

SHEFFIELD CITY COUNCIL

Overview and Scrutiny Management Committee

Meeting held 23 January 2018

PRESENT: Councillors Chris Peace (Chair), Ian Auckland, John Booker, Denise Fox, Douglas Johnson, George Lindars-Hammond, Pat Midgley, Josie Paszek, Mick Rooney, Ian Saunders, Steve Wilson, Cliff Woodcraft and Andrew Sangar (Substitute Member)

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1. APOLOGIES FOR ABSENCE

1.1 An apology for absence was received from Councillor Penny Baker (with Councillor Andrew Sangar attending as her substitute).

2. EXCLUSION OF PUBLIC AND PRESS

2.1 No items were identified where resolutions may be moved to exclude the public and press.

3. DECLARATIONS OF INTEREST

3.1 There were no declarations of interest.

4. PUBLIC QUESTIONS AND PETITIONS

4.1 There were no questions raised or petitions submitted by members of the public.

5. CALL-IN OF THE EXECUTIVE DIRECTOR OF RESOURCES' DECISION ON THE TREASURY MANAGEMENT MID-YEAR REVIEW, INCLUDING AN AMENDMENT TO THE COUNCIL'S MINIMUM REVENUE PROVISION POLICY

5.1 The Committee considered the following decision of the Executive Director of Resources taken on 12th January 2018, to:-

- (a) note the report on treasury activity in the first half of 2017/18, and our current expectations for the second half of the financial year; and
- (b) approve the proposed changes to the 2017/18 Minimum Revenue Provision Policy, in accordance with the recommendations made in the report.

5.2 Signatories

The lead signatory to the call-in was Councillor Robert Murphy, and the other signatories were Councillors Penny Baker, Douglas Johnson, Magid Magid and Alison Teal.

5.3 Reasons for the Call-in

The signatories confirmed that they wished to scrutinize the decision made that will have serious financial consequences for future budgets.

5.4 Attendees

- Councillor Olivia Blake (Cabinet Member for Finance)
- Eugene Walker (Executive Director of Resources)
- Stephen Bottomley (Finance Manager, Treasury Management and Banking)
- Councillor Robert Murphy (Lead Signatory to the Call-in)
- Councillor Douglas Johnson (Signatory to the Call-in)
- Councillor Magid Magid (Signatory to the Call-in)
- Councillor Alison Teal (Signatory to the Call-in)

5.5 Councillor Robert Murphy, as Lead Signatory, circulated and referred to a Government consultation document, issued by the Department for Communities and Local Government in November 2017, on proposed changes to the Prudential Framework of Capital Finance. He believed the decision, which involved significant amounts of money, over a long period of time, warranted submission to the Cabinet and the Council. He also considered that the effects of such changes could have a potentially adverse effect on the citizens of Sheffield in 40 years' time, affecting people who had not had an opportunity to comment thereon. Referring to paragraph 31 of the consultation document, which he stressed was not statutory guidance, Councillor Murphy believed that the Authority had overpaid its MRP, and should therefore now take steps to claim this overpayment back in order to reduce further payments in the future. With reference to paragraph 35 of the document, which indicated that an overpayment could not be calculated retrospectively, he considered that, with effect from 2007, the Authority had been overpaid, and was now trying to claim this amount back, which appeared to contradict the Government guidance. Councillor Murphy questioned whether the Authority considered that the proposed changes were in keeping with the Government's financial Code of Conduct, whether this was a prudent move on behalf of the Authority, and whether the Authority would be looking at changing its methodology again in 2018/19.

5.6 Councillor Douglas Johnson stated that implementing such changes made it look as though the Authority was taking steps to plug gaps in its Revenue Budget 2018/19, which could potentially result in larger debts in future years.

5.7 The Committee received a presentation from Eugene Walker on the background to the decision, the proposed changes, the impact of such changes and the governance arrangements regarding the changes. Mr Walker stated that the changes were not so much about how fast the Authority paid its debt off, but more to do with internal accounting procedures, and related to how the Authority could save money now, to put towards paying off its debt when it was due.

5.8 Members of the Committee raised questions, and the following responses were provided:-

- The proposed changes represented a prudent view in terms of how long the Authority considered that its assets would last, and represented an internal reserve to re-provide for the asset at the end of its life.

- The reason for the Authority paying more off its debt in the first place was due to a Government requirement that debt should be paid off at a faster rate (4% of the asset value per year). Under the new Government guidance, the Authority was being asked to make a decision in terms of the life of its assets, and to use that chosen period to work out how much to pay back. A number of other local authorities had already adopted the new repayment approach, and it had now been decided that, as part of the budget planning process for 2018/19 and future years, that the changes should be implemented. It had also been considered that the changes were necessary to provide the Authority with sufficient revenue funding in respect of its responsibilities in terms of Social Care.
- It was not likely that there would be any confusion in terms of assessing the value of the Authority's assets, as this would be done as part of the routine annual audit. The proposed changes related to all the Authority's assets, and not just those related to PFI projects.
- It had been decided that, on the basis that the changes could be implemented at this time as the Authority had saved prudently in the past, it was now able to lower this amount now. The Authority had not extended the life of some of its assets up to 60 years like some other local authorities, and it was not envisaged that any further changes would be required in the next financial year. The money saved as a result of the lower interest payments would be used to fund the expected £6 million in terms of Social Care pressures in 2018/19 and for the following five years. In addition, the expected savings in respect of the Authority's MRP charge in 2017/18 would be approximately £5 million.
- Whilst it was accepted that the decision to make the change needed to fit with the Government guidance now referred to, it had been considered a prudent approach in terms of dealing with the Authority's debt and was, in the opinion of the Executive Director, unlikely to be subject to challenge.
- In terms of any alternative options considered, it had been deemed that there were only two possible options, either agreeing or not agreeing to the proposed changes.
- The difference in the level of payments, following the proposed changes, would be charged to the Authority's Revenue Budget. The Authority's total income comprised its Revenue Budget, Government Grants and Council Tax receipts. It was expected that the rise in Council Tax for 2018/19 would equate to 3%/4%.
- The Executive Director of Resources had sought advice from the Authority's Monitoring Officer (Director of Legal and Governance), who had confirmed that it was a delegated decision he could make under the Council's Treasury Management Policy. He had also been advised by the external auditors (KPMG). Councillor Olivia Blake had been fully briefed on the proposals. The proposed changes would also be highlighted in the Month 9 budget report to

Cabinet. The Authority had held off making the decision, despite several other local authorities having done so, both with the intention of being more prudent, and to ensure that the Authority was not at a financial disadvantage. There were no concerns in terms of the charges for the 2019/20 financial year.

- If there was a further change in terms of Government guidance on this issue, this would affect all local authorities, and have a major impact over the whole Local Government sector.
- The proposed changes would result in the creation of a cash reserve which, ultimately, would mean that the Authority would not have to borrow from external sources as much, making a further saving. It was envisaged that the Authority would look to borrow from external sources in future if its cash reserves decreased, resulting in less cash being put aside.
- The Authority, as part of its Capital Investment Programme in highways, had borrowed £135 million to part-fund the total cost of the works undertaken as part of the Streets Ahead project. The Authority's debt to Amey, under the project, would be paid off after a period of 25 years, with the remaining £135 million being paid back over a period of 40 years.
- In terms of the Authority's PFI costs, the effects of the proposed changes did not relate to the external payments or the contract itself.
- Any budgetary amendments as a result of the proposed changes would be highlighted in the budget papers, which would be submitted to the Budget Council meeting in March, for approval.
- It was accepted, looking at the graph set out in the presentation, that the extra costs to the Authority's Revenue Budget from 2037 to 2067 could potentially have an adverse effect on its ability to fund its Social Care requirements. However, at the point at which the savings reduce in 2024, the Authority will have paid off its debt in respect of the Major Sporting Facilities, resulting in substantial compensating budget savings.
- The peak shown on the graph in 2021 represents the MRP Revenue Impact of the Authority's payment following the abolition of the former South Yorkshire County Council. This debt amounted to approximately £4.5 million.
- A similar graph to the one included in the presentation, showing the MRP Revenue Impact of solely the £135 million debt in respect of the Streets Ahead project, could be provided to Members.

5.9 Councillor Olivia Blake stated that she had been kept fully briefed on the proposed changes and, based on the information provided, was confident that it was a sensible and prudent decision for the Authority to make. She stated that the changes would help in terms of increasing the Authority's revenue savings which, in turn, would enable the Authority to fund its statutory requirements in terms of Social Care for 2018/19. She also confirmed that the Authority's external auditors,

KPMG, had advised that it was a prudent step to take. In terms of the decision-making process, Councillor Blake stated that she was comfortable that the decision had been made by the Executive Director of Resources as, not only on the basis that he had the relevant delegated powers to make such a decision, under the Council's Treasury Management Policy, but it had also speeded up the process, which had allowed the Authority to have a level of clarity and certainty in terms of its future budget planning. She also made the point that the changes would be detailed in future budget reports submitted to the Cabinet, and to the Budget Council meeting in March.

5.10 RESOLVED: That the Committee:-

- (a) notes the contents of the report now submitted, together with the comments now made and the responses to the questions raised; and
- (b) agrees to take no action in relation to the called-in decision, but recommends that the Council's Audit and Standards Committee discuss the changes with the Council's external auditors, as part of that Committee's work programme, to ensure that due process has been followed in this case.

(NOTE: In accordance with Council Procedure Rule 26 of the Council's Constitution and the provisions of Section 100(b)(4)(b) of the Local Government (Access to Information) Act 1985, the Chair decided that the above item be considered as a matter of urgency in order for the call-in to be considered at the earliest possible opportunity, although it had not been possible to give five clear days' notice that the item was to be considered.)

6. REVENUE BUDGET 2018/19

- 6.1 The Committee received a presentation from Marianne Betts (Director of Finance and Commercial Services) outlining the approach the Authority had taken in respect of the Revenue Budget 2018/19.
- 6.2 Also in attendance for this item was Councillor Olivia Blake (Cabinet Member for Finance).
- 6.3 Ms Betts reported on the key messages arising from the budget planning process, details of the current budget position, the consultation undertaken as part of the 2018/19 budget decision-making process and the progress made in terms of producing a balanced budget since Autumn 2017. She referred to the Authority's overall budgetary approach, together with the detailed budgetary process, the key areas and assumptions in the Revenue Budget, Equality Impact Assessments, and concluded by referring to the key dates, with effect from 9th January 2018 onwards, in connection with the budget-setting process.
- 6.4 Councillor Olivia Blake commented on the consultation held in connection with the budget, indicating that Members and officers were in the process of assessing the results of the process, and were looking at how, where possible, the Authority could match up the public's view with the Authority's priorities and targets.

6.5 Members of the Committee raised questions, and the following responses were provided:-

- The consultation had comprised an on-line survey and three Cabinet Member-hosted public events in the north, south and central areas of the City. The Authority had also consulted on particular topics, at meetings with the voluntary, community, faith and business sectors, which would inform longer-term thinking and Equality Impact Assessments. The Cabinet Member had also been interviewed by Radio Sheffield, with the aim of encouraging further consultation/debate through local media. In the light of the decrease in the level of face to face involvement over the last few years, the Authority had focused more on on-line interaction, the results of which had highlighted participation from a broader range of people. The participation rates in terms of the consultation would be assessed to inform future arrangements.
- Attempts had been made to arrange an additional public meeting in the south east of the City, as part of the consultation, but it had not been possible due to problems with the availability of a suitable venue.
- An analysis was undertaken, and records made, of the postcodes of those people who had completed the on-line survey as part of the consultation. The survey was still open, and all the results would be analysed by the Council's Policy, Performance and Communications Service, and a full response to the consultation would be published on-line.
- Responses to the consultation had shown overall support for raising Council Tax over cutting services.
- A two-step minimum Equality Impact Statement was carried out for all changes, and were to be published on-line, as part of the budget process.
- In terms of the Authority's approach with regard to the larger contracts, such as the recycling and waste management contract with Veolia, any reductions in payments paid to the companies, following renegotiations of the contracts, would result in a saving to the Authority from a budgetary point of view.
- Improvement and Recovery Plans had been developed in order to mitigate any budgetary pressures in 2018/19, in key areas, including Social Care. The Plans were likely to require funding from the Authority's reserves in the short-term. It was hoped, however, that the budget could be balanced without the need to use such reserves in 2017/18, albeit alternative corporate contributions would be made to mitigate the significant overspend across Social Care.
- The Social Care Improvement and Recovery Plans were critical to the Authority, both in terms of balancing the Revenue Budget 2018/19, and in terms of future budget planning. There was a national crisis at present in terms of the funding of Social Care, both in terms of Adults and Children's

Services, which had been due to increased pressures and demand. There was a need for local authorities to continue to lobby the Government on this issue.

- The Council Tax rates would be set as a standard part of the budget process (due to the Cabinet on 14th February, 2018, to make recommendations to full Council on 7th March, 2018). However, the Authority was looking at other income generation possibilities, such as attracting more businesses to the City with the aim of increasing income through Business Rates, and building more houses in the City. Equally, the Government had moved to a more bid-based approach in terms of assessing Council funding, particularly with regard to housing and education; the Authority needed to continue to be part of this process, and focus on increasing bid success rates.
- Members and officers were already holding discussions in terms of the budget for 2019/20 and beyond, and would include this Committee in the planning process.

6.6 RESOLVED: That the Committee:-

- (a) notes the information reported as part of the presentation, together with the responses to the questions raised;
- (b) thanks Marianne Betts for attending the meeting and responding to the questions raised: and
- (c) requests that it continues to be involved in the Authority's budget planning process going forward.

7. WORK PROGRAMME 2017/18

7.1 RESOLVED: That the Committee approves its Work Programme for 2017/18, as set out in the report of the Policy and Improvement Officer, now submitted.

8. DATE OF NEXT MEETING

8.1 It was noted that the next meeting of the Committee would be held on Wednesday, 14th February 2018, at 10.00 am, in the Town Hall.