

CORPORATE SCRUTINY COMMITTEE
(SPECIAL)

26th January 2004

PRESENT:-

Labour Group

Councillor Bell (Chair), Councillor Murphy (Vice-Chair) and Councillors Mulgrew and Stone.

Conservative Group

Councillors Atkin, Bale and Mrs. Hood.

COS/44. **MEMBERS' QUESTIONS AND REPORTS**

The Chair welcomed Councillor Atkin to the Committee. He advised that as part of the Customer Care special project, a visit had been arranged to the Council's Depot in Darklands Road and this would take place on Wednesday, 4th February 2004 at 2.00 p.m.

COS/45. **REVIEW OF 2004/05 BUDGET PROPOSALS**

The Chair advised that the Committee would undertake scrutiny of the Council's budget proposals and submit a report to the Finance and Management Committee. To aid consideration of this item, a number of bullet point topics had been set out within the agenda. The Finance Services Manager circulated copies of a report considered by the Finance and Management Committee on consolidated revenue budgets and the capital programme and a briefing note for the Committee, which provided background information for each of the bullet point headings.

Initially, the context for the budget was considered. He referred Members to relevant sections of the Finance and Management report and commented particularly about the revised funding formula and the shortfall in Government grant. The Chair referred to the reduction in Government grants from 2003/04 to 2004/05. The Officer clarified changes to the Government grants system, spoke of the headline grant increase and other issues which affected the level of Government grant received. Councillor Atkin questioned whether the Government ever paid the full grant allocation to local authorities. In response to a further question, the Officer confirmed that Housing Benefit costs were increasingly being met by local authorities.

The Committee considered pension liabilities, debt, capital receipts and reserves. It had been identified that the Council would face an increase in its pension contributions and the budget allocation reflected this increase. The shortfall on the pension fund was due mainly to poor stock market performance and the fact that people were living longer. Councillor Atkin questioned the action that would be taken to meet any pension fund deficit. It might be necessary to allocate further resources to the pension fund. Hopefully, the Council's balances would cushion the effect of such additional expenditure. It was noted that the Council had previously paid a £1 million capital contribution to the pension fund to offset some revenue costs.

Currently, staff paid 6% of their salaries into the pension scheme and the Council was required to contribute 19% to this statutory scheme.

With regard to debt, a detailed report was due to be submitted to the Finance and Management Committee. At present, it looked favourable to repay the £8 million of Government debt from reserves, before the end of the financial year. Timing was critical as it would be possible to capitalise redemption penalties. If interest rates rose, it might be prudent to retain funds and not repay the debt at this time. If early redemption did not take place, the current debts would not be repaid until 2039.

Capital receipts were discussed and the Chair confirmed that 25% of such receipts could be reused for further capital expenditure, with the remainder set aside for debt repayment. The Officer explained that from 1st April 2004, 75% of the receipts from Council house sales would be paid to the Government rather than being retained by this Council, as was currently the case. In response to a question from Councillor Atkin, it was confirmed that the revised arrangements were compulsory. The Member then questioned the impact for the Council if it chose to dispose of its housing stock and the Deputy Chief Executive responded.

With regard to reserves, the Finance Services Manager referred Members to a Table showing the projected level of reserves for the next four years. He confirmed there was a need to plan now to avoid a potential future deficit. Councillor Atkin questioned the minimum level of reserves and District Audit recommended that these should be set at £½ million. The Council's Chief Finance Officer preferred to set the minimum reserve level at £750,000. The Officer repeated the need for a prudent approach and spoke of planned service developments. Presently, there was a high income stream, particularly due to Council house sales and levels of planning and building regulation fees. The Deputy Chief Executive confirmed that the budget projections showed an increasing deficit which required a prudent approach to be taken.

The Chair commented that previously, a low level of reserves had been predicted, but the actual position had been more favourable. If budget projections took account of this history, it might give a truer reflection, rather than the current pessimistic view. The Finance Services Manager noted the comment, but felt there was a need to strike a balance and good financial planning required prudence. The Vice-Chair questioned whether some budgets might be enlarged to cover contingencies. The Deputy Chief Executive clarified that departmental budgets tended to be broadly accurate. More typically, major variances were due to changes in interest rates or the level of fee income received. There was increased confidence in the Council's financial position and projections for the year ahead. However, it was more difficult to predict over the three-year term. This was a fundamental part of risk analysis and he felt that the discussion was useful.

The Chair considered that inaccuracies in budget levels could recur as budgets were rolled forward and an allowance made for inflation. In response to questions, the Finance Services Manager confirmed that income from bank deposit interest and fees was over £1 million. A relatively small variation in interest levels could have a significant impact on the Council's budget. He also referred to the risk analysis section within the budget report. Sustainability was discussed and Councillor Stone felt that for South

Derbyshire, sustainability was dependent upon the continued development of the area.

The Chair noted that the commutation adjustment reserve would no longer be required. The Finance Services Manager confirmed that the budget projections took account of these resources and the fact that future budget provision would not be required.

The Chair had suggested that consideration be given to departmental expenses. As part of the budget process, the Finance and Management Committee had considered a document that provided detailed accounts of departmental expenditure. The Deputy Chief Executive confirmed that such documents were circulated to each of the three policy committees and an offer was made for Scrutiny Members to have a copy of these documents. The Vice-Chair felt that the presentation of the detailed documents could be improved. The Deputy Chief Executive explained the different ways of providing financial information and possibly the Scrutiny Committee would be a good forum to discuss this issue further. One current approach was to categorise the budgets by key aims, rather than by department. The Chair sought a breakdown of departmental expenses and examples were provided to show how the budgets were made up and how Officers were reimbursed for such things as travel costs.

The Housing Revenue Account (HRA) was projected until 2010, primarily because of the Decent Homes targets and the need to inform stock options work. In the longer term, there was a cumulative deficit forecast for the HRA and this would need to be addressed. The Officer spoke of the minimum balance requirements for the HRA and clarified the additional expenditure proposed to secure service improvements, particularly for repairs. In response to a question from the Chair, the Officer explained the impact of Council house sales through the Right to Buy scheme. At present, there were approximately 140 sales per year and ultimately, it might be necessary to review the staffing requirements for this service. Reference was made to the funding formula from the Government and if South Derbyshire received its full allocation of resources, this would improve the HRA position significantly.

Further information was circulated to assist consideration of capital spending. The Finance Services Manager spoke of the process undertaken to assess new service development proposals. The revised scoring system approved by the Scrutiny Committee had been used to assess these bids and they had then been considered by the Service and Financial Planning Working Group. The Chair questioned why an element of housing expenditure was allocated to the General Fund and the Chief Finance Officer provided clarification. It was confirmed that the new spending proposals had been approved by the Finance and Management Committee.

The Chair noted the growing population of the District and therefore the additional Council Tax revenue generated. He questioned why there was a service development proposal for refuse collection. The Chief Finance Officer responded, explaining that periodically it was necessary to introduce an additional refuse collection round. The Deputy Chief Executive added that the average cost of refuse collection was £38 per household per year. There was a stepped change in costs when an additional crew was required. Practically, each crew collected refuse from some 4,000 – 5,000 properties

and it was projected that an additional round would be required every five or six years. Councillor Atkin sought further information about the composting scheme and it was confirmed that the Council's recycling plan aimed to meet Government recycling targets. The Officer spoke of potential changes to the composting scheme over the coming years, particularly if there was a shift in Government recycling requirements.

The Chair sought clarification on some of the Service Development bids and questioned whether these had been introduced at a later date. The Chief Finance Officer clarified that Members of the Working Group had combined a number of specific bids to provide a more general funding allocation. He then spoke about those bids that were successful and the Chair noted that some "low" scoring bids had now been approved. Members had reassessed priorities, dependent upon the available resources.

The Chair questioned whether the budget for the Local Strategic Partnership had been increased. He mentioned specific high cost Service Development Proposals and felt it disappointing that a relatively low amount had been spent on service developments that would directly benefit the community. The Chief Finance Officer clarified that these were additional resources. In the future, Members might wish to consider reallocating the resources dedicated to current service budgets. The Finance Services Manager confirmed that some eighty development proposals had been submitted. There was a discussion on particular capital bids. The Vice-Chair felt that it would be useful to have details of the rankings of various successful bids, to inform a discussion with Members of the Working Group that had reprioritised schemes. Councillor Atkin submitted a question about external funding, referring in particular to the Etwall Leisure Centre project. The Chief Finance Officer offered to supply further information to the Member.

Budgetary control was discussed. The Finance Services Manager spoke of ongoing work on the Financial Management System and this should be introduced by 1st April 2004. The Chair sought more frequent Member briefings on finance issues. The Chief Finance Officer responded, explaining the monitoring arrangements in place and how the new system would aid financial control.

Members considered the presentation of financial information. Assistance was needed to aid understanding of the split between actual budgets and internal recharges. It was questioned whether trading or departmental accounts could be provided, to show actual expenditure figures. The Finance Services Manager explained the financial reporting constraints in place and the need to produce standardised accounts following CIPFA guidelines. The Vice-Chair agreed that Members would need to consider the level of detail required and how they wanted the information presented. It was necessary to inform decision making, for example on risk and budget variances that might cause financial difficulties. He made a comparison to a home computer system which enabled the presentation of headline reports and the ability to identify more detailed information. The Finance Services Manager explained the current budget make-up and one option might be to provide financial reports based on key priorities. This would be easier with the new Financial Management System. The Chief Finance Officer suggested that some Member training might be of benefit. He felt that trading accounts would not be that easy to understand, but this option could be explored. The current reporting arrangements provided the same level of detail for relatively

minor budgets as for those major budgets. It might be possible to amalgamate budget reports for services with less expenditure. Again, the Financial Management System would help with the analysis of budgets. The need for training was reinforced and Councillor Atkin spoke of a particular IDEA training course that was soon to take place.

R. BELL

CHAIR

The Meeting terminated at 5.50 p.m.