OPEN

FINANCE AND MANAGEMENT COMMITTEE (SPECIAL)

12th October 2011

PRESENT:-

Conservative Group
Councillor Wheeler (Chairman), Councillor Mrs. Watson (Vice-Chairman) and Councillors Hewlett (substitute for Councillor Lemmon), Jones, Murray, Smith and Watson.

Labour Group
Councillors Dunn (substitute for Councillor Taylor), Frost, Rhind, Richards, Southerd and Wilkins.

The following Members also attended the Meeting and, with the approval of the Chairman, spoke to the Meeting:-

Councillor Bell
Councillor Harrison
Councillor Mrs. Plenderleith

APOLOGIES

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

MATTERS DELEGATED TO COMMITTEE

FM/45. **ISA 260: REVISED REPORT ON THE COUNCIL'S ACCOUNTS AND FINANCIAL STATEMENTS FOR 2010/11**

Mr. J. Roberts and Ms. K. Bellingham from Grant Thornton, the Council's appointed auditors attended the Meeting and addressed Members on this item. They presented the revised statutory annual report on the Council's accounts and financial statements for 2010/11 following the completion of their audit. A copy of the report had been circulated to Members, which provided details on the audit of the Council's accounts, financial statements and financial systems for 2010/11, together with any issues arising. Consequently, the report provided an opinion on those accounts and it was noted that these accounts and the financial statements would be reviewed as the next item on the Agenda. The report also assessed overall value for money arrangements at the Council and consequently, the auditors provided an opinion on whether the Council provided overall value for money.

At the end of the audit, the Council was required to provide a letter of representation and this was appended to Grant Thornton's report. It required the Council's Chief Finance Officer to provide assurances about the status of the accounts and financial statements and also confirmed that the appropriate law, regulations and codes of practice had been complied with and no irregularities existed that could have a material effect on the financial statements. Essentially, it confirmed that there were no material issues or transactions known, other than those already reported and disclosed that could materially affect the accounts for 2010/11. Following this and subject to any issues raised, the Chief Finance Officer would officially sign the letter to finalise this particular part of audit work for the year.

Mr. Roberts reminded Members that the audit could not be concluded previously, due primarily to an inability to balance the cash flow statement. Accordingly, the Council had failed to complete the accounts by the statutory deadline. The audit opinion was therefore late and the impact of this was outlined, which included publication of the authority on a "blacklist". This led to a qualified value for money conclusion which would be reported to the Audit Commission. Mr. Roberts acknowledged the swift actions already taken by officers in response to the failure to meet the statutory deadline.

The Chairman read a statement to Members, as follows:-

> "Producing accurate, complete and timely financial accounts is fundamental to the Council providing services to the people of South Derbyshire.
>
> In recent times it has become apparent that there have been problems with the efficiency and quality of the process in comparison to previous years. The Council has been closely monitoring the situation while giving opportunity and guidance for accounting performance to be improved.
>
> The contract governing the Partnership between the Council and Northgate contains provision to review services that have fallen below the Council's high standards. It has now been decided action needs to be taken here.
>
> Consequently, we will be working with Northgate to transfer the accountancy function back under the direct control of the Council's Chief Finance Officer. We have taken this prompt decision because of our absolute commitment to meet our ongoing obligations for the future.
>
> It should be stressed that this is only a small - albeit important - service area in the overall Partnership. Other functions are progressing as planned and are helping improve public services, deliver extra value for money to our residents and create economic opportunities for the region.
>
> Therefore, we look forward to continuing our good working relationship with Northgate to help deliver a wide range of support services and develop the Regional Business Centre in South Derbyshire".

Members expressed their disappointment at the audit report and it was noted that the Council had never been in such a position previously. However, the swift action already taken, as outlined in the Chairman's statement above, was commended.

RESOLVED:-

That the report be noted and the issues arising be referred to the Audit Sub-Committee for monitoring and review.

FM/46. **ACCOUNTS AND FINANCIAL STATEMENTS 2010/11**

Following the previous item relating to the External Auditor's revised statutory report on the accounts for 2010/11, Members considered a revised cash flow statement and associated notes following completion of the External Auditor's work. These replaced those forming part of the original statement reported to the Special Meeting on 29th September 2011.

The accounts had also been re-checked for format and typographical errors and would be published on the Council's website. Their availability would be publicised through the local media and the accounts would also be distributed to a selection of community points across the District. However, the printed version was only available in limited circumstances or if specifically requested.

RESOLVED:-

That the Council's Audited Accounts and Financial Statements for 2010/11 be approved and signed by the Chairman of the Committee for publication.

FM/47. **A REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR SECURING VALUE FOR MONEY**

Following the completion of the accounts, the Committee considered the annual assessment on the Council's arrangements for securing value for money, which had been presented by Grant Thornton to the Audit Sub-Committee on 28th September 2011. The report had been circulated to Members and determined whether the Council had proper arrangements in place for securing both financial resilience together with economy, efficiency and effectiveness. This was undertaken against a set of criteria considered to be good practice in various areas.

It was noted that in all but one area, the report assessed the Council as having adequate arrangements and key characteristics of good practice in place. Financial control was assessed as having potential risks, although there was evidence that the Council was taking forward areas to strengthen arrangements to overcome these risks. This was contained in an action plan.

RESOLVED:-

That the report and associated action plan be approved.

FM/48. **LOCAL GOVERNMENT RESOURCE REVIEW IN ENGLAND - LOCALISING SUPPORT FOR COUNCIL TAX**

It was reported that the Government had issued a consultation paper on proposals for changing current council tax benefit. This was part of a wider Government policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in their local economy. The consultation period expired on 14th October 2011 and the Government was seeking responses to a significant number of specific points or general feedback and views on the main sections of each of the consultations. The proposals were part of the first phase of the Local Government Resource Review announced by the Government in March 2011 relating to the way in which local authorities were funded.

As announced in the Government's 2010 Spending Review, support for council tax would be localised from 2013/14 and overall national expenditure reduced by 10%. This would bring together different forms of income-related support and provide an integrated benefit for people in or out of work. This would include current housing benefit administered by local authorities. The provisions were contained in the Welfare Reform Bill, which also provided for a new Single Fraud Investigation Service in 2013. This consultation paper was focused on the abolition of council tax benefit and the effects of the wider Universal Credit would need to be considered separately when further details were published by the Government. With the abolition of council tax benefit, the Government's proposals intended that local authorities would establish their own local schemes by April 2013. Local schemes would be aimed at providing support towards council tax for eligible persons.

Instead of the Government setting the rules about how much support was provided towards a person's council tax bill, it was proposed that councils should be free to decide who should pay less council tax and how much less they should pay. However, this should be controlled in order that pensioners were no worse off and people were generally better off by working rather than claiming benefits. The proposal included providing councils with an amount of money in advance to be shared amongst those who were deemed to need it the most in their area. This could lead to a reduction in the current level of support for some people.

The consultation related to the way in which councils could operate the system for offering support for council tax. There were no proposals for changing the current system of discounts and exemptions such as those that applied for single person occupancy, empty homes etc.

The Government had decided to localise support for council tax to simplify the current complex system of criteria and allowances, provide councils with the opportunity to reform the system of support for working age claimants, give councils control over how a 10% reduction in expenditure on the current council tax benefit bill was achieved and provide incentives for councils to get people back into work. Within this, the Government proposed that, as a vulnerable group, low-income pensioners should be protected from any reduction in support as a result of this reform.

The Committee considered the detailed proposals for a formal response to the consultation paper. Given the significance of the proposals, Members expressed a wish to have taken some consultation directly with other stakeholders locally, such as parish councils and voluntary bodies, even at this initial stage. Disappointment was expressed at the length and timing of the consultation, which had included the summer holiday period and had not allowed for a full dissemination of information.

Members focused on the principles of the proposals rather than the detailed points around administration, the sharing of data and fraud etc. On this, it was felt that the system should be easy to understand and be as efficient as possible administratively, thereby avoiding the current complexity. The sharing of data would be vital and it was important that central and local government were able to undertake this efficiently and securely. Concern was expressed that, in practice, there would be too many local schemes which would lead to different and inequitable treatment of vulnerable groups across the country, as well as leading to potential issues for administration. The Committee considered that any scheme should have standard parameters nationally, but be administered locally. It was also felt that the scheme should be introduced at the same time as the wider Universal Credit to lessen confusion for claimants and ensure a smoother transition regarding systems and administration.

Members considered responses to the important points and issues contained in the consultation paper.

RESOLVED:-

That the general comments outlined above together with the responses to the various points and questions contained in the consultation paper, as attached at Annexe 'A' to these Minutes, be submitted as this Council's formal response.

FM/49. **LOCAL GOVERNMENT RESOURCE REVIEW IN ENGLAND – PROPOSALS FOR BUSINESS RATES RETENTION**

It was reported that the Government had issued a consultation paper on proposals for allowing local authorities to retain a proportion of their business rates income that was raised locally. This was part of a wider Government policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in their local economy. The consultation period expired on 24th October 2011 and the Government was seeking responses to a significant number of specific points or general feedback and views on the main sections of each of the consultations. The proposals were part of the first phase of the Local Government Resource Review announced by the Government in March 2011 relating to the way in which local authorities were funded.

As announced in the Government's Local Growth White Paper (October 2010), the consultation sought views on proposals to change the way in which local government was funded by introducing a retention of business rates scheme. The process also sought views on options for enabling authorities to carry out Tax Increment Financing, i.e. to borrow against future income through business growth. This would be used to fund the provision of new infrastructure.

Currently, Councils received their core central funding through a Formula Grant calculated on a complex formula designed to measure the social infrastructure of each area. The main component of Formula Grant was Business Rates or the National Non-Domestic Rate (NNDR). NNDR was collected by councils from businesses in their areas and paid over to a national pool, which was then redistributed on a different basis to fund councils. It was considered that this did not provide councils any financial incentive to promote business growth in their area. The proposals aimed to change the current system by enabling councils to keep a share of the growth in NNDR in their area.

There were no proposals to make any changes to the way businesses paid tax (NNDR) or the way the tax was set. Rate setting powers would remain under the control of central government and properties would continue to be revalued every five years. The current framework for business rate supplements would also remain. In addition, there would be no changes to the existing reliefs to eligible ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector. Subject to the approval of legislation and detailed regulations, currently planned for the summer of 2012, the scheme for NNDR retention would replace the current system for financing local government on 1st April 2013.

The Committee considered the details of the proposed scheme, which were set out in eight technical papers. These papers covered several complex points, particularly the interaction between the proposed safety net arrangements and the tariff, top-up and levy elements of the scheme.

As an established growth area, Members welcomed a central funding scheme based on the retention of business rates. It was felt that such a system should reward authorities as a key growth driver and should also contribute towards the costs associated with business development. However, having commissioned some initial calculations based on the proposals, concern was expressed that the complexities in the proposed system and those relating to the levy in particular, indicated that the Council would be in no better position than under the current Formula Grant system. Consequently, it was considered that the incentives to reward growth did not go far enough and penalised those authorities such as South Derbyshire, who worked proactively to generate economic activity. Accordingly, the Committee did not support the principle of a levy and felt that this was a disincentive; once the baseline was set, then all future growth should be retained locally. It was appreciated that this would bring risks as the business base was volatile and could shrink as well as grow. However, it was felt that all authorities should work with local businesses and their representatives, economic partners, local schools and colleges to develop the local economy continuously in order that the overall business base was sustained.

On the above basis, it was considered that a general protection scheme was not required. This would provide little incentive for authorities to be innovative and at the heart of economic growth locally if a safety net was in place. It was appreciated that there was a balance as exceptional or unforeseen circumstances, such as major business closures, could occur. In these cases, separate funding should be set aside centrally as the effects may span more than one area and could have potential wider regional consequences.

The Committee was not in favour of pooling arrangements, particularly on a wider regional scale as some authorities may just be able to benefit from the work of others. Clearly, working within an economic partnership more locally, for example to include a neighbouring authority, would have some merits. Therefore, the Government was urged to leave pooling as an option and not a mandatory requirement.

On some points of detail, the following views were expressed:-

- Tariffs and top-ups in the original baseline should be index-linked.
- The proportionate share of business rates in the baseline should be based on historic growth.
- If a levy was applied, a fixed amount was favoured but as highlighted above, this should not be punitive in that it penalised rather than rewarded growth locally. In this regard, the 50p in the £ within the Government's model was considered too excessive.

The Committee welcomed the principle of Tax Increment Financing. However, the Government was urged to take extra prudential measures, as borrowing against future revenues which may not be certain could have unacceptable risks and frustrate financial planning. Therefore, some central control over the level and assessment of risk, i.e. a national framework was preferred.

In conclusion, the Committee felt strongly that all resources generated from local growth should stay locally to follow need. It was considered that effort and hard work was required to enable economic development, which did not happen by default and should be recognised accordingly.

RESOLVED:-

That the comments outlined above be forwarded as the Council's formal response to the consultation paper.

R. WHEELER

CHAIRMAN

The Meeting terminated at 7.40 p.m.