

FINANCE & ENTERPRISE SCRUTINY COMMITTEE

Minutes of a meeting of the Finance & Enterprise Scrutiny Committee held on Thursday 26 January 2017 at 6.00pm in Meeting Room G3/4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT

PRESENT: Councillors S Bentley, A Burford, S Burrell, N Dugmore, R Mehta, S A W Reynolds (Chair), R Sloan, C Smith, D Wright and Co-optees C Mason-Morris and R Williams.

IN ATTENDANCE: Cllrs A Eade and A Lawrence; S Jones, Scrutiny Officer

ALSO PRESENT: K Clarke, Assistant Director for Finance & Human Resources

FESC-15 APOLOGIES FOR ABSENCE

None

FESC-16 DECLARATIONS OF INTEREST

Cllr Burrell declared a pecuniary interest as a provider of adult care with Council contracts

FESC-17 ALTERNATIVE BUDGET PROPOSALS

The Chair welcomed everyone to the meeting and welcomed Cllr Mehta who had been appointed to the committee by Council last week. The purpose of the meeting was to scrutinise the alternative budget proposals of the main opposition group and she invited Cllrs Eade and Lawrence to open by highlighting key points in the report.

Cllr Lawrence highlighted the following points:

- The key concern was the direction of travel with the level of debt. The report set out the national picture of local authority borrowing and the increase in debt charges as a proportion of revenue spending. Other authorities were taking a more cautious approach to stabilise and reduce borrowing ahead of anticipated rises in interest rates and the concern was that Telford & Wrekin were expanding the balance sheet and exposure to risk. The administration's budget would increase debt to £347m. The alternative strategy was to dispose of non-core assets including the Solar Farm and NuPlace to release cash and reduce borrowing and debt exposure.
- The additional investment in adult social care proposed by the administration was supported to deal with pressures.
- The efforts in children's safeguarding were welcome but a £250k reserve was proposed to fund investigation into issues around Child Sexual Exploitation.
- Poverty was an issue in the borough and it was proposed to bring forward the increase in the Living wage to £9ph from September 2018 instead of April 2020.
- Surplus funds had been identified for a highways capital programme without the need to increase borrowing.
- Additional investment of £0.050m would be put into driving an increase in recycling rates. Targets set in the waste contract were considered too low.

- Partnering with other organisations was a key savings and income strategy. The approach would be to develop Centres of Excellence around existing areas of expertise or outsourced models with neighbouring authorities to provide commercial services to other organisations, rather than investing in what were considered speculative projects. The opposition group only had limited access to officer support to develop detailed proposals but this was the outline approach.
- Other proposals included £18k to reconfigure the mobile library service, to reinstate the funding set aside for AFC Telford and to reverse the administration's proposal to increase the cost of school meals.
- The alternative model stacked up as confirmed in the statement of robustness.
- In summary, the key approach was to reduce debt to reduce exposure from increases in interest rates and to develop Centres of Excellence.

Cllr Eade then made a number of points:

- He highlighted concerns around CSE which had received national media attention and £250k had been set aside for further investigation. He urged the administration to consider initiatives related to CSE before setting the budget.
- An on-going contribution from the base budget was proposed to support the good work of the Street Pastors.
- He highlighted the increase in prudential borrowing from £91m in 2011 to £347m under the administration's proposals. The recalculation of the MRP had reduced the cost of borrowing in the short/medium term but would lead to higher interest repayments at the end of the life of the loans.
- He felt there were savings to be made from shared services and was disappointed that Telford & Wrekin had not discussed opportunities with Shropshire Council.
- With regard to the proposed funding for a review of secondary school places, there was concern that there would not be enough places as the number of children now in primary schools move into secondary education and S106 contributions had not been levied from developers for the necessary additional school places.
- A one-off investment was proposed for environmental maintenance to improve standards and make the borough more attractive to potential investors.
- The essential car user allowance would be removed to save £140k. £1m would have been saved if the proposal had been adopted when first put forward by the main opposition group.
- With regard to children's safeguarding, the budget had overspent for a number of years and the efforts and additional investment to address the issues was supported, but there was concern about the level of control over the budget.
- The increase to the cost of schools meals was not supported and would be removed.
- The funding for the mobile library would be to reconfigure the service which could provide essential services to nursing homes in rural areas. The service had cost £40k a year but it was felt could be provided for £18k.
- The withdrawal of funding from AFC Telford in the administration budget was not supported and would be reversed as the club did a lot of good work in the community.

- He emphasised concerns with the level of borrowing which had quadrupled and the level of debt costs which had trebled over the last 6 years and was stacking up problems for the future.

The Chair invited questions and the following responses were provided:

- A member asked for comment on the strategy to de-risk the balance sheet by disposing of assets which generate income, details of the 'further savings to be identified' and where the one-off funding for the 3G pitch in Madeley would come from if the money was reinstated to AFC Telford. In response Members were referred to the table in the report setting out alternative savings including £125k from joint working, a review of staff terms and conditions and contributions for Trade Unions. With regard to other savings, if the opposition were in administration officers would be tasked with identifying other savings which was not possible in an alternative budget. The points on debt remained valid – the higher level of borrowing, the higher the level of risk. The Council had made money from cheap borrowing but this would not continue as interest rates would go up. The Council needed to de-gear before interest rate rises as other authorities were doing. With regard to the 3G pitch the £233k would be funded by savings so that the pitch could go ahead.
- A Member commented that there was a balance to be struck between the risk of borrowing and the need to sustain key services. He did not agree that the direction of travel in Telford & Wrekin meant the level of indebtedness would increase to the level of other authorities, some of which had double the level of debt, as borrowing was reviewed year by year to see what was prudent. He had further concerns about the strategy of selling off income generating assets and whether there would be a market to sell Council services to other authorities when they were also facing cuts. In response, Cllrs Eade and Lawrence referred Members to the graph of NAO statistics in the report showing that nationally debt had increased from 2014-2011 but had then stabilised whereas the level of debt in Telford & Wrekin had increased. The need to fund priority services was understood but investing in areas like property was risky as had been demonstrated by companies which had failed when the property market crashed. A jump in interest rates could cause a crash in the market. The future was unpredictable – there had already been a crash in the exchange rate and the markets would be volatile because of uncertainty around Brexit. A better approach was to generate income from core services where the Council had existing expertise. Cllr Sloan reminded members that the Audit Committee monitored borrowing and debt costs.
- Responding to a question about the projected receipt from the sale of the Solar Farm and the loss of income, the alternative budget had been based on selling at cost because the opposition group did not have access to the expertise of finance officers. However the Solar Farm was a good asset which is was felt could be sold at market rate as a solid business with future cash flow. Selling the solar farm was not about risk but about reducing debt. NuPlace was different because the model was more risky – the Council was not a housing authority with experience of the buy to let market which suited the private sector better. The risk was if there was a fall in property prices. Members probed where the risks were

if the Council was getting market rents, held the assets and could dispose of the properties at a future time. In response, the main objective was to reduce the debt burden but the buy to let market was changing and becoming a less desirable and riskier investment. With regard to further points that NuPlace was providing good quality homes for local people and generating £1.2m income, the response was that if the properties were sold they would still be available for local people and it would be a case of finding a suitable alternative landlord. The issue was not with the quality of housing but with the amount of debt tied up in the scheme. A member of the committee pointed out that the income figure for NuPlace included Council Tax which would still be collected if the properties were sold.

- Regarding a comment that Telford & Wrekin's debt as a % of revenue budget was fairly low compared to other authorities as shown in the graph in the report, Cllr Lawrence replied that the high level in other authorities was worrying and just because Telford's was lower did not mean that it was not of concern. The level of debt in the other authorities should be a national concern.
- A co-optee challenged how the figure of £250k had been arrived at for a review of school places. Officers had been asked to provide indicative costs and the figure was based on their advice. There was a lengthy discussion about the planning and provision of secondary school places. Various views were expressed including: a concern that not enough secondary places were being planned, in the right locations, to cope with the bulge of children coming through primary schools and the increased demand from new housing developments; that funding for schools was based on evidence of demand which had not been demonstrated; that the Council had been successful in retaining BSF funding at a time when it was being cut back; that funding for new schools was based on short term planning cycles; that as a Business Winning, Business Supporting Council the Council should look at the opportunity created by the funding announced this week in the government's Industrial Strategy to build a technical college in the borough to develop technical skills. Cllrs Eade and Lawrence responded saying that they had requested figures on the number of children coming through primary school for planning secondary places but the figures had not been provided. The sufficiency of secondary places was a key concern and money had been allocated to review demand to ensure there was enough provision. It was agreed that the figures would be requested and referred to the Children & Young People Scrutiny Committee to review.
- With regard to environmental maintenance a Member commented that the Council was not responsible for litter picking on the A442 or the M54 which were the responsibility of Highways England and this would not come out of the Council's budget.
- It was confirmed that the revenue benefit of reduced borrowing costs from the sale of assets had been built into the alternative budget model as shown in the budget summary on p.16.

- In terms of making up the loss of income from the sale of assets (£2m+ over three years), proposals included saving £125k in 2017/18 from joint working with other authorities, savings from changes to staff terms and conditions and from cuts to funding for officer support for Trade Unions. Other savings would need to be identified but they had not wanted to use up a lot of officer time doing detailed work so assumptions had been made on the income and savings projections.
- In terms of which services could potentially be marketed externally and whether there was a market for the services, the report included an indicative list of services which could potentially be marketed such as payroll, legal, finance, architectural services, highways, children's services, ICT. Members expressed a number of views: there was a question about the viability of selling services to other authorities when they were facing similar financial pressures or could be making their own joint working arrangements; it could be difficult for senior officers to work for two authorities in joint arrangements; that there were opportunities for joint ventures, for example a data storage facility set up by Shropshire and Warwickshire, and Telford & Wrekin should be open to discussions with neighbouring authorities.
- Asked whether the sale of assets would include start-up units, the response was that there may be a demand for starter units and there should be some provision but the Council was not a property specialist and there was a need to reduce exposure.
- A co-optee welcomed the proposed funding for Rights of Way in the base budget.
- The alternative budget assumed no impact from bringing forward the increase in the Living Wage on Single Status. £11m+ had been set aside some years ago to implement Single Status and liability would reduce as former employees went beyond the 6 year limit for back claims and it was felt the fund could prudently be reduced by £1m. The Chair reminded members that Single Status was reported to the Audit Committee. There were further comments about the length of time taken to implement.
- A Member of the committee was pleased to see the proposal to remove the price increase for school meals. A 4% increase could be a lot for pressed families already having to pay increased Council Tax and he felt the increase should be wrapped up in the general increase to Council Tax or alternative savings. Another Member pointed out that the price of school meals had not increased for three years and was to cover costs. Cllr Lawrence said this was a policy difference between the budgets.
- With regard to how often the Council met with the Treasury Managers, the Assistant Director said there was a regular weekly update from the managers, daily updates on changes to the credit ratings of potential counter parties when these changed, ad hoc information on key market changes and key events affecting the markets, quarterly review meetings if required or the advisors are happy to meet as and when required to provide advice at any time via telephone or e mail. They also reported annually to the Audit Committee.

- The Chair quoted data on usage of the mobile library and wanted to know the rationale for investing in the mobile library when usage was so low. In response, £18k had been proposed to fund a mobile library service on the basis that the offering would be reconfigured as it did not work in its current form but there could be a case for offering as service to nursing homes in rural areas.
- The Chair requested details of prudential borrowing and return on investment over the last 4 years, and a further request was made for details of the Revenue Support Grant over the same period. Cllr Lawrence commented that it was not just a question of return on investment but more about the amount of borrowing as the risks increased with the level of borrowing – the concern was the direction of travel and the increase in borrowing from £100m to £347m. He also commented that the Council was taking on more risk at the same time as the government was moving local authorities towards being more self-sufficient. A member of the committee commented that local authorities had to be more business minded about income streams and think outside the box.

Cllr Burrell left the meeting prior to questions about the adult care budget.

Asked if the opposition group had a view on the phasing of the adult social care precept, the response was that it had been discussed. There could be advantages to having money in hand (if the precept was increased to 3% for 2 years) but it would place a bigger burden on residents and there was no strong feeling either way. The concern was more about making sure the budget was used effectively to reconfigure and turn the service around.

There were no further points and the Chair thanked Cllr Eade and Cllr Lawrence for attending and they left the meeting.

FESC-18 WORK PROGRAMME AND CHAIR’S UPDATE

The Chair reminded members that next meeting on 1 February would be for the committee to agree responses to the administration and alternative budget proposals.

The Scrutiny Officer would circulate outstanding minutes and papers for the meeting.

The meeting ended at 7.35pm.

Chairman:

Date: