

## **BUDGET & FINANCE SCRUTINY COMMITTEE**

**Minutes of a meeting of the Budget & Finance Scrutiny Committee held at 6.30pm on Tuesday, 7<sup>th</sup> January 2014 in Meeting Room 3, Darby House, Telford.**

**PRESENT:** Councillors S. Reynolds (Chair), K. Austin, N. Dugmore, R. Evans, A. Lawrence, C. Mollett, G. Reynolds and Co-optee R. Williams.

Also attending: Cllr. W. McClements, Cabinet Member Finance & Enterprise; K. Clarke, Assistant Director Finance, Audit & Information Governance and Chief Financial Officer; F. Bottrill, Scrutiny Group Specialist; S. Jones, Scrutiny Officer.

### **BFSC-24 MINUTES**

**RESOLVED** – that the minutes of the meeting of the Budget & Finance and Children & Young People Scrutiny Committee held on 22<sup>nd</sup> October 2013 be confirmed and signed by the Chairman.

### **BFSC-25 APOLOGIES FOR ABSENCE**

Cllr. K. Guy and Co-optee F. Robinson.

### **BFSC-26 DECLARATIONS OF INTEREST**

None

### **BFSC-27 SERVICE & FINANCIAL PLANNING STRATEGY 2014/15-2015/16**

The Chair welcomed members to the first of the meetings to scrutinise the Service & Financial Planning Strategy. There were difficult decisions to be made and she looked forward to a non-political scrutiny process. The Chair invited the Cabinet Member and Chief Financial Officer (CFO) to present the key proposals from the budget report.

The CFO made the following points:

- The report was subject to agreement by Cabinet on 9<sup>th</sup> January 2104
- The Council had received the provisional settlement on 18<sup>th</sup> December which was very late. The final settlement would be notified in late January/early February but was not expected to be radically different.
- The timetable was: 4<sup>th</sup> February – end of consultation; 20<sup>th</sup> February – Cabinet agree final proposals; 27<sup>th</sup> February – Council agree budget.
- There were major investment proposals for Youth Unemployment (Telford and Wrekin being above regional and national levels) and environmental and infrastructure improvements which were included in the budget report with separate reports also going to Cabinet.

- Key proposals included:
  - Council Tax freeze for 2 years. The proposal was to accept the freeze grant following confirmation from government that the grant would be paid on-going and would not be time limited.
  - £52.9million cuts had already been made, more than generated annually though Council Tax and equivalent to around £750 per household.
  - Following the scrutiny recommendation to increase the level of base budget provision for children’s care placements, the response was a proposal to create a £1.2m draw-down contingency budget for safeguarding for 2014/15.
  - £8m capital and £1.5m revenue investment for environmental improvements over 2 years including a doubling of the community chest fund from £1,000 to £2,000 per ward member for the next 2 years. Capital spending would be phased, £4m in 2014/15 and £4m in 2015/16. The cost of borrowing would be entirely offset by the changed approach to debt repayment.
  - £2m per year for 3 years to maintain the road network (£6m total).
  - £0.7m one-off match funding for facilities to help disabled people live independently at home.
  - £1.3m over 2 years to tackle youth unemployment
  - £100k for Destination Telford to promote the borough as a place to live, work and visit
  - Lobbying on key issues for the borough:
    - A “Growth Deal” to ensure more of the proceeds of sale of government land is invested back into the borough and to increase the proportion of business rates generated from 49% to come back to the Council;
    - Government to change of rules around business rate exemptions to end abuse
    - CCG to increase the level of CHC funding in Telford and Wrekin - £8.5m costs have been shunted from the NHS to the Council from the withdrawal of CHC, equivalent to about £120 per household. The table in section 2 of the report showed people in Shropshire were 4 times more likely to receive CHC funding despite the fact that Shropshire has less deprivation, better health and community hospitals. The Council’s view was that the CCG ought to be spending about £4m extra per year on CHC to close the gap with other areas.
- The table in Section 2 summarised the projected budget gap. The projected base budget gap reported to Cabinet in November had been: 2014/15 - £12.147m, 2015/16 £23.710m (cumulative). There had been a number of changes since November including an improved position on the pension fund contributions which was projected to bring a benefit of £694k in 2014/15 and £1.5m by 2015/16. After factoring in all the changes the updated projected budget gap was £11.428m for 2014/15 and £22.263m for 2015/16.
- Appendix 3 set out over 200 savings proposals with the rationale and impacts. If all the savings proposals were implemented and delivered on time, they would generate more savings than needed. The surplus from the delivery of early savings would fund the revenue investments in the Pride in Your Community and Youth Unemployment initiatives, an additional investment of £30k in the leaving care grant as recommended by scrutiny, the £1.2m draw-down contingency for safeguarding and the £100k investment in Destination Telford. There would be a revenue benefit of £1.5m (2014/15) and £1.2m (2015/16) from the revised

approach to calculating the Minimum Revenue Provision which would fund the debt charge for the £8m capital investment in Pride in Your Community. Funding from the surplus required for 2015/16 would be transferred to a provision and drawn down in 2015/16.

- Section 5.4 set out the revised approach to debt repayment. Local authorities have a duty to make provision for debt redemption known as Minimum Revenue Provision (MRP). Different options are available to Councils for calculating MRP. A review had been carried out of all treasury management policies which identified potential benefits from changing the method of calculation of asset life repayments from Equal Instalments of Principal (EIP) to the annuity method i.e. similar to a domestic repayment mortgage (whereby repayment of interest is frontloaded and the principal repaid at the end). The change had been discussed with external auditors who had confirmed in writing that they were satisfied with the change and this had given additional comfort to the CFO as Section 151 Officer that it was the right thing to do. The revised approach would be included in the Treasury Management Strategy and reviewed by the Audit Committee. The change would bring a £4.8m one-off benefit and then a £1.48m saving in 2014/15 and on-going but reducing saving each year. The different method of calculation would make commercial investments more viable.
- The revenue base budget was set out in Appendix 8a showing a total net expenditure of £136.5m. Appendix 9 summarised the overall reserves and balances which after committed funds left usable balances of £3.7m. The base budget assumed a 1% pay award for staff. General inflation had not been built in but provision had been made for contractual inflation. £2.5m had been built in as a general contingency. Any under-spend at year end would be used to make a contribution to the severance fund and residual amounts to increase capacity or as invest to save funds or to increase general fund balances.
- The list of Appendices was at the end of the report and included the savings proposals (3), the capital programme (5), council tax comparisons (6, 7) and the communication and engagement plan (11).

Cllr. McClements then made the following remarks:

- He thanked the CFO and Managing Director for their work on refinancing the debt. The EIP structure for capital repayments had made it difficult for the Council to compete with businesses and moving to the annuity calculation would enable the Council to compete on a more equal footing. It would give the Council £4.8m back as a one-off and would fund the £8m capital for environmental improvements for 12 years with no impact on the tax payer. This was good news.
- He and the Managing Director and CFO had met Brendon Lewis MP (Parliamentary Under Secretary of State for Communities and Local Government) on 6<sup>th</sup> January and had raised 3 issues:
  - a) CHC funding – he felt Brendon Lewis had understood the Councils' arguments and he had asked to be copied into future communication on the matter. The government wanted common budgets for health and social care with Better Care and so he seemed sympathetic.
  - b) The Growth Deal – he was aware of the issues and the response was not negative.
  - c) Abuse of the business rates system (e.g. businesses avoiding business rates by registering as charities) – he was aware of the issue and requested data to

help build a case for change.

- Adult care accounted for 36% of the Council's budget. The cost shunt from the NHS to the Council from the withdrawal of CHC funding was a long running issue with the CCG/PCT which had been going on for longer than three years and it was now time for action. Cllr. McClements had been pressing CCG lay Board members to urge them to listen, and had been putting pressure on David Wright MP who was raising the issue in Parliament. It was important to resolve the issue by next year because of the need to make significant savings and the Council needed adequate funding from the CCG.
- The Public Health grant was ring-fenced for 2013/14 and 2014/15 but there was uncertainty after that.
- The government had announced the complete withdrawal of Crisis Assistance funding from 2015/16 which was another pressure and there would need to be a debate about how this would be funded in future.
- He asked members to note that £3m of the proposals to meet the budget gap were from generating extra income from Council Tax growth, Business Rate growth, New Homes Bonus and leisure income. Income from housing had done better than expected.
- They would continue to drive savings through procurement, for example £5.4m of the adult care budget was spent on block contracts i.e. buying blocks of beds which may not all be occupied and these costs would be attacked. There were some tough messages on adult care because the soft savings had been made and there would now be difficult decisions. Other areas to tackle were domiciliary care costs and to push personalised budgets. There was a proposal to save £900k from technology for the elderly. Historically, the Council had funded eligible care needs to allow people to remain living at home but where the cost of care at home was higher than the cost of residential care the Council would now insist that the person moves into residential care or that they or their family top up the cost difference stay at home. Care packages of less than 3 hours a week were being reviewed to see if they were sustainable.
- There would be £770k p.a. savings from the new waste contract with changes from 2014 and 2019.
- £6m had been committed to road building over 3 years.
- There were some good ideas in the Youth Unemployment proposals such as the Job Junctions, the apprenticeship hub, work placements etc.
- Figures released before Christmas showed GVA in Telford & Wrekin grew by 3.7% i.e. £114m per year which would contribute an extra £47m tax to the treasury. This was higher than the West Midlands average (1.3%) and the rate of growth needed to continue. This meant that 25-27% of the budget gap would be met by growth and not by cuts.

The Chair thanked Cllr. McClements for the presentation. She said that the Committee would need to decide what issues to look at during the budget scrutiny process but from her point of view the adult care budget should be one of the areas to look at. Her approach to scrutinising the budget would be to allow members from other scrutiny committees to attend meetings and take part in the discussion but it would be the Budget & Finance Scrutiny Committee which would agree the response to the budget proposals. She was pleased to see Youth Unemployment on the agenda as she knew from her employment at TCAT that this was an issue for the borough. She then invited questions from members.

- Cllr. Lawrence referred to the data in the Adult Care & Support section and wanted to know why the level of CHC funding in Telford & Wrekin was so low. The CFO explained that there is a standard methodology but that it is subject to interpretation by the individuals undertaking the assessments. If the needs are deemed to be health, the NHS pays, if the needs are deemed to be social care, the Council pays. In the Council's judgement, people in a comparable state of health are more likely to get CHC funding if they live in Shropshire than if they live in Telford and Wrekin. This also affects self-funders who are not eligible for social care funding. Cllr. Lawrence wanted to know who the staff are that make the decisions, and the CFO said they were CCG staff.
- Cllr. Lawrence wanted to know how actuaries in Shropshire had been persuaded to reduce the pension fund contributions and whether the reductions would leave the fund low. The CFO said the actuaries were very cautious and they tend to look at the worst case scenario. Their first position had been that an extra £4m cash was needed but this had been revised. The first change was to the liabilities on the pension fund. Liabilities are calculated with reference to prevailing gilt yields and the actuaries had changed from using the gilt yield at a particular point around a year ago – to using the yield calculated over the medium term to reflect the fact that gilt yields are at historic low levels. This had reduced the deficit and therefore the additional contributions required for next year significantly. They then looked at the value of assets. The stock market had increased significantly since the initial valuation and this had also reduced the level of deficit and therefore the additional contributions required. The actuaries also agreed that the increases in contributions could be phased in over a 6 year period. This meant more would be paid over the long term but on a phased basis that could be built in to future financial planning projections.
- Cllr. Lawrence questioned where the saving from changing the MRP to the annuity method which he thought would cost more over the course of the loan. Cllr. McClements said that annuity option worked out better because it takes account of the value of cash over time (i.e. £100 in 40 years is worth less than £100 now). The CFO clarified that the advantage of the annuity method was that the repayments were lower for the first few years of the loan which was prudent at this time when the Council needed to make savings and allowed time to plan for the additional costs in later years which can be calculated well in advance. The new approach also allows projects which will result in growing incomes over time to be afforded e.g. the potential housing investment where if the project proceeds the rents should increase with inflation over time and therefore be capable of supporting increased debt costs.
- Cllr. G. Reynolds wanted to know how the lobbying activity would continue. Cllr. McClements said that the Managing Director had met the Chair and Chief Executive of the CCG that day and the MD had said there was some more positive feedback. They would continue to raise the issue with the CCG and to keep the profile up. David Wright MP had raised the issue in Parliament that day. The Health & Adult Care Scrutiny Committee had done a review of CHC and had made a number of recommendations. The CCG was not acknowledging the trends and he felt they needed to take what the Council is saying on board. Cllr. White who

was present at the meeting added that the scrutiny report had been presented to the CCG and the Council for a response. The issue was not just with new cases but also CHC being withdrawn on reassessment. The government had issued revised guidance on the criteria for CHC which the CCG had not adopted. He was meeting the Chief Executive the following day and the CCG would be asked to show how things had improved following scrutiny's recommendations and if there had been no improvement the scrutiny committee had reserved the right to refer the matter to the Secretary of State. Decisions about CHC funding affect self-funders as well as the Council. Over the last few years, the amount of CHC funding had reduced from around £14m to £3m and although there had been a slight increase recently the situation was still perilous. The Cabinet Member also said the CCG had argued that the age profile is different between Telford & Wrekin and Shropshire which accounted for the variation in levels of funding, but the under-65s had been taken out of the analysis to remove any potential bias so that data could be compared on a like for like basis and the level was still below Shropshire's.

- Cllr. McClements added that in terms of consultation they were trying a new type of event which was a rolling event throughout one day outside Debenhams with key partners like the police to try to reach out and consult with people on the budget.

There were no further questions the Cabinet member and CFO left the meeting.

There was then a discussion about items for the meetings on 21<sup>st</sup> and 27<sup>th</sup> January and 4<sup>th</sup> February and the following was agreed:

- It had been confirmed with the scrutiny team that the conservative group would be putting forward alternative budget proposals to come to scrutiny. It was agreed that the alternative proposals would be presented at the meeting on 21<sup>st</sup> January subject to the proposals being approved and available in time for the meeting. Cllr. Austin requested that papers should be sent out a week in advance to give members time to read them. The Scrutiny Group Specialist suggested that the Committee could scrutinise each set of proposals on their own merits and comment separately on each - members did not have to support one set of proposals over the other. There would also be discussions about the presentation of the proposals so that any potential conflict of interest for members of the Committee would be clarified beforehand.
- It was agreed that the meeting on 27<sup>th</sup> January would focus on the adult social care budget subject to availability of the Cabinet member and officers. Members of the Health & Adult Care Scrutiny Committee would be invited to attend and the Chair said she would welcome their expertise.
- As Members had not had much time to read or digest the budget report and savings proposals, the Chair proposed that members read them in detail, identify issues they wish to look at as part of the budget scrutiny process and send their questions to the scrutiny team by 13<sup>th</sup> January for the scrutiny team to collate the questions and make appropriate arrangements. Members should state whether they required a written response or attendance of a Cabinet member or officers at a future meeting.

- The Scrutiny Group Specialist reminded members that the Audit Commission’s Tough Times report and the LGA’s Rewiring Public Services report had been circulated to the Committee and members may find them useful to help shape some of their lines of enquiry. The reports would be re-circulated after the meeting.
- The Scrutiny Group Specialist suggested that members may find it useful to ask Cabinet members attending future meetings whether they could identify any specific issues or savings proposals which scrutiny could look at as part of the work programme.
- The Chair said she felt that the Council should consider the language for communicating with the public. She felt that the word “savings” could give people the impression that the Council had money (savings) that could be squeezed out and she felt that “cuts” was a better message. Cllr. Lawrence disagreed and said that “cuts” is a very politically motivated word and there was a general suggestion that service reduction may be appropriate which no one disagreed with.

The meeting ended at 7.50pm.

**Chair:**.....

**Date:**.....