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TO	Overview and Scrutiny Committee
DATE	Tuesday, 17 December 2019
MEMBER	Chairman of the Overview and Scrutiny Committee

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards)

SUBJECT	Budget Scrutiny Panel: Service and Financial planning 2020/21
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RECOMMENDATIONS
<p>(i) That in response to the Service and Financial planning 2020/21 report to Executive on 7 November 2019, the following observations be submitted for the consideration of the Executive:</p> <p>a) That the Overview and Scrutiny Committee thanks the Executive Member for Finance, Executive and Officers for preparing initial revenue and capital budget proposals for 2020/21;</p> <p>b) That the Overview and Scrutiny Committee considers the following to be achievable, realistic and based on sound financial practices and reasonable assumptions:</p> <p>(i) Revenue Budget Savings and Additional Income proposals totalling £1.618m net</p> <p>(ii) Revenue Budget Growth proposals totalling £3.742m</p> <p>(iii) Capital Programme Growth proposals of £9.910m</p> <p>c) That the Overview and Scrutiny Committee considers the potential negative impact of the savings and growth proposals on service delivery to be minimal and in fact include some service improvements;</p>

(ii) That the Overview and Scrutiny Committee notes growth in the baseline budget for services of £2.12m, including funding for 23 new posts, plus 5 that were previously funded through the Corporate Plan Delivery Fund (CPDF), to achieve the Council's corporate priorities. Whilst recognising that the growth and each new post can be justified in its own right, and the Council has substantial reserves to fund such expenditure over the short term, the Overview and Scrutiny Committee is concerned that the overall increase in the Revenue budget is unsustainable in the long term, unless additional sustainable revenue income sources are brought on stream.

(iii) That capital budgets for investment in the Corporate Plan and the Housing Delivery Strategy are yet to be finalised, as well as the Central revenue budget proposals, and for this reason the Overview and Scrutiny Committee has yet to draw a conclusion on the overall budget proposals for 2020/21.

REASONS FOR RECOMMENDATIONS

The Committee is requested to consider the report and recommendations of the Budget Scrutiny Review Panel and make any observations on the Service and Financial Planning proposals for 2020/21, for consideration by the Executive in line with the Council's budget and policy procedure rules,

EXECUTIVE SUMMARY

Based on the information and explanations provided, and its assessment of the risk factors, the Panel concluded that each element of the 2020/21 Budget proposals were achievable, realistic and based on sound financial practices and reasonable assumptions.

The Panel noted that the Council continued to manage its finances well and had maintained services and delivered priority projects despite the removal of the Government Revenue Support Grant in 2017/18. The revenue budget outturn position for services in 2018/19 was a £1.6m underspend compared to the approved budget, and the current forecast for 2019/20 is an underspend of almost £800k.

The Panel concluded the proposed Budget for 2020/21 was a cautious one, with expenditure items fully costed and revenue not overstated, but the overall impact was a significant increase in service budget costs, totalling £2.1m, and the gap would grow further in future years with an anticipated £0.7m reduction in retained business rates.

The Panel recognised that savings might be found in Central Revenue Budgets, but the revenue consequences of borrowing to fund additional Capital Programme investment had yet to be incorporated in the revenue budget. The current Revenue Reserves were over £35m of which £12m was in the General Fund Balance which provided a secure financial base compared to many other local authorities. It was likely that reserves would be used to balance the budget in 2020/21.

In reviewing the growth in the services revenue budget of £2.1m, the Panel noted that half was funding for new posts. The net increase in staffing was 23, plus 5 posts previously funded in 2019/20 through the Corporate Plan Delivery Fund (CPDF). This net increase was after reflecting transfers relating to the previously outsourced Community Centres and transfers out following the loss of the Tandridge parking contract, and also adjusting for Harlequin staff previously employed on a casual contract.

The additional staffing effectively added back, in total terms, the staff reductions which had been made since 2009/10. The Panel was told that the increases reflected the need to invest in staff with expertise and to meet changes in functions, whereas the previous reductions reflected the delivery of service efficiencies. The Panel was told that Portfolio Holders had made sure that all these new posts were justified in their service areas. The Panel concluded that nevertheless it was a substantial budget increase which would be carried forward into future years, and advised caution.

The Council was developing its commercial approach to support future commercial and investment activity, but this work had progressed more slowly than expected. No substantial additional income was budgeted from the existing property portfolio, and current development projects would not bring in income for 2020/21.

The Panel noted that the Housing Delivery Strategy and Environmental Sustainability Strategies were in development and the capital investment proposals for their implementation had not yet been fully costed. Other key budget items remained to be finalised, including any additional Capital Programme budget growth proposals for 2020/21 to 2024/25, the review of Central Budgets and Revenue Reserves and the final Council Tax increase proposals.

These were significant elements of the budget and should be subject to scrutiny at the meeting of the Overview and Scrutiny on 23 January 2020. Other areas of uncertainty remained on levels of government spending, pension costs and any impacts of cuts to Surrey County Council's budgets, and these too could be reviewed further if new information was forthcoming in time for the January meeting.

STATUTORY POWERS

1. The Local Government Act 1972 requires the Council to set an annual budget as part of proper financial management through the Service and Financial Planning report each year.
2. The Local Government Act 1992 requires councils to set a balanced budget and announce the Council Tax level by 11 March each year.
3. The Local Government Act 2000 makes it clear that the role of scrutiny in the financial process is to hold the Executive to account and to ensure that its decisions are in the best interests of the community.

BACKGROUND

4. The Executive on 18 March 2019 supported the Committee's request for the Budget Scrutiny Review Panel to be re-established for 2019/20 and included in its work programme. This was subsequently approved by Council on 11 April 2019.
5. The Budget Scrutiny Review Panel 2019 focused on consideration of the draft Budget proposals for 2020/21.
6. The Service and Financial Planning 2020/21 Report and supporting documents were circulated as part of the Advance Questions process for the Budget Scrutiny Review Panel Members on 11 November 2019. The responses provided by officers were

circulated in advance to Panel Members before the Panel meeting on 21 November 2019.

7. The Panel was requested to offer its comments and recommendations to the Overview and Scrutiny Committee on 17 December 2019 on its review of the consultation document. The Executive was due to approve the proposed Budget for 2020/21 on 30 January 2020 after considering the recommendations from the Overview and Scrutiny Committee.
8. The objective of the Panel was to satisfy its Members that the Budget plan was achievable, realistic and based on sound financial practices. It scrutinised the following: the assumptions which underpinned the budget, the impact of any savings on service delivery, the justification for growth proposals and how the revenue budget and capital plan related to the delivery of corporate priorities.

CONCLUSIONS

Approach

9. It was noted that the proposals were a cautious approach to service and financial planning (expenditure items fully costed; revenue not overstated) which was the right approach in a challenging financial climate. Local authorities would face unprecedented events and change next year – the impact of Brexit was unknown and the funding for local government was uncertain. Public spending could rise but it was difficult to predict what this might look like in 2020.
10. The final budget proposals for 2020/21 would be considered at Overview and Scrutiny Committee on 23 January 2020, ahead of the Executive meeting on 30 January 2020, when future government funding plans for local government became clearer, and other remaining budget items are finalised.

Commercialisation Agenda

11. The Commercial Ventures Executive Sub-Committee was developing a Commercial Strategy, but progress had proved slow with no additional revenue budget income from new commercial activities included in the 2020/21 budget proposals.
12. Specialist legal and tax advice had been acquired when needed to support specific commercial and development projects. However, it was noted that there had been no recruitment to date of dedicated staff to support the commercial approach, although a new project manager had started work on the Council's housing projects.
13. Three new properties that were added to the asset base last year were forecast to bring in an income in 2019/20 and this was expected to increase only slightly for 2020/21. The three properties were 61E Albert Road North, Reigate, Regent House, Redhill and Units 1-5 Redhill Distribution Centre in Salfords. The Council had sought to acquire other assets, but apart from one major acquisition (which would not bring in additional revenue for 2020/21), other opportunities were turned down after scrutinising the business cases.
14. Major developments underway included the Marketfield Way, Pitwood Park and Cromwell Road projects. Capital receipts from the pre-sale of the residential units in

Marketfield Way would be paid at key milestones according to the terms of the agreement and at a market rental rate. Rental income from letting out the Marketfield Way commercial units would not be realised until 2023. Tenders for the Cromwell Road project were currently being assessed.

15. The Panel noted the significant increase in Public Works Loan Board (PWL) borrowing charges, announced in October 2019, and their potential impact on the return on property investments. To generate the required £2.1m additional net income to the revenue budget (for example) would require borrowing and re-investment in income-generating assets of circa £106.1m (based on current PWLB rates). This illustrative figure showed the amount of investment that would potentially be needed to close the funding gap if relying on commercial investments alone.
16. It was noted that the Revenue and Benefits team was carrying out some small-scale commercial activity and trading to customers which generated around £450k (gross) income per year. A firm of consultants (Mutual Ventures) had been engaged to help forecast future revenues and costs, and options for the future operating model.

Grant Funding

17. It was confirmed that the only specific change in the budget proposals as a result of Surrey County Council's reduction in funding was for Place delivery. The Council was not aware at this stage of other budget decisions that would have an impact on the Borough Council. Officers would look at functions where Surrey County Council was proposing to reduce services, such as ending its universal youth services, to review how it affected residents and whether there was scope for the Borough Council to provide some local services for young people.
18. Funding for the Money Support Services comes from the Homelessness Reduction Act grant up to March 2021. It was uncertain if this funding would continue after 2020.

Business Rates and Other Income

19. The latest government announcement on Business Rates Reform indicates that changes will be implemented in 2021/22. On Business Rate Appeals, the Council had made provision for appeals based on past patterns. £2.347m was the NNDR (National Non-Domestic Rates/business rates) figure that the government calculates the Council should retain in its Core Spending; the actual sum received is forecast to be higher which reflected the success of the team in collecting the revenue.
20. The Panel noted that the Council has 80 properties currently which attracted the empty homes council tax premium. If these properties all remained empty next year the Council would receive £177k. There were also 52 properties that potentially could be liable for the premium from April 2020.

Revenue Budget

21. The Council was on track to roll out full recycling services to 2,300 flats in 2019/20 and would then become part of the 'business as usual' service. It was continuing to

work with private landlords, managing agents and social landlords to encourage them to improve bin storage areas. It was confirmed that there was no additional funding for this allocated in the roll-out of the recycling collection to flats. Overall the service would be cost neutral as any additional recycling income was offset by the costs of a new crew to meet demand from new homes and the roll-out of flats recycling.

22. Additional income of £233k in 2019/20 came from garden waste subscriptions. The 2020/21 budget plan reflected that current level of income. It was not proposed to increase garden waste subscription fees in 2020/21. Members asked if subscriptions were growing year on year and whether income could be higher than forecast. Officers confirmed that there was a level of risk as the government's draft waste strategy had proposed stopping local authorities from charging for removing garden waste.
23. The Council had access to over 120 temporary accommodation units. In the first 12 months that the Council's 11-unit emergency accommodation has been operating, it has maintained a 95 per cent occupancy level. It has been averaging 21 households per night in nightly paid B&B accommodation and it was anticipated that this level will continue but not increase during 2020/21. It was working with Raven Housing Trust on increasing suitable accommodation in the north of the Borough.
24. It was noted that there had been a net revenue underspend of £1.6m for 2018/19 which related to vacancies, unused contingency, new property income and waste and recycling income in excess of budget which had been transferred to General Fund reserves. For 2018/19 the current forecast was an underspend of £774k.
25. It was noted that the 2019/20 budget included a Headroom Contingency budget of £885.8k. The contingency budget for 2020/21 was under review and will be confirmed in the final report in January.

Reserves

26. Balances on revenue Reserves had increased over recent years. In March 2019 the total was £37.589m which were set out in Annex C. A review was being carried out on each of the Reserve funds and their use. Forecasts for the position at March 2020 were being prepared and the outcome would be included in the January budget report with a view on the level of General Fund and other reserves the Council needed to hold.

Capital

27. It was noted that capital programme work on the Corporate Plan, Housing Delivery Strategy and Environmental Sustainability Strategies was still in progress and would be included in January's budget report. It was noted that in the Transport and Infrastructure section, the most recent Surrey Infrastructure Study estimated that Reigate and Banstead needed £96m to plug the infrastructure gap. It was confirmed that this did not include shifting the Council to having zero carbon emissions. An Environmental Sustainability Strategy was currently being prepared which will set out how the Borough will respond to climate change and carbon emissions.

28. Potential increases in borrowing costs would be taken into account when assessing projects on a case by case basis. Projections draw on the Council's Treasury Adviser's advice and are linked to the Treasury Management strategy. The PWLB costs of borrowing were set out in the Advance Questions pack (BSP14).

Growth in Revenue Expenditure and New Posts

29. The overall growth in revenue expenditure proposed is £2.12m. New posts and salary growth were set out in Annex B in the Responses to Advance Questions. It was noted that the costs total £1.048m for an additional 41.5 full-time equivalent (FTE) posts. 12.5 related to transfers, being 15 members of staff returning from previously outsourced Community Centres less 2.5 staff following the loss of the Tandridge parking contract. 6 related to employing casual staff at the Harlequin on a permanent basis. The net underlying increase was therefore 23 staff, plus 5 posts funded in 2019/20 from the CPDF. Officers and Portfolio Holders explained these additional posts reflected the need to invest in staff with expertise to make the Council fit for purpose in the future as previous budgets had cut out key resources which had an impact on service delivery. Portfolio Holders had made sure that all these posts were justified in their service areas. The Panel concluded that nevertheless it was a substantial increase to the budget and advised caution.
30. The Panel noted an increase in budget for running the Harlequin theatre venue. It was explained that this was now a realistic budget which would allow for growth and development including a new marketing manager and casual staff transferred into the base budget as explained above. This would ensure the Council could deliver on future operational plans and put the Harlequin in the best position to be more sustainable in the future.
31. Additional costs associated with bringing the three Community Centres in-house from April 2020 were estimated to be £144k based on current assumptions. The provider's contract was due to end on 31 March 2020 with staff transferred back. There might be income from commercial lets to help towards the running costs, but figures were not known currently.
32. A cost of £122.6k for new posts in Licensing was noted. This was due to the increase in the number of Houses in Multiple Occupation (HMO) licences due to changes in legislation related to HMOs. Other new requirements related to animal related licensing and Environmental Health licensing administration.
33. The Tandridge On-Street Parking contract had ceased with a loss of £36k. This was offset by a reduction of 2.5 staff, as discussed above.
34. Budget growth of £120k was proposed for business engagement which included £80k costs for the Towns and Villages priorities set out in the Corporate Plan and £40k for an Economic Prosperity Officer. The Panel was asked if some of the business engagement cost could be drawn from the £40k High Street Innovation Reserve.
35. The Panel noted a significant increase in the HR budget of £202k. It was confirmed that this had been previously approved. These additional posts would support managers through organisational change, employee relations and in resourcing and recruitment. This reflected the challenging recruitment environment and need for greater business support.

36. Additional ICT budgets include £301k to fund increases in the cost of software licensing costs, migration to cloud hosting and capital investment. It was noted that some of these costs related to ICT to support specific service requirements.
37. An asset management plan was in development, including the recruitment of a Property Services Manager. The objective was to achieve a portfolio of property assets that were appropriate, fit for purpose and affordable with an understanding as to when future investment in existing properties would be needed. This included looking at the energy performance ratings of the Council's properties (set out in Annex D of the Responses to Advance Questions). The £3m refurbishment of Beech House in Reigate included improving energy efficiency as part of the upgrade to meet tenants' requirements and support the level of rents charged.

Concluding Comments

38. New Members asked whether, if a new Government's funding decisions were announced soon after the general election, they would have an impact on proposals to increase Council Tax. It was noted that any additional funding was unlikely to filter through until the following financial year. Funding was more likely to be directed to unitary authorities with social care budgets.
39. Based on the information and explanations provided, and its assessment of the risk factors, the Panel concluded that in relation to 2020/21 each element of the budget proposals was achievable, realistic and based on sound financial practices and reasonable assumptions. However, it was likely that significant Reserves would be used to balance the budget for 2020/21. The Panel was mindful of the serious budget challenges that remained in the years to come.
40. The Panel thanked the Executive Member for Finance, the Chief Executive and Officers, particularly the Finance team, for their work to prepare the Service and Financial Planning report, and thanked Officers for their work in preparing the responses to the Advance Questions. These responses together with the clarifications and further explanations provided through the supplementary questions thoroughly tested the budget assumptions and risks and gave the Panel a sound basis to reach its conclusions.
41. The Executive would consider the report and observations from Overview and Scrutiny Committee and approve the proposed Budget for 2020/21 at its meeting on 30 January 2020. Full Council was due to consider Budget and Council Tax recommendations from the Executive on 13 February 2020.

OPTIONS

42. Option 1 - To submit the recommendations and conclusions of the Panel to the Executive, to inform its consideration of the 2020/21 Budget proposals, and to note the identified change to the baseline budget. This is the recommended option as it will reflect the in-depth analysis of the Budget Scrutiny Review Panel and support effective decision making by the Executive.
43. Option 2 – To not submit the recommendations and conclusions to the Executive, or to not note the identified change to the baseline budget. This is not the recommended option as it will not reflect the in-depth analysis of the Budget Scrutiny Review Panel and will not support effective decision making by the Executive.

44. In addition to the primary options outlined, the Committee may also wish to submit additional observations to the Executive.

LEGAL IMPLICATIONS

45. There are no direct legal implications arising from the recommendations in this report subject to the Council adopting a balanced budget for 2020/21 by 11 March 2020 to meet the requirements of the Local Government Finance Act 1992.

FINANCIAL IMPLICATIONS

46. Financial implications are addressed throughout the Service and Financial Planning 2020/21 report.

EQUALITIES IMPLICATIONS

47. These are considered in the Service and Financial Planning 2020/21 report.

COMMUNICATION IMPLICATIONS

48. These considerations are set out in the Service and Financial Planning 2020/21 report.

RISK MANAGEMENT CONSIDERATIONS

49. These are considered in the Service and Financial Planning 2020/21 report.

POLICY FRAMEWORK

50. Service and Financial Planning – The Budget proposals form part of the Council's budget and policy framework. The annual budget is developed to ensure that the Council can deliver the Corporate Five Year Plan and services to residents and businesses.

ANNEX 1

51. Annex 1 – [Responses to Advance Questions](#) put by Budget Scrutiny Review Panel Members.