

Agenda Item No: 7

Report To: Cabinet

Date of Meeting: 8 February 2018

Report Title: Report of Budget Scrutiny Task Group

Report Author & Job Title: Will Train
Corporate Scrutiny and Overview Officer

Portfolio Holder: Cllr. N Shorter

Portfolio Holder for: Finance, Budget and Resource Management



Summary:	The Overview and Scrutiny Budget Scrutiny Task Group has scrutinised the Council's draft 2018/19 budget and regards it as sound and deliverable.
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Key Decision: NO

Significantly Affected Wards: None specifically

Recommendations: **The Overview and Scrutiny Committee recommends that the Cabinet:**

- I. **Be advised that the O&S Committee regards the Council's draft 2018/19 budget as sound and deliverable.**
- II. **Be advised that the O&S Committee regards the Council's reserves position as suitable to cover identified contingencies and risks.**

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

Legal Implications: As Policy Overview above

Equalities Impact Assessment: Not required as appended to main budget report

Other Material Implications: As noted in the report

Exempt from Publication: NO

Background Papers: **Medium Term Financial Plan**, report to Cabinet 9 November 2017

Draft 2018/19 budget, report to Cabinet 7 December 2017

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Report Title: Report of Budget Scrutiny Task Group

Introduction and Background

1. Under the Council's Constitution the Overview and Scrutiny Committee has a duty to scrutinise the Council's draft Capital and Revenue Budgets. The Committee constituted a five member Task Group to undertake this work, and presents its assessment of the draft Budgets within this report.

Report of the Chairman of the Budget Scrutiny Task Group

2. I would like to express thanks on behalf of the Task Group for the hard work put in by officers in the limited timescale to support the Group. The Group asked for additional information at short notice and were grateful for the support. Thank you to Portfolio Holders who attended.
3. It was noteworthy that the Secretary of State's change in rules allowing Council's to increase the Council Tax by 2.99% (up from 1.99%) before a referendum and clarification on the way in which income from NNDR will be retained by ABC and KCC happened part way through the Group's work adding to the workload. The additional income to ABC if it were to put up Council Tax by the full amount permitted before a referendum would be around £60,000 (based on £1.50 per indicative band D property).

Summary

4. The Overview and Scrutiny Committee would like to thank all the Officers, Portfolio Holders and Lead Members who attended the Task Group meetings. The sessions yielded much information on the financial and resource challenges facing the authority and the Task Group focused on a number of key risks relating to the achievability of next year's budget, which are discussed below.
5. The Task Group found the budget for 2018/19 to be sound and deliverable. The Council has General Fund reserves of £2.6m, part of wider reserves of £16.8m (at 31 March 2017). The reserve position of the Council allows cover for contingencies and risks identified by the Task Group.
6. The Task Group's scrutiny of the draft 2018/19 budget focused on a number of risks identified by Officers in the preparation of service plans and budgets; and by the Task Group Members from the summary of the Medium Term Financial Plan and Corporate Plan progress detailed in the Task Group's meeting. The scrutiny on these points is detailed in paragraphs 8- 33 below.
7. In the course of its discussions, Members also identified a number of areas beyond the remit of the Budget Scrutiny Task Group where it was felt that reviews by the Overview and Scrutiny Committee may be beneficial. These will be passed to the full Committee for consideration when setting its 2018/19 work programme, and included:

- a. A Better Choice for Property Limited
- b. Future projections for strategic and commercial acquisitions
- c. Resident Management Companies and wider application potential of the CMO model
- d. Social media
- e. Shared services

NNDR Reset

8. During scrutiny of budgets for the Finance and Economy directorate, the Task Group Members heard from the Director of Finance and Economy regarding the budgetary risks associated with a reset of the National Non-Domestic Rates (NNDR) system.
9. Members noted the potential loss of NNDR income from the Council's current position that would arise if the Council's retained share of NNDR was reset to the baseline need level identified by government and the possible impacts on the NNDR yield that would arise if the buildouts of large commercial schemes (such as the Designer Outlet Village Expansion) were delayed.
10. The Interim Head of Finance presented the Medium Term Financial Plan (MTFP) modelling assumptions to the Task Group, with particular reference to the forecasting of NNDR yields arising from the buildout of new commercial developments within the Borough.
11. On 19th December 2017 the Secretary of State for Communities and Local Government announced that government would look to reset the NNDR system in 2020/21. This accorded with previous indications Officers related to the Task Group that a reset of the NNDR system was unlikely to occur within the 2018/19 budget year.
12. Members were satisfied that the reset of the NNDR system as announced by the Secretary of State will not affect the viability of the 2018/19 draft budget, and were grateful for the information provided by the Director of Finance and Economy, Interim Head of Finance and Accountancy team on the 100% NNDR retention pilot scheme for Kent and Medway.

Hospital Trust rate relief appeal

13. Members queried the possible implications for the Council's budget in regard to an upcoming court case regarding NHS Trusts claiming eligibility for an 80% NNDR discount through charitable rate relief, backdated for six years. The Director of Finance and Economy advised that due to the Council retaining only 40% of NNDR, the in-year impact on the Council's NNDR yield would be a reduction of around £144,000 – less than 1% of the total share of rates income.
14. In regard to cover against backdated relief, the Director of Finance and Economy advised that an additional £2.4m would be added to the Council's existing £3.3m appeals reserve this year to provide some protection from the potential impact of this risk.

Income Generating Projects (General Fund)

15. The Task Group queried the budgetary risks arising from any potential delays in both achieving the target level of income generation from commercial property and securing a return on commercial investments financed through the Council's General Fund; notably the potential for a shortfall in service charge income at Elwick Place, letting risks within International House and the risk to income generation at Carlton Road. The Group noted the importance of making successful acquisitions in order for the Council's goal of financial self-sufficiency to be realised.
16. The Director of Finance and Economy and Senior Commercial Development and Regeneration Manager advised that risks related to demand for property were reflected in the Corporate Property and Projects service challenges in 2018/19, however it was important to note that several assets (such as Ellingham Industrial Estate) were well established with a secure tenant base and had been part of the Council's property portfolio for a number of years, and presented a lower risk with regard to rental income.
17. With regard to new acquisitions, it was advised that every commercial acquisition made by the Council was subject to a full risk assessment and extensive due diligence was undertaken on each potential acquisition. A range of measures were also employed including long and flexible lease options to attract and retain tenants within commercial acquisitions such as International House.
18. Members noted that an examination of the timeline of key commercial acquisitions, such as International House, from the initial business case and financial assumptions to date would be beneficial in order to establish how successful the Council's investment strategy had been. It was agreed that this would be referred to the full Overview and Scrutiny Committee for inclusion in its 2018/19 work programme.
19. Whilst not acquired as a commercial investment, the Task Group also expressed interest in understanding the future plans for Park Mall as an asset for the Council. The Head of Corporate Policy, Economic Development and Communications advised in a separate session that the development of a town centre place making framework was an objective for the Economic Development team in 2018/19.

Property Company performance

20. The Task Group expressed concerns regarding the transparency of the income flow of the Council's property company and the assumptions made when the Council issued loans to A Better Choice for Property Ltd. Whilst it was recognised that scrutiny of the property company's performance fell within the purview of the Trading and Enterprise Board (TEB), it was felt that the full Overview and Scrutiny Committee should consider scrutinising the investment return projections for the residential acquisitions made by A Better Choice for Property Ltd, the debt structure for the company and an identification of how the company's business was likely to develop.

Resourcing for Planning Appeals and Enforcement

21. The Director of Place and Space and Head of Planning and Development advised the Task Group that resourcing for planning appeals and enforcement represented key challenges for the Planning and Development service in 2018/19. To date, the Council had committed significant resources to defending appeals, and this had required drawing down on the reserves for the Planning and Development service.
22. Whilst the adoption of the Local Plan to 2030 should aid the Council in being able to demonstrate that it had a suitable five year supply of land for housing development, concerns remained that the Council could have to commit additional resources to defend further appeals against speculative development proposals outside of the Local Plan if such applications were rejected by the Planning Committee.
23. It was also noted that there had been some difficulty in recruiting officers to certain senior enforcement roles into the Planning and Development service, and that there may be a need to draw from reserves if staff difficulties arose.
24. The Task Group noted the position of the reserves for planning and the potential bolstering that may occur as a result of central government agreeing a 20% increase in planning fees, however it was felt that there should be a facility for readily drawing on general fund reserves to supplement planning reserves if required.

Resourcing for the Homelessness Reduction Act

25. In reviewing the key service challenges for the Finance and Economy directorate, Members noted that the coming into force of the Homelessness Reduction Act was a significant challenge for the organisation and requested further information on budgetary and resource planning for this change.
26. The Director of Finance and Economy and Head of Housing presented information to the Task Group outlining the Council's response to the Homelessness Reduction Act and emphasised that the Council would focus on a preventative approach rather than a reactive service after the event, in line with the new duties established by the Act. It was also advised that a flexible 'New Burdens Fund' was in place to assist with meeting the costs and replacing lost subsidies associated with the Homelessness Reduction Act.
27. It was advised that the Housing team already worked proactively to prevent homelessness, however changes had been made to the staff structure and the service budget had been built with the changes required by the Act in mind. Additionally, the Council had previously acquired Christchurch House as a short stay accommodation facility, which reduced the Council's spending on bed and breakfast (B&B) accommodation, and had commenced the acquisition of an additional short stay accommodation facility to provide a preferable alternative to B&B accommodation and deliver further cost savings. Further short stay accommodation had been secured on a temporary basis in other locations within Ashford, again at a lower cost than B&B use.

28. Members noted the approach outlined by the Director of Finance and Economy and the Head of Housing and the importance of the proactive approach taken by the Council to date. The Task Group felt that it was of paramount importance that costs arising from the additional responsibilities imposed by the Homelessness Reduction Act were adequately covered within the budget.

Impact of Universal Credit

29. Members noted further challenges identified for the Housing service in 2018/19 related to homelessness included the continued implementation of Universal Credit and the potential increase in homelessness and rent arrears, and queried what assumptions had been made within the budget in regard to these challenges. Officers advised that, in regard to potential loss of income through increased rent arrears, the Council's bad debt provision was reviewed annually and had been deemed to be sufficient for a number of years. Whilst bad debts posed a small risk to the budget, there was confidence in the mitigation methods employed to address this risk.
30. Members were informed that the Council had previously recruited a number of Welfare Intervention Officers in preparation for the Universal Credit roll-out and Council funding for the Citizens Advice Bureau had been increased two years previously and was currently maintained at an elevated level on top of base funding in preparation for the roll-out. In addition, a significant increase in the budget for Benefits Administration was proposed for 2018/19.
31. Whilst the nature of benefit administration work was likely to change with the implementation of Universal Credit (for example, the flexible nature of Universal Credit meant that certain entitlements needed to be recalculated weekly), it was not anticipated that there would be a significant net increase in officer workloads, with Universal Credit only being rolled out for new claimants in 2018/19. Members noted that it was vital that the Council support residents affected by the change in the way benefits would be delivered during 2018/19.

New Homes Bonus

32. The Task Group queried the allocation of new homes bonus (NHB) within the budget, noting that there had been a commitment made to allocate NHB on a 50:50 basis between new projects and the base budget, however the draft budget showed 35% of NHB allocated to new projects and 65% to supporting the base budget in 2018/19. The Interim Head of Finance advised that additional pressures meant that a higher percentage of NHB had been allocated to the base budget in 2018/19, but it was intended that the 50:50 ratio would be re-established for 2019/20.

Capital Expenditure

33. The Task Group discussed increases in the projected non-HRA Capital Financing Requirement going forward, and questioned whether this would be sustainable if interest rates returned to former levels of 4 or 5%. The Interim Head of Finance advised that capital requirements were reviewed on a project by project basis in line with the current interest position to determine affordability.

34. Members were concerned that the projections contained within the draft 2018/19 budget would raise the expectation that borrowing would continue up to the projected levels, even if interest rates rose to levels at which such borrowing may be unviable. The Director of Finance and Economy advised that the indicators were based on current plans, but projects had not necessarily been approved yet so there was no firm financial commitment in place.

Environment and Land Management

35. The Head of Environment and Land Management advised that there was a potential financial impact regarding the contamination of recyclates, wherein any recycling load with over 10% contamination could be rejected by the recycling facility, which would result in the load being transferred to the 'energy from waste' plant at a cost, which could be passed on to the Borough Council under the terms of the joint waste contract.
36. Members were pleased to note that the current contamination rate was low (at around 2%) and that plans were in place to expand the communications and education activity around contamination of recycling with the creation of a new Waste & Recycling Education Officer post within existing budget levels.

Lorry Parking

37. Members were pleased with the success of the recent new initiative to clamp lorries parking overnight in 4 sites in the Borough. It was felt that this may increase expectations of residents of dealing with the issue and therefore demand on the service. A problem was explained that to date the fees the Council were able to recover were £75 and this did not meet the costs of providing the service.
38. This risk is now somewhat ameliorated, as it is anticipated that the service can be operated on a cost neutral basis following the Secretary of State's decision to allow an increase to the fee charged from £75 to up to £150. This increase was not known when the budget was set, however a risk remains that the service will operate at a loss.

Inflation

39. Members were concerned that an inflation rate in excess of 3% could not be managed beyond 2-3 years. Whilst the rate of inflation is outside the control of the Council, continued high levels would necessitate the Council considering further ways to manage expenditure, generate additional income or reduce expenditure on non-income projects until inflation rates fell.

Conclusion

40. On consideration of these points, the Overview and Scrutiny Committee commends the following recommendations to the Cabinet.

The Overview and Scrutiny Committee recommends that the Cabinet:

- I. Be advised that the O&S Committee regards the Council's draft 2018/19 budget as sound and deliverable.**
- II. Be advised that the O&S Committee regards the Council's reserves position as suitable to cover identified contingencies and risks.**

Contact and Email

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