

FINANCE AND MANAGEMENT COMMITTEE (SPECIAL)

23rd January 2012

**PRESENT:-**

**Conservative Group**

Councillor Wheeler (Chairman), Councillor Mrs. Watson (Vice-Chairman) and Councillors Jones, Lemmon, Murray, Smith and Watson.

**Labour Group**

Councillors Frost, Richards and Taylor.

**In Attendance**

Councillors Atkin, Hewlett and Mrs. Plenderleith (Conservative Group) and Councillor Bell (Labour Group).

**Consultees**

Chief Superintendent J. Atwal (Derbyshire Constabulary), Mrs. S. Churchill (The National Forest Company Limited) and Mrs. J. Smith (South Derbyshire CVS).

**APOLOGIES**

Apologies for absence from the Meeting were received from Councillors Rhind, Southerd and Wilkins (Labour Group).

**MATTERS DELEGATED TO COMMITTEE**

FM/83. **CONSULTATION ON THE COUNCIL'S BUDGET**

Under Minute No. FM/77 of 12th January 2012, the Finance and Management Committee had considered this item. A copy of the report had been provided to consultees ahead of the Meeting. The report detailed the Council's overall financial position for the 2012/13 budget round and essentially built on the financial plan and strategy approved in October 2011, covering the following points:-

- The Council's provisional financial settlement for 2012/13 with estimated on-going implications for 2013/14 and beyond.
- The Council's current spending and proposed base budget position for 2012/13.
- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2016/17, which forms the Medium Term Financial Plan (MTFP).
- The proposed council tax base for 2012/13 and collection fund position, 2011/12.

- Options for council tax levels 2012/13.
- A review and update of the existing capital investment programme and financing available, including proposals for the new investment.
- The Council's on-going service efficiency and transformation review.

It was agreed to suspend Financial Procedure Rule No. 10, to enable the consultees to submit questions without notice. Mrs. J. Smith of the South Derbyshire CVS addressed Members and thanked the Council for maintaining grant levels to the voluntary sector. Chief Superintendent Atwal referred to areas of police grant funding and the potential changes that would come later this year with the introduction of the Police and Crime Commissioners. Mrs. S. Churchill O.B.E. referred to potential future funding difficulties, the value of the National Forest and joint working with the Council. The representatives were thanked for their involvement in the budget process.

**RESOLVED:-**

***That the feedback from consultees is noted and reported alongside other consultation responses to the Committee's meeting on 14th February 2012.***

FM/84. **HOUSING REVENUE ACCOUNT SELF FINANCING: TREASURY MANAGEMENT AND FINAL PROPOSALS FOR DEBT TAKE-ON**

A report was submitted to seek Members decision on the most appropriate way to fund the Housing Revenue Account (HRA) debt settlement under the self-financing framework. Following analysis of various options, approval was given to finance the debt take-on through the Public Works Loans Board (PWLB) on a maturity type basis, in order to satisfy the requirements of the HRA's 30-year Business Plan. A firm of Treasury Advisors had been appointed and had worked with the Council to consider options and analyse the best portfolio structure, including a full risk analysis.

The Council had an existing market loan of £1m and the report's executive summary explained how this would be allocated. It would enable the Council to operate the recommended "two pooled" approach to future debt management and cleanly separate the new HRA debt into its own pool. The Council's final debt settlement was approximately £58m. The PWLB would operate a special facility to assist the funding of HRA settlements. The rates being offered during a one-day window would be approximately 0.88% below regular levels.

Interest rates were not expected to move significantly between now and the settlement date. However, there were risks to this forecast given the ongoing economic situation and potential impacts from Europe. It was still considered that the PWLB offered the best route, given its lower rates, ease of arranging a debt structure and overall administration. A balanced portfolio structure was recommended with a bias towards a longer-dated repayment profile. Both PWLB fixed rates and margins were still considered to be at historically low

levels and therefore the opportunity to secure long dated funding at below 3% was recommended. This also provided some flexibility. If the Council was in a position to repay debt early, with rates likely to have increased, it would be able to generate a discount on early repayment. A limited amount of variable rate exposure would enable the Council to benefit from the current low official bank rate, whilst maintaining some flexibility on repayment timing. Selecting the maximum 10-year maturity would capture the low margin over an extended period. A balanced portfolio would also reduce the potential “cost of carry” where the investment rate on funds accumulated in readiness to repay debt, was less than the rate of the debt outstanding. By selecting a balanced portfolio, it was considered that the Council would be well positioned to manage future treasury management risks.

The detail of the report contained sections on the treasury strategy objectives, the current economic outlook and sources of funding. It then looked at premiums and discounts, the interest rates and long-term borrowing and borrowing debt at variable rates. A section was provided on fixed versus variable rates, before looking at the portfolio structure, with an options analysis and tables on loan maturity. Further detail was given on the options appraisal, risk management, the debt structure and the effect on the HRA Business Plan. Appended to the report were illustrative interest payments and debt repayment details. The report concluded with sections on splitting the existing debt and the pooling of debt. A presentation was provided to supplement the report.

The officer was thanked for the clear report and presentation. It was questioned whether there had been any information about the Government’s planned changes to the “Right to Buy” scheme. This would be included in a report to the Housing and Community Services Committee on 2nd February 2012. There was also discussion about the minimum level of Housing Revenue Account reserves. A further aspect to be reported to the February Housing and Community Services Committee concerned the level of balances and how any surpluses should be utilised, with the recommendation being for early debt repayment.

**RESOLVED:-**

- (1) That the Council adopts a “two pool” approach to the management of its debt with effect from 1st April 2012.***
- (2) That the Council finances the debt take-on using a balanced portfolio structure (option 3) as detailed in the report.***
- (3) That this strategy is kept under review in the light of any significant changes in interest rates prior to 26th March 2012.***
- (4) That the final Treasury Management Strategy and Prudential Indicators are reported to Council on 27th February 2012.***

R. WHEELER

CHAIRMAN

The Meeting terminated at 6.55 p.m.