# REPORT OF THE PERFORMANCE AND CORPORATE SERVICES OVERVIEW & SCRUTINY COMMITTEE: SCRUTINY OF POST-CONSULTATION BUDGET PROPOSALS 2023/24 – 2025/26

Cllr Eddie Reeves
Chair of the Performance and Corporate Services Overview & Scrutiny Committee
January 2023

## RECOMMENDATION

1. The Cabinet is **RECOMMENDED** to:

    a) Note the observations contained in the body of this report and to respond to the recommendations with the proposed responses in Annex 1, and

    b) Agree that relevant officers will continue to update Scrutiny for 12 months on progress made against actions committed to in response to the recommendations, or until they are completed (if earlier).

## REQUIREMENT TO RESPOND

2. This report contains both observations and formal recommendations from the Scrutiny Committee. Under section 9FE of the Local Government Act 2000 the Cabinet has a duty to respond to the formal recommendations. It does not have to respond to the observations, though it may do so if it wishes.

## INTRODUCTION AND OVERVIEW

3. At its meeting on 19 January 2023, the Performance and Corporate Services Overview and Scrutiny Committee considered the Council's post-consultation budget proposals for the period 2023/24 – 2025/26, reflecting amendments made in light of the Council's new financial pressures and levels of income, and responses received to the consultation exercise. This followed previous consideration of the consultation budget proposals for revenue spending, which resulted in a report detailing the Committee's initial reactions to those proposals. At that meeting capital budgets and fees and charges were not considered, but they were considered in the January meeting.

4. This report focuses solely on the Council's budget proposals and does not cover the Committee's views relating to the proposed Strategic Plan 2023-25, which are detailed in a separate report.

5. The Committee would like to thank the large number of Cabinet members and corporate directors who attended the meeting, and to recognise the hard work

put in to reflect the significant changes to the Council's funding position between the Committee's December and January meetings.

## SUMMARY

6. Councillor Callum Miller, Cabinet Member for Finance, presented to the Committee on the main changes between the consultation and post-consultation budget proposals. Cllr Miller explained that the Council's funding position had been updated since the 09 December 2022 meeting of the Committee, based on information received following the Local Government Policy statement published on 12 December 2022, as well as changes to the budget proposals published as part of the report for the Committee on 09 December 2022. Changes also reflected feedback from the budget engagement and consultation and the Committee's observations following the previous meeting.

7. The Council's goals were threefold: repair finances and ensure preparedness for the future; ensure sufficient funding to deliver key frontline services; and take into account the consultation findings when planning areas of savings and investments.

8. The Cabinet Member reminded the Committee that the budget had been set within a period of significant financial pressure driven by inflation and demand. The political and economic situation was volatile and further pressures that emerged since the Autumn Statement totalled £19.4m. On top of the £8.7m budget gap (per the Committee's December repor)t, the total budget gap before provision local governance finance settlement totalled £28.1m.

9. The Cabinet Member elaborated on the following key points:

    a. Total funding changes for 2023/24 totalled £37.1m;
    b. There was £9m remaining funding available to respond to the consultation outcomes, reduce savings or fund further pressures;
    c. Total proposed changes to savings came to £5.1m;
    d. Total proposed budget increases came to £3.8m;
    e. In addition to the above revenue sums, the Council tax surplus notified was £10.1m more than expected and available one-off in 2023/24;
    f. There was a further £0.8m available in the budget priorities reserve, totalling £8.5m. There was still £7.1m to be allocated, of which there were proposals to allocate £4.2m to fund capital investments;
    g. £0.6m remained to support the implementation of further initiatives in the revenue priority fund; and
    h. The balance in the investment pump-priming reserve was £2m which had been allocated to three main areas.

10. In response, the Committee focused its queries on a number of issues, particularly the current risk profile of capital spending and its alignment with the Council's strategic priorities, inflation expectations, fees and charges, and

issues surrounding proposed reversals to revenue-funded projects – in particular drainage, tree-planting and highway, cycleway and pavement improvements.

11. Having provided less-formal feedback to Cabinet on the consultation budget by way of submitting a number observations, this report responds to the greater certainty contained within the post-consultation budget and contains eight formal recommendations to Cabinet alongside three observations. The recommendations and observations cover, in updated fashion, many of the topics raised in the Committee's previous submission to Cabinet as well as issues relating to its consideration of capital expenditure, fees and charges, and the amendments to the budget proposals following the consultation. The Committee's areas of comment relate to i) future in-year budget monitoring ii) inflation expectations iii) spending priorities, iv) climate impacts of the budget, and v) the underpinning of the Council's fees and charges schedule.

## OBSERVATIONS AND RECOMMENDATIONS

### i) Future In-year Budget Monitoring

12. Although the sums involved in capital expenditure tend to be larger than in the revenue budget, the outturns tend to be more predictable and not as prone to significant swings as experienced when there are surges in demand for Council services. Historically, this lower risk has meant that capital expenditure has not been subject to the same regularity of scrutiny. However, within a high-inflation environment as is being experienced at present the risks associated with the capital programme are significantly increased, and with it the corresponding level of scrutiny should increase. The most direct risk is with the Council relying on borrowing to part-fund its capital programme, interest rates - the cost of that borrowing – become a far greater financial liability. It simply costs significantly more to borrow the money needed to deliver the capital projects and that exposes the Council to greater risk.

13. This increase in borrowing costs has a knock-on effect on the risk profile of the capital pipeline which also needs to be monitored. Whilst business cases are approved with a margin of safety built in, over the last year the Bank of England base rate has increased from 0.25% to 3.5%, a fourteen-fold increase, and the rise is expected to continue at least in the short term. Such a rapid increase in costs puts pressure on those margins, and it is important that the Council is availed promptly of changes to give the most time to decide how to react to any pressures on the business case. Furthermore, cost rises are not simply limited to borrowing costs; inflation is the measure of how goods and services become more expensive over time. All parts of the supply chain for capital projects will be increasing, leading to increased delivery costs. The typical mitigation strategy for managing cost-increases in capital project is through value-engineering or de-scoping of a project. However, there is a limit to which value-engineering can be responsible for managing cost increases and it is likely the current environment falls beyond that limit, and it is more

likely that scope-reductions will have to be employed. This is a threshold at which the Committee feels Scrutiny should be involved in discussions.

14. Finally, the more hostile financial environment increases counter-party risk. Complex projects rely on a large number of goods providers, and a failure to deliver goods or services at the required time can have ongoing knock-on effects on the timing (and therefore savings) on which the projects are predicated. The Council may be able to manage the additional burdens associated with the higher interest rate environment, but this is not to say that none of its suppliers are over-extended.

15. Owing to these increased risks, the Committee is keen that there should be a commensurate increase in oversight. As such, it suggests that the performance of major capital projects is regularly reported on to the Performance and Corporate Services Committee, as well as to the existing oversight provided by the Audit and Governance Committee.

**Observation 1: That in an inflationary environment the capital programme carries with it increased risk.**

**Recommendation 1: That Cabinet report back to Performance and Corporate Services Scrutiny as large capital projects develop in addition to oversight by Audit & Governance.**

16. Having specifically highlighted the elevated risk relating to capital projects, the point made previously by this Committee - that the overall financial environment is volatile and that therefore even predictions based on prudent assumptions may prove incorrect over time – remains true. On the basis of this threat, the Performance and Corporate Services Scrutiny Committee interprets its responsibility for budget monitoring to require closer engagement with relevant Cabinet members and senior officers in-year to ensure that responses to deviations from budget forecasts are given timely scrutiny.

**Recommendation 2: That Cabinet members for Finance and Corporate Services maintain a close ongoing dialogue to ensure effective ongoing monitoring of both the revenue and capital sides of the budget, with said Cabinet members reporting proactively to the committee on any in-year areas of concern as soon as reasonably practicable.**

### ii) Inflation Expectations

17. As mentioned above, inflation has been a huge challenge to the setting of the budget, largely because the speed at which it has increased has led to the Council's existing medium-term estimates to be significantly underestimated. This rapid rise has left the Council needing to call on contingency funding to cover above-budgeted wage rises, and put a £37.9m pressure on the budget for 2023/24 alone. For scale, this is more than the Council spends on its Public Health and Community Safety directorate, and over half the budget for Environment and Place which services the counties' roads. It is important to note that the Committee recognises that the Council was not alone in being

caught out by this; for example, even the OBR's inflation expectations have almost doubled since their last update. Rather, the point is raised to underline the seriousness of the challenge that inflation poses both through the potential for overspend, and the difficulty in managing any overspends. To that end it wishes to make recommendations to ensure as that forecasts are robust as they can be.

18. The first point tallies with assurances provided to the Committee, that inflation estimates are produced based not solely on OBR forecasts, but service-specific data. The Committee would like to reiterate the importance of this. The sheer variety of the work that the Council is involved in – from education to roads to social care and all the sub-categories those headlines encompass – means that the contexts for the different areas of operation are varied, and not just financially. The markets in which the Council operates in are liable to heavy political intervention and regulation, respond to deep demographic and social changes, and can harness the benefits of technology at different rates. As such, their inflation rates are very individual. With inflation so strongly influencing the budget, the Committee is keen to stress the need for individualised inflation estimates at a service level which use best practice methods, and for those estimates then to be given a secondary level of challenge by others. The Committee also sees value in capturing and reporting on the accuracy of these estimates, not so much for the ability to read through into future budgets, but for the purposes of improving forecasting accuracy in the future.

**Recommendation 3: That Council ensures a) that directorates' reported service pressures from inflation reflect specific service-level inflation where relevant rather than nation-wide OBR inflation, b) that directorates' estimates follow a best practice procedure and are checked at a central level, and c) that in the next budget the Council provides a table showing the inflation outturn versus budgeted estimates.**

### iii) Spending Priorities

19. In its last submission to Cabinet the Committee raised the point about the difficulty in tracing how and to what degree the Council's budget proposals reflect its strategic priorities. Notwithstanding the caveat noted at the time the point was made, that the need to allocate budgets to specific services which deliver against multiple strategic priorities makes budgets an imperfect vehicle to express this, the Committee stands by this comment. It remains of the view that it is difficult to determine whether the Council's spending priorities as expressed in the budget align with its strategic priorities.

**Observation 2: The Committee finds it difficult to get a sense of how money has been spent and how or whether that relates to the Council's priorities.**

20. One idea put forward by the Committee to ensure that revenue projects deliver against the Council's priorities is to apply a similar prioritisation framework as is used in selecting capital projects, where alignment with and contribution

towards the Council's strategic priorities forms part of the prioritisation process. Regrettably, positive surprises around the Council's funding position of the scale experienced this year are unlikely to occur very often, meaning the need for large-scale prioritisation of multiple projects in a short time frame is also likely to be rare. Nevertheless, the Committee feels that having an agreed framework through which to judge and rank potential areas of spend would be beneficial, providing a considered and (more) objective way of identifying which proposals should, when they are being compared, be funded and which should be put up as savings.

**Recommendation 4: That the Council develops a revenue pipeline of projects whose order of priority is justified by agreed principles, including their contribution towards the Council's strategic aims.**

21. The improvement of the Council's funding position between the launch of the consultation budget proposals and the release of the post-consultation budget proposals has allowed certain savings to be reversed and be re-included within the budget. The Committee welcomes the fact that these proposals, as stated in the report submitted to the committee, 'reflect feedback from the budget engagement and consultation as well as the observations on the proposals shared by the Performance and Corporate Services Overview and Scrutiny Committee.'

22. The issue that the Committee wishes to raise is the fact that having been identified as savings previously, these reinstated proposals are likely to be amongst the weakest within the overall budget. If greater spending is to be made elsewhere, additional income must be generated, or savings must be found. Those proposals which are of most marginal benefit are the suitable place to look for such savings. A key factor in making a rational decision as to whether to redirect spending from these marginal projects to other areas of Council activity is the degree of public support they command. Are some which were deemed unviable when the Council had less money actually popular with the public, or would they not have noticed or cared if these savings had been realised? On this basis, the Committee feels it would be valuable to members of the Council when they are debating the final terms of the budget to know more about the feedback from the public on each reinstated proposal, and suggests that a table is included as part of the report pack for the Budget Council meeting. This would both inform and significantly expedite any discussion on potential amendments.

**Recommendation 5: That the Cabinet provides within the Budget Council meeting pack a table showing how savings proposals which were reversed after the consultation budget correspond to the feedback and level of support expressed by the consultation.**

### iv) Climate Impact

23. Prior to the Committee's consideration of the budget, it discussed the proposed Strategic Plan 2023-25. During questioning it was confirmed that

responding to the Climate Emergency through the Council's policy and influence was amongst the most important strategic priorities for the administration. The Committee supports the Council's policy of undertaking a Climate Impact Review of its budget proposals but suggests that at present this undertaking may not be as effective as it could be.

24. Paragraphs 8 and 15 of the budget's Climate Impact Review states that none of the revenue or capital 'proposals were identified as materially negatively impacting the council's overall ability to meet its climate action commitments'. However, the Committee was afforded little detail as to the rationale for such a conclusion. Some proposals appear complicated to reconcile with the Council's climate commitments, for example proposal 24CS32, which provides increased provision for home to school transport of children with SEND. The Scrutiny function is in the process of completing a review of home to school transport and so is aware of the complexities of working this out – whether bus usage would counter the extra miles covered by taxis getting to and from their base to a home, for example. On the other hand, proposal 24EP28, to extend lower prices for park and ride tickets is a far easier matter for which to make a climate-positive case. To be clear, the Committee is not suggesting that climate objective should override all other considerations, but when comparing proposed allocations with one another climate impacts, which are a key corporate priority, should form an important part of deciding what the Council funds and to what extent. At present, it is not possible to make anything but broad-brush comparisons between proposals which fall towards the outer edges of the spectrum because there is insufficiently granular information.

25. The Committee's view is that to address this the Council must further embed the consideration of climate impacts into the consideration of budget proposals, principally to ensure they are undertaken at an earlier stage. For instance, the Climate Impact Review states that 'Climate Impact Assessments of the proposals in Annex 4b [ie those proposed to be taken forward] will be carried out as full business cases are developed following our capital governance process. Potential climate impacts have been identified from the information available to us at the current time.' This suggests that investment decisions for capital projects are being made at a point when their consequences are hazy. Clearly, it is not reasonable to expect that fully-detailed climate impacts would be known prior to the development of a business case. However, it is also clear that it does not occupy as central a space in proposal design and evaluation as indicated by the importance accorded to it by the administration. The Committee suggests that budget suggestions in forthcoming years should provide an evidenced rationale of their expected climate impacts as part of their initial submissions, and that proposals adopted within the proposed budget should provide this as a key detail.

**Recommendation 6: That the Council gives closer consideration in forthcoming financial years to mainstreaming tackling the climate crisis as a principle of budget design with proposals evaluated at the earliest opportunity according to their impact on the Council's climate targets. This decision**

**making should be able to be evidenced in the presentation of the budget and accompanying narrative.**

26. One clearly climate-positive area discussed in detail was the Council's planned provision of £3m in capital funding to plant a minimum of 1,120 trees annually as a way of replacing felled trees. Given that over the last three years the Council felled 3942 more dead or dangerous trees than it has planted, and that the Council has identified a need to plant an additional 23,000 trees by 2050, the Committee queried whether the level of funding was truly sufficient. In response it was explained that out-sourced, contracted planting and tree management was extremely high and inefficient, particularly in the early stages when young trees require regular watering. The Council's intention was, however, to partner with parish and town councils, who would often take on responsibility for watering and looking after the young trees. This would significantly leverage the number of trees capable of being delivered from available funding. However, it was pointed out that even if it is more efficient and parishes want to participate, looking after young trees does still involve a cost, and many have set their budgets. Likewise, it would be necessary to make clear who had responsibility for a tree in the event that any liability arose from it; would parishes look after trees on behalf of the Council, or would they become owners and assume any subsequent liabilities for them?

27. The Committee is fully supportive of increased tree-planting and would welcome any steps which can be taken to leverage the effectiveness of funding to resource this. However, it feels that before the Council can move forward with this as a plan it needs to consult with potential partners to get a clearer understanding of the financial and legal issues involved, and that this clarity will ensure this good proposal is not stymied by complications further down the line. The Committee also encourages the Council to consider working with city and district councils also; these are bigger landowners and not all trees planted provide the same benefits. The greater the options available, the more tree planting can be optimised to provide maximum environmental, wildlife or social benefit.

**Recommendation 7: That the Council works with parish, town, city and district councils to develop a clearer understanding over the financial and legal issues involved in joint working with regards to tree-planting.**

28. Given the breadth of benefits tree-planting provides, the Committee suggests that the Council should be tracking and reporting on its success in planting trees and the net effect that has on the Council's progress towards its additional 23,000-tree goal.

**Recommendation 8: That the Council tracks and reports on a) the number of trees it is responsible for planting over the next year, and b) the net impact once trees which have been cut down are also considered.**

### v) Fees and Charges

29. The Council's schedule of fees and charges operates to deliver on two overriding objectives. The first is income generation, either to cover the cost of providing a service or to generate a surplus which can be used to support other areas of the Council's activity. The second is to support behaviour change by providing an incentive towards pro-social activity or a disincentive towards anti-social activity. However, the Committee recognises that within this area there are many complexities; there may often be a trade-off between the two key objectives – encouraging certain behaviour via pecuniary means tends to indicate subsidy, which does not maximise income. Equally, fees and charges operate in very different commercial contexts. For some, the Council is one of few or the only provider of a service, whereas for others it is operating within a competitive market or it is operating in partnership and the impact of its choices go beyond the Council itself. In recognition of that, some of the Council's fee-levels are regulated, set in discussion with others or even determined by central government, whilst for others the Council has far greater flexibility.

30. The Committee notes that feedback from the public on the consultation shows that a net level of support of 11% for the Council increasing revenue through higher fees and charges. It is possible that this moderate rather than strong level of support may reflect recognition that fees and charges should support behavioural change too; this is certainly the view of the Committee. However, the Committee finds it difficult to explore whether these objectives are being maximised or balanced correctly owing to the variety of factors which influence each particular fee or charge-setting decision. For example, it was suspected that filming charges are low compared to what Oxford University colleges charge. Providing benchmarking data would give a better sense of whether the fees are indeed set at an appropriate level. Likewise, discussion was devoted to whether permits for on-street parking were set at the correct level to deter car use (and simultaneously increasing income), and whether there were any reasons why greater market segmentation could not be employed to allow steeper charges in wealthier areas and comparatively lower charges in poorer ones.

31. As referenced, the Committee is keen that the Council leverages as much as possible the benefits arising from its ability to levy fees and charges, but it does not feel it is able to scrutinise whether it is indeed doing that with the current information. Further, it should not be forgotten that fees and charges are one source of interaction residents and visitors have with the Council. It is important that the Council be able to justify the reasons why it charges what it does on the basis of public transparency. The Committee hopes in future years that that transparency will be provided.

**Observation 3: It is difficult with the current schedule of fees and charges to unpick whether opportunities for income maximisation or positive behavioural change are being taken. The Committee would expect in future years fuller narrative to explain the basis by which proposed fees and charges levels are set.**

## NEXT STEPS

32. The Performance and Corporate Services Overview & Scrutiny Committee does not intend to revisit the budget once it has been passed by Council. However, as noted within the recommendations it hopes to engage in closer ongoing scrutiny of the Council's finances in the forthcoming civic year.

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Annex 1: Draft Cabinet Response to Recommendations