

FINANCE AND MANAGEMENT COMMITTEE

17th January 2002

PRESENT:-

Labour Group

Councillor Wilkins (Chair), Councillor Pabla (Vice-Chair) and Councillors Brooks, Dunn (substitute for Councillor Carroll), Evens, Knight, Sherratt and Whyman.

Conservative Group

Councillors Harrison, Hood (substitute for Councillor Mrs. Wheeler) Lemmon and Shaw.

In Attendance

Councillor Bell (Labour Group).

APOLOGIES

Apologies for absence from the Meeting were received from Councillors Carroll and Lauro (Labour Group) and Councillor Mrs. Wheeler (Conservative Group).

FM/74. **MINUTES**

The Open Minutes of the Meeting held on 22nd November 2001 were taken as read, approved as a true record and signed by the Chair.

MATTERS DELEGATED TO COMMITTEE

FM/75. **ANNUAL AUDIT LETTER 2000/2001**

Mr. Phil Jones, District Auditor and Lee Towers were in attendance at the Meeting and presented the Management Letter to the Committee. It was reported that the Council had been faced with a particularly demanding year, the main priority being to stabilise its financial position. The key objective had been achieved and the Council had also made progress on other major issues and challenges. The District Auditor had concluded that the Council had made a positive start in addressing the demanding new agenda. The Council faced some significant challenges, particularly to raise service standards using Best Value as a tool. However, stabilising the financial position should provide the foundations to enable the Council to move forward and strengthen arrangements further. The District Auditor suggested that the Council should continue to give priority to producing and keeping under review a longer term financial strategy to ensure that both capital and revenue budgets could be matched to available resources whilst maintaining adequate working balances. It was also suggested that the Council should monitor the effectiveness of the new political structure as it "bedded in".

With regard to the accounts it was noted that the Council had, in common with many authorities, not complied with Financial Reporting Standard FRS11 (Impairment) and FRS 15 (Depreciation). The changes resulting from these reporting standards would be taken on board in next year's accounts, in conjunction with the recently completed re-evaluation of the assets. There were no other significant problems encountered during the audit.

Councillor Harrison queried why the Authority had not complied with FRS11 and FRS15 and was advised that the depreciation of fixed assets was not as important in the public sector as in the private sector. It was the Authority's intention to depreciate fixed assets in full for the next year and accordingly, the District Auditor was not concerned at this stage. Councillor Harrison also queried the non-depreciation of housing stock and was advised by the Chief Finance Officer that the Council did not have an open market valuation of the housing stock each year.

The District Auditor advised that the Council's financial standing had been stabilised by the positive out-turn in 2000/01 and this had been as a result of good management. Achievement of the three-year financial plan however, remained a challenge.

The Management Letter circulated noted that the Council's trading services (former DSO's) had since 1st April 2000 been managed on a soft split basis under which net operational costs for the year were recharged in full to the Authority's services. The exception was the Housing DSO which had continued to operate under the original specifications and achieved a surplus of £82,000. Trading Services represented a business risk in terms of potential financial deficit. The District Auditor considered that the Council should monitor the performance of all its original DSO's to ensure they remained financially viable and provide Best Value by delivering continuous service improvement and in this regard Councillor Whyman advised that he wished for particular attention to be paid to this area and that the Committee be kept informed of the original DSO's performance as a matter of priority.

With regard to the Council's Community Strategy, the District Auditor made reference to there being a lack of clarity concerning Member involvement in preparing the Strategy and Councillor Whyman emphasised that Members had been involved but on a more informal basis which was difficult to monitor.

In closing, the District Auditor thanked Members and Officers for the assistance received during the course their work and a recognition of the value of the work undertaken by the District Auditor was expressed by Members.

RESOLVED:-

That the Annual Audit Letter be noted and the response to the key messages within the letter, as circulated with the report, be approved.

FM/76. **GENERAL FUND BUDGETS 2001/02 & 2002/03**

The Committee was asked to consider the General Fund Budgets for 2001/02 and 2002/03. The Committee's probable out-turn for 2001/02 showed total net expenditure of £3,574,930 which was a very small increase overall of approximately £2,500 compared to the cash limit estimate. However, this did not portray the true situation, as the Committees services would achieve an overall reduction of approximately £375,000 after excluding internal recharges/re-allocations. The total base budget for 2002/03 was £3,749,260 which was an increase of approximately £174,000 on the probable out-turn for 2001/02. After excluding internal recharges and re-allocations, the overall increase was approximately £92,000 and was almost entirely due to one-off gains in 2001/02 not occurring in 2002/03.

Members also considered the following appendices:-

- Appendices 2 and 3 – an analysis detailing the major variances
- Appendix 4 – a summary of the proposed budget reductions for 2002/03
- Appendix 5 – a summary of the proposed service developments for 2002/03
- Appendix 6 – a schedule showing the proposed fees and charges for the Committee's Services for 2002/03

The budget for 2002/03 had initially been compiled at November 2001 prices. An allowance for inflation had been included where it was considered unavoidable to calculate the cash limit estimate for 2002/03. The Council's overall financial position was reported showing the probable level of spending and projected balances for the current financial year to 2004/05. Key points to note for the medium terms financial strategy were also submitted.

The Service and Financial Planning Working Group had met to consider initial budget proposals. In essence, the Working Group had identified a need to incur new spending of some £232,532. Part of this spending (£37,782) was for one year only whilst the remainder of £194, 750 was anticipated to continue for future years. Against this increased spending, the Working Group had identified potential savings of some £165, 965 which would offset most of the new spending pressures. In addition, an assumption had been made regarding Council Tax increases over the next three years and it was expected that balances would fall to around £600,000 by the end of 2004/05.

The budget reduction proposals had been split into three categories dependent upon the effect on service delivery. The proposals of the Working Group were reported insofar as they affected the Committee's areas of responsibility. Service Development Proposals for 2002/03 were also reported and these had been scored against criteria previously approved by the Committee. An appendix outlined those proposals relevant to the Committee and the scheme suggested by the Working Group for inclusion.

The final appendix provided a schedule of the proposed fees and charges to operate from 1st April 2002, together with a comparison of the existing charges.

RESOLVED:-

- (1) That the estimates of Income and Expenditure for 2001/02 and 2002/03 for the Committee's services be approved.***
- (2) That the proposals for budget reductions and service developments for 2002/03 as outlined in the report be approved.***
- (3) That the Committee's proposed fees and charges for 2002/03 be approved.***

FM/77. **CAPITAL PROGRAMME 2002/03**

The Committee was asked to consider the proposed Capital Scheme for 2002/03 and to comment on the relative priorities of each scheme. This was the first year that the Government would make a general capital allocation to local authorities known as the "Single Capital Pot". It provided local authorities a degree of freedom to determine how to allocate resources between housing

and General Fund schemes. Last year the Government had introduced the Major Repairs Allowance (MRA), a separate allowance to pay for major works to housing properties. Previously this work had been financed by the Housing Capital Allocation, which had reduced accordingly. The net impact of the MRA was positive and for 2002/03 was expected to be approximately £1.977million.

Under the new arrangements, each authority was required to produce a Capital Strategy. It required Councils to set a framework for investing in new capital schemes and generating the resources to fund them. Key principles for the South Derbyshire Strategy were reported. It included a detailed Action Plan about how the Council would adopt a more co-ordinated approach to Capital Programme management and investment. Another key aspect of the Action Plan was the introduction of a five year Capital Programme to set out funding priorities in the medium term.

At the outset, the Council would not have all the funds necessary to meet the whole programme, but it was an essential tool for prioritising schemes so that bidding assets were directed appropriately. The Capital Strategy would also influence the amount of resources allocated to each Authority. For the current year, 5% of resources were allocated based on the quality of capital strategies and asset management plans produced. For South Derbyshire, it was expected that extra capital resources of £100,000 would be received as a result of this assessment.

The estimated capital resources for 2002/03 were £1,126,000. This included an estimate for the supplementary credit approval for disabled facilities grants. If the Council took up the whole allocation it would need to identify capital resources of £233,000 for matched funding.

All capital schemes had been assessed against criteria included in the Capital Strategy and agreed previously by the Committee. The results of the scoring exercise and suggested schemes for the Committee were appended to the report. The total indicative capital resources for the Committee were £213,000.

RESOLVED:-

That the priorities as suggested by the Service and Financial Planning Working Group together with the outline Capital Scheme be approved.

FM/78. **REVENUE BUDGET 2002/03**

The base budget position for 2002/03 to 2004/05 was outlined. Comparison was also made with the expected budget position at the end of the current year 2001/02. The key points to note for the medium-term financial strategy were outlined as follows:-

- The financial position had stabilised – balances at the end of the three year projection were well within the Council's minimum target of £500,000.
- Although balances were significantly higher than the recommended minimum level £500,000 at the start of the three-year forecasting period, they reduce by some £700,000 over the period, mainly as a result of contributions to the commutation reserve.
- Surpluses would be achieved in the current year (2001/02).

- Next year any gross surplus would be more than offset by contributions to the commutation reserve. This would result in a reduction in balances.
- The deficit for 2004/05 was less than for 2003/04 as a result of local plan review spending ceasing. 2003/04 also involved higher contributions to the commutation reserve.

The Committee was advised however, that the figures outlined were only provisional figures and could still be affected by factors outside the control of the Council such as the final Government grant settlement and the Council Tax surpluses and deficits.

It was noted that the figures outlined detailed how much the Council would need to spend in 2002/03 and beyond if it were to provide the same services in future as it currently operated. The impact on individual divisional budgets was outlined and it was noted that obviously this was an unrealistic assumption. Each year new pressures emerged on Council spending and the Authority sought to look at ways to improve services through its corporate planning and best value processes.

For this year, all Committees had considered a range of bids for new spending. Some of these bids were one-off in that they were for one year only whilst others continued into the foreseeable future. Wherever possible, the Council had sought to offset the extra costs for these improvements by making savings elsewhere within its budgets. The Environmental and Community Services Committee had met and considered the base budget for their committees and these were detailed to Members. The proposals for the specific services under the control of the committee had previously been considered during the Meeting.

As a result of the considerations of the Service and Financial Planning Working Group, spending proposals totalling £240,847 had been forwarded and these were outlined to Members (including one off items totalling £40,282).

The cost of the new spending was offset by ongoing savings of £168,125 as identified in an appendix to the report. The net increase in costs was therefore reduced to £72,722. Due to the one-off items highlighted above the extra ongoing costs reduced to £32,000 after the first year. In addition, the budget also accommodated the ongoing cost of certain capital schemes that were anticipated to rise from £7,000 in 2002/03 to £55,000 in 2004/05. The additional spending would be met from balances which were still projected to be comfortably above the target of £500,000 at the end of year 3 (2004/05).

The level of projected balances based on varying Council Tax increases of between 3.5% and 5.5% were outlined.

The Committee was advised that under the new modernised arrangements the Council was required to provide for scrutiny and public consultation on its budget proposals. Accordingly, it was planned that this would be undertaken by the Corporate Scrutiny Committee and via Area Meetings.

Members also received a supplementary paper which provided additional information affecting the Revenue Budget report. This additional information had been received from the County Council on the re-evaluation of the Council's Pension Fund and its impact on future Council budgets. Members were advised that in September 2001, the County Council provided an estimate of

the impact of the re-evaluation of the County Council Pension Fund. At that stage the Actuaries advising the County Council indicated that the contribution for this Council would rise from 16.2% of employees' salary to 18% of employees' salary. The financial impact of this increase on Council budgets was outlined. Overall, Council pension costs had risen by 11% and the costs outlined had been accommodated in the Council budgets accordingly.

Members were advised that on 11th January 2002, the County Council released the final re-evaluation results which now indicated a further rise in the Council pension contribution to 19.2% and details of how this increase would further impact on Council budgets were outlined. These costs represented a further rise of 6.7% on the Actuary's original estimate and an increase of 18.5% compared to the existing level of employer contributions. It was noted that the reasons for this sharp rise in contribution levels was mainly due to poor investment returns and longevity.

Councillor Harrison made reference to what he believed was a disproportion of early retirements and the abolition of receipts on pension funds which had led to a need for a sharp rise in contribution levels. He also queried contribution rates made by other authorities in Derbyshire and the Chief Finance Officer advised that he would provide this information to him should other authorities be prepared to release it.

It was reported that the County Council had given local authorities the option to retain their estimated contribution level (18% for South Derbyshire) for 2002/03 with a stepped increase for the following two years (19.32%). However, Members were advised that this would lead to higher costs in 2005/06 and beyond to recover the benefit of the lower increase in 2002/03. Members were aware that the Council had previously gained special dispensation to make special contributions to the pension fund. The Chief Finance Officer had asked the County Council's Actuary to assess the impact of making a special contribution of £1million to the pension fund. The impact of making such a special contribution would lower the employer pension rate from 19.2% to 17.52% and the financial implications were outlined. Members were advised that in 2002/03 the Council would also lose the benefit of investing £1 million of capital resources. The existing budget assumed that the Council would have the benefit of the interest on this money for six months and this was in the region of £20,000. It was noted that any change to the level of pension fund contributions would have an impact on the projected medium-term level of balances previously reported.

Members were advised that the County Council intended to hold a seminar towards the end of January 2002 to enable all districts across Derbyshire to share and debate their concerns over rising contribution levels and to understand the reasons behind them.

Councillor Whyman advised that he wished to see the Council's reserves maintained at a balance of approximately £650,000. He felt there was a need to use capital receipts wisely and therefore suggested investing £1million in the pension fund in order to protect the Council's General Reserve balance.

RESOLVED:-

- (1) That the Revenue Budget proposals as set out in the report be approved as a basis for consultation.***

- (2) That the variations to the budget proposals (new spending) and (savings proposals) be approved as a basis for consultation.***
- (3) That an increase in Council Tax levels of between 3.5% and 5.5% be approved as a basis for public consultation.***
- (4) That subject to the capital resources being available, the Council make a special contribution of £1million to the Pension Fund.***

FM/79. **CONSOLIDATED CAPITAL PROGRAMME 2002/03**

Members were advised that next year, the total Capital resources available to South Derbyshire were estimated to be £1,126,000. Circulated to Members was a document summarising the schemes put forward within the Capital Programme for 2002/03. Members were asked to consider whether they wished to vary the allocation of resources subject to the comments of the other policy committees. In view of the greater flexibility now available to allocate capital resources between Housing and General Fund schemes, the Service and Financial Planning Working Group had made an initial allocation of £400,000 in capital resources for General Fund schemes with the remainder allocated to Housing schemes. A total indicative allocation for general schemes was circulated at £401,500. Effectively, this meant a shift of funding away from some existing schemes although in a number of cases new schemes had replaced them. After taking into account the anticipated reserves to be allocated for disabled facilities grants (£233,000) this left £492,000 available for other housing schemes and grants.

It was reported that the initial recommendations considered by the Community Services Committee was for the whole of this allocation to be devoted to improvements grants. In addition, Members were advised of the estimated revenue costs of future capital schemes which were detailed in the report. These costs amounted to approximately £7,000 rising to £55,000 by the end of year three and had been accommodated within the Council's three year budget strategy.

Arising out of the report, Councillor Hood made reference to a request from Dalbury Lees Parish Council for a grant from the Council towards the completion of the proposed village hall. A general discussion took place with regard to the history of this particular application and it was recalled that a one-off grant was made to the project but that the Council had no remaining overarching funding commitment to the original scheme. Councillor Whyman advised that if in future the Council were able to support this project then it should do so but at this time insufficient resources made this impossible.

RESOLVED:-

That the outline Capital Programme as circulated be approved as the basis for scrutiny and consultation on the Council's future spending proposals.

FM/80. **HUMAN RESOURCE MANAGEMENT – BEST VALUE REVIEW**

The Committee was advised that this Review had been ongoing since April 2001. The Review Team had made significant progress since the last report to

the Committee was made and a baseline assessment had been completed which was circulated for consultation. It was reported that this assessment had been challenged at a Meeting held on 28th November 2001 and a further Meeting held on 19th December 2001 enabled the existing Review Team and Corporate Best Value Working Group to challenge its findings. These findings were circulated and if approved, would undergo an option appraisal exercise which would be reported to a future Meeting of the Committee. A number of comparative exercises had been undertaken together with a range of consultation exercises to consult with service users, Members and Personnel and Development staff. Some analysis of outsourcing trends had been analysed and there had also been initial discussions which had led to joint working opportunities with other Authorities. The Committee was advised that resources remained a pressure with significant time being required from the Personnel and Development Division. Timescales although slightly delayed should be back on course by the end of February 2002 but there were still a number of stages to undertake before the review was complete.

RESOLVED:-

- (1) That the progress made to date on the Human Resource Management Best Value Review be noted.***
- (2) That the findings of the baseline assessment be accepted.***
- (3) That the key issues facing the Authority be agreed to enable an option appraisal challenge exercise to be undertaken.***

FM/81. **QUALITY TOWN AND PARISH COUNCILS – CONSULTATION PAPER**

The views of the Committee on the above Consultation Paper received from the Department of the Environment, Food and Rural Affairs were requested prior to consideration of this matter by the Council on 31st January 2002.

RESOLVED:-

That the Consultation Paper be referred to Council for consideration.

FM/82. **BEST VALUE REVIEW: FINANCE SERVICES**

Members were advised that the review of Finance Services covered Revenues and Benefits, Accountancy and Exchequer and Internal Audit Services.

The overall strategic arrangements for managing the Council's finances had already been reviewed in some detail as part of a previous Best Value Review into Financial Management and Control. Separate Terms of Reference had already been produced and used to conduct a detailed review of Revenues and Benefits (previously reported to this Committee). Associated terms of reference were circulated covering Internal Audit, Accountancy and Exchequer Services.

The Committee was advised that whilst many aspects of the three constituent reviews of Finance Services were distinct, as evidenced by the Terms of Reference circulated there were clearly some crossover areas which were highlighted in the report to be looked at jointly for all finance services as defined within the review.

RESOLVED:-

That the Terms of Reference for the Best Value Review into Finance Services, as circulated, be approved.

FM/83. **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

RESOLVED:-

That, in accordance with Section 100(A)(4) of the Local Government Act 1972 (as amended), the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraphs of Part 1 of the Schedule 12A of the Act indicated in brackets after each item.

MINUTES

The Exempt Minutes of the Meeting held on 22nd November 2001 were received.

SERVICE AND FINANCIAL PLANNING WORKING GROUP MINUTES (Paragraph 11)

The Committee noted the Minutes of Service and Financial Planning Working Group Meeting held on 12th December 2001 together with the staffing implications arising from these Minutes as a basis for consultation with trade unions through the budget process.

EMPLOYEE HEALTH & WELFARE (Paragraph 11)

The Committee received a detailed report on Employee Health and Welfare and noted its contents.

PROFESSIONAL SUBSCRIPTIONS (Paragraph 11)

Consideration of this matter was deferred to the next Meeting of the Committee.

LOCAL AGREEMENT ON ASSIMILATION (Paragraph 1)

The Committee agreed a course of action with regard to the local agreement on assimilation following approval by both the Joint Negotiating Group and Joint Consultative Committee.

RURAL RATE RELIEF (Paragraph 5)

The Committee agreed to take no action on the application but asked that the applicant be advised to resubmit the application after the first year of trading if still appropriate.

FINANCIAL REGULATIONS 18(b) – WRITE OFFS (Paragraph 7)

The Committee agreed to write-off the sum outlined in the report under the provisions of Financial Regulations 18(b).

P.J. WILKINS

CHAIR