – Corporate, Strategy & Personnel			
6.1	Future capacity of teams: Corporate Management and Strategy, Partnerships & Performance - to deliver ABC’s strategic policy response to Localism and the council’s commitment to involve local people/communities - will be stretched; but it is aimed to mitigate this through developing a more flexible workforce, that can support project work, across all services.	H	L	PN
		O		
6.2	Slight risk to Ward Member grants if they remain dependant on New Homes Bonus because of competing priorities from other projects.	L	L	PN
		F		
6.3	Personnel – concern over capacity of team to cover greater demand on service to support anticipated corporate change projects in 2013/14.	L	L	PN
		O		

Additional Notes

Corporate, Strategy & Personnel

1. Audit Partnership - no significant risk but with resources available is ongoing challenge to continue to provide an effective service that continues to meet client needs.

	Main issues	Probability	Materiality	Responsibility For Action
		Financial/Operational risk		
<b>7</b>	<b>17 December 2012 – Planning &amp; Development</b>			
7.1	Reduction in staffing levels across the department, including specialist functions e.g. conservation and enforcement – with planners taking on this work as part of a more generic job. The reduced case load resulting from the economic downturn had been balanced by staffing cuts but, if there was a sustained increase in applications, pressures would arise.	M	L	RA
		O		
7.2	Only a 15% increase in Fees (from Nov 2012) agreed by Government, not the full Cost Recovery of Fees hoped for. Fee income will therefore be less than anticipated and will not cover the cost of dealing with major applications (e.g. Chilmington), pre application schemes, and any additional specialist advice needed. Extra payments may be agreed by applicants, but cannot be required.	M	M	RA
		F		
7.3	An additional financial burden and service pressure will result from the review of the Core Strategy and the examination into the Chilmington Area Action Plan. Specialist work outside of the unit's skill base will also have to be commissioned. Support for this will come largely from Planning reserve.	H	L	RA
		F/O		
7.4	Economic Development team – the economic downturn and the need to respond positively to projects (e.g. Mary Portas pilot and rural broadband) puts this small team under pressure to cover an agenda outside its resource capacity. Expansion of this team could be covered by the New Homes Bonus.	H	H	RA
		O		

Additional Notes

Planning & Development - none

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
8	<b>17 December 2012 – Legal &amp; Democratic</b>			
8.1	Legal income for 2013/14 – in previous years much of this income has come from developers in relation to S106 agreements. There is a risk that past levels of income will not be achieved but if the large scale applications in prospect proceed, that gives confidence that the income level may be met.	L	L	TM
		F		
8.2	The Legal succession plan reduces the establishment by two 0.5 FTEs over the five year period. Demand from client departments shows no likelihood of any reduction, major projects (e.g. development/economic growth) requiring legal support are likely to increase and large corporate projects generate additional demand. These pressures are acknowledged and Management team has a supportive approach to the needs and pressures of the service.	L	L	TM
		O		
8.3	The abolition of the Standards Board for England regime has reduced the support available for the Monitoring Officer and Deputy Monitoring Officer. The council's ethical framework has had to be re-engineered - how it operates and its effectiveness are still uncertain. Parish councils also look to the Monitoring Officer for advice/support for code of conduct and complaint issues which creates an extra burden.	M	M	TM
		O		

Additional Notes

Legal & Democratic - none

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
9	<b>7 January 2013 – Environmental Services</b>			
9.1	Implementation of service succession plan – to be completed for the start of the new financial year, with the aim that the transition to the new structure and management arrangements should be seamless.	H	H	PJ
		O		
9.2	New recycling and street cleaning contract will commence in April 2013, the introduction of the service will be phased in across the borough with a planned completion date of July 2013. A roll-out plan and publicity will effect as smooth a transition as possible but teething problems and queries from residents have to be anticipated.	H	M	PJ
		O		

Additional Notes

Environmental Services - none

	Main issues	Probability	Materiality	Responsibility
		Financial/Operational risk		For Action
10	<b>7 January 2013 – Capital Charges &amp; Net Interest and Treasury Management</b>			
10.1	Interest rates are lower than inflation, with the current policy of restricting investments to parties having the highest credit rating the low returns are devaluing the capital invested. Now banks have strengthened their balance sheets and credit risk has lessened there may be a case to extend the list of parties the council invests with to get better interest.	H	H	BL
		F		
10.2	Debt portfolio – Opportunities to restructure these debts (for the General Fund and from the buyout of the HRA subsidy) will be monitored.	L	L	BL
		F		
10.3	Debt cap – the buyout of the HRA subsidy introduced a debt cap on the HRA account. Any new initiatives impacting on HRA debt have to be considered against this cap.	H	L	BL
		O		
11	<b>7 January 2013 – General Fund Summary</b>			
	None			
12	<b>7 January 2013 – Capital and Repairs &amp; Renewals</b>			
12.1	Many capital projects require additional staff resources which can create short term pressure on departments and on the revenue budget.	L	L	BL
		F		

Additional Notes - none



Financial Risks to the Council				
Materiality	High >£500,000			4.1, 10.1
	Medium £100,000– £500,000		1.1, 7.2	3.1, 3.2, 5.1,
	Low <£100,000	1.2, 2.2, 3.5, 4.3, 4.5, 6.2, 8.1, 10.2, 12.1	3.4, 4.4, 5.3	5.2, 7.3
		Low	Medium	High
	Probability			

Operational Risks to the Council				
Materiality	High			4.1, 7.4, 9.1
	Medium		8.3	3.1, 3.6, 9.2
	Low	1.3, 2.1, 2.2, 2.3, 3.3, 4.2, 5.4, 6.3, 8.2	7.1	6.1, 7.3, 10.3
		Low	Medium	High
	Probability			