FINANCE AND SERVICES SCRUTINY COMMITTEE

17 DECEMBER 2018

PRESENT: Councillor M Rand (Chairman); Councillors B Everitt (Vice-Chairman), J Bloom, R Newcombe, G Powell (In place of J Chilver), M Smith and R Stuchbury.

APOLOGIES: Councillors S Lambert, M Stamp and A Waite

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 15 October, 2018, be approved as a correct record.

2. QUARTERLY FINANCE DIGEST (SEPTEMBER 2018)

The Committee received the Quarterly Financial Digest for the period from 1 April to 30 September 2018, which represented financial information on the Council based on the actual income and expenditure for the first six months of the 2018/19 financial year.

As at the end of September 2018, an overspend against budgets was reported of £457,979, along with forecast full year overspend of £238,100, before the use of reserves, for the full year to the end of March 2019.

The Medium Term Financial Plan (MTFP) agreed by full Council in February 2018 had assumed a contribution to balances of £240,000 for 2018/19. Based on the forecast financial position, there was now an assumption that there would be no contribution to balances.

The forecast level of balances for the financial year was reported as £1.927m, marginally below the minimum assessed level of balances of £2.0m. The forecast position did not currently assume any use of reserves to support emerging overspends. Earmarked reserves were held for legitimate reasons and the balances represented a fair assessment of the budgetary pressures that they were held against. Any use of reserves was an essential part of sound financial planning. The use of reserves would be assessed in year with any use of them resulting in a reduction of the forecast overspend and lessening the call on balances.

The end of second quarter position and forecast outturn continued to highlight a number of emerging financial risks that would allow considered corrective actions to be taken. Members were given an assurance that budget holders, managers and finance business partners were working to mitigate issues and to address the year to date financial position.

The main reason for the overspend to date had been for the use of agency staff to support vacancies and some activity pressures. The use of agency staff incurred a premium and an adverse variance to agreed budgets. Members were informed that the dependency on high cost agency staff was being targeted to reduce the risk of further in–year overspends. For all of the areas identified as using agency staff, plans were being developed to address spend and mitigating actions were being taken. Some vacancies were being filled and proposals are being put forward for most effective delivery models

For the 6 months to date, agency staff had been employed in a number of key operational areas to support project work and service delivery. These included:

- People and Payroll department where agency costs had been incurred to support both vacancies and prolonged periods of sickness absences.
- The Connected Knowledge and GDPR programme: These were work programmes for which funding had been allocated.
- IT: to cover key vacant posts.
- The Depot to employ loaders and also to meet additional costs of new waste rounds. The use of agency staff in these areas had allowed for flexibility to meet staffing patterns.
- Planning Department: to cover key vacant posts and to manage workloads.

Budget managers were provided with detailed agency staffing analysis on a monthly basis to ensure they have information on costs and to facilitate decision making in terms of using agency staff. Despite these known pressures on staff costs, it had been possible to largely offset agency costs with additional efficiencies and income to reduce the risk of further in-year overspends as follows:-

- Savings against budget in relation to transitional relief for business rates.
- Increased income from commercial rents particularly at Pembroke Road, for garden waste and commercial waste services.
- Savings on forecast interest charges, due to lower than planning levels of borrowing.
- Savings on vehicle costs at the Depot due to previous capital investment.
- General efficiencies in running costs of departments including Housing Benefits court costs and savings on GDPR implementation provisions.

The Committee was informed that page 14 of the Digest contained details of the reserves and provisions held by the Council against specific risks and commitments. Cabinet had recently agreed that the equalisation funds for business rate and interest rates should be repurposed and made available to offset the transition costs associated with local government reorganisation, subject to any demands being placed upon them in 2019/20. It was uncertain whether the money from these two reserves (circa £5m) would be sufficient so the position would continue to be monitored.

As well as the costs of implementation for the new Council, the decision could also impact on the organisational ability to retain and recruit staff during the transition period. The uncertainty had the potential to lead to a further reliance on agency and temporary staffing arrangements.

The Digest also reported on the level of capital spend to 30 September 2018. Whilst the year to date spend of £4.352m represented 44% of the total anticipated spend, there was no perceived risk on the delivery of the schemes and it was anticipated that the spend would increase in line with plans over the last 6 months of the year.

No new borrowings had been taken out over the last 6 months so the current borrowings remained at £18.5m. The Council had £47.3m invested at the end of September, in a combination of banks, building societies and money market funds.

Members sought additional information and were informed:-

(i) that the Council had reserves that could be used to pay for temporary or agency staff if there were issues with staff retention and recruitment during the transition period to the new Council.

(ii) that the 5 Bucks Councils were already working across professional streams, with HR being one of the first ones, to address uncertainty concerns for the transition to the new Council. It was likely that a protocol on recruiting staff to the new organisation would be agreed in due course. It was likely that many staff could be transferred from their existing Council to the Council but some roles would also need to be externally advertised.

(iii) that the Council did consider recruiting staff on fixed term contracts, as well as using agency staff, to cover for the vacancies in a number of key operational areas such as planning, Digital (IT) Services and People and Payroll.

(iv) that there were no emerging ‘surprises’ that might impact on the budget position for 2018/19.

(v) that where Housing Benefits was overpaid, the Government asked Councils to recover the overpayments and allowed Councils to keep a percentage of it, as well as court fees. The money recovered so far this financial year had been more than anticipated.

(vi) that the current level of bad debt relating to Housing Benefits overpayments was £4m. A report on debt management would be submitted to the scrutiny committee in the New Year.

(vii) that the main reason that the Business Strategy area was over budget was due to lower than anticipated income generated during the period.

(viii) that the finance business partners met regularly with managers and budget holders to identify budget pressures and risks and how to mitigate them.

(ix) that transitioning to the new Council was likely to create greater uncertainty around forecasting and delivery against the budget for 2019/20.

(x) that information in the Financial Digest was provided at a high level against Cabinet portfolios. If Members required additional information against individual budget areas then Finance would be happy to provide it.

(xi) that there was insufficient time to consider devolving assets/services to Town and Parish Councils as a moratorium on devolving assets was likely to apply from March-April 2019. However, the County Council’s bid had been predicated on devolving assets/services to Town and Parish Councils so this matter would likely be considered by the new Buckinghamshire Council in due course.

(xii) that the overspend in the Planning Service was a combination of reduced income and additional staffing costs (use of agency staff).

(xiii) on the dependency of agency staff by the planning service meant that the service was likely running at a loss at the moment, and was a combination of reduced income and additional staffing costs.

RESOLVED –

That the contents of the Digest and the financial position for the Council for the first six months of the 2018/19 financial year be noted.

3. BUDGET PLANNING 2019-20

The Committee received a report promulgating the high level issues facing the Council in developing budget proposals for 2019/20 and in terms of updating the Medium Term Financial Plan (MTFP). The report had been submitted to Cabinet on 20 November

2018 and further details were included in the minutes of that meeting. Cabinet had approved the approach outlined in the report, as well as the MTFP, to be used for developing the budget for 2019/20. Cabinet had also approved, for the purposes of budget planning, to the repurposing of the Business Rates Equalisation Reserve and the Interest Equalisation Reserve (that would have a combined value of £5m as at the end of 2018/19), in order to provide the Council with initial financial capacity to respond to the costs of reorganisation.

The largest and most significant factor impacting on the budget setting process was the recent announcement of the Secretary of State that there should be a single unitary district council for the whole of Buckinghamshire (excluding Milton Keynes) with effect from 1 April 2020. It was however too early to determine the exact implications from a budgetary point of view, although it would be prudent to make provision for transition costs. The report also set out a timetable for agreeing the budget.

The report had been split into specific sections dealing with:-

- The background to the development of the current MTFP and the key assumptions used in its formulation. Reference was also made to the recent budget announcement of the Chancellor of the Exchequer, with particular reference to local authority spending requirements. The report covered the risks arising from Brexit, the roll out of Universal Credit and increases in the national living wage. Reference was made to the implications of changes in the application of business rates and the significant year on year reductions in Central Government Grant.

- The timetable for development of the budget. The Government had announced the provisional finance settlement on 13 December, 2018, which had been in line with the estimates used for budget planning.

- The report contained a commentary on the position around Government funding and its impact on the wider landscape. Local authority funding in England had undergone considerable upheaval in recent years. For AVDC, reductions to Grant funding had been the most significant factor underlying historic financial planning assumptions and the Council's current strategy of balancing the budget had been predicated on this continuing. In this respect, the Council's strategy around commercialism and efficiency had been proved to be correct within the context of dealing with the financial challenges being faced by the Authority. The Government had announced a consultation exercise in relation to the future funding of local government (A Fair Funding Review). This would affect how funding was allocated between local authorities from 2020 onwards. Alongside this a new phase for the business rates retention programme would be introduced. The Buckinghamshire Councils had been chosen as a pilot area for this in 2019/20 which was likely to benefit AVDC by approximately £1.6m.

- In 2016/17 the Government had introduced the concept of Negative Revenue Support Grant. This had caused concern among councils and the Secretary of State had announced that he would review this aspect of the grant system during the forthcoming financial year. However, he had warned that any solution would need to be found from within the existing local government funding system. The report contained a full explanation of Negative Revenue Support Grant and its implications for AVDC. The recent financial settlement announcement had included that AVDC would receive some additional Revenue Support Grant so that the Council was not in a negative RSG position for 2019/20.

- The report dealt with the risks and gains associated with business rates pooling. The Council had in the past benefited from such an arrangement and a view would be taken on any anticipated gain as the budget proposals were developed.

- It was likely that the planned date for the UK to leave the EU would feature as a budget planning issue moving forward. An Officer working group had been established to review the issues that might potentially be faced by the Council.

- With regard to Council tax, the Government had signalled its intention to hold the broad referendum principles of the last two years. Specifically for district councils, this meant a maximum increase of 3% or £5 whichever was the greater. AVDC had chosen to raise council tax by £5 for the current financial year. The MTFP assumed a further increase of £5, representing 3.34% for 2019/20. The assumptions around the proposed increase in council tax would be tested as part of the budget development process. The Government intended to provide an update on its proposals for council tax referendum principles, including adult social care, alongside the provisional local government finance settlement later in the year.

- The report set out briefly the background to the introduction of New Homes Bonus (NHB) and the current position. 2019/2020 represented the final year of funding agreed through the Spending review of 2015. In view of this, the Government intended to explore how to most effectively incentivise housing growth in the future. The Government intended to consult widely on any changes prior to their implementation. Cabinet had been keen to maintain, if possible, the use of a percentage of these funds for grant aiding parish projects linked to housing growth. The recent financial settlement announcement had left the NHB thresholds unchanged for 2019/20, which would mean that AVDC would receive £5.9m for the year.

- The MTFP agreed in February 2018 had made certain assumptions around pay and inflation based upon trends in the economy. In practice, the looming Brexit deadline was having unpredictable effects on the economy as markets reacted to the uncertainty. Two years ago, the Staff Side and Unions had agreed a two year deal, with 1% being payable in 2017/18 and 2% payable in 2018/19. The pay award for 2019/20 had been negotiated with the unions and Staff representatives and staff would be balloted soon in regard to this.

- Earmarked reserves represented a prudent saving of sums against future financial events, which if not prepared for, would be difficult to deal with at the point at which they occurred. The Council held reserves for a number of purposes, one of which was the smoothing out of income receipt. Two such reserves were held to manage any volatility. It had been agreed that these funds should be used to offset the transition costs of local government reorganisation. The two reserves in question were the Equalisation Reserve and the Business Rates Equalisation Reserve, with a combined value of £5m (as at the end of 2018/19). A review of reserves would take place as part of the budget setting process.

- The report anticipated an actual Council tax base increase of 1.3% in 2019/20 having regard to the level of housing growth that had taken place, compared to the figure of 1% assumed in the MTFP.

- As previously mentioned, the Secretary of State had confirmed his decision to create a single unitary district council for Buckinghamshire (excluding Milton

Keynes) which would come into existence on 1 April 2020. This clearly removed the need for medium term planning for AVDC as a single entity, but the Council was obligated to hand over its affairs to the new Council in the best possible state. Allowances had been made for the costs associated with transition. The exact financial implications could not yet be fully quantified but Members would be kept advised of developments.

- CIPFA was consulting on the proposed publication of an index of resilience of English councils. This would provide an assessment of the relative financial health of each English council. The report outlined how councils would be measured. Given the Council's single minded and strong focus on dealing with the financial issues facing local government over the last seven years, it was expected that AVDC would perform well under any measure adopted.

- Commercialism and efficiency had been at the heart of the Council's strategy for dealing with the financial challenges faced by the sector over the past few years. This had proved immensely successful. Some governance issues had been identified but the Council was using the experience to develop better risk profiles and to develop measures to improve governance. The Council's approach to balancing its budget had avoided the need for Members to have to consider arbitrary and often unpalatable cuts in its budget and hence the services provided to its residents. It was believed that AVDC's sector leading experience and the attitude, innovation and enthusiasm of staff would be invaluable to the new organisation in helping it to deliver modern, responsive services which were fit for the future.

- The report suggested, and Cabinet had accepted, that as part of the budget setting process the Council should adopt a corporate strategy for 2019/2020 that was focused on:-

  Ensuring that it was financially fit, including ensuring that the commercial approaches of the past continued and that the organisation should continue to diversify and grow its income streams.

  Leading and shaping of place, ensuring the adoption of VALP, and continuing to cherish the towns and villages whilst managing growth and ensuring sustainable regeneration.

  Focusing on customers and innovation in customer service delivery and digitisation.

  Ensuring the Council's partners and communities assisted with the delivery of the Council's goals and including them in the decision making processes.

  A Statement of Corporate Priorities had been developed and would be used to inform the budget setting process.

- AVDC would continue to progress its digital agenda, promoting innovation in the way services and IT solutions were delivered to customers. Connected Knowledge was designed specifically to be the catalyst for technological innovation and change, thereby propelling the organisation into the future. A separate agenda item at the meeting would consider the achievements of Connected Knowledge over the previous phases 1 and 2 and funding for the next phase of Connected Knowledge.

- The report outlined the manner in which it was proposed to deal with Capital planning which would be a parallel process to that of revenue planning. The review of capital schemes would need to consider the implications of reorganisation and those with a timeframe extending beyond one year would need to be reconsidered within the context of the priorities identified by the new organisation. The requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities would be reflected in budget setting for capital in 2019/2020.

- The Council's strategy for balancing the budget was an on-going process and not merely an annual exercise purely undertaken at this time of the year. This was driven by a desire to balance the budget through internal reorganisation, efficiency and income generating strategies already set in motion and without the need for a crude or simplistic cuts exercise. Work would continue on refining the budget, making assumptions about a range of outcomes. The focus would now be primarily on 2019/2020, but consideration would still be given to 2020 and beyond because of the obligation to hand over AVDC's affairs to its successor in a fit state. The Council had working balances broadly in line with its stated minimum. These allowed the Council to push forward and invest in new savings initiatives with the confidence of a cushion behind it. Balances (either adding to or use of) were therefore likely to form part of the strategy for concluding the balancing of the budget for 2019/2020.

The Committee sought further information and were informed:-

(i) with an explanation on why the costs of providing services to additional residents (housing growth) was less than the money received by way of Council tax income from the additional residents.

(ii) that the other District Councils were currently combining for an OJEU notice on waste collection services in their areas. A contract was being proposed on a 10 + 10 year basis, valued at £230m. It was too early at the moment to comment upon how waste collection services across the new Council would be harmonised in the future

(iii) that while the future of NHB was uncertain (although the 15/12 announcement on the Financial Settlement had not changed payment thresholds for next year), it would be a decision for the new Council on whether it wished to ring-fence a proportion of NHB for Parish initiatives. AVDC was the only one of the Bucks Councils that currently did this.

(iv) that the Council undertook periodic reviews on people's eligibility to claim the Single Persons Council Tax discount.

RESOLVED –

(1) That the approach outlined in the report and to be used for developing the budget for 2019/2020 and the MTFP be noted.

(2) That the Committee was supportive of the repurposing of the Business Rates Equalisation Reserve and the Interest Equalisation Reserve in order to provide the Council with initial financial capacity to respond to the costs of reorganisation.

(3) That the Committee was supportive of AVDC developing a set of priorities underpinning the 2019/20 budget setting process, that could act as a sort of

corporate strategy and assist to enshrine AVDC values/principles into the new Council.

(4) That Cabinet be asked to take into consideration the comments at (i)–(iii) above in finalising the budget proposals for 2019/20.

4. TREASURY MANAGEMENT 2018-19: MID YEAR REVIEW

The Authority's Treasury Management Policy required an annual report to be brought to Council after each year end and a mid year report for the current year. A synopsis of treasury management activities had been included in the Quarterly Financial Digest submitted to the meeting.

Members were informed that the amount of money deposited with banks and building societies at the end of September 2018 was £40 million with another £7.3 million held in the two Money Market Funds. The outstanding balance on borrowings was £18.5m with £5m having been repaid to the London Borough of Newham Council in May 2018/19 using investment balances. As there had been no new no new borrowing taken out there had been no change to the Council's Authorised and Operational Limits.

The objectives for the Treasury Management team for 2018/19 had been laid out in the Treasury Management Strategy agreed by Council in February 2017. The main activities continued to be:-

- Foremost, to maintain, the security of the Council's deposits by only depositing with trusted financial institutions and limiting the size and length of deposit with each organisation.

- To directly manage a range of deposits in order to provide sufficient flexibility to meet day to day operational needs.

- To only undertake new long term borrowing where the business case justifies it.

The Treasury Management team continued to invest money in line with its list of approved (safe) institutions, varying the amounts and length of deposit according to the institution and the cash flow requirements at the time. Historically, the majority of the Council's lending had been with Building Societies but over the last year the Council had invested more of it's portfolio with major UK banks and had also began depositing funds with other Local Authorities as a more secure option. The lending list was monitored throughout the year to take account of any changes within the sector i.e. building society mergers / conversions to banks, and ratings changes.

Members were informed that actual performance was largely in line with the plan. With interest rates still at a low level, the actual amount of deposit income generated exceeded the half year target of £165,000 by £1,454.17. The target for 2018/19 had been increased to reflect historic activity and anticipated changes in the market. Generally interest rates were improving. For the first 6 months of 2017/18, the weighted rate of return on the investment portfolio had been 0.48% compared to 0.76% for April – September 2018.

The interest rate had increased in August 2018 and the market indications were that there may be further interest rate changes in 2019/20. There were however a number of economic factors e.g. Brexit that would influence interest rate changes over the coming months. The Council ability to manage capital spend without additional borrowing has resulted in financial efficiencies and savings on the cost of borrowing

The report also contained graphs and information on the average monthly balances deposited by the in house team and rates of return received over the financial year compared to the 3 month LIBID rate.

For the 6 months to the end of September 2018, the weighted average rate of return for the Council had been 0.76% on investments of £47.3m compared to average of 61% (on investment of £45.4m) during 2017/18. The performance to date in 2018-19 compares to Benchmarking data where, across 227 Authorities, the weighted average rate of return had been 0.79%, on average investments of £79.8m.

The council continued to operate two Money Market Funds to give the in-house team easy access to surplus funds. Whilst, Money Market Funds had the highest credit ratings, the interest rates offered were typically 15-25 basis points below those of Fixed term Deposits. However MMFs offered the most effective fund structure to manage the council's daily cash flow requirements.

Property Funds still offered some of the best returns on capital. Investing in a Property Fund was within the strategy but as yet the council had decided not to use them. Any investment would have to be for a minimum of five years in order to maximise the return. However, if there was any change and an investment was being considered then a report would be brought to Council for consideration.

The Committee had no substantial comments on the mid year report and thanked the in-house team for the efficient manner in which they continued to manage the Council's funds.

RESOLVED –

That the performance to date against the Treasury Management Action Plan for 2018/19 be noted.

5. CONNECTED KNOWLEDGE

The Committee received a report on the progress made against the Connected Knowledge Programme over the last two years. AVDC had approved a total of £3.1m over the period 2017/18 and 2018/19 for Phases 1 and 2 of the programme up to March 2019.

The report contained information looking back at what had been delivered by the programme to date and would be delivered up to March 2019. This included information on the financial spend and the benefits delivered.

Information on Phase 3 (future phase) of the Connected Knowledge Programme would be included in the budget setting papers to be submitted to the scrutiny committee in January 2019 and to full Council in February 2019. Future planning had included looking at the lessons learnt to date and ensuring that the Council built on the work that had already been delivered to date.

The programme had delivered 46 projects to date, with 27 in flight and a further set in the planning stages. It had delivered the first council Alexa skill, and then improved it by adding 'Find Your Bin Day' in line with customer demand. It had delivered the first true Artificial Intelligence in the Council's customer services area and continued to expand this capability to include more breadth of queries and automation. There were currently 59,881 active My Accounts, with the team able to handle 1,900 webchats per month.

The Programme board and Steering Group had provided governance to control the call off of funds for each project once a business case, including benefits realisation has been put in place. In addition, there had been a strong focus on closing down projects and moving to business as usual.

Some elements of the programme have been delayed due to resourcing issues, but funding for these elements had been ring fenced to ensure they could still be delivered. The Connected Knowledge programme had continued to deliver in line with these key areas:-

- Innovation - the introduction of innovative new solutions such as voice recognition and artificial intelligence for call handling and decision making.
- Transformation - the rollout of internal process automation and customer self service.
- Legacy reduction - the removal of legacy technology and introduction of more flexible systems that will further support integration of data to enable customer needs to be anticipated.

The programme had delivered

- the first council to have an Alexa skill.
- use of Artificial intelligence in customer services.
- a new corporate network with improved resilience.
- a new public wifi network with increased capacity for staff usage.
- new licensing and environmental health system on an integrated platform.
- new building control system on an integrated platform.
- new planning and land charges system on an integrated platform (still in flight).
- more resilient Revenues and Benefits system.

The advances had created a strong foundation for the next five years, enabling the Council to think bigger and more creatively about the challenges and opportunities and how it was best positioned to benefit from them.

Members requested further information and were informed:-

(i) that the lessons learnt had included underestimating the need to keep helping staff once systems had been introduced, and recognising that it was important get staff and teams to 'own' change processes.

(ii) that the programme had used Connected Knowledge champions within the areas experiencing change. The champions were then able to lead on change in their teams.

(iii) that the two business cases that had been rejected had been for a new electoral registration system (due to business timing issues) and for investment in a Garden Waste app.

The Committee commented that they were encouraged by the good governance and support arrangements that were in place for the Connected Knowledge Programme and, it was,

RESOLVED –

That the achievements of the Connected Knowledge Programme over the previous phases including the benefits achieved so far be noted.

6. WORK PROGRAMME

The Committee considered their work programme for the period until July 2019.

The agenda for future meetings would be:-

14 January 2019 – Budget Planning 2019-20, Capital Programme Update, Public Sector Equality Duty, Treasury Management Strategy and Debt Management report.

8 April 2019 and 2 July 2019 – no agenda items as yet.

RESOLVED –

That the work programme be agreed, as discussed at the meeting.