

Committee: Overview and Scrutiny Commission

Date: 30 January 2014

Agenda item:

Wards: All

Subject: **Scrutiny of the Business Plan 2014-2018: comments and recommendations from the overview and scrutiny panels**

Lead officer: Julia Regan, Head of Democracy Services

Lead member: Councillor Peter Southgate, Chair of Overview & Scrutiny

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Recommendations:

- A That in determining its response to Cabinet on the business plan 2014-18, the Overview and Scrutiny Commission considers and takes into account the comments and recommendations made by overview and scrutiny panels, set out in Appendix 1..
- B The Commission is also asked to take into account the additional information set out in Appendix 2, that has been provided in response to requests made during scrutiny meetings

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report sets out the comments and recommendations of each of the overview and scrutiny panels following consideration of the business plan. The Overview and Scrutiny Commission is recommended to take these into account when determining its response to Cabinet.
- 1.2 The report also includes further information on the savings proposal ENV1 as requested by the Sustainable Communities Overview and Scrutiny Panel at its meeting on 9 January and the MRP calculations as requested by the Commission's financial monitoring task group.

2. DETAILS

- 2.1 On 9 December 2013, Cabinet agreed to forward a draft business plan for consideration by scrutiny, including draft revenue savings proposals, draft service plans, draft equalities assessments and latest amendments to the capital programme.
- 2.2 The Overview and Scrutiny Commission has a constitutional duty to coordinate the scrutiny responses on the business plan and budget formulation. The outcome of scrutiny by the panels (described in section 3 below) is presented to Commission for this purpose.
- 2.3 The substantive report on the Business Plan 2014-2018 is contained elsewhere on this agenda for the Commission's consideration.

3. FINDINGS AND RECOMMENDATIONS OF THE OVERVIEW AND SCRUTINY PANELS

- 3.1 Appendix 1 contains comments and recommendations made by the scrutiny panels. Appendix 2 contains additional information requested by scrutiny
- 3.2 The Overview and Scrutiny Commission is recommended to consider the comments and recommendations put forward by the scrutiny panels as well as the additional information provided when determining its overall scrutiny response to Cabinet on the Business Plan 2014-18.

4. ALTERNATIVE OPTIONS

- 4.1 The Constitution requires the Overview and Scrutiny Commission to consider the comments and recommendations put forward by the overview and scrutiny panels and to agree a joint overview and scrutiny response. Cabinet is then required under the terms of the Constitution to receive, consider and respond to references from overview and scrutiny.

5. CONSULTATION UNDERTAKEN OR PROPOSED

- 5.1 The Constitution contains the requirements for consulting scrutiny on the budget and business plan. There is an initial phase of scrutiny in November each year, with the second round in January/February representing the formal consultation of scrutiny on the proposed Business Plan, Budget and Capital Programme.

6. TIMETABLE

- 6.1 Round two of scrutiny of the Business Plan was undertaken as follows:
- Sustainable Communities Overview & Scrutiny Panel: 9 January 2014
 - Children & Young People Overview & Scrutiny Panel: 14 January 2014
 - Healthier Communities & Older People Scrutiny Panel: 15 January 2014
 - Overview and Scrutiny Commission: 30 January 2014
- 6.2 The responses from round two will be presented to Cabinet on 17 February 2014. A meeting of full Council will then take place on 5 March 2014.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 These are detailed in the substantive reports elsewhere on this agenda and in the reports considered by Cabinet on 9 December 2013.

8. LEGAL AND STATUTORY IMPLICATIONS

- 8.1 The process for developing the budget and business plan is set out in Part 4C of the Council's Constitution. The role of the Overview and Scrutiny Commission and panels with regard to the development of the budget and business plan is set out in Part 4E of the Constitution.

8.2 The legal and statutory implications relating to the Business Plan are contained in the reports elsewhere on this agenda.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None directly relating to this report.

10. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

10.1 It is a fundamental aim of the scrutiny process to ensure that there is full and equal access to the democratic process through public involvement and engagement.

11. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

11.1 These implications are detailed in the reports elsewhere on this agenda.

12. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

Appendix 1: comments and recommendations made by the scrutiny panels in relation to the Business Plan 2014-18.

Appendix 2: additional information on saving ENV1 and on the Minimum Revenue Provision (MRP) calculations

13. BACKGROUND PAPERS

13.1 Minutes of the meetings of the Overview & Scrutiny Panels in January 2014.

References/Comments from Scrutiny Panels to the Overview & Scrutiny Commission 30 January 2014

Scrutiny of the Business Plan 2014-2018

Sustainable Communities Overview and Scrutiny Panel: 9 January 2014

Some members said that they found the report difficult to follow, partly due to its length. They said that members without a financial background would find explanations of the kind provided verbally at the meeting easier to understand than the terminology used in the report.

Revenue budget – amendments to previously agreed savings

RESOLVED: to recommend that a breakdown of how the proposed ENV1 saving will be achieved should be provided prior to Cabinet making a decision on this item.

RESOLVED: to recommend that Cabinet consider how best to raise awareness of the importance of freedom pass users touching in and out during journeys so that the council achieves maximum financial benefit. This may include use of My Merton to communicate the message.

Revenue budget – new savings proposals

The Panel asked questions about each of the savings proposals and made comments and recommendations as set out below:

EV02 Parking services – parking permit charges

RESOLVED: the Panel noted that the proposal was for a different percentage increase for different types of permit and recommended to Cabinet that any increase should be proportionate and proportional to the current cost of each type of permit.

EV03-EV07 – building and development control

Members said that they thought that this section was already under-resourced and that the draft service plan clearly set out the impact of the proposed changes in terms of reduced performance on key performance indicators. Panel members expressed unanimous opposition to further staffing reductions in this service area.

RESOLVED:

1. to ask Cabinet to reject savings EV03-EV07 and to find alternative savings
2. to recommend that the Sustainable Communities Overview and Scrutiny Panel set up a task group review of enforcement, development control and building for its 2014/15 work programme, bearing in mind that this is a broad remit and the task group will need to agree focussed terms of reference

EV10- Greenspaces

Panel members said that they would like more detail on the implications of the saving – these were all marked as “to be determined through the TOM (target operating model)”.

RESOLVED: to ask Cabinet to defer consideration of this 2015/16 and 2016/17 saving to next year when more detail will be available.

EV11 – on street pay and display parking charges

RESOLVED: to recommend that Cabinet accept this saving proposal.
Councillors Gilli Lewis-Lavender, Ray Tindle and David Williams asked for their dissent to be recorded and called for a thorough review of the controlled parking zone structure and charges.

CH5 – Library and Heritage service- reduction in media fund

RESOLVED: that Cabinet should accept the proposed saving.

CH6 – Library and Heritage service – increase income

RESOLVED: that the wording of the savings proposal should amended to show that increased use of space for income purposes would not encroach into the library core offers such as choice of books.

CH9 and CH10 – housing needs and enabling

RESOLVED: to recommend that Cabinet accept these saving proposals.

Capital programme

The Panel noted that the information in Appendix 4 had already been scrutinised and so focussed its discussion on Appendix 7 which sets out recent movements in the capital programme.

A member said that it is difficult to interpret the information provided and asked whether there was a different way of presenting the figures. The Director of Corporate Services said that would be difficult because the capital programme is fluid during the year and so there will be different figures in each of the financial monitoring reports.

Children and Young People Overview and Scrutiny Panel: 14 January 2014

Questions were asked about the budget setting process and how savings were identified.

Revenue budget – amendments to previously agreed savings

Noted that there were no amendments being brought forward for scrutiny.

Revenue budget – new savings proposals

The Panel asked questions about each of the savings proposals and made comments and recommendations as set out below:

CSF01- Early Years

RESOLVED: Whilst some reservations were expressed regarding the impact of the savings, Panel did not wish to reject the proposed savings, in the light of the overall budget pressure.

CSFO2 – School Improvement

RESOLVED: Whilst reluctantly accepting the proposed saving, Panel expressed some concern regarding the potentially negative impact a reduction in resources might have upon the service, and also recommended that further work be undertaken to consider offering the council's school improvement services on a commercial basis as a potential income stream for the authority.

CSF03 – All Divisions

This saving related to making further reductions in staffing across CSF, without specifying the nature of the posts involved.

RESOLVED: Panel felt unable to scrutinise the proposal. Panel agreed neither to accept nor reject the proposal but asked that further detail be brought back for scrutiny in due course and before the proposal is agreed.

Capital programme

The Panel noted the Capital Programme having previously undertaken in depth scrutiny of the council's school expansion programme.

Healthier Communities and Older People O&S Panel: 15 January 2014

The Healthier Communities and Older People Overview and Scrutiny Panel expressed concern about saving CH1 (placement budget) as there is a significant increase in budget saving required in years 2016/17. Panel members would like officers to provide more information about how this saving will be achieved.

**Additional information provided in response to requests from scrutiny
Scrutiny of the Business Plan 2014-2018**

Further information on ENV1

The £334k saving will be met as follows:-

- £20k = reducing the senior management budget. This is the bulk of a small contingency budget held for any unplanned/unbudgeted work, and/or to help fund any annual salary requirements.
- £157k = by foregoing the 1.5% annual inflationary increase on our Premises, Transport, and Supplies & Services expenditure budgets.
- £157k = anticipated additional income in parking from growth in CPZs , permit and PCN income

Minimum Revenue provision (MRP) calculations – see overleaf

The MRP Calculation

Background

Minimum Revenue Provision (MRP) is the amount set aside each year to repay 'debt' resulting from financing the capital programme by borrowing. It does not necessarily mean that we actually repay a loan as that treasury management function is considered separately and at the moment any borrowing done to fund capital expenditure is borrowing against the council's own investment balances and therefore the debt is conceptual. In reality we conceptually repay our internal balances and then borrow from them again to fund the current year's expenditure.

New rules were introduced in 2008 for capital accounting (Prudential Code 2008) and there have been some relatively minor amendments since. Due to this there are two methods of calculating MRP relating to capital expenditure

Although they do not necessarily result in the ownership of an asset (none currently do in the case of Merton) both PFI agreements and Finance Leases are, for the purposes of capital accounting, treated as if the council had purchased the asset and taken a loan from the supplier to pay for it. This was introduced recently alongside the adoption of the International Financial Reporting Standards (IFRS) based accounting guidance for Local Government.

MRP effectively replaces depreciation in our accounts. Depreciation is reported as part of the Cost of Services, but is then removed from the General Fund and replaced by MRP as part of the Movement in Reserves Statement.

There are four components which make up the calculation for MRP:

1) Pre-2008 Capital Expenditure

MRP for pre-2008 capital expenditure is a simple calculation and is calculated as 4% of a reducing balance of debt relating to capital spend prior to 2008.

2) Post-2008 Capital Expenditure

MRP for post-2008 capital expenditure is calculated on an asset by asset basis, dividing the amount borrowed to fund the asset (which will be the cost less any other funding used such as grants) by its anticipated useful life. The MRP starts from the year after the asset is acquired. Because depreciation is on a straight line basis this would be the same as the initial depreciation charge, but is not affected by subsequent revaluations.

3) PFI & 4) Leasing

MRP for PFI and Leasing is calculated on an asset by asset basis. For leasing it currently only effects agreements which are deemed to transfer the risks and rewards of ownership to the council, generally this will be buildings where the agreement is for at least several decades or printers and IT equipment which are likely to be obsolete at the end of the agreement and we will pay most or all of the cost of buying them during the term of the agreement. The initial cost or valuation of the asset is used along with the minimum payments under the agreement to determine an interest rate we are effectively paying and from that the payments are split into repaying the cost of the asset (loan principal) and interest. The repayments of principal are accounted for as MRP. This has no effect on the legal form of the agreement or the cash cost of it to the council.

Merton's initial calculation of the MRP figure for the 2013/14 accounts is shown in the tables below. These should be considered an estimate for the amount of MRP which will be accounted for in 2013/14, they should be substantially accurate but there are some small changes expected before we account for this as part of the year end closing process (in particular some comments received from the external auditors last year and the impact of inflation on the PFI agreement which will not be known until January).

The calculations for MRP for direct Capital Expenditure are summarised along with the amounts for PFI and Leasing. The PFI and Leasing calculations are, as explained above, fairly complex and can not be summarised or presented easily in a neat format.

Calculation

Pre-2008 MRP Calculation	
Balance at 31/3/13 (subject to comments by auditor)	4% MRP for 2013/14
£000s	£000s
106,925	4,277

Post-2008 MRP Calculation												
Asset Life	Expenditure Recognised in Year						MRP Relating to Expenditure in year					
	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	Total £000s	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	MRP amount for 2013/14 £000s
5 Years	1,100	0	690	0	20	1,811	220	0	138	0	4	362
7 Years	1,071	0	1,966	0	0	3,036	153	0	281	0	0	434
20 Years	320	4,541	2,246	3,691	3,497	14,294	16	227	112	185	175	715
25 Years	6,969	7,041	4,764	6,939	4,970	30,683	279	282	191	278	199	1,227
40 Years	6,294	8,546	4,950	0	0	19,791	157	214	124	0	0	495
50 Years	0	0	869	1,919	3,149	5,937	0	0	17	38	63	119
Total	15,754	20,128	15,485	12,549	11,637	75,552	825	722	863	500	441	3,351

PFI
MRP anticipated to be due in 2013/14
£000s
551

Leasing
MRP anticipated to be due in 2013/14
£000s
122

Total (£000s) 8,301

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