

# Final Report of the Budget Scrutiny Task and Finish Group

December 2014

## National context

The economic downturn, central government funding cuts and increasing public need have necessitated some difficult financial decision making from local government as it strives to continue delivering essential services. A recent survey by CIPFA found that local authority Chief Finance officers are more anxious about their ability to maintain a sound financial position in the medium term than they were 12 months ago (*CIPFA survey 2014*)

Given this context, the level of risk within UK local government finances is perhaps greater than ever. Moreover, against this bleak economic backdrop local authorities face new, devolved responsibilities to help create economic growth for their local communities. The dilemma for local government is to balance and manage both short and long term financial risks. In the short term, local authorities must maintain a resilient financial position in the face of uncertainty over future budgets and the macro-economic environment. By statutory requirement, local authorities must balance their books – and this is becoming increasingly challenging. There is a reducing margin for error and the ability and skill of officers in robust scenario planning is critical to managing known financial risks in this environment: weighing up short term risks for long term gains.

There is significant pressure on officers to accurately plan for the future financial risk landscape, a landscape where local government will undoubtedly need to move away from a reliance on central government funding.

There is no single way forward for local authorities, balancing risk within internal finances and the challenging external economic landscape will continue to be a defining characteristic of local authority budget setting for years to come. There are significant concerns about the funding structure for local authorities, and whether it allocates funding fairly in relation to local geographic, demographic and economic conditions.

In their fourth and most recent report on the financial resilience of local government in England, Grant Thornton state that the majority of local authorities are rising to the unprecedented challenges they have faced as a result of austerity, however they need to continue to evolve to remain sustainable in the long term. The report goes on to reveal that over the past four years, local councils have evolved their financial management arrangements and many are now in a position to confidently forecast financial resilience in their medium term financial plans. The transformation of service delivery is seen as a key tool in achieving this financial resilience, but there are many warnings that the scope for achieving such efficiencies are fast running out and that current funding forecasts are likely to require some significant compromises in the provision of local services.

The National Audit Office recently made an announcement that one in six councils are not expected to deliver services within budget this year, and more than half of all councils are at risk of financial failure within the next five years. Against this somewhat daunting national background members of this Task and Finish group sought to understand and comment on South Somerset District Council's approach to setting a balanced budget.

### **Budget Scrutiny Task and Finish Group**

Scrutiny involvement in the budget setting process at South Somerset has become increasingly effective over the past years. All budget setting reports are programmed for thorough consideration by the Scrutiny Committee – not only as part of the budget setting process, but throughout the year.

In addition, recent years have seen the annual establishment of a Budget Task and Finish group – the group initially focused on the Inescapable bids submitted by service managers, and then moved to meeting with Portfolio Holders to explore in more detail their spending priorities. For the 2015/16 budget, a new approach was trialled.

Effective budget scrutiny arrangements are now rightly expected as part of a robust budget setting process and to achieve this, a Task and Finish Group was established and met during October and November 2014. The group consisted of the following members:

#### **Members:**

Councillor Sue Steele – (Chair)  
John Calvert  
John Dyke  
Carol Goodall  
Tim Inglefield  
Tony Lock  
Nigel Mermagen  
Graham Middleton  
Sue Osbourne  
Derek Yeomans

The group was tasked with considering the risks and rewards of budgeting in an uncertain landscape, with a primary focus on understanding the considerable skill exercised by various specialist officers within the finance team and how they ensure that a balanced budget is set, balancing external pressures and the organisational and political aims of the South Somerset District Council. Members of the Task and Finish Group were asked to consider if these officers are given a robust enough framework ( political guidance) within which to make such judgements. In terms of external influences, members (extensively supported by the Finance team) considered the impact of each of the following factors:

- Use of New Homes Bonus funding;
- Diminishing levels of the Revenue Support Grant;
- Inflation costs and the impact of real terms reductions on budgets;
- Risks associated with payroll and pensions;

- Acceptable levels of reserves; and
- How to incorporate the ability for budgets to flex to take account of economic fluctuations.

In addition, members also considered four key projects which are currently underway to help deliver a balanced budget in the short and medium term. Members received presentations from the four project leads responsible for each of the following work streams:

- Service Redesign
- Contracts and procurement
- Optimising income
- Asset savings.

## **Review Process**

Over the course of four meetings, members were given a series of comprehensive presentations from members of the Finance Team and the work stream leads. Copies of all the presentations are available as an appendix to this report.

## **Issues considered**

### **Medium Term Financial Strategy 2015/16 – The Risks and rewards Budget setting in an uncertain Landscape**

Before looking at the wider issues of risk within budget setting, members considered how money is given to SSDC to deliver services and how in future these sources of funding are likely to change considerably. In particular, members considered the following key changes to local government funding:

- Revenue Support Grant (RSG) is decreasing and may disappear by 2020. RSG funding currently represents 11% of SSDC funding.
- New and emerging proposals around Non-Domestic Rates (NDR) essentially share the risks of NDR with local government with the promised rewards proving difficult to achieve.
- The potential to increase income via Council Tax is severely limited by the need to hold a referendum.
- New Homes Bonus funding has replaced part of the RSG through top slicing BUT is incentive based, not necessarily needs based.
- The Council Tax Reduction Scheme (CTR) will continue to have an impact on Council Tax income levels.
- Investment income streams continue to be impacted by external economic factors.

The Task and Finish Group were pleased to note that £6.7 million savings have been achieved over the past four years, mainly from:

- Partnership working
- Lean programme
- Asset management
- Investment in technology

- Income generation
- Revision of employee terms and conditions.

In terms of future setting in the future, the need to look at new ideas was discussed extensively, as the ability of those past actions listed above to continue to deliver the necessary savings in future years is diminishing. Coupled with this, future years bring added risks that are not within the control of SSDC. Over the 5 years covered by the MTFP, the budget gap is currently estimated at £4.9 million. The 2015 General Election represents a risk as officer's ability to predict future policy direction is drastically reduced and the on-going global financial situation will continue to have an impact.

Against this more general background, the Task and Finish Group then went on to consider the four work streams currently underway that are intended to go some considerable way to mitigate future risks.

### **Service Design**

This work stream is a progression of the Lean Programme which has been in place since 2009. Service Redesign looks to maximise technology and prioritise the needs and preferences of our customers at the heart of service delivery. SSDC lead members and officers realise the creation of an enhanced customer experience requires the council to transform the way it does business and interacts with Customers. Accordingly, members were informed that the Transformation through Service Re-design programme will consist of 4 main strands:

- Reviewing customer access
- Mapping of current activity across tiers starting with grades 1-4
- Proactively encouraging customers to use cheaper channels and self-serve
- Implementation of corporate Electronic Document Management (EDM) to automate processes and efficient back office admin.

All of this work will be underpinned by a change in focus towards what customers want from our services rather than what we determine they need, with an emphasis on value derived, not simply the cost.

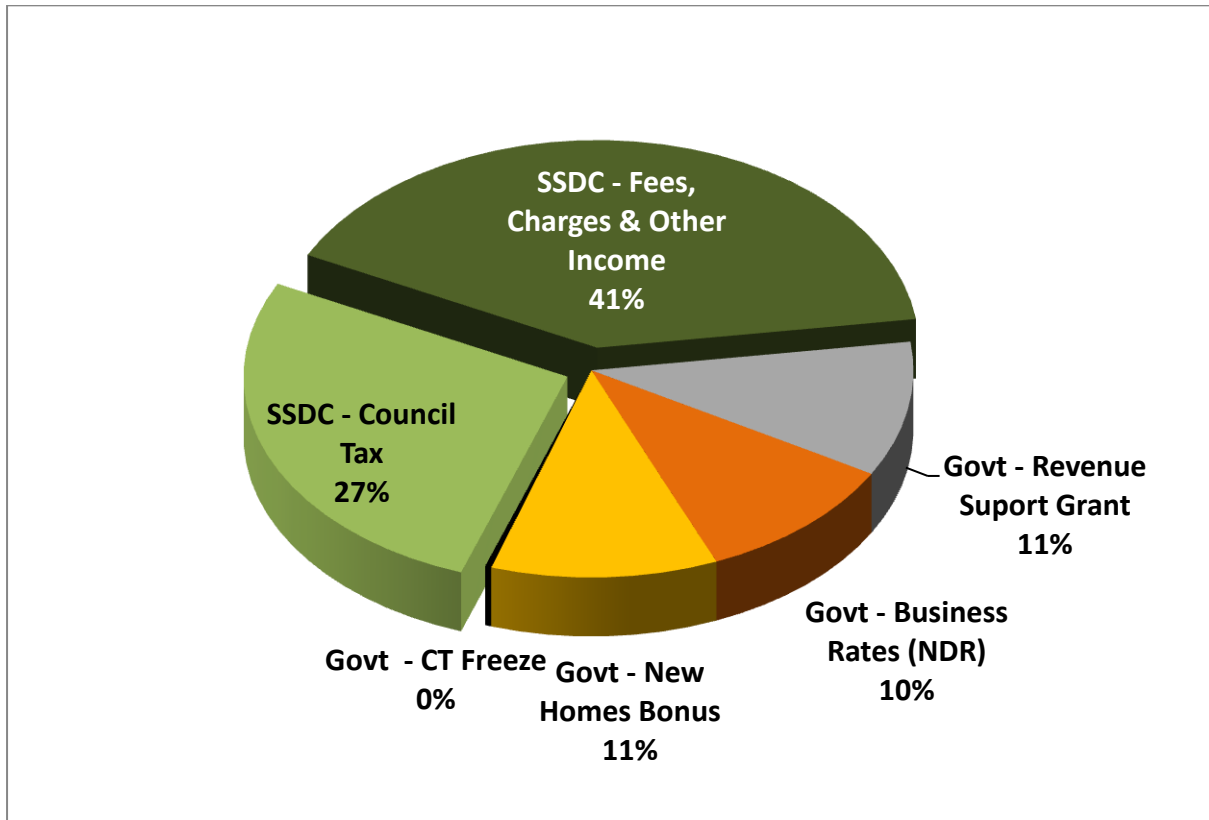
Members noted that there is still a considerable amount of work to be done in terms of assessing existing corporate practices and effectively establishing customer needs and expectations. It was reported that a report on Customer Access and current state activities analysed for staff grades 1-4 would be considered by Management Board in February 2015.

The Task and Finish Group noted the significant potential of this work stream in terms of delivering a more efficient way of working in the future. They commented that the project was at a relatively early stage and the exact nature of any savings could not be determined at this stage. They highlighted the risk that carrying out this project to its full conclusion would involve significant officer resource and that at present, this additional capacity was not clearly identified. Members commented that this work stream was more likely to impact on budget setting in 2016/17 at the earliest. They are supportive of the principles of this work stream and ask that members are kept informed as the project develops and key deliverables are identified.

## Income generation

The Task and Finish Group received a presentation from the Strategic Director – Operations and Customer Focus which set out the aims and objectives of the Income Generation Work Stream.

Why Income generation?



The ability to generate additional income can enable local authorities to fund non-statutory services which may otherwise have been cut as well as allowing for service enhancements should the customer wish to pay for them. Charging for public services is a sensitive issue both politically and within the community, but members agreed that in the current climate, generating income should be seen as a vital tool in balancing the budget, as long as fair and equitable principles were followed and the impact on vulnerable members of our communities was carefully managed.

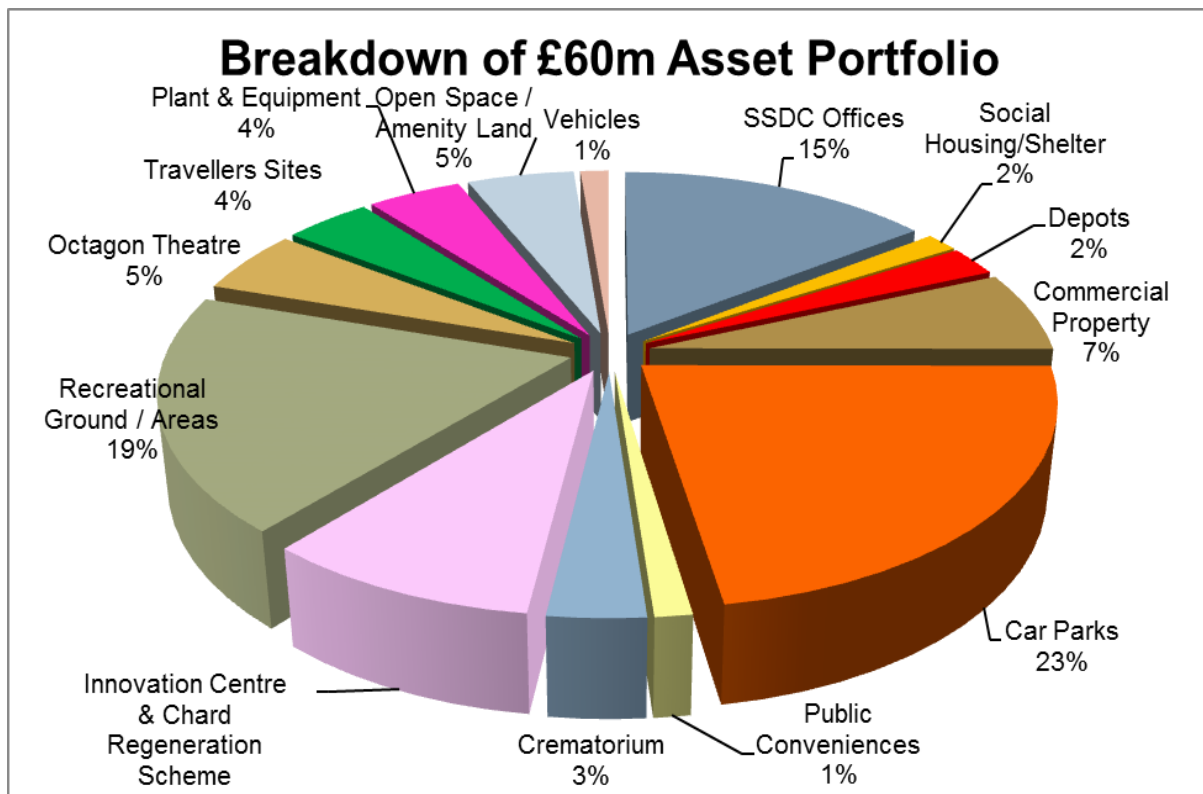
Members particularly questioned how the reputational risk to the council would be managed, especially regarding using council media for private advertising – they were assured that a comprehensive policy would be developed and that a reputable third party agency would be used. In terms of delivering an effective approach to income generation within SSDC, we will need to identify and exploit the commercial skills of our workforce, look to other authorities for best practice and work with some 'early adaptor' services to establish what is appropriate for South Somerset, both as an organisation and as a community, using the Aylesbury Vale model as a best practice example.

Members were pleased to note that the target of £200k for 2015-16 had already been identified and that work was well underway towards the £440k target for 2016-17 onwards.

Members concluded that in future both officers and members would have to embrace a more commercial culture, whilst managing the associated risks and were confident that both the work done by the project team to date and that planned for the future would achieve this.

### Asset savings Work stream

The Assistant Director – Environment outlined this work stream to the Task and Finish Group.



It was noted that via the Corporate Asset Management Strategy, various key aims had been agreed, including:

- The retention of Brympton Way, Petters Way and a depot
- Rationalise and seek sharing in retained offices
- Make retained buildings more energy efficient
- Provide an SSDC presence in each area
- Dispose / transfer buildings that do not contribute to SSDC Strategic or economic outcomes
- Ensure accessibility for staff and visitors.

The considerable success of various projects already completed was noted including accommodation rationalisation, shared offices, reduction in public toilets and re-negotiation of utility contracts.

Going forward, the target is £292k and members were confident that the measures outlined would achieve this target and felt that the potential options for 2016 – 17 outlined demonstrated that officers were taking a positive and pro-active approach to maximising our assets. Inevitably, many of the 'easier' projects have already been delivered and the next phase may include some more 'difficult' choices and that in line with the organisation reduction in work force, capacity and the necessary skills would become increasingly scarce. Members agreed that delivering against an agreed strategy provided a visible framework for both the organisation and the community and made our intentions clear. They congratulated officers on the progress made to date.

### **Contracts and Procurement**

This work stream primarily focuses on how more effective management of the various contracts and procurement exercises could result in savings – a 3% saving over 2 years could be around £400k. Such savings could be achieved by:

- Insourcing
- Setting financial limits on contracts
- Reducing specifications
- Shared contracts

Outsourcing is excluded from the scope.

The Task and Finish group felt that this work stream represented a sensible approach to better management of our contract and procurement costs.

### **Concluding Comments on work streams**

Members of the Task and Finish Group were complimentary about the forward thinking nature of the various work streams and the fact that the organisation seemed to be taking an innovative approach, pre-empting future funding situations rather than waiting to react. They commented that three of the four work streams were already delivering significant savings, whilst the fourth had significant potential in the medium term.

### **Factors beyond our control**

After consideration of the proactive work streams, members of the Task and Finish Group received several very detailed presentations from the Finance Team, these presentations facilitated discussions about the significant level of professional judgement that is required as part of the annual budget setting process. Through this process, it became apparent to the members of the Task and Finish Group that whilst local government finance is a tightly regulated field, within that, officers are required to anticipate government policy and spending decisions and apply them within the local context. Members were reassured to

note the accuracy with which such predictions had been made in the past when compared to actual budgets.

To demonstrate the level of professional judgement needed by officers, some specific examples were given:

### **Volatility of Council Tax Reduction Scheme**

Members will recall that the introduction of Council Tax Reduction was the subject of a comprehensive Scrutiny Task and Finish Group, and as such members have a reasonable grasp of this complex issue. However, they are now better able to appreciate the level of risk involved in certain elements such as which Band D charge to use and the likely impact of changes in the other precepting authorities' element of the Council Tax.

### **Business rates retention**

Again, the complexity of this issue was emphasised to members. It was explained to the Task and Finish Group that there is significant gap between perception and reality. A report has recently been agreed by Full Council, allowing for pooling Business rates with other Somerset Local authorities ( Council December 2014) which sets out the risks and rewards of business rate retention. Members were satisfied that the officers had sound operational knowledge of this new area and that members had received sufficient information prior to making decisions.

### **Treasury Management**

The final issue considered by the Task and Finish Group was Treasury Management.

*“ the management of the organisation’s cash flows, its banking, money market and capital market transactions: the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks” (CIPFA 2009)*

The important difference between ‘cash flow’ and budget was explained as well as the fact that all council invest surplus cash to generate interest, that can, in turn, be spent on services. When assessing potential investments, officers are required to consider Security, Liquidity and Yield ( in that order).

Within SSDC all Treasury Management Activity is covered by the Treasury Management Strategy which is in turn guided by national Treasury Management Practices. Risk Management forms an integral part of this approach and issues such as:

- Liquidity
- Interest Rates
- Exchange rates
- Refinancing
- Fraud, error and corruption



Monitoring the Treasury Management function is primarily carried out by the Audit Committee – providing elected member oversight throughout the year so that any risks are adequately identified and managed.

### **Concluding Comments**

Members greatly appreciated the time and effort officers put into preparing detailed presentations explaining some of the very complex issues of local government finance. The primary objective of this Task and Finish Group was to comment on the risks and rewards in the budget setting process and members are now confident that whilst they may not have detailed knowledge, through this exercise, they have every confidence in the professionalism of the finance officers both in terms of their level of knowledge and the judgement they exercise. At this point in time, the Task and Finish Group are satisfied that the levels of risk within the authority's approach to budget setting are acceptable. There are some issues that they feel would benefit from further exploration in the future, such as building contingencies into budgets and how underspends are managed.

This was the first year that this approach to wider member involvement in the budget setting process was trialled and members of this Task and Finish Group have found the process very beneficial both in terms of enhancing their understanding of this incredibly complex but vitally important issue and satisfying themselves that our practices and processes are robust, leading SSDC to be better placed than many other local authorities to deal with an uncertain future for local government finance.

Finally, members of the Task and Finish Group would like to thank the officers who supported this review and in particular, Donna Parham, Amanda Card, Jayne Beevor and Karen Gubbins.