

FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE)

Thursday 8 December 2016

COUNCILLORS PRESENT: Councillors Fry, Fooks, Simmons (Chair) and Taylor.

OFFICERS PRESENT: Andrew Brown (Scrutiny Officer), Nigel Kennedy (Head of Financial Services), Anna Winship (Management Accountancy Manager), Geoff Corps (Cleaner Greener Services Manager) and Fiona Piercy (Partnership & Regeneration Manager)

27. APOLOGIES

No apologies.

28. DECLARATIONS OF INTEREST

No declarations.

29. BUDGET MONITORING - QUARTER 2

The Panel noted that the services budgets are in balance overall but expressed concern about the projected adverse variance in Planning and Regulatory Services due to staffing pressures and underachievement against income targets. The Panel agreed to return to this in the scrutiny budget review.

The Panel noted the forecast surplus of £125k on the Housing Revenue Account (HRA) and questioned why there had been fewer Right to Buy sales than anticipated, which had contributed to a projected favourable variance of £382k in dwelling rents. The Panel heard that there were likely to be a range of factors but the proactive work of the Council's Investigations Team was likely to be having some impact. The Panel suggested that fewer Right to Buy sales should perhaps be projected in future years.

The Panel noted a forecast capital spend of £42.9m against an original budget of £42.8m and welcomed the impressive progress that has been made over recent years in delivering what is an ambitious programme of capital spending (which is set to be larger still in the coming 2 years). This showed that where projects had slipped there had been the flexibility in place to bring alternative schemes forward, as previously encouraged by Scrutiny. The Panel heard that this progress was down to the embedding of the new capital gateway process together with improvements to project management and better internal challenge. The favourable variance of £1.2m against the latest budget was comprised of underspends as well as slippage.

The Panel considered the recommendation to transfer a projected underspend of £1.5m on corporate contingencies to the Capital Financing Reserve, where it would be used to finance capital projects. The Panel felt that there may be a case for spending part of this money on different uses, such as one-off revenue projects, as an alternative to putting it all towards capital.

The Panel had previously monitored the impacts of Brexit on the Council's finances, which included risks to the Council's investment income, property fund appreciation values (which were now in recovery) and an income target measured in Euros. The Panel had also highlighted the risks to the wider national and regional economies and the impacts an economic downturn could have on trading and Business Rates income, for example. The Panel noted that this was not included as a red risk in the report and suggested that this risk should be included in the Council's Corporate Risk Register.

The Panel agreed to make two recommendations to the City Executive Board:

1. That consideration is given to spending some of the £1.5m released from unused corporate contingencies on one-off revenue projects.
2. That the expected and potential financial impacts of Brexit on the City Council and the wider economy should be included as a risk in the Corporate Risk Register.

30. TREASURY MANAGEMENT PERFORMANCE: ANNUAL REPORT AND PERFORMANCE 2016/17

The Panel noted that the Council's investment performance at the end of September 2016 was above the starting target despite the Bank of England decision in early August to lower the base rate from 0.5% to 0.25%. An overachievement of £179k from investment income is forecast for year end and property fund investments were the primary driver of this good performance.

In response to a question, the Panel heard that a planned additional investment of £10m in homelessness property acquisitions (to be funded by £3m of Right to Buy receipts and £7m of prudential borrowing) would not count as a non-specified investment because the Council would be going directly to the market. The £5m already committed did count as a non-specified investment because it had been invested in a fund.

The Panel noted that the Treasury Management Strategy allowed for non-specified investments to total no more than 25% of the previous year's average investment portfolio. In the current year the limit was £18m, of which £15m had already been committed, leaving £3m of headroom. The Panel heard that the Council would soon be making decisions about providing loans to the housing company and the OXWED development vehicle and that these cash resources could be used to offset the need for external borrowing (which incurs costs) through internal borrowing.

The Panel questioned whether returns from non-specified investments would more than offset the costs of external borrowing and what the risks of doing so would be. The Head of Financial Services advised that 50 year loans are available on 2.5% interest rates and that property funds were providing returns of 4-5% per year. The Council could also benefit from unit price increases upon withdrawing from property funds but these were long-term investments. The risks were from reduced liquidity, reduced returns due to lower occupancy rates and decreases in asset values. The Panel suggested that consideration should be given to how the £3m available for unspecified investments should be utilised and whether there was a case for increasing investments in property funds, for example, given the relatively low cost of borrowing from the market as a substitute for internal borrowing.

The Panel agreed to make one recommendation to the City Executive Board:

1. That consideration is given to how the remaining £3m of cash resources available for non-specified investments in 2016/17 can best be utilised and whether there is a case for maximising unspecified investments given the relatively low interest rates available on external borrowing as an alternative to internal borrowing.

31. BUDGET BRIEFING

The Head of Financial Services explained that the budget paperwork included in the agenda represented an unbalanced position but the gap had since been closed and the updated CEB paperwork published the previous day showed a balanced budget. He talked through the changes on page 67 and advised that:

- Changes to pensions were expected to cost an additional £200k per year.
- The New Homes Bonus funding in 2020/21 reversed a previous assumption. This funding was allocated to funding the capital programme as it was easier to refinance or cut the capital programme than the General Fund.
- Changes were being proposed to the levels of contingencies held against planned efficiencies etc. given the Council's recent record of not having to draw on contingencies.
- Changes to Business Rates Retention were expected to negatively impact this revenue stream by £500k per year. The Government was likely to increase the baseline and / or increase the tariff in order to redistribute resources across the country.
- Revenue Support Grant would reduce to zero in April 2019.
- The levy on higher value council house voids had been deferred for 1 year and the £4.7m allocated for year 1 was being held in a contingency.
- It was assumed that social rents would revert back to the convergence formula in 2020/21.
- A £20m tranche of the Housing Revenue Account debt was due to be repaid in April 2020 and it was expected that this would be refinanced at a higher rate as the initial rate had been preferential.

The Panel questioned the interest rate assumptions and heard that the Council's advisors projected a reduction in the base rate from 0.25% to 0.10% in the New Year.

The Panel heard that there were still 3,000 Business Rates appeals in the system and only two people were employed in the County to process these claims, some of which related to businesses that were no longer in operation. £17m was being held in a contingency fund to cover adverse appeals.

The Panel requested headcount data over a number of years to provide additional context and a breakdown of gross capital costs with details of how schemes would be funded.

32. TRANSFER STATION FOR RECYCLED MATERIAL

The Cleaner Greener Services Manager explained the background to this decision and the contractual arrangements that were in place. He clarified that the Council would take on responsibility for contamination control and that a

contractor would continue to be responsible for transferring the waste once in had been bulked. Non-dry recycling would be held separately at the site in external bays.

The Panel questioned the level of savings that would be achieved and heard that these would be net savings after running costs. One vehicle and crew could be released and redeployed.

The Regeneration Programme Manager explained the process of site identification and said that this had included looking at opportunity costs. The chosen site would result in additional costs of £1m due to the need for special foundations and various other works but the alternative sites considered could be better-utilised in other ways.

No revenue impact on car parking was expected but there was a need to consider how coaches could be accommodated at peak times and a study could be undertaken to identify options. The Panel expressed support for a study.

The Panel questioned whether there were opportunities for additional uses at the chosen site, such as a mixed recycling facility (MRF), in light of the expected future impacts of legislative changes. The Panel heard that an MRF would be a significant investment that would have very different environmental impacts and warrant a separate feasibility study. It was thought that there may be potential for depot operations at the site. The Panel strongly supported the proposal and suggested that the council should be open to the possibility of additional recycling processes (e.g. glass crushing) taking place at the site in future, subject to licensing, given that a lot can change in the waste and resource economy.

The Panel considered the possible locations of the transfer station at the chosen site and favoured the location furthest from residential properties given that the station could create odours. The Panel received assurances that the access route to this transfer station would be cordoned off from the park and ride facility.

33. WORK PLAN

The Panel agreed to defer the funding mechanisms for affordable housing item and request an updated Brexit report for the March meeting.

The Scrutiny Officer advised that the Head of Housing and Property would provide the Budget Review Group on 10 January with a paper on the Housing Company Business Plan. The Panel would also have the opportunity to scrutinise this decision in February.

34. NOTES OF PREVIOUS MEETING

Agreed.

35. FUTURE MEETING DATES

Noted.

The meeting started at 5.30 pm and ended at 7.30 pm