



**Telford & Wrekin**  
**C O U N C I L**

Addenbrooke House Ironmasters Way Telford TF3 4NT

## **FINANCE & ENTERPRISE SCRUTINY COMMITTEE**

Date	<b>Thursday, 26 January 2017</b>	Time	<b>6pm</b>
Venue	<b>Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT</b>		

### **Enquiries Regarding this Agenda:**

Democratic & Scrutiny Services	Stephanie Jones	01952 383114
Media Enquiries	Corporate Communications	01952 382407

**Committee Membership:** Councillors S Bentley, S P Burrell, A J Burford, N A Dugmore,  
**S A W Reynolds (Chair)**, R J Sloan, C F Smith and D G Wright  
Co-optees: Mrs C Mason-Morris and Mr R Williams

## **AGENDA**

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Alternative Budget Proposals** **Appendix A**  
To consider the alternative budget proposals of the main opposition group
4. **Work Programme and Chair's Update**  
To agree items for future meetings

**2017/2018**

**Alternative Budget Proposals**

**From**

**The Main Opposition Group**

**Of**

**Telford & Wrekin Council.**

Published January 2017.

## 1. OVERVIEW.

The Opposition key budget strategy proposals for 2017/18

### **Budget Deficit: –**

**Council Tax for 2017/18** – We support the administration's proposal to increase Council Tax by 1.2% and given the current pressures in funding Adult Social Care, we also support an additional supplementary increase of 2%. We likewise support giving our local community a choice on phasing arrangements of this increase.

However, it is essential that further efficiencies are identified to continue to control the budget in the current difficult financial climate.

**Protecting Social Care – Child Exploitation** – This is an area of significant local concern. Despite an undertaking by the current Labour Administration, and the implementation of a number of action plans to bring this budget under control; since 2011/12 expenditure has exceeded budget by a huge £13.7m.

Despite this significant expenditure, Telford & Wrekin has been identified as having the highest incidence of reported Child Sex Offences for the year up to and including September 2015. A position above that of Stoke and Rotherham.

With this in mind we would create a reserve of £0.250m to fund any subsequent investigation into the issues of CSE (Child Sexual Exploitation) in the Borough.

We also recognise and pay tribute to Telford's Street Pastors who do an invaluable job of protecting our youngsters and others on Telford & Wrekin's streets. With this in mind the Conservative Group gives an undertaking to these volunteers that we will always support them financially.

With this in mind, we would contribute an additional £5k per annum on top of the £10k allocated by the Police and Crime Commissioners fund, and would welcome further talks to ensure their future financial viability.

**Debt Reduction** – The Current Administration continues to increase debt at an unprecedented rate – our strategy is to dispose of non-core activities which have been debt financed by the current Administration and reduce the council's debt burden.

**We continue to advocate a significant change in policy direction with the aim of bringing the burden of debt down to a sustainable level.**

**Reduction in Risk** – Given the challenges the Council faces, we recognise that Local Authorities, including Telford & Wrekin, must move into areas which will provide additional opportunities for income generation.

**We believe that Telford & Wrekin Council should focus on marketing its core activities, which it knows well and thereby reduce the impact that risks present. To achieve this we continue to propose significant asset disposals.**

**Bring forward Living wage** - We propose to introduce a £9.00 per hour Living Wage earlier than planned from 1<sup>st</sup> September 2018. This will provide our workforce with a higher income in stark contrast to the current Administration which talks of a living wage but only announces redundancies. (The Living Wage will rise nationally to at least £9.00 by April 2020.)

**Development of the Borough/Shaping Places** - We do not accept the Housing target of 15,555 new houses set by the current Labour Administration. We believe it to be unsustainable and will place a huge burden on the Borough's infrastructure. The Council's own Housing Needs Survey has specified a need figure of only 9,940 so to build an additional 5,615 homes, many on Greenfield sites, is not justified or necessary. This will only serve to put further financial pressure on the Council to support infrastructure, education and social services for an increasing population. Despite the receipt of additional income from New Homes Bonus and Council Tax, additional services have to be supplied for the additional population.

### **Local Plan**

**We will initiate and fund a complete review of the Administration's Local Plan Proposals and recent consultation and have set £100k aside for this review.**

### **Highways**

We have been able to identify surplus funds within the Councils resources to finance a capital program to begin to bring highways to an acceptable standard.

### **Recycling Rates**

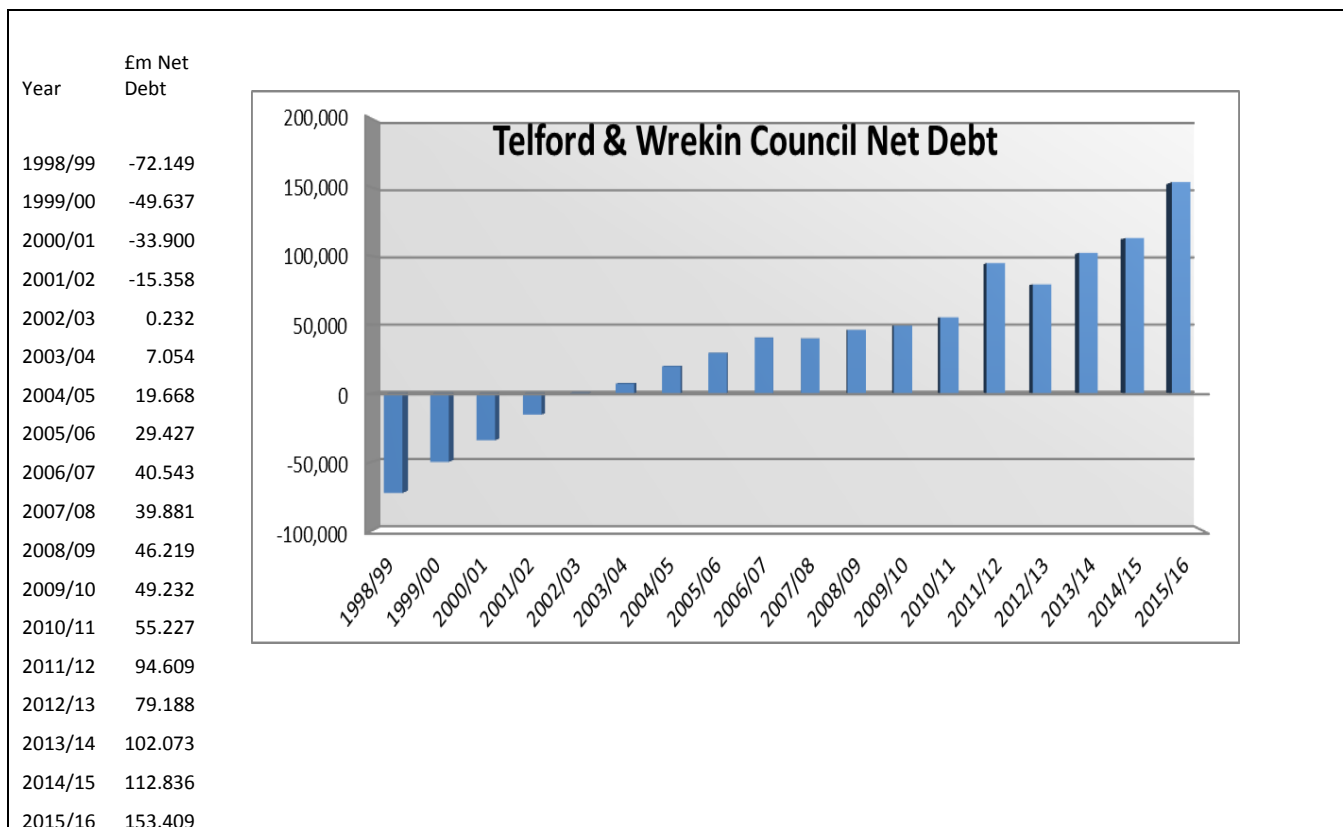
We seek to follow the lead of our neighbours in Wales and set an aspiration target of recycling for T&W of 64% by 2020 and 70% by 2025 and have included £0.050m one off investment to commence the process

**Council 'Prudential Borrowing'** – During May 2011 the incoming Labour Administration criticised Conservative "Prudential Borrowing" commitments used to fund Borough wide regeneration, which then stood at **£117.9m**.

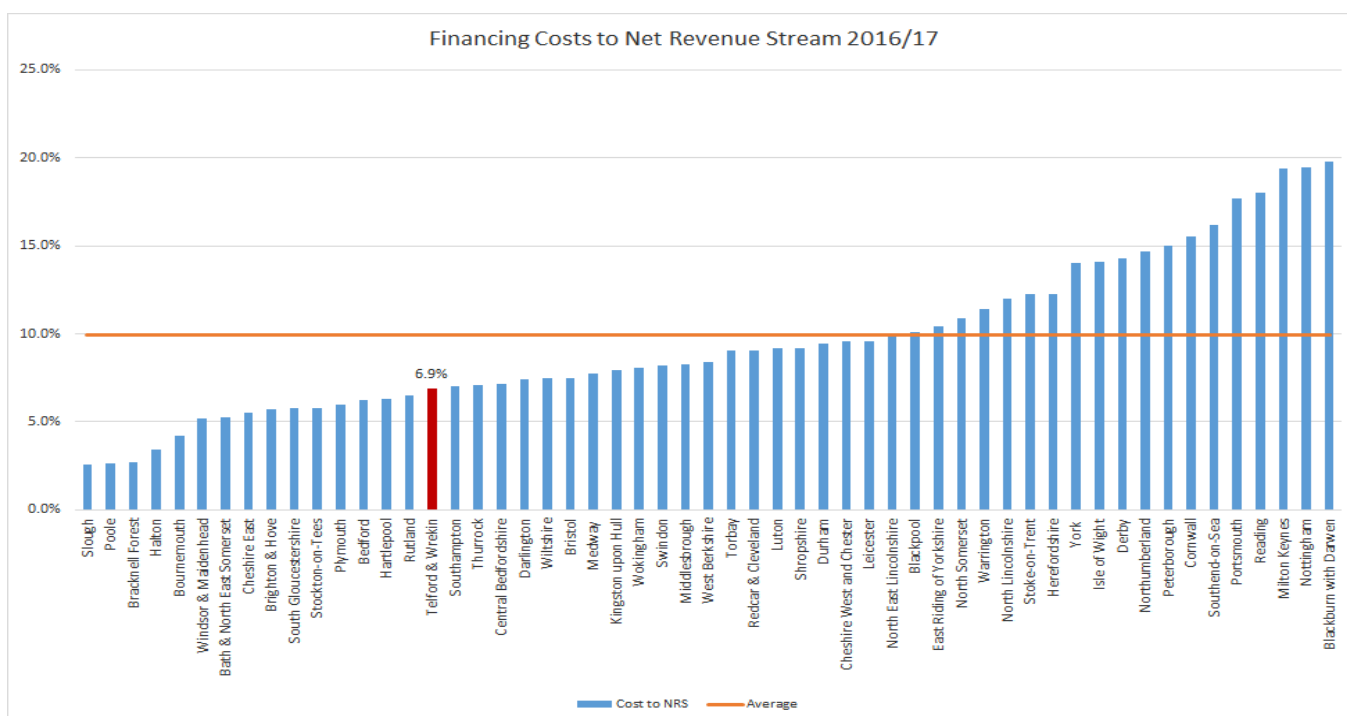
As a result, Labour's "*100 Day Budget*" of summer 2011 reduced Prudential Borrowing to **£91.1m** (a reduction of £26.8m). However, the Labour Administration's Prudential Borrowing commitments have since increased to unprecedented levels and are currently projected to reach an anticipated record **£347.0m**

Although much of this additional debt is envisaged to generate a greater revenue return than the cost of borrowing, the exposure to a future change in circumstances, legislation, technology or solar farm feed-in tariffs etc could prove a very significant risk in the future. Furthermore a significant proportion of this debt is invested into speculative areas such as commercial and residential property.

**We do not agree with this 'tax and spend' approach and will seek to reduce borrowing levels to safer and more sustainable levels.**



### Debt as a % of the Revenue Budget



Currently around 6.9% of the Council's Revenue budget is swallowed up by debt charges, this is with a current average interest rate of 3.45% and **net debts of**

**£179.5m at December 2016.** However, this is only after recalculating the figures to allow for the Council's Minimum Revenue Provision (MRP) changes.

Consequently, the current strategy will see prudential borrowing rise to **£347m**. Previously the council has been able to enjoy treasury windfalls due to the prevailing interest rates being below the original budgeted rate (which assumes the need to lock in). The current actual interest rates are around 0.3%. This favourable regime is likely to end shortly.

**We consider that any increase in debt charges which increase the proportion of principal repayment and interest charges as a percentage of the revenue budget above current levels is both unwise and taking a gamble with public finances. As a result, future budgets may be exposed to greater debt charges.**

### **Moving up the Risk Curve**

**As previously presented T&W continues to face growing risks.**

### **Risk 1 – Move to local funding**

Central government is rightly moving forward to make local authorities responsible for their own funding

### **Risk 2 – Final Salary Scheme**

The Council is a member of the Shropshire Pension scheme; this is a final salary defined benefit scheme and is currently underfunded.

### **Risk 3 – Investment Profile**

Commercial property is an unpredictable and volatile market area.

### **Risk 4 – Accounting changes**

Changes have been made to MRP calculations, which reduce present debt charges but increases them in future years

### **Risk 5 Debt funded approach**

The expansion of the Council balance sheet is being mostly funded by borrowing via the Public Loan works board.

### **Risk 6 Capping**

Currently council tax is capped preventing funding from being increased other than by nominal amounts.

### **Risk 7 – Political Driven Growth Agenda**

Growth is now being achieved via a move into more speculative and risky assets as already mentioned.

### **Review of the Current Administrations rapid debt lead approach**

We consider the current Administration's approach to be flawed and represent an unbalanced strategy and a business model with inherent vulnerabilities arising from an excessive focus on capital expenditure, asset growth and reliance on debt to generate short-term profitability.

### **Proposed Actions to de-risk the balance sheet**

- Reverse the recent additional Property Investment Portfolio (PIP) borrowing
- Dispose of the Solar Farm
- Dispose of Nuplace property development

The above actions will result in capital receipts totalling around **£87m** which would reduce prudential borrowing from the current projected total of **£347m to £260m**. The Conservative Group would fund the additional revenue cost arising from making these adjustments from further savings yet to be identified.

### **The National Picture – Other Local Authority Borrowing and Investments**

The primary challenge facing authorities in managing their capital spending and resourcing has been the need to minimise the revenue cost of their capital programmes whereby Authorities meet debt servicing costs from revenue spending.

In 2014-15, these costs accounted for £3.6 billion of revenue, equivalent to 7.8% of revenue spend (excluding education). Other Authorities in the same way as T&W have adopted a range of prudent treasury management strategies including minimising external borrowing, and recalculating the minimum revenue provisions (MRP) they must set aside to cover debt repayments. They have also increased 'internal borrowing', where authorities fund capital spending from temporarily surplus cash. This avoids interest payments by deferring the need to borrow externally

Nationally authorities' debt servicing costs have grown as a proportion of revenue spending, reflecting that additional prudential borrowing has been engaged as a way to achieve policy objectives.

A quarter of single tier and county councils now spend the equivalent of 9.9% or more of their revenue expenditure on debt servicing. Metropolitan district councils **are particularly exposed**, with a quarter spending over 11.2% of their revenue spend on servicing debt.

Whilst T&W's level currently stands at 6.9%, **the direction of travel is an important consideration as this is likely to rise.**

Across the sector as a whole debt servicing costs as a share of revenue spend fell slightly in 2014-15, as a number of local authorities reduced their MRPs

As interest rates start to rise, new borrowing will become more expensive, and authorities may also take on more external debt in order to lock in relatively low interest rates

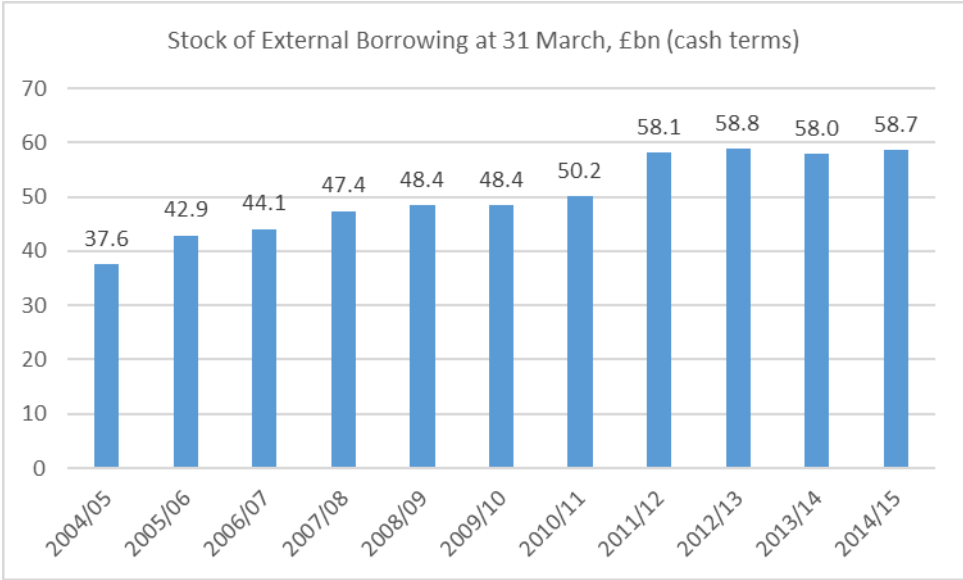
Authorities have used internal borrowing to keep the cost of debt servicing down. However, they may switch to external borrowing if an interest rate rise looks imminent in order to lock in borrowing at a relatively low rate. This will increase the cost of debt servicing. At the same time, authorities' revenue incomes will be constrained by cuts in government funding. If authorities cannot reduce their debt servicing costs, this will place further pressure on revenue spending.

Authorities may also decide that borrowing for new capital spending is unaffordable, reducing the scale of future capital projects. Counterparty risk has increased as levels of investments on deposit have grown

Local authorities in general are more exposed to counterparty risk – The possibility that an institution holding an investment fails – as levels of early Repayment of debt have fallen and investments on deposit with third parties have Grown. Early repayment of Public Works Loan Board (PWLB) debt fell from an annual average of £3.4 billion in the three years to 2010-11, to £186 million per year in the three years to 2015-16. Investments on deposit grew by £6.9 billion (37%) from 2010-11 to 2014-15. These changes may have been partly driven by the fall in interest rates in recent years which has increased the premium payable on early repayments by local authorities.

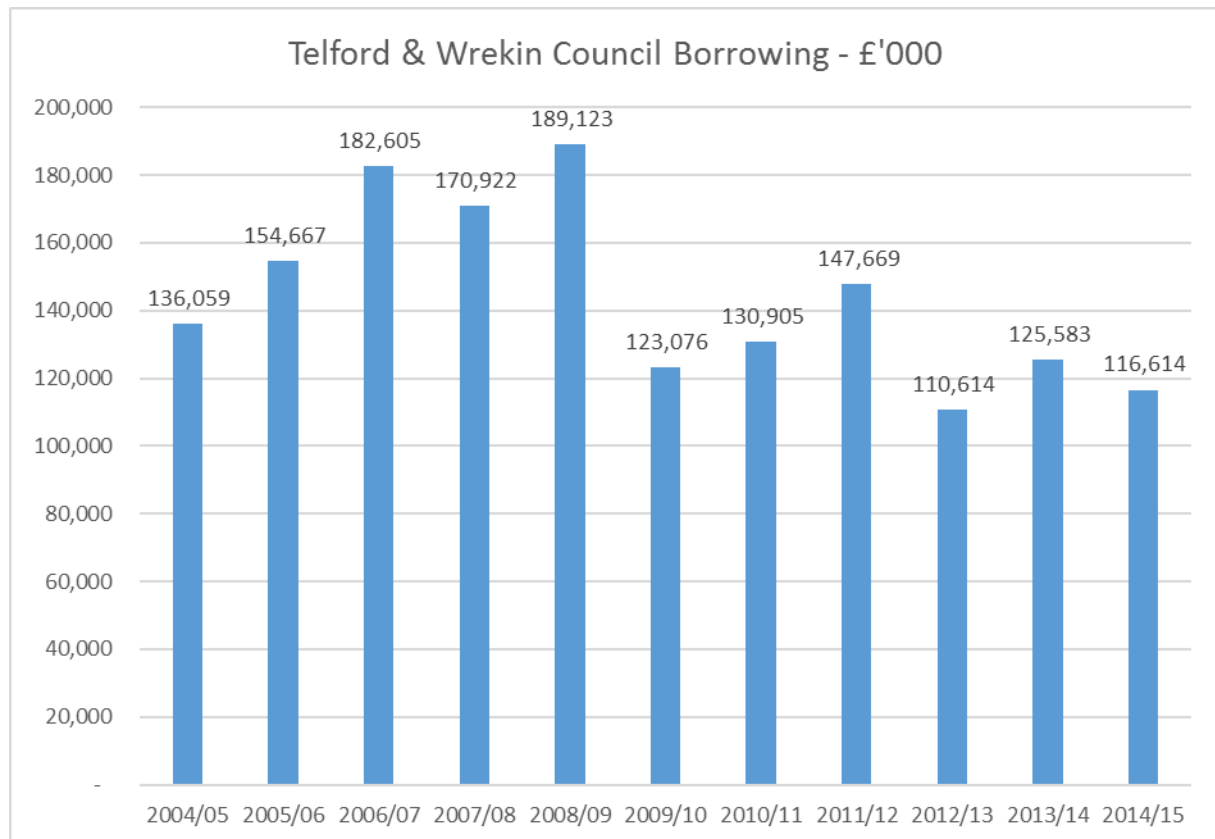
The general reluctance among authorities to borrow more is reflected in the amount of gross external borrowing held by authorities. Although gross borrowing increased in 2011-12, this was because local authorities moved to self-financing their housing revenue accounts. Gross external borrowing remained relatively unchanged in cash terms from 2011-12 to 2014-15 Gross external borrowing in 2014-15 stood at £58.7 billion.

Gross external borrowing has remained relatively flat in cash terms since 2011-12.



What can be seen from the above trend is that while debt nationally increased within local Government in the years 2004-2011 since then debt levels have stabilised

reflecting a move to a more cautious approach to debt and anticipation of interest rate rises. Based on this trend it can be assumed that 2015/16 is not likely to materially change.



## **Developments**

**Partnering with other authorities** – We believe that significant savings can be achieved over time by partnering with adjacent authorities. Part year savings of £125k are included as a part of this proposal in line with our recommendations made last year rising to £250k by 2019/20.

**Revenue opportunities** – We favour the formation of Centres of Excellence at the Council, which can then market their services to other public sector bodies. Our low cost base and stable workforce is a key advantage meaning that we should be able to secure work from other public bodies outside of our local area.

## **The Approach**

Currently T&W has some success with generating external income but this has been limited to opportunities within the local area itself. We propose to market our services nationally and will work with officers to find the most appropriate model and opportunities.

**Set up costs of £250K will be transferred from reserves for this purpose.**

There are a number of areas within the council which can be usefully shared. These include: -

## **Partnering**

- Payroll
- Internal Audit
- Finance Team
- Legal
- Treasury management
- Senior Officer Team
- Architectural Services
- Highway maintenance – pooling of equipment
- Human resources

## **New Revenue Opportunities**

- Children's services
- Planning
- ICT

**Spending Review** – As indicated within our 'Pilot proposals' for the Council's Leisure Facilities last year to give Council managers greater commercial freedom, we favour a smaller central structure at the Authority, which currently costs the Council over **£12m per year**, with an emphasis on wider competition for the provision of services. T&W Council is now a much smaller organisation than it was 5 years ago which, given the likely direction of travel over the next few years, is likely to become smaller still.

We will commence a major spending and structure review to free up the ability of Managers to manage and provide services.

## **Rights of Way**

Surprisingly, two thirds of Telford & Wrekin is rural and the enjoyment and access to our countryside is an important resource to be enjoyed by the community. The health benefits of walking are well known and may have a greater benefit to the community than the offer of free swimming which has now been withdrawn.

This budget has been underfunded by the current Labour Administration and it is proposed to provide an additional one-off amount of £0.1m to enhance the work of the authority in both rural and urban areas on top of the existing proposals.

## **Highways**

As indicated in our last budget we have now identified surplus / unused funds within the administration's budget of £19.6m and allocated some of these to highways.

## **Education**

Despite high levels of house building across the borough and a significant increase in the provision of primary schools to meet a burgeoning demand, Telford & Wrekin Council have singularly failed to collect any significant Developer contributions towards the provision of new or extended secondary schools in the borough.

Despite many warnings from the Conservative Group over the past 6 years the current labour administration have failed to act on this issue and have failed to plan properly for future growth, reflecting a muddled approach to infrastructure requirements in general.

In order to deal with this issue and prevent a pending crisis in secondary education, we propose to set aside £250K for an urgent review of population growth and future demand for secondary school places at pressure points across the Borough due to: - **The current Labour Administration's proposal by to build a total of 15,555 new homes in the Borough. (When the council's own Housing Needs Survey suggests less than 10,000 are needed.)**

**The potential lack of planning policies to prevent additional and unplanned speculative housing developments proceeding across the borough.**

### **Borough Maintenance**

To aid inward investment and provide stable and secure employment, the Borough of Telford and Wrekin must be an attractive and desirable place to live. Along with poor highways and the potential shortage of secondary school places, the cutting of environmental budgets again reflects a lack of joined up thinking and have been regarded as a simple way of reducing costs.

The appearance of the borough's environment is a key issue for the Conservative Group as the frequency of grass cutting, of tree cuts, litter picking and road sweeping etc, all contribute to a feeling of a looked after and well maintained borough.

Whilst savings have to be made in this area we propose to reverse these budget cuts and to re-invest again in environmental maintenance so a unique selling point of the borough can be restored.

We propose spending an additional one-off sum of £375k in 2017/18 and an additional £100kpa from 2017/18 onwards to improve the Borough's appearance and will work with officers to further increase this funding in future years

### **REVIEW OF STAFF TERMS AND CONDITIONS**

Given the difficult financial position of the authority, it is necessary to review the terms and conditions of staff and streamline the benefits available. We will remove the remaining "Essential Car User" Allowances saving £0.14m pa.

### **OTHER SAVINGS**

We have identified a number of roles and functions that can be undertaken by other team members and our proposals include the removal of

- Direct Financial Support for Trades Unions
- Indirect Union support via free accommodation

- Reductions to membership subscriptions
- Reductions to conference attendance

Union membership and participation is welcomed; however it is considered iniquitous that tax payers in Telford & Wrekin should be paying for Union representation for Council Officers, facilities which should be paid for by employees themselves. In many instances Council Officers also live outside of the Borough and we question why these facilities should be paid for by T&W Council tax payers.

## Highways

The borough has a backlog of maintenance which reflects more that 30 years of historic under investment, the table below shows annual funding requirement needed to bring highways up to standard.

As indicated in last years budget proposals it is going to take a considerable amount of officer's time to find a funding approach that avoids having to use incremental borrowing. We have however made progress against our objective which allows us to allocate funding in the budget for the first year of a renewal program.

### Highways

	17/18	18/19	19/20	20/21	21/22	Total
Expenditure	£,000	£,000	£,000	£,000	£,000	£,000
Annual Investment	9,500	9,500	9,500	9,500	9,500	47,500
<b>Funding</b>						
DfT Grant	3,119	2,778	2,778	2,778	2,778	14,231
Existing capital programme	2,000	2,000	2,000	2,000	2,000	10,000
<b>Additional Capital Funding required</b>	<b>4,381</b>	<b>4,722</b>	<b>4,722</b>	<b>4,722</b>	<b>4,722</b>	<b>23,269</b>
Funding in Alternative Budget Model - from one offs	4,381					

We propose that this investment is initially financed as follows

- Utilisation of part of available balances
- Reduction in single status fund by £1m
- Using £2.8m of in year underspending.

We will continue to work with officers to identify funding so the highways can be restored avoiding the use of prudential borrowing. Over the last few years the Council has not fully spent all of its budgeted contingency funds which has enabled funding to be allocated to priority initiatives at year end. We would prioritise further investment in highways improvements as and when any additional one-off funding or unused contingency became available over the medium term.

Whilst reducing cash and investments in the short term, this will be offset as PIP and Nuplace assets are sold and the cash used to reduce existing prudential borrowing

## Other Reserves

£m

Creation of contingency balance 4.278  
This balance to be used to support the budget.

## Summary

	<u>£m</u>
<b>One-Off Funding Available:</b>	
Usable Balances	15.850
Plus Reduction in Single Status Fund	1.000
Plus 2016/17 Projected Underspend	2.800
<b>Total one off funding available</b>	<b>19.650</b>
<b>Proposed Uses:</b>	
Reserves used in Admin Budget Strategy	5.024
Further use of balances	1.159
ITS/Capacity Fund	1.500
Footway/Pavements Programme Funding	1.400
Community Capacity Building Fund	0.500
Destination Telford	0.150
Organisational Development Fund	0.150
Additional Borough Maintenance	0.375
Child Sexual Exploitation	0.250
Centre of Excellence	0.250
Madeley 3 g Pitch	0.233
2017/18 Highways Funding	4.381
Contingency	4.278
	<hr/>
	<b>19.650</b>

## Recycling Rates

Our close neighbours in Wales are achieving 58% recycling rates currently and have plans to reach 64% by 2020 and 70% by 2025.

The current administration has signed a long term contact with Veolia. However, that contact has embedded within it modest recycling rate targets of 58.84% by 2020 and 59.52% by 2025. Given the similarities between our near neighbours and T&W we therefore have included £50K in our budget to fund initiatives to begin to plan to work with Veolia and the community to target higher recycling rates.

The contract has no in-built flexibility to adjust targets consequently higher targets will require additional investment.

## REVIEW OF THE LABOUR ADMINISTRATIONS PROPOSALS.

**Safeguarding vulnerable children and adults** is an aim shared by the Conservative Group, we remain very concerned however that this is an area that whilst very much under the spot light is not under control. Increasing the budget by £5.8m, which represents an approximate 9% increase in spending, does appear to be writing a blank cheque. Whereas what is now needed is a root and branch review of the function.

**Highways.** The intention of the administration to finally invest in highways at long last is very welcome given the 30 years legacy of under investment principally by previous labour administrations. **Our proposals have advocated this investment for a long time and this model includes our own earlier funding proposals for the first time.**

**Debt.** We strongly **disagree** with proposals to increase Council prudential borrowing to £347m this is at a time when nationally councils are building investment balances and avoiding debt increases. While we do have some capacity within our budget to support debt interest the sustainable level is already approaching what our group consider to be **excess**, we are not yet however at the level of Metropolitan district councils which **are particularly exposed**, (with a quarter spending over 11.2% of their revenue spend on debt servicing.) but the direction of travel appears to be towards over exposure and for T&W to be placed within the same risk group as Metropolitan councils.

Recent budgets and the councils success in maintaining budget control have been supported by the lower interest rates available on a day to day basis compared to the interest rates originally forecast (which represents the current lock in rates)

Currently around **£89m debt is short term** and the actual daily interest rate paid is around **0.30% compared to the 3.5% budgeted.** This is a situation that will not continue indefinitely, as once interest rates more to increase debt will need to be locked in.

### The Administration's Savings Proposals

**No 23 Increase school meal prices** – We disagree with the administration's proposal and will freeze meal prices for 2017/2018.

**No 25 off peak skating** – **We disagree with this proposal and will strike this from the savings list.**

**Mobile Library Service** – The Conservative Group remain extremely supportive of the borough's Library service, having provided a brand new library at Wellington and planned a new library at Southwater. We also acknowledge the ever changing service which libraries now provide to an ever growing population.

However, we also support traditional services such as the rural mobile library service, which will now be cancelled by the current Labour Administration in order to save £42k. This service provides valuable contact for residents in the rural area and members of the community in residential homes, right across the borough.

We accept that the cost of providing this service is high and while we welcome a suggestion from the administration that Rural Ward Members use up to £2k of their pride funding to support the service, this would also impact adversely on the provision of other projects in the rural area when compared to what can be provided by Councillors in urban areas.

Consequently, we propose a redesigned and targeted ordering service working on a monthly cycle. The delivery vehicle is owned by the council and we would work with council officers to provide this valuable service within a maximum cost of £18k per annum.

**AFC Telford United** – The Conservative Group recognise the valuable contribution that the football club makes to the community right across the borough and has also positively promoted the name of Telford itself.

When in administration, the then Conservative controlled council and the club maintained a strong working partnership which secured the club a long tenure at the Bucks head Football ground and other valuable income generating assets.

At a time when the football club is considering changing its future structure and operation, the withdrawal of £233k to fund joint working is considered to be very unhelpful and a retrograde step. We believe at times such as this that the council should stand alongside the club and demonstrate its full support.

We propose reinstating the £233k budget and instead providing the proposed football pitch at Madeley out of one off monies.

## **SUMMARY OF CONSERVATIVE BUDGET PROPOSALS**

The overall service and financial planning strategy for the period 2017/18 to 2018/19 is summarised in the table below:-

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Base Budget Gap (after £6.4m proposed cut to Revenue Support Grant in 2017/18 and the savings approved in March 2016 assumed for 2017/18)	(0.692)	12.187	21.563
Less 2% Social Care Precept*	(1.113)	(2.261)	(3.446)
Less 1.2% Council Tax Increase*	(0.668)	(1.357)	(2.068)
<b>Budget Gap after Council Tax Increases</b>	<b>(2.473)</b>	<b>8.569</b>	<b>16.049</b>
Add Pressures	5.803	4.645	4.063
Less Additional Savings Identified	(1.779)	(2.380)	(2.723)
Less: Savings to be Identified		(8.750)	(16.000)
<b>Base Budget Shortfall</b>	<b>1.551</b>	<b>2.084</b>	<b>1.389</b>
<b>Use of Reserves</b>	<b>(1.551)</b>	<b>(2.084)</b>	<b>(1.389)</b>
<b>Total Administration Budget</b>	<b>0.000</b>	<b>0.000</b>	<b>(0.000)</b>

<b>Alternative Budget</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b><u>Additional Revenue Investments</u></b>			
<b>Funded from Reserves:</b>			
Child Sexual Exploitation	0.250		
Centre of Excellence	0.250		
Madeley 3 g Pitch	0.233		
Use of Reserves	(0.733)		
	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Included in the Base Budget:</b>			
Street Pastors Contribution	0.005	0.005	0.005
Cost of accelerating Govt. living wage increase		0.220	0.271
Local Plan Review	0.100		
Rights of Way	0.100		
Education - Review of Secondary School places	0.250		
Borough Maintenance	0.100	0.100	0.100
Recycling	0.050		
	<b>0.605</b>	<b>0.325</b>	<b>0.376</b>
<b><u>Additional Savings</u></b>			
Joint Working/Partnering with other authorities	(0.125)	(0.200)	(0.250)
Review of Staff Terms and Conditions	(0.140)	(0.140)	(0.140)
Other - Trade Unions etc.	(0.100)	(0.100)	(0.100)
Further Savings to be Identified		(0.791)	(1.788)
	<b>(0.365)</b>	<b>(1.231)</b>	<b>(2.278)</b>
<b><u>Administration Savings Re-instated</u></b>			
No 23 - Increase School Meal Prices	0.040	0.080	0.120
No 25 - Review Off Peak Skating Concessions	0.005	0.007	0.007
Mobile Library - redesigned service	0.018	0.018	0.018
	<b>0.063</b>	<b>0.105</b>	<b>0.145</b>
<b><u>Other</u></b>			
Revenue Benefit of not undertaking £20m Highways: prudential borrowing in 2019/20 and 2020/21			(0.175)
NET Revenue Costs of Asset Sales	0.856	0.801	1.932
Further use of Balances	(1.159)		
<b>Residual Budget Gap</b>	<b>0.000</b>	<b>0.000</b>	<b>(0.000)</b>
	0.000	0.000	0.000

## **CONCLUSION**

Our alternative strategy represents a major departure from the current administrations strategy as follows: -

- Reduces Debt by £107m.
- Reduces the risks the council faces
- Proposes a new strategy for incremental income generation.
- Reduces Union Subsidies
- New Reserve for Protection of Children
- Accelerates implementation of living wage
- Better Planning for school places £250K
- Review and Revise Shaping places
- Review rights of way
- Reduces the extent of service impacts
- Contingency of £4.3m
- £4.381m 2017/18 to begin highways restoration
- £233K for Telford United re-instates budget deletion.

**Budget Proposals prepared by: -**

**Councillor Adrian Lawrence  
Councillor Andrew Eade**



## **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 on 2 March 2017 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 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.
  - 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 (£15.372m) than the Administration's proposals (£8.95m). This has allowed the Administration to create an additional revenue contingency of £6.95m compared to £4.278m 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 £2.8m 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.