



REPORT TO:	FINANCE & MANAGEMENT COMMITTEE	AGENDA ITEM: 6(a)
DATE OF MEETING:	17 FEBRUARY 2004	CATEGORY: RECOMMENDED
REPORT FROM:	CORPORATE SCRUTINY COMMITTEE	OPEN:
MEMBERS' CONTACT POINT:	CLLR R BELL (CHAIR OF THE CORPORATE SCRUTINY COMMITTEE)	DOC:
SUBJECT:	REVIEW OF THE BUDGET PROPOSALS	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FMO8

1.0 RECOMMENDATIONS

1.1 That the Finance and Management Committee in making recommendations to Council on the budget proposals:

- receives this report
- considers the recommendations made in section 6 of this report

2.0 PURPOSE OF REPORT

2.1 The purpose of this report is to:

- set out the Committee's views on the robustness of the budget proposals for 2004/05
- review the consultation that has taken place on the proposals
- make recommendations in respect of future arrangements for the development of the budget and the management of Council finances

3.0 DETAIL

Setting the scene

3.1 A role of the Corporate Scrutiny Committee is to assist the Finance and Management Committee to develop the budget proposals.

3.2 On 15 January 2004, the Finance and Management Committee agreed a series of proposals for consultation with local people and other stakeholders. These proposals were based on recommendations from the Service and Financial Planning Working Group and included:

General Fund

- net Revenue spending of £8.71 million
- a potential Council Tax increase of 4.5%
- new spending proposals equating to £1.09 million over three years
- forecast balances at the end of 2006/07 of £1.47 million (before taking into account the new spending proposals)

Capital Spending

- additional investment in Council buildings, private sector housing grants and other major projects of £1.42 million

Consideration by the Corporate Scrutiny Committee

3.4 The budget proposals have been discussed on 4 occasions, as outlined below:

Date	Main topics
15 September 2003	Arrangements for developing the budget (including consultation with stakeholders)
8 December 2003	Progress on preparing the budget (including the Government's financial settlement and the new prudential borrowing arrangements)
26 January 2004 <i>Special Meeting</i>	Key aspects of the budget proposals
2 February 2004	Consultation with local people and other stakeholders and training for members on Council finances

3.5 Minutes of these meetings can (or will) be found in Council Minute Books Volumes 4, 5 and 6.

3.6 The main consideration took place at the special meeting on 26 January. Areas explored with officers comprised:

- context for the budget (including the Government's financial settlement)
- pension liabilities, debt, capital receipts and reserves
- probable outturn for 2003/2004 and proposals for 2004/05 and beyond
- Departmental expenses
- Housing Revenue Account
- Capital spending
- assessment of new spending proposals
- budgetary control
- consultation with local people and other stakeholders
- presentation of financial information
- training for members on Council finances

4.0 COMMITTEE COMMENTS

Budget Context

- 4.1 Members were advised that the 2004/05 financial settlement from Government was very disappointing, leaving the Council under funded (based on the Government's own formula) by around £0.5 million.
- 4.2 Despite this, the overall position on the General Fund appeared to be healthy, with projected balances (before any new spending is approved) of £1.47 million at March 2007 – compared with the £0.5 million minimum approved as part of the Council's financial strategy.

Pension Liabilities

- 4.3 The Committee noted that present position with respect to pension liabilities and that additional provision had been made in both 2005/06 and 2006/07. It was recognised that liabilities may increase further, although some payments associated with previous early retirements will be falling out.

Council Debt

- 4.4 Members were advised that a report was to be made to the Finance and Management Committee discussing the options for repaying Government debt (around £8 million) and making the Council 'debt free'. Officers suggested that this would be a very difficult decision for the Council to make, as the arguments were finely balanced. Depending on the decision, action would need to be taken before the end of March.
- 4.5 The Committee considered that it would be prudent for the Overview Committee (in conjunction with the Leader, Leader of the Conservative Group and the Chair of the Finance and Management Committee) to explore the options in depth before any decision was taken.

Capital Receipts

- 4.6 The Committee was advised that around £1.27 million was available to finance new capital investment from 2004/05. Whilst the Council has freedom in how it uses its available capital resources, they are finite and there is no guarantee that they will be replenished in the future.
- 4.7 The Committee noted that from April, 75% of receipts from the sale of Council homes will have to be paid over to Government, rather than retained by the Council to pay debt. Members also noted that the sale of Council homes (currently around 140 a year) is impacting on the operation of the Housing Revenue Account, through the loss of income and Government subsidy.)

Reserves

- 4.8 The Committee was informed that total reserves at the end of the current financial year (2003/04) are estimated to be around £3.9 million. Of this, some £545,000

relates to earmarked reserves set aside to meet future spending commitments. A further £960,000 relates to the commutation reserve, which members have decided to maintain at its current level. This effectively leaves the general reserves at about £750,000 at the end of the three-year planning period when the new spending proposals are included.

- 4.9 Officers also highlighted the projected deficit for the last of the three years of £844,000 – *'this exceeds the level of balances at the end of that financial year and indicates that action will need to be taken well in advance of 2006/07 to align Council spending more closely to projected income..'* (Briefing note to 26 January meeting.)
- 4.10 The Committee noted the positive effect the previous years 'underspends' had had on the reserves. Whilst the view could be taken that the underspends could be taken as a failure to deliver services the Committee considered there was no evidence to support such a view and 'underspends' were likely to have resulted from overestimating expenditure and underestimating income.

Departmental expenses

- 4.11 The Committee was advised of the background to departmental expenses and how they were shown in departmental accounts.

Housing Revenue Account

- 4.12 Members were advised that the Housing Revenue Account was projected to be in deficit by the end of 2010, which is also the target date for achieving the Decent Homes Standard. This meant that savings in the order of £130,000 were needed in each of the next 6 years in order to offset the deficit and maintain balances at the required level of £500,000.
- 4.13 The Committee also noted that a proportion of the costs of restructuring the housing service (some £60,000 over a three year period) are to be met from the General Fund. Officers explained that not all the work stemming from the restructuring was attributable to housing.

Assessment of new spending proposals

- 4.14 The Committee noted that some items (such as the recruitment and retention proposal) had not been the subject of bids and that some 'low' scoring items had provisionally secured funding. Members were advised that this reflected Member recommendations made by the Service and Financial Planning Working Group.
- 4.15 Members also noted that whilst new revenue spending was detailed, there was little information about new income (for example, Planning Delivery Grant of £300,000 will offset that amount of new spending).
- 4.16 The Committee also discussed a number of specific proposals. This included the refuse collection/composting proposals, which had been made necessary by the increase in households in the district. Members considered that the need to expand services (as a result of household/population growth) should be recognised in Service Plans and built into the Council's financial strategy.

4.17 On the whole, Members were disappointed with the small number of service development proposals, which will have a direct impact on the local community, although they recognised that all of the capital projects were community based. They considered that a post implementation evaluation of the new 'scoring system' was required to ensure that community needs and priorities are being adequately addressed through this mechanism.

4.18 The Committee also indicated that it would be prepared to assist in the development and application of the 'scoring system' to existing service areas. (This could be included in the work programme for early summer.)

Budgetary Control

4.19 The Committee noted that the new Financial Management System (which is due to go 'live' in April) will provide up to date information for budget monitoring purposes and that this will enable more frequent reports to be made to Members (via the Finance Briefing).

4.20 The Committee considered that the Finance Briefing should be produced on a quarterly basis, with 'special editions' for new and/or major issues.

Consultation with stakeholders

4.21 The Committee noted that consultation on the budget proposals comprised presentations at Area Meetings, a meeting for partners hosted by the Finance and Management Committee and discussions at team meetings (linked to an item in the Core Brief).

4.22 The main issues for stakeholders related to:

- 'value for money' - local people wanted to know what they would be getting from an increase in Council Tax
- withdrawn services (e.g. public toilets)
- the need for better co-ordination with voluntary sector partners over services and service delivery arrangements
- the difficulties faced by older people in meeting Council Tax and other service costs

Presentation of Financial Information

4.23 The Committee identified the need for more flexibility in the presentation of financial information, with Members having the option of choosing the level of detail most suited to their needs.

4.24 Members also thought it would be worthwhile to explore the feasibility of presenting financial information set against the Council's Key Aims.

Member Training

4.25 The Committee considered that all Members should receive training in Council finances and invited officers to develop a suitable 'package' that could be delivered 'in house' by either Council staff or an external training provider.

5.0 CONCLUSIONS

5.1 The Committee felt that this was again a cautious budget in the light of the increase in the General Fund reserves and the availability of the Commutation reserve but acknowledged that there were uncertainties in future years.

6.0 RECOMMENDATIONS

6.1 It is recommended that:

- the Council continues to make representations to Government about the level of the annual financial settlement
- the Overview Committee (in conjunction with the Leader, Leader of the Conservative Group and the Chair of the Finance and Management Committee) review the options for repaying Council debt, prior to a decision by Council on 26 February
- new sources of income are shown in addition to new spending proposals
- a post implementation evaluation of the 'scoring system' for new spending proposals be undertaken by the Corporate Scrutiny Committee and that the Committee assist in the development and application of the scoring system to existing service areas
- the Finance Briefing be produced on a regular (quarterly) basis, with 'special editions' for new and/or major issues
- a programme be developed to enable all members to receive training in Council finances