Minutes of the meeting of the BUDGET AND RESOURCES SCRUTINY COMMITTEE held on TUESDAY 17 JULY 2018 AT 7.00 pm

Present: Councillor R Bradburn (Chair), Councillors Cannon, Ganatra, Gilbert, Rankine, C Wilson and K Wilson

Apologies: Councillor Akter

Officers: P Simpson (Corporate Director (Resources and Commercial Development)), S Richardson (Service Director (Finance and Resources)), A Rulton (Strategic Finance Business Partner) E Richardson (Overview and Scrutiny Officer)

Also Present: Councillor Marland

BR03 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

BR04 MINUTES

RESOLVED –

That the Minutes of the meeting of the Budget Scrutiny Committee held on 13 March 2018 and of the special meeting of the Budget and Resources Scrutiny Committee held on 16 May 2018 be agreed and signed as correct records by the Chair.

BR05 TERMS OF REFERENCE AND APPOINTMENT OF CALL-IN SUB-COMMITTEE

The Committee considered the new Terms of Reference for the Budget and Resources Committee and the appointment of the Call-in Sub-Committee.

RESOLVED -

1. That the new Terms of Reference for the Budget and Resources Scrutiny Committee as set out in the agenda be approved.
2. That all members of the Committee be appointed to the Budget and Resources Scrutiny Call-in Sub-Committee for the Council year 2018/19, from which 5 members (2:2:1) will form the Sub-Committee for any particular meeting in line with the overall proportionality of members on the Council.

BR06 SCRUTINY OF THE GENERAL FUND REVENUE ACCOUNT, HOUSING REVENUE ACCOUNT, DEDICATED SCHOOLS GRANT AND CAPITAL PROGRAMME OUTTURN REPORT 2017/18

The Chair advised the Committee that scrutiny of the 2017/18 outturn report provided an opportunity to review the Council's financial performance over the previous year and to assess whether there were any lessons to be learned or warning signs about the various budgets for 2018/19 and advise the Cabinet accordingly before work began on the 2019/20 draft budget proposals.

The Service Director (Finance and Resources) introduced the report and advised that the headline item was an underspend of £0.140m on the overall budget, although some reserves had been used to achieve this. There had also been an offset of £5.971m due to an under-spend in corporate debt financing which had helped contribute to the surplus.

The Service Director also explained that during 2017/18 a lot of work had been done to revise the way in which reserves were managed. In previous years base budgets had been set at too low a level and had been regularly topped up by demand led reserves when departments inevitably over-spent. Demand led reserves had been abolished from April 2018 and base budgets increased to reflect the true cost of delivering services.

Another headline item centred on the technical issues which had caused delays in getting the Residual Waste Treatment Facility (RWTF) operational. These delays meant that the anticipated savings were not available to the Council and had to be covered from a special £4.2m reserve which had been set aside for this purpose.

There was also a surplus of £1.023m on the Housing Revenue Account (HRA) despite there having been an over-spend on Repairs and Maintenance, due to a reclassification of costs from capital to revenue and on general management due to agency staffing costs. However, a rationalisation of revenue reserves had resulted in a reduced requirement for contributions from the HRA to capital reserves. The Housing Department was now also making permanent appointments to its staff vacancies.

The rate of undeliverable savings in 2017/18 was much higher than previous years. In the past the Council had achieved a savings delivery rate of 95% against proposals; in 2017/18 this rate was much lower. The Service Director (Finance and Resources) was of the view that some of the savings proposals in the 2017/18 budget had not been particularly robust and had not been thought through properly, and as such were not always achievable.

The lesson learned from 2017/18 was that a lot more rigour was required by departments when preparing savings proposals. For the 2019/20 budget preparation the Corporate Finance Team would be insisting on proper business cases for all savings proposals. The

Service Director (Finance and Resources) agreed that some proposals would always carry a degree of risk or volatility; officers needed to be clearer and more open about likely problems. The 2018/19 budget reporting process would have a much stronger focus on the reporting of savings delivery. Some of the proposals in the 2017/18 budget had not been fit for purpose and as the Council's financial situation got tighter, balancing the budget would get harder.

Similar problems had been apparent in the Capital Programme in 2017/18 as well. Parts of the programme had been overly optimistic about what could be delivered. It was not sufficient to just look at the figures, the Council also needed to look carefully at how schemes were managed and rigour needed to be applied to the approval process. In some cases there had been a significant mismatch between when departments said they needed capital funding and the actual start of projects. The impact of delays in the Capital Programme needed to be identified as to whether they were significant or not.

The Committee commended the Corporate Finance Team for their work over the past year. The position in the final outturn report was very close to the budget prediction and although the financial situation remained difficult, Milton Keynes was in a much better position than many other local authorities.

In response to a question about whether some departments were better at financial planning and management than others, the Corporate Director (Resources) explained that some departments had worked very hard to move away from the demand-led reserve management of their budgets. They understood their client base and the level of demand for their services, planned accordingly and were able to react and adjust as the need arose. However, other departments still needed to do a lot of work to properly plan and manage their budgets in order reduce the dependency on demand-led reserves. Regular use of demand-led reserves created the wrong culture of budget management. Departments needed to be aware of what was going on around them and manage within their budgets. Forecasting of budgetary requirements was becoming more accurate and the Finance Team was continuing to refine the process.

The Corporate Director also advised that the Corporate Finance Team was made up of experienced and dedicated staff who worked closely with the other departments to ensure that the Council's financial management processes were carried out properly. This was helped by the value Milton Keynes Council placed on the role of the S151 officer. In some local authorities this role had been seriously diminished over recent years and was not given the same significance as other senior, corporate posts in those authorities.

The Committee raised a concern about the Council Tax Collection Fund, which reported a surplus for 2017/18, and whether this was fair and equitable to town and parish councils. The Council, Fire and

Rescue Service and the Police and Crime Commissioner were major preceptors for Council Tax, whereas town and parish councils were considered minor preceptors. If there was a shortfall in the Collection Fund, then the major preceptors would have to bear the cost of this. Conversely, if there was a surplus, they would benefit from a share of the surplus. The Committee was concerned that whilst town and parish councils were being protected from the negative effects of a shortfall, a pattern of year on year surpluses from which they did not benefit could erode their financial position. The Service Director (Finance and Resources) advised the Committee that the operation of the Council Tax Collection Fund was being reviewed during 2018/19 and that scrutiny of the Fund, whether proposed collection targets were achievable and if the process was fair to town and parish councils would be welcomed.

The Committee also noted that once again the income from car parking charges was below the 2017/18 budget estimate, although it had produced a surplus over costs. This surplus was being spent on the public transport projects identified in the budget, with the shortfall being made up from reserves. The Committee further noted that the Council Parking Pricing Policy would be scrutinised by the new Strategic Placemaking Scrutiny Committee at its meeting on 26 July.

The Committee was made aware that there were some departments which over-estimated the level of achievable reductions / income generation as a matter of course, leading to delayed or undeliverable savings and that this approach, which caused uncertainty within the Council's finances, needed to be both monitored and challenged.

The Service Director also reported that £0.068m and £0.387m of savings from the Council's membership of the LGSS partnership were either undeliverable of delayed. Savings from LGSS were no different from others that were not robust or well thought out. The Corporate Director (Resources) advised that the general principle of shared services was right, but it was not a 'silver bullet' to solve all the Council's financial problems and that some of the projected savings had definitely been over estimated. However, the issue of undelivered / delayed savings from LGSS could not be taken in isolation and it was intended that a report on the whole of the shared service would be prepared in the autumn.

In response to specific questions about the Orchard Academy and the Redway Super Routes project, the Strategic Finance Business Partner advised that as she did not have the details of the Orchard Academy to hand she would update the Committee after the meeting. With regard to the Redway Super Routes project, this was partly funded by a government grant which had been received and spent on the project; it was the Council's funding for the project which had slipped and ways of managing this project better were being explored.

RESOLVED –

1. That the Corporate Director (Resources), Service Director (Finance and Resources) and the Strategic Finance Business Partner be thanked for their presentation of the report and their frankness in answering the Committee's questions.
2. That the whole of the Corporate Finance Team be thanked for their work in enabling the Council to achieve a balanced budget outturn, including a small surplus, for 2017/18.
3. That in the preparation of future budgets, the robustness of any proposed savings be challenged and scrutinised to ensure that they are achievable in order to avoid a significant level of delayed or non-deliverable savings in the future.
4. That the confirmation that the robustness of any proposed savings is measured by a RAG (Red, Amber, Green) rating be welcomed and re-assurance be sought that any alerts raised by this rating method are acted upon promptly in order to mitigate any detrimental effects on the Council's finances.
5. That the partnership with LGSS continues to be monitored very closely to ensure that any proposed savings are deliverable and that membership of the Partnership continues to be of advantage to the Council.
6. That the more robust monitoring of the Capital Programme which is being put in place be welcomed and the Cabinet be requested to make the necessary resources available to ensure that this new approach works so that unnecessary delays to the start of projects within the Capital Programme are minimised.
7. That as part of the challenge process of the 2019/20 draft budget, the Council Tax Collection Fund be reviewed to ensure that it remains fair and equitable to town and parish councils which are not major preceptors for local taxation and cannot therefore benefit from any surplus in the fund.

BR07 SCRUTINY OF THE ANNUAL TREASURY MANAGEMENT REPORT 2017/18

The Committee scrutinised the 2017/18 Annual Treasury Management Report, noting that:

(a) That Council had not undertaken any new borrowing during 2017/18;

(b) Much of the capital expenditure was on the delivery of key functions, such as roads and schools, which did not produce a revenue stream once completed;

(c) Even though some schools did have surplus capacity, there was still a need to build new schools to meet local demand in the current expansion areas of Milton Keynes; and

(d) Where capital projects were delayed, there could be an issue with a depreciation in the value of capital reserves due to inflation on the cost of materials and labour.

The Service Director (Finance and Resources) suggested that looking at the possible depreciation in capital reserves where there had been a significant delay in starting a project might be something the Committee could consider scrutinising in the future.

RESOLVED –

That the Corporate Director (Resources), Service Director (Finance and Resources) and the Strategic Finance Business Partner be thanked for their presentation of the report and their frankness in answering the Committee's questions.

BR08 ERP FINANCIAL MANAGEMENT / HR SYSTEM BRIEFING

The Committee received a presentation from the Service Director (Finance and Resources) on the ERP Financial Management / HR System which had gone live across the LGSS Partnership on 1 April 2018. During the presentation the Committee noted that:

(a) Implementation had originally been planned for 1 April 2017 but had been delayed;

(b) The financial input from Milton Keynes had been £2.6m, with projected savings, mainly on the cost of operating licences and the transformation programme, of £1m pa;

(c) It had been hoped that following some initial bedding-in issues, the Council's financial management processes would be back to business as usual by mid-July. However, due to the bedding-in problems being more significant than forecast this date had now been pushed back to the end of July, beginning of August;

(d) Two of the expected HR modules had not been delivered by the time the system went live;

(e) LGSS was a partnership of which Milton Keynes Council was a member. It was not a contractor and therefore any problems needed to be addressed through the partnership board, so that they could be worked through and resolved mutually;

(f) Although 338 transactions had not been posted, this income was not 'lost' as it had not yet been coded properly; and

(g) The Council had been prioritising outstanding payments by value, age and what they were for, with the remaining backlog now being relatively low level invoices.

Having heard the presentation, the Committee raised concerns as to why the system had gone live if it was not completely ready. The Service Director (Finance and Resources) advised that Cambridgeshire County Council had already been running ERP locally for 2 years. The Milton Keynes Accounts Payable Team had been disbanded and the function transferred to Cambridgeshire

County Council. However, Milton Keynes Council was not aware that the ERP teams at Cambridge County Council were, at the go live point, carrying a large number of vacancies and that there had been insufficient staff to handle the work. There were also issues with the work being handled fairly across all partners, together with problems of some staff not receiving sufficient training in the new system prior to implementation. At the time, Milton Keynes Council had not been made aware of these problems and would have raised them if it had known about them. The issues had not been anticipated as there had been no fore-warning of problems.

In response to a question about who should have been monitoring this, the Service Director (Finance and Resources) explained that there had been significant senior staff changes at both Milton Keynes Council and within the LGSS Partnership and that delivering such a complex new system across three different local authorities was a major undertaking. There was also a difference in culture and approach between county councils and unitary authorities, with the way unitary authorities worked being much faster paced than county councils. He went on to add that ERP was a good financial management system and that the software had not been the issue. The problems had been caused by poor management of resources, i.e. insufficient staff who had not been adequately trained.

The Leader of the Council, Councillor Marland, expressed his support for the Service Director (Finance and Resources) who had adopted a very rigorous approach to implementation, without which ERP would not have been able to go live on 1 April 2018.

The Committee was also advised that the LGSS Joint Scrutiny Committee would be carrying out a review of the Partnership in general to ensure that its processes remained robust and that it continued to deliver value for money.

The Corporate Director (Resources) concluded by adding that the bedding-in problems were now being addressed and that there were timescales in place to achieve these. There would also be future opportunities to expand the Partnership and to sell its services, such as any new unitary authorities created by the break-up of Northamptonshire County Council.

RESOLVED –

1. That the Service Director (Finance and Resources) be thanked for his presentation and his frankness about the problems the Council has encountered with the introduction of the ERP Financial Management / HR system.
2. That the Service Director (Finance and Resources) be requested to bring a further update on the progress of the implementation of ERP to the December meeting.

BR09 2018-19 WORK PROGRAMME

The Committee received and noted the 2018-19 Work Programme.

RESOLVED –

1. That the requested update on ERP be added to the Work Programme for the December meeting.
2. That a possible change to the order of the January Challenge meetings be noted.

THE CHAIR CLOSED THE MEETING AT 21.23