Minutes of the Meeting of the FINANCIAL POLICY PANEL
held on 13 September 2016

PRESENT -

Councillor Eber Kington (Chairman); Councillors Richard Baker, John Beckett, Omer Kokou-Tchri, Barry Nash and Vince Romagnuolo

Absent: Councillor Graham Dudley and Councillor Keith Partridge

Officers present: Frances Rutter (Chief Executive), Michael Smith (Chief Accountant), Brian Thompson (Interim Head of Financial Services) and Fiona Cotter (Democratic Services Manager)

5 MINUTES

The Minutes of the Meetings of the Financial Policy Panel held on 1 December 2015, 2 February 2016 and 24 May 2016 were agreed as a true record and signed by the Chairman

6 DECLARATIONS OF INTEREST

No declarations of interest were made by Councillors regarding the item of business on the Agenda.

7 BUDGET TARGETS 2017/18

The Panel received a report which updated the financial forecast, recommended financial targets for the preparation of the draft budget for 2017/18 and financial planning for 2018/19 and 2019/20.

The Panel discussed the issues in the context of a financial landscape which had changed significantly following the previous financial settlement in early 2016.

A widely expected phased cut of Revenue Support Grant (RSG) funding was not now proposed by the Government which left the Council with no Revenue Support Grant from 2017/18 onwards and an overall 66% reduction in funding between 2015/16 and 2019/20, posing an even greater challenge to the Council in delivering year-on-year savings to achieve a balanced budget.

The Government had made an offer of a fixed, four year settlement covering the years 2016/17 – 2019/20 early in 2016. A local authority was not obliged to accept the offer. However, the report highlighted that that the risk in not accepting the offer was that any subsequent year's annual settlement might be less favourable than that outlined in the fixed offer – a risk which applied equally to authorities in receipt of Revenue Support Grant and those like Epsom and Ewell which were not scheduled to receive RSG in future years.

The report also highlighted that an advantage of accepting the four year settlement would be the removal of uncertainty in levels of funding from central Government. This had traditionally placed a strain on resources in this authority around December and January to make revisions to the budget in time for the January committee cycle. The certainty in funding would allow for a more predictable budget setting and the ability to get known positions earlier in the process.

To accept the settlement local authorities had to produce an Efficiency Plan to demonstrate a four year budget with transparency on the benefits for the Council and the community. Significant work had gone into the recent Medium Term Financial Strategy (MTFS) and it was proposed that, should the Panel recommend acceptance of the four year settlement, the current cost reduction plan would be renamed the Efficiency Plan and that the MTFS should be renamed the MTFS and Efficiency Plan. The report highlighted that this plan would need regular review in light of changes over the next four years.

The forecast budget shortfall for 2017/18 was £220K and over the next four financial years the total deficit was £1.282m. The latest four year revenue budget forecast was appended as Annexe 2 to the report and included additional efficiency savings of £119K identified by Officers over and above the "Star Chamber" exercise in 2016/17. It was noted that Officers had taken a prudent approach in profiling the identified savings in relation to the reduction in homelessness costs through new properties. There were a number of projects coming on-line but it was not known when the savings would come through (although it was confirmed that some were starting to do so) and so were not forecast to come through until 2019/20. In fact, it was anticipated that savings realised by the Bytes and Blenheim projects would come through in 2017/18 and the four plan would be amended accordingly should this occur.

The Panel wished to record its thanks to Officers for undertaking a tough but excellent job in identifying efficiency savings which had not resulted in the decimation of services. Officers acknowledged that it was becoming increasingly challenging to find in-year savings but were confident that these could be found over the four-year period. It was anticipated that further savings ought to be achievable to address the funding gap through service reviews, efficiency savings and income generation. For example, an element of the venues review would be looking at income generation; procurement changes and changes to the way in which the Council engaged agency staff ought to realise efficiencies through economies of scale and the Council was considering investment in property.

One of the assumptions made in forecasting the budget shortfall was that £500k of New Homes Bonus Grant would be used to fund services in 2017/18, 2018/19 and 2019/20. The 2016/17 budget had an increased use of £634K due to the late changes in the government settlement (assuming the potential £119K savings did not come through). Whilst assurances had been received that this grant would continue for the next four years, it was widely anticipated that this source of funding would be reduced and it was important that the Council continued to reduce its reliance on this source of funding. It was anticipated that the Council would receive £2.117m in New Homes Bonus Grant in 2017/18. The forecast figure for 2018/19 was a prudent one.

Another assumption was that, in line with the recent government announcement on public sector pay, the provision for pay award would be set at 1% for 2017/18 to 2019/20. It was acknowledged that there were currently some gaps in the establishment but it was not accepted that this was necessarily as a result of salary levels. A review of pay scales was currently underway and consideration was also being given to ways in which other sources of funding to could be used on related posts (Community Infrastructure Levy, for example).

Having considered the issues raised by the report, the Panel recommended to the Strategy and Resources Committee that:

(1) The Council should accept the Four Year Settlement from Central Government with the following actions:

a) That the approved cost reduction plan be renamed the Efficiency Plan and the MTFS is retitled the MTFS and Efficiency Plan;

b) That the Chief Executive in consultation with the Chairman and Vice Chairman of Strategy and Resources be authorised to make such further changes as she considers appropriate to the MTFS and Efficiency Plan, for example, to enable the Council to respond to any emerging guidance or good practice and meet the 14 October deadline;

c) That Members and Leadership Team develop the Efficiency Plan during October to January as part of the 2017/18 budget setting process.

(2) The following overall revenue budget target for 2017/18:

  a) Estimates prepared including options to reduce organisational costs by £556,000 to minimise the use of working balances and maintain a working balance of £2.5m in accordance with the Medium Term Financial Strategy;

  b) That at least £200,000 additional revenue be generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3% in 2017/18;

  c) That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.

(3) That further efficiencies be identified to address the budget shortfalls of £220,000 in 2017/18, £374,000 in 2018/19 and £688,000 in 2019/20;

(4) That the Capital Member Group seek to limit schemes included within the capital expenditure programme that enable the retention of the agreed minimum level of reserves.

In so doing, the Panel further recommended that, should the Four Year Settlement be accepted, the Council should still make strong representation to appropriate individuals and bodies regarding the funding cuts.

The meeting began at 7.32 pm and ended at 8.26 pm

COUNCILLOR EBER KINGTON (CHAIRMAN)