Agenda Item No. 2a

Performance and Finance Select Committee

19 October 2015 – At a meeting of the Select Committee held at 10.30 a.m. at County Hall, Chichester.

Present: Mrs Urquhart (Chairman)

Mr Burrett*	Mrs Kitchen	Mr Turner
Mrs Evans	Mr Lamb	Mr Waight
Mr Glennon**	Mrs Millson	Mr Watson
Ms James***	Mr R Rogers	

In attendance by invitation: Ms Goldsmith (Leader) and Mr Brown (Cabinet Member for Finance).

Apologies for absence were received from Mr McAra, Mr Metcalfe and Mr Tyler.

* Mr Burrett arrived at 10.55 a.m.
** Mr Glennon left at 12.41 p.m.
*** Ms James left at 12.43 p.m.

Declarations of Interest

151. None declared.

Minutes of the Previous Meeting

152. Resolved – that the minutes of the Performance and Finance Select Committee held on 2 October 2015 be approved as a correct record, and that they be signed by the Chairman.

Capital Programme 2015 - 2021

153. The Committee considered a report by the Executive Director Corporate Resources & Services and Deputy Director of Finance (copy appended to the signed minutes).

154. The Cabinet Member for Finance introduced the report and explained that this was the first time the County Council had proposed a five year Capital Programme. In order to deliver the County Council's growth, care and other aspirations, members were asked to consider external borrowing of £75m (above core borrowing of £17m per annum) for the duration of the Programme. This would mean that all the proposed schemes were funded, although it was hoped that the receipt of government grants, Community Infrastructure Levy (CIL) and Section 106 funds (S106) would help alleviate the level of the external borrowing required and therefore the £75m would be the maximum that would be needed.

155. The Leader reported that the Capital Programme was needed to meet the additional infrastructure demand generated by increased housing and that proposing a five year plan allowed careful consideration and planning of the requirements.

156. The Executive Director Corporate Resources & Services confirmed that the plan was underpinned by prudent assumptions. Members were reassured that specific schemes would be carefully evaluated as the relevant start year approached. He assured members that the Programme was deliverable with this level of borrowing.

157. The Chairman clarified for the Committee that members were being asked to support the list of schemes included within the Programme without knowing their final costs and also to support the proposed methods of financing the Programme.

158. The Committee considered a tabled paper which contained questions on the Capital Programme from members who were not on the Committee (copy appended to the signed minutes).

159. The Committee made comments including those that follow. It:

- Welcomed the five year Programme and noted that the Programme lacked specific details due to necessary assumptions and predictions.
- Queried whether the proposed borrowing would limit borrowing potential for any future additional schemes and if the proposed total borrowing of £537m (reached in 2022) breached any borrowing limits. - *The Executive Director Corporate Resources & Services confirmed that members would consider the prudential borrowing indicators as part of the budget process to ensure limits were not breached. Work would be done to ensure that the proposals were affordable and that any limits agreed by members were adhered to. Debt modelling had been calculated until 2060 to help with the assumptions and forecasting.*
- Queried whether the income generating schemes included within the Programme could generate profits sooner than expected so they could be used to finance future schemes.
- Raised concerns about the impact on the revenue budget of external borrowing and whether the Council was still “Living within our Means”, which had been a key priority for a number of years. The revenue budget was already under pressure with substantial savings to be found so financing external debt would add to the pressure. Should there be a cap imposed on borrowing and could this be substantially less than £75m if future anticipated Community Infrastructure Levy and S106 monies were accounted for. - *The Leader and Cabinet Member for Finance assured the Committee that the £75m external borrowing requirement was based on cautious estimates and that this level of borrowing would be avoided if possible.*
- Raised concerns on how schemes in the Programme had been prioritised and that cost benefit analysis should be used to help rank projects.
- Concern was raised over the governance arrangements set out in the report as it was not clear who would make decisions on the capital schemes; was it Cabinet Members or senior officers through their delegated authority and when would the scheme Business Cases be scrutinised to ensure they provided value for money and achieved their outcomes/objectives. - *The Cabinet Member for Finance confirmed that the governance arrangements would be developed further before being presented to the Governance Committee. It was also confirmed that more regular monitoring of schemes would take place with quarterly reports being prepared for Cabinet Members and Select Committee, and*

information would be included within the monthly Total Performance Monitor.

- Queried CIL and S106 processes and how the negotiations work with developers. – *The Interim Director of Planning & Infrastructure confirmed that the funds were broken down into 3 categories; what had already been received, '106 in agreement' which covered schemes that were proposed with general amounts agreed, and pipeline projects where negotiations would be required. At the moment it was estimated that approximately £50m could be received. It was confirmed that the S106 arrangements would exist alongside CIL. Discussions were also taking place with district and borough councils to put in place more structured arrangements to meet the County's strategic aims.*
- Raised concerns on CIL recovery and sought reassurance that Local Plans would be put in place within the necessary deadlines. The number of housing developments would continue to rise over the next few years and so the supply of houses and the consequent demand on the infrastructure would need to be carefully monitored to ensure adequate infrastructure could be provided with the recovered CIL. It was also proposed that the Cabinet should put pressure on the Government to ensure that the CIL and S106 process was strengthened to meet the demands placed on the infrastructure when housing developments were agreed.. – *The Leader confirmed that Local Plans were being made which would help anticipate and manage the demand on infrastructure and how it would be financed by CIL. The Committee were informed of a Member Seminar on the 26 November on CIL and S106 which members could find of interest.*
- Queried the difference between the extra provision in primary and secondary school places outlined in the programme and asked why the cost of the places seemed high. – *The Principal Manager - Capital Planning & Projects explained that there was currently a surplus of secondary school places and so the proposed increases would match the current demand. Any longer term changes in demand would be addressed in future Capital Programmes. The Principal Manager - Capital Planning & Projects welcomed the challenge of value for money and explained that different schools had different costs. It was confirmed that officers always looked to reduce costs where possible.*
- Sought clarity on the term 'regularise capital spending' in relation to the Urgent Action decision taken in June. – *The Executive Director Corporate Resources & Services explained that the governance for the programme was a County Council decision and that the schemes included within the Urgent Action had not been included within the programme agreed by County Council in February. The Urgent Action in June was therefore required to allocate funds for schemes that needed to proceed or money would be lost. Regularisation was needed to ensure schemes were formally in the 2015/16 plan.*
- Queried the level of Capital Receipts in the report and if the projections took into account the value of surplus buildings. - *The Executive Director Corporate Resources & Services explained that approximately £10m per annum was the anticipated level however caution was exercised in the report due to the unknown nature of asset value and availability. The Leader confirmed that due to this cautious approach, £75m was a realistic maximum level for external borrowing.*
- Asked if future reports should distinguish between internal and external borrowing so members could understand all potential costs. - *The Executive Director Corporate Resources & Services explained that the*

revenue budget did not distinguish between internal and external borrowing and so a planned total external cost is included. This ensured revenue payments were kept at the level that would be required for full external borrowing.

- Queried if there were necessary officer resources to project manage the proposed programme. - *The Executive Director Corporate Resources & Services explained that the capital monitoring report seen by the Committee in January had raised issues that had now been addressed. Members would also be expected to have more involvement in the programme delivery. The Interim Director of Planning & Infrastructure also confirmed that for large scale projects both internal and external resources would be used, the five year plan meant that longer term resource planning could be achieved.*
- Requested details relating to Private Finance Initiative (PFI) payments, both in relation to capital and operational costs. The costs of the proposed increase in external borrowing plus the committed PFI payments should be viewed as a significant risk for the County Council. - *The Executive Director Corporate Resources & Services resolved to provide this information for the Committee.*
- Concerns were raised on being asked to approve the schemes within the programme without knowing their full costs and the risk this created. Assurance was sought regarding the on-going governance and scrutiny of the Programme and whether any consideration had been given to the alternative uses of budget rather than debt repayments. - *The Executive Director Corporate Resources & Services recognised that the governance system for annual County Council approval was not ideal. It was proposed that appropriate scrutiny of business cases would be undertaken by the appropriate Select Committee.*
- Queried the economic development schemes in the programme and proposed removing schemes that had the least chance of returning a profit. – *The Cabinet Member for Finance acknowledged the need to consider the cost benefit of schemes. The schemes in question had come from the Local Enterprise Partnership (LEP) and therefore also had private sector backing. This gave reassurance that the schemes stood a good chance of increasing economic growth. The Committee felt there was still a responsibility for Members to review LEP schemes and noted that County Council's goals could be different from the private sector. The Leader added reassurance that officers analysed LEP schemes carefully.*
- Supported longer term planning but recognised that this resulted in a certain amount of open endedness in the report and that scheme estimates were used to calculate the budget. - *The Cabinet Member for Finance recognised that the budget is based on scheme estimates but that this was necessary when developing a longer term Programme.*
- Asked about the impact on the upcoming change in business rate arrangements. – *The Cabinet Member for Finance confirmed that this would be managed carefully to ensure that business rate growth was secured.*
- Queried how inflation had been accounted for in the planning of the Programme. – *The Cabinet Member for Finance confirmed that 1% for inflation had been included in the Medium Term Financial Strategy and it would be ensured that capital budgets were carefully monitored for inflationary impacts.*

- Asked if the Programme would be included in the Total Performance Monitor (TPM). – *The Leader confirmed that the data could be included in the TPM or provided to the Committee in a quarterly report.*
- The Committee felt the sentence in paragraph 8.2 of the report 'As these additional sources are identified then it will be possible to reduce the additional £75m borrowing if members wish' should not include 'if members wish' as the focus should be on reducing the borrowing requirement wherever possible.
- Expressed the importance of the County Council living within its means.

160. The Chairman asked officers to respond to the written questions that had been tabled and circulated to members.

161. The Committee welcomed the full and frank debate on the Capital Programme and welcomed the development of a long term plan. Concerns were expressed on the implied level of debt repayment, the affordability of the debt, the impact on the revenue account and how this would affect the borrowing potential for future councils.

162. Concerns were raised on the governance arrangements, particularly relating to member involvement and the transparency of project prioritisation.

163. The Committee stated that CIL, S106, government grants and capital receipts needed to be utilised to reduce borrowing before any further capital schemes were considered for inclusion in the Capital Programme. There should also be a strong focus on ensuring developers paid the required contributions.

164. Resolved – That the Committee:

(1) Supports the Capital Programme for 2015/16 to 2020/21, as set out in Appendices 1A and B and summarised in Table 3 of the report.

(2) Supports the proposed methods of financing the Capital Programme for the period 2015/16 to 2010/21 but seeks assurance that additional income sources will be used to reduce external borrowing before consideration is given to approving additional capital schemes.

(3) Notes that the proposed programme will need to be considered iteratively and alongside revenue budget development for 2016/17 and annually thereafter.

(4) Notes the proposed improvements to programme governance as set out in the report but expresses some concerns about wider Member involvement and requests to see any proposed changes before these are agreed by Governance Committee, if time allows.

(5) Requests that the relevant Business Planning Groups identify which schemes they would like to scrutinise in the Capital Programme.

(6) Requests that Capital Programme delivery is added to the Corporate Risk Register.

Forward Plan of Key Decisions

165. The Committee considered the Forward Plan of Key Decisions November 2015 – February 2016 (copy appended to the signed minutes).

166. The Committee felt that entries should contain financial commitments for proposed decisions. It was noted that this could be in draft and proposed a new line be considered in the forward plan giving approximate figures in a range format.

167. The Committee felt the Civil Parking Enforcement Agency Agreement decision should be scrutinised and proposed referring it to the Environmental and Community Services Select Committee.

168. Resolved – That the Committee:

(1) Notes the Forward Plan.

(2) Requests entries include financial information, potentially in a new line and in a range format.

(3) That the Civil Parking Enforcement Agency Agreement decision should be referred to the Environmental and Community Services Select Committee for scrutiny.

Date of Next Meeting

169. The Committee noted that its next scheduled meeting will take place on 3 December 2015 at 10.30 a.m. at County Hall, Chichester.

170. The Committee also noted that a joint meeting with the Environmental and Community Services Select Committee was scheduled to take place on 11 November 2015 at 1.00 p.m. at County Hall North, Horsham.

The meeting closed at 1.14 p.m.

Chairman.