

ROBUSTNESS OF THE ALTERNATIVE BUDGET STRATEGY PROPOSED BY THE MAIN OPPOSITION GROUP FOR 2017/18 – 2019/20.

The Council is required to set a balanced budget and under section 25 of the Local Government Act 2003, the Council's Chief Financial Officer is required to give a view on the robustness of the Council's financial strategy including the use of balances and of the financial planning process.

The alternative budget put forward by the main Opposition group will be considered by full Council and it is therefore appropriate that a view on the robustness of the alternative budget proposals is provided.

The proposals put forward by the main Opposition Group are substantially similar as those put forward by the Administration including the same assumptions on:-

- Income generated from council tax, including council tax increases, and from implementing the social care precept.
- Investments, pressures and the additional 2017/18 savings are generally the same as the Administration's with the exception of:
 - additional one-off investments of £1.233m:-
 - £0.250m for marketing council services nationally
 - £0.250m in 2017/18 relating to a review of policy on school places,
 - £0.250m for a CSE review
 - £0.233m funding for the 3G pitch
 - £0.100m for a Review of the Local Plan
 - £0.100m for Rights of Way are included.
 - £0.050m for promotion of recycling
 - Additional ongoing investments of:-
 - Environmental maintenance £0.100m
 - Street pastors £0.005m
 - Acceleration of implementation of the Government's "Living Wage" is also proposed at a cost of £0.220m in 2018/19 and £0.271m in 2019/20, although any additional costs arising from the resultant compression of differentials has not been assessed.
 - Two additional social workers to support tackling CSE in the borough £0.080m p.a.(funded from one-offs for the 3 year model)
 - Reductions in two of the Administration's proposed one-off investments:-
 - Employee training and development £0.100m
 - Destination Telford £0.125m
 - The overall savings package is generally the same, although additional ongoing savings totalling £0.791m in 2018/19, rising to £1.788m by 2019/20 would be required.
 - These additional savings are required despite the Alternative budget proposing additional ongoing savings totalling £0.365m in 2017/18, £0.440m in 2018/19 and £0.490m by 2019/20. These savings arise from assumed benefits from working in partnership with other councils

(although no detailed work has been undertaken to estimate the scope for potential savings), deleting all remaining essential care user allowances and reductions in support for trades unions etc.

- Some of the Administration's proposals would not be implemented at a cost of £0.145m by 2019/20:-
 - Increase in the price of school meals,
 - Mobile library but a remodelled, lower cost, option rather than the existing service,
 - Review of off-peak skating concessions
- The capital programme is largely the same subject to the comments below.
- Both budgets include an additional contingency which gives comfort on the overall deliverability of the proposals.

Key areas of difference include:-

- A proposal to reduce debt levels by not proceeding with/selling some of the commercial investments (NuPlace, Solar Farm) and not proceeding with the £20m Highways capital investment or additional Property Investment Portfolio investments included in the Administration's proposals. This would have the effect of ultimately reducing debt levels by £107m compared to the Administration's proposals. However, there would be a significant revenue cost arising from losing the assumed profit from the commercial schemes (i.e. excess of income over the cost of debt charges and operating costs). This net revenue cost is £0.856m in 2017/18, £0.801m in 2018/19 and £1.932m in 2019/20 and has been built in to the summary shown on page 15 of the Alternative Budget report and means that front line services would have to be cut to balance the Council's budget. The supply of good quality private rented homes in Newport and Telford would be reduced and the Council's opportunities to attract inward investment, additional jobs as well as increased business rates income would be significantly reduced.
- The deletion of the funding proposed by the Administration to improve the Borough's highways infrastructure means that the Alternative budget currently includes an unfunded commitment of £18.9m in respect of Highways improvements. However, the budget proposes that as opportunities arise, for example at the end of each financial year, any surplus funding that can be identified will be allocated towards further highways improvements as a key priority.
- A proposal to reduce the number of new homes to be built in the Borough. Under the current local government finance system this would have a financial impact on the Council as income from council tax and New Homes Bonus would be significantly lower than would otherwise be the case. The marginal cost of delivering services to new properties is generally lower than the additional income generated from new properties due to economies of scale and therefore further cuts to front line services would ultimately be required. However, this would be unlikely to affect 2017/18 significantly.
- Transferring £1m from the one-off funding set aside for single status in advance of being in a position to model the financial implications of the potential single status settlement. However, a balance of £10.9m would still remain in this provision.
- Further use of one-off resources to balance the budget of £1.159m in 2017/18 and a requirement for additional savings to be identified totalling £0.791m in 2018/19 rising to £1.788m in 2019/20.

- The Alternative budget is therefore reliant on a significantly higher use of one-offs over the three year planning period (£12.783m) than the Administration's proposals (£6.130m). This has allowed the Administration to create an additional revenue contingency of £9.72m compared to £7.167m in the Alternative budget. These contingencies increase confidence in the deliverability of the overall service and financial planning strategies proposed in a time of unprecedented and protracted severe financial constraint whilst demand for some key services is volatile. However, the strategy for the next three years put forward by the Administration is not reliant on the achievement of the projected £3.1m underspend in the current year which would be available to further supplement the contingency proposed by the Administration if required. Clearly if the financial position changes before the end of the year relying on the full amount of the currently projected underspend increases the risk that the proposed alternative strategy would not be fully deliverable in 2017/18 without remedial action.

Additional comments:-

- As Chief Financial Officer, I consider the investment strategy that has been adopted by the Administration to be sound and entirely reasonable. Clearly there are risks in implementing new initiatives but there are also financial risks in managing many aspects of the Council's Budget and in seeking to generate additional income from trading, which is a feature in both the Administration's and Alternative Budgets. The issue is to ensure on-going effective management of these risks across the organisation and the track record of the Council to date of robust financial management, in an extremely volatile period of major reductions in Government funding, is very strong. Despite very significant financial challenges the Administration have consistently delivered financial outturn within budget for many consecutive years and the Council's accounts continue to receive an unqualified external audit opinion. Income from NuPlace, the Solar Farm and the additional PIP investment represents a small percentage of the total council budget. All reports considered by Cabinet include details of financial implications and major projects are effectively managed – including the management of risks.
- Most support services generate income from schools and other external clients. The proposed sharing of these services could potentially jeopardise this income or result in some of the benefit being shared with another Council. Therefore specific proposals would need to be subject to consideration of a business case to understand the full implications for the Council including any penalties for early termination of IT supplier contracts and one-off project costs.
- Full Council has approved a Treasury Management Strategy which seeks to minimise counterparty risks and net costs by keeping investments to the minimum needed to meet cash-flow requirements. I believe that this is a sound strategy for this Council in the current financial climate. At some point it will clearly be necessary to lock in to higher fixed term interest rates and the budget is prepared on the basis to enable this to be done at any time. However, running a significant portfolio of very low cost short term debt has generated very significant revenue benefits (totalling around £8m in recent years). These benefits have been used to cover additional spending in key front line services for vulnerable children and adults. I would not currently advise the Council to change this approach, certainly not until the Council's

independent Treasury Management Advisors indicate that it would be prudent to start to lock in to higher fixed term interest rates and potentially only on a phased basis.

However, the overall budget for 2017/18 would be likely to balance and can therefore be considered as robust.

Ken Clarke,
Chief Finance Officer.