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Budget Review Group (7 February 2018)

Present: Councillor Gary Hewson (Chair), Councillor Tony Speakman (Vice-Chair), Councillor Kathleen Brothwell, Councillor Bob Bushell, Councillor Thomas Dyer, Councillor Ronald Hills, Councillor Jackie Kirk and Councillor Jane Loffhagen (substitute)

Councillor Ric Metcalfe was also in attendance

Apologies for Absence: Councillor Paul Gowen and Councillor Jim Hanrahan

1. Declarations of Interest

No declarations of interest were received.

2. Draft Medium Term Financial Strategy 2018-23

The Council's Chief Finance Officer:

(a) Presented the main objectives of the Budget Review Group, which were to examine the principles and planning process that underlie the proposed budget 2018/19, council tax and the Medium Term Financial Strategy 2018-23, with the aim of establishing at each stage that the budget:

- was clear, focused achievable, realistic and based on sound financial practices;
- had clear linkages with corporate plans that formed the Council's Policy Framework, establishing that they were identifiable and designed to support the Council's Vision 2020.

(b) Explained the income assumptions associated with the Medium Term Financial Strategy, which were noted as follows:

- Lincoln would be part of the 100% business rates retention pilot in 2018/19;
- growth of 1% per annum for 2019/20, increasing to 2% per annum from 2020/21 in business rates, although there would be an overall reduction in resources due to a business rates baseline reset in 2020/21;
- business rates increases being linked to the Consumer Price Index and uniform business rate;
- 75% devolution of business rates not yet being factored into the Medium Term Financial Strategy;
- phasing out of the Revenue Support Grant by 2020/21, in line with grant allocations;
- New Homes Bonus estimated on the basis of the new scheme, with national baseline growth assuming approximately 300 Band A and Band B new homes per year;

- investment returns being below 1% across the Medium Term Financial Strategy;
- fees and charges maintaining an average increase of 3.4% in 2018/19, with a 3% increase assumed thereafter.

(c) Explained the expenditure assumptions associated with the Medium Term Financial Strategy, which were noted as follows:

- 3.2% inflation for contractual commitments, based on the Retail Price Index;
- 2.2% for general inflation, based on the Consumer Price Index, in 2018/19, and 2% per annum thereafter;
- no inflation being applied on supplies and services budgets;
- 2% per annum provision for the staff pay award;
- A staff turnover assumption of 1% per annum;
- a capped increase of 1% per annum in 2018/19 to 2019/20 for employer pension contributions.

(d) Explained the following proposals in relation to council tax:

- the Government had increased the referendum limit to 3% for 2018/19 and 2019/20;
- the Medium Term Financial Strategy assumed an increase of 2.95% in 2018/19 and 2019/20, with a 1.9% increase thereafter. This was the equivalent of 10p per week for 80% of the city's residents;
- growth in the council tax base of 1.25% per annum with a 4% reduction in Localised Council Tax Support Scheme caseload in 2019/20.

The following points were raised following questions and answers during the Chief Finance Officer's presentation:

- actual receipt of business rates would continue to take place on a phased basis. The pilot included all of Lincolnshire's District Councils, Lincolnshire County Council and North Lincolnshire Council. The City Council's retention of business rates would therefore be shared with the County Council, with the City Council receiving 60% of the business rates collected in Lincoln and the County Council receiving 40%;
- the devolution of business rates to 100% still required Parliamentary approval but this had not been included in the Queen's speech following the Parliamentary General Election, hence the Secretary of State's announcement in the local government finance settlement of the move to 75% retention, which did not require Parliamentary approval;
- current assumptions in relation to interest rates were based on advice received by the Council's Treasury Management Advisors, taking into account the Council's investments and the current market;

- the expected yield from the asset rationalisation project associated with car parks was 5.5% and would show as property income in the Medium Term Financial Strategy.

The Chief Finance Officer presented answers to a number of questions that had been asked by members in advance of the meeting, as follows:

Question
“Are there any large capital projects (including Western Growth Corridor) which may lead to increased revenue expenditure in 2018/19 and subsequent years?”

Answer
All new capital projects would go through a rigorous review process via the Council’s Strategic Plan Implementation Group to enable them to be added to the capital programme. This review would include a financial assessment which identified both the capital funding but also any revenue implications, both in the interim and ongoing over the life of the new asset. This would be signed off by the Chief Finance Officer prior to Executive approval.

A question was raised as to whether any lessons had been learnt with regard to the new bus station. It was acknowledged that the new bus station was not a like-for-like facility both in terms of its exact site or specification to that of the previous bus station, so should have been considered as a new scheme and have been assessed accordingly.

Further to asking whether the Chief Finance Officer was confident that the Strategic Plan Implementation Group would pick up everything that it needed to, the Chief Finance Officer confirmed that he was confident, unless any assumptions considerably changed.

A further question was asked in relation to significant projects such as the Western Growth Corridor, as it was not clear where expenditure in relation to the scheme appeared in the budget and Medium Term Financial Strategy. The Chief Finance Officer confirmed that this expenditure would be set out in the revenue budget but reminded members that no capital funding had yet been committed to the Western Growth Corridor, which would go through the review process highlighted above at the relevant time should a capital scheme go ahead.

Question
“What is the expected change in revenues from 2017/18 to 2018/19?”

Answer
Changes in retained business rates, revenue support grant and council tax for 2017/18, 2018/19 and the percentage change were outlined in the presentation by the Chief Finance Officer. The total was noted as being £12,814,970 in 2018/19 compared to £11,627,100 in 2017/18.

Question
“Please outline a financial statement of the Council’s dependencies on Lincolnshire County Council for the authority’s functions.”

Answer

- Disabled Facilities Grant of £300,000 via the Better Care Fund;
- concessionary fares administration totalling £63,000;
- Bud Robinson Community Centre via a Surestart Agreement, totalling £24,000;
- Property rentals of £11,000.

Question
"Please outline the total revenue expenditure for the general fund per year, analysed by cost element."

Answer
The total revenue expenditure for the general fund per year, for the length of the Medium Term Financial Strategy, analysed by employees, premises, transport, supplies and services, support services and capital charges were set out in the presentation by the Chief Finance Officer.

A question was raised as to why there was a significant drop under the service and supplies heading from 2018/19, which totalled £7,399,580, compared to £5,711,550 in 2019/20 and similar amounts for subsequent years. It was noted that reserve entries were included within these figures and the amount of 2018/19 included £1 million for the business rates retention pilot. £600,000 of this would be used as part of the business rates baseline reset in 2020/21, with the remaining £400,000 being retained.

Question
"Please outline the total revenue expenditure for the housing revenue account per year, analysed by cost element".

Answer
The total revenue expenditure for the housing revenue account per year, for the length of the Medium Term Financial Strategy, analysed by employees, premises, transport, supplies and services, third party payments, transfer payments, support services and capital charges were outlined in the presentation by the Chief Finance Officer.

In questioning the repairs service account and any underspends associated with this as a result of increased efficiencies, clarification was sought as to whether this element was captured within the Medium Term Financial Strategy.
It was noted that the Medium Term Financial Strategy, in respect of the repairs service, was based on the current basis of delivery and that no object reductions had been included, other than those based on the assumptions and inflation levels as highlighted above.

Question
"Please outline the cost of senior management, including Directors and Assistant Directors, as a percentage of total revenue expenditure."

Answer
This information was provided by the Chief Finance Officer as part of his presentation for each year of the Medium Term Financial Strategy, both in respect of the general fund and the housing revenue account.

Question
“Please outline the full time equivalent establishment numbers by year by Directorate.”

Answer
A full breakdown for each Directorate for each year of the Medium Term Financial Strategy was provided as part of the Chief Finance Officer’s presentation.

A question was raised as to when vacancies would be filled and where funding was being held for vacant posts. It was noted that it was the intention to fill vacant posts, with the majority of vacant posts classed as ‘holding vacancies’ being held pending restructures. The vacancies currently on the establishment were within the Council’s 1% turnover assumption and it was emphasised that there would always be vacancies on the Council’s establishment, with a range of explanations as to why they were there or why they were being held.

Question
“Please outline the vacancy percentage applied in the Medium Term Financial Strategy by year.”

Answer
The vacancy percentage over the length of the Medium Term Financial Strategy for each year was set out in the Chief Finance Officer’s presentation, based on the 1% turnover assumption. He agreed to circulate the actual turnover percentage to all members of the Budget Review Group for the previous year.

Question
“Please explain the basis for showing expenditure without central support services.”

Answer
The Chief Finance Officer circulated a handout from the Chartered Institute of Public Finance and Accountancy which set out frequently asked questions regarding the reporting of corporate expenditure in the Council’s Comprehensive Income and Expenditure Statement. Question two of the handout clarified how ‘internal recharges’ for corporate expenditure should be treated.

The financial monitoring reports, accounts or Medium Term Financial Strategy, as per the Chartered Institute of Public Finance and Accountancy, were not required to include specific costs relating to recharges for indirect costs and associated overheads for central support services such as caretaking services, human resources and legal services, for example. A member expressed his concern about the integrity of the figures in this respect, particularly if wishing to calculate potential savings from a specific service area. It was noted that the Government still required a full breakdown of all expenditure, so the Council’s finance team undertook this as part of the Council’s return to Government. The Chief Finance Officer therefore gave an assurance that the Council did have a full understanding of all expenditure for all service areas, including central support services, but that this did not appear in the ledger as per the requirements of the Charted Institute of Public Finance and Accountancy.

The following points were noted as a result of any additional questions:

- the Towards Financial Sustainability Programme had been re-aligned and its three strands were:
  - commercialisation;
  - asset rationalisation;
  - shared services and savings.
- the £153,000 savings target for 2018/19 was expected to be achieved through asset rationalisation, investing in income generating assets and receiving a return for the Council;
- fees and charges for littering and dog fouling had not been increased due to these being statutorily set;
- the business rate retention pilot included a condition that, if the pilot made an overall net loss or had outstanding liabilities, this would be covered by all authorities in the pilot on a pro-rata basis. All modelling undertaken had showed that there would not be a loss and the pilot had a ‘no detriment’ clause which meant that all members would not receive less than would have been received under 50% retention.

RESOLVED that the draft Medium Term Financial Strategy 2018-23, 2018/19 budget and council tax proposals be noted and that the comments of this Group be referred to the Performance Scrutiny Committee and Executive prior to referral of the final budget proposals to the Council on 27 February 2018.