

FINANCE AND MANAGEMENT COMMITTEE (SPECIAL)

23rd February 2006

PRESENT:-

Labour Group

Councillor Wilkins (Chair), Councillor Pabla (Vice-Chair) and Councillors Bell, Carroll, Dunn (substitute for Councillor Southerd), Southern, Taylor and Whyman, M.B.E.

Conservative Group

Councillors Harrison, Mrs. Littlejohn (substitute for Councillor Nalty), Mrs. Renwick and Mrs. Wheeler.

In Attendance

Councillor Lane (Labour Group) and Councillor Atkin (Conservative Group).

APOLOGIES

Apologies for absence from the Meeting were received from Councillor Southerd (Labour Group) and Councillors Lemmon and Nalty (Conservative Group).

FM/124. **REPORTS OF OVERVIEW AND SCRUTINY COMMITTEES**

The Chair, with the agreement of the Committee brought forward consideration of the Report of the Corporate Scrutiny Committee – Review of Budget Proposals as the next item of business on the agenda.

FM/125. **REPORT OF CORPORATE SCRUTINY COMMITTEE – REVIEW OF BUDGET PROPOSALS**

Councillor Lane presented a report from the Corporate Scrutiny Committee on its review of the budget proposals. The report outlined the Corporate Scrutiny Committee's views on the development of the 2006/09 budget and made recommendations in respect of the future arrangements for the effective management of the Council's finances.

Committee was advised that under the Council's Constitution, the Corporate Scrutiny Committee was responsible for assisting the Finance and Management Committee in the development of budget strategy, the annual budget and for scrutinising the performance of Council and/or policy committees in respect of financial management.

Corporate Scrutiny Committee held a Special Meeting on 30th January 2006 to discuss the budget strategy with officers, in addition to the Members of that Committee, Councillors Bell and Harrington also attended that meeting. The Committee decided to focus its scrutiny on five main areas:-

- Priorities
- Challenge
- Performance
- Risk analysis
- Revenue and Capital spending

Members were advised that Corporate Scrutiny had chosen to focus on arrangements for the development of the budget rather than on its contents because its Members considered that this was an area which underpinned many areas of the Council's work. Councillor Lane said that the recommendations in the report were intended to assist Members to:-

- Ensure that financial resources were aligned to Corporate and service priorities.
- Successfully implement the "shifting resources" project.
- Ensure that "Value for Money" is obtained in everything the Council does.
- Ensure that performance was actively managed and reported to all stakeholders.

RESOLVED:-

- (1) That Committee welcome the work undertaken by the Corporate Scrutiny Committee on the Budget Proposals 2006-2009 and expresses its thanks for an excellent report which highlights the similar approach taken by both Committees when considering the Council's finances.***
- (2) That having considered carefully the report and its recommendations, Committee requested that the following comments be recorded:-***
 - It supports the proposals regarding the shifting of resources project and notes that work on this has been undertaken by Officers and that the matter will be considered by the Improvement Panel and this Committee at its 23rd March 2006 meeting.***
 - Like Corporate Scrutiny Committee, this Committee welcomes the decision of the Government to move to a two year financial settlement.***
 - Officers are working to ensure that "value for money" is an ongoing process which is embedded throughout the whole of the Council.***
 - It supports the proposal that performance monitoring reports are made available on the Intranet and Internet and in addition considers that the reports should contain a full statistical analysis of performance of Council services.***
 - It supports the proposal on risk management and considers that the reports should be made available on a regular quarterly basis.***
 - It supports the proposal that there is a need to identify additional resources for new capital investment and requests that it be noted this is an ongoing process which is a central part of the remit of the Finance and Management Committee.***

MATTERS DELEGATED TO COMMITTEEFM/126. **ANNUAL TREASURY MANAGEMENT STRATEGY 2006/07**

The Committee considered a report, which detailed the proposed annual borrowing and investment strategies for 2006/07 in accordance with the Local Government Act 2003 and the associated Regulations.

Borrowing Strategy 2006/07

The Committee was advised that the Council had not been required to enter into any form of long term borrowing and had repaid all of its long-term government debt in March 2004. The Committee was informed that its Capital receipts had been placed on deposit and earned interest for the Council's Revenue Fund, which had been used to finance new capital expenditure in the form of government credit approvals and had been used to meet short-term cash flow requirements when these were negative. Members were advised that the only remaining fixed debt outstanding for the Council was one money market loan for £1 million, which was at a fixed rate loan of 4.875%, maturing in 2032 with interest of approximately £48,000 per year.

It was confirmed to Members that there had not been any new borrowing allocations from the Government for 2006/07 or 2007/08 and that all Government funding to the Council would be provided in the form of grant. It was unlikely that given the money still held on deposit that the Council would not need to borrow for new investment during 2006/07. Given the above information, it was considered that the Council's borrowing strategy for 2006/07 should be based on the following criteria:-

- Meeting the Council's cash flow requirements, and
- Reviewing options for the outstanding money market loan

The Committee was advised that interest rates were not considered to be a major risk, as the Council did not currently have any significant long-term debt or major borrowing requirement for the next year. Accordingly, the Council was not particularly vulnerable to fluctuations in interest rates and for the purpose of managing the Council's cash flow an average interest rate of 4.5% had been used in financial projections. It was reported that the Council's cash flow would continue to be managed on a daily basis in accordance with the Council's Treasury Management policy. It was reported that cash flow projections had been used in determining the level of interest that would be built into the Council's probable out-turn for 2005/06 and base budget for 2007. The figures were summarised in the following table:-

Cash Flow Interest	2005/06 £	2006/07 £
Estimated interest on bank deposits	140,000	45,000
Less – Estimated payments on temporary borrowings	-12,000	-25,000
Estimated Net Interest Due to the Council	128,000	20,000

Investment Strategy 2006/07

The Committee was advised that the Council did not have any long-term investments, but that the Local Government Investment Regulations covered short-term investments such as the deposit of surplus funds. Members were advised that the Council did invest surplus funds in accordance with the approved lending list.

Members were advised that when considering its investments the Council was required to distinguish between specified and non-specified investments. Specified Investments were those offering high security and high liquidity which should be in sterling and with a maturity of no more than a year. Non-specified investments were all other investments not meeting the criteria to be classified as specified investments. These by their nature carried more risk than specified investments.

The Committee was advised that the Council had a short-term investment requirement to enable it to manage its day-to-day financial affairs and that at present, there was no current proposal to enter into longer term and externally managed funds. Members noted that as detailed in the report, the current approved list was based on best practice and was serving the short-term investment needs of the Council and that at present, there was no compelling reason why the list and associated limits should be changed although this matter was kept under review. Members were informed that the Council's lending list and policy was detailed at Appendix 'A' of the report.

RESOLVED:-

- (1) That the Council manages its cash flow requirements through short-term borrowings and bank deposits.***
- (2) That the Money Market loan of £1m be repaid should the lender exercise its option to increase the interest rate.***
- (3) That the Council invest surplus funds in accordance with the Approved Lending List and policy as detailed in Appendix 1 of the report.***

FM/127.FINAL BUDGET PROPOSALS AND FINANCIAL STRATEGY 2006 TO 2009

The Committee considered a report which detailed the Council's final budget proposals for 2006/07 and financial forecasts to March 2009. Members were advised that this information would form the basis of setting the Council Tax for 2006/07 by Council at its Meeting on 2nd March 2006. The report covered the following areas:-

- That Council's proposed revenue and capital spending, including medium term financial forecasts.
- The prudential indicators and assessment of the overall budget and the level of reserves as required by the Local Government Act 2003.

Members noted that the Council's financial position, including its medium to longer term forecasts were reported to this Committee at its meeting on 17th January 2006.

General Fund Three Year Financial Forecast

The Committee was advised that the General Fund Three Year Financial Forecast was detailed in Appendix '1' of the report. Members were advised that the position as reported to it on 17th January 2006 was set out in the table below.

	2005/06 Probable £'000	2006/07 Estimate £'000	2007/08 Forecast £'000	2008/09 Forecast £'000
Net Revenue Expenditure	10,004,520	10,938,020	11,147,280	11,388,480
Less Financing				
Government (Formula) Grant	5,421,140	6,352,967	6,698,918	6,832,896
Council Tax	3,941,660	4,188,450	4,379,700	4,631,650
From Earmarked Reserves	382,980	26,440	28,640	30,840
Deficit/Surplus (-)	258,740	370,163	40,022	-106,906
General Fund Reserve Balance	2,715,920	2,345,757	2,305,735	2,412,641

The Committee was advised since the preparation of the above table, two relatively minor changes had occurred.

- Government grant settlement for 2006/07 and 2007/08 was confirmed on 1st February 2006, the final figures now showed that the Council would receive an additional £7,350 (cumulative over three years compared to the provisional settlement).
- Council approved the tax base and Collection Fund balance on 26th January, this was slightly more favourable and the forecasted figures would generate an additional £2,950 cumulatively over the three years.

The Prudential System for Capital Finance

The Committee was advised that the key objectives of the prudential system for capital finance were to ensure that:-

- Capital Investment plans of local authorities were affordable and sustainable.
- Treasury management decisions were taken in accordance with good professional practice.
- Financial planning and asset management were integrated into the Council's overall planning arrangements.

The report advised that a key requirement of the prudential system for capital finance was that the Council must set and regularly monitor prudential indicators. The Council's Section 151 Officer was required to provide an assessment of these indicator and the implications for the Council's spending plans and overall financial position. The relevant prudential indicators for the Council were set out in the following table:-

Prudential Indicator	2004/05 Actual £'000	2005/06 Estimate £'000	2006/07 Estimate £'000	2007/08 Estimate £'000	2008/09 Estimate £'000
1 – Capital expenditure:					
• Council Housing	2,034	2,098	2,147	2,100	1,766
• Other Housing	125	59	0	0	0
• General Fund	2,666	3,967	2,872	1,735	1,325
• Covenants	469	385	415	450	490
Total	5,294	6,509	5,434	4,285	3,581

The Local Government Act 2003, Section 25 Report

It was reported that the Council's Section 151 Officer was required to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of the Council's financial reserves. Members were advised that the estimates of expenditure were considered to be prudent in that they provided for inflation and other known variations. In addition, a prudent view had been taken regarding projected income levels in 2008 and 2009, especially those relating to planning fees and interest on bank deposits.

Committee also considered an addendum report which provided updated financial information and the recommendations from the Service and Financial Planning Working Panel from its meeting on 22nd February 2006.

The detail of the addendum report was reported as follows:-

Council Tax

- Increase of 3.9% for 2006/07 making Band D £137.32 (for District Services).
- Planned increases of 2.9% in 2007/08 and 4.5% in 2008/09 (indicative figures – subject to annual review).

Proposed Revenue Service Improvements

Committee was advised that these were detailed at Annexe 'A' of the addendum report and represented an increase in additional expenditure of approximately £1.1 million over the next three years.

General Fund Revenue Expenditure

It was reported to Committee that after adding in the proposed costs of new service developments, the Council's net revenue expenditure for 2005/06 and 2006/07 would be:-

- 2005/06 - £10,004,520
- 2006/07 - £11,304,420

Forecasted level of General Fund Reserves

After adding in the proposed costs of new service developments and the effects of the recommended council tax increases, together with other minor changes as identified in the main report, the forecasted balance on the General Fund as at 31st March 2009 was detailed in the following table.

Forecasted Balance as at 31st March 2009	£
Balance as shown in Table 4.7 (main report)	2,412,641
Add - Additional Government Grant	+8,358
Add - Final Tax Base and Collection Fund Surplus	+2,950
Less – Revenue Service Developments	-1,105,350
Less – Lower Council Tax increases 06/07 and 07/08	-210,886
Revised Balance as at 31st March 2009	1,107,713

Summary of Council Reserves	31/03/2006 £	31/03/2007 £	31/03/2008 £	31/03/2009 £
General Fund Reserves	2,715,920	1,957,955	1,495,794	1,107,713
Commutation Reserve (currently still set-aside)	410,000	410,000	410,000	410,000
Sub-total (General Fund)	3,125,920	2,367,955	1,905,794	1,517,713
Housing Revenue Account	1,738,900	2,052,360	2,334,900	2,209,591
Other Earmarked Reserves	888,147	708,057	587,067	513,877
Total Reserves	5,725,967	5,128,372	4,827,761	4,241,181

Capital Financing

On reviewing the current planned capital programme and accounting for receipts recently received, Committee was advised that the following resources have been identified.

Risk Management Provision no longer required	50,000
Inward Investment	100,000
Land Sales (underwritten by Commutation Reserve)	200,000
Reducing Community Partnership Scheme (£50k per year)	200,000
Total Financing Identified	550,000

Responding to a question from a Member, it was confirmed there was no intention to use the Commutation Reserve and the Reserve would be available for future spending.

RECOMMENDATIONS TO COUNCIL:-

- (1) That a 3.9% increase in Council Tax for District Services for 2006/07 be approved.**
- (2) That the revenue service improvements at a cost of £1,105,350 as set out within Annexe 'A' of the Addendum Report be approved.**
- (3) That an overall level of General Fund revenue expenditure of £10,004,520 for 2005/06 and £11,304,420 for 2006/07, including the revenue service improvements at (2) above, be approved.**
- (4) That the forecasted level of General Fund reserves of £1,107,713 as at 31st March 2009 be approved.**

- (5) That the new capital investment proposals and associated financing as set out in the report be approved and included in the Council's planned programme to 2010.**
- (6) That the Prudential Indicators governing capital investment and financing as set out within the report be approved.**
- (7) That the report of the Council's Section 151 (Chief Finance) Officer made under Section 25 of the Local Government Act 2003 be noted.**

P.J. WILKINS

CHAIR

The Meeting terminated at 6.55 p.m.