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# Budget and Treasury Management Reports Update and Adjustments

Report by the Head of Financial Services

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## Matters for Information

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### 1. PURPOSE

- 1.1 The purpose of this report is to provide the Council with additional information to support their debate on the recommendations from Cabinet on two reports, shown below, that they considered at their meeting on the 2 February:
- ◆ Financial Strategy, Medium Term Plan 2007-2011 and Budget 2006-2007
  - ◆ 2006/07 Treasury Management Strategy
- 1.2 This additional information relates to items that have arisen or have become clarified since the Cabinet report was prepared. Paragraphs 2 and 3 relate to three financial adjustments and their resulting impact on the recommended savings profile.
- 1.3 Paragraph 4 refers to information received from our Treasury Management Advisor which could result in financial benefits for the Council. It therefore proposes changes to the Treasury Management Strategy for the current year and for 2006/07. This also impacts on the Prudential Code Annex to the budget report.
- 1.4 This report includes, where necessary, updated versions of some of the Annexes to the Cabinet report and gives revised recommendations.
- 1.5 Once a decision is made on the Council's own budget it will be possible to consider the later item on the Agenda which is the formal resolution of the total Council Tax levels for each town or parish next year, incorporating the precepts from the County Council, Fire and Police Authorities, Towns and Parishes.

### 2. FINANCIAL ADJUSTMENTS

- 2.1 **Government financial support.** The Council has now received the final grant settlement details for 2006/07 and a revised interim figure for 2007/08. In the light of these small increases the forecasts for later years have also been adjusted.

<b>Government Support</b>	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000	£000
Assumption in approved MTP		9,995	10,481	10,972	11,219	11,471
Provisional settlement						
True Grant	10,258	11,431	11,995	12,265	12,541	12,823
Withheld for Floors and Ceilings	750	544	364	182 <i>(est.)</i>	0	0
<b>Receivable</b>	<b>9,508</b>	<b>10,887</b>	<b>11,631</b>	<b>12,083</b>	<b>12,541</b>	<b>12,823</b>
Variation from MTP		+892	+1,150	+1,111	+1,322	+1,352
Final settlement						
True Grant	10,258	11,439	12,014	12,284	12,561	12,843
Withheld for Floors and Ceilings	750	547	364	182 <i>(est.)</i>		
<b>Receivable</b>	<b>9,508</b>	<b>10,892</b>	<b>11,650</b>	<b>12,102</b>	<b>12,561</b>	<b>12,843</b>
Variation from MTP		+897	+1,169	+1,130	+1,342	+1,372

2.2 **Maintenance of Public Conveniences.** At its meeting on the 12 January the Cabinet were asked to approve proposals for the improvements to Public Conveniences contained in Project Appraisal 302B. The Cabinet approved the improvements and released the funding except for the proposed increase in cleansing costs. This results in a reduction of £20k per year from 2006/7 onwards. This adjustment is shown in Revised Annex A as a separate line.

2.3 **New Headquarters and other Accommodation.** The Council received a report on the latest position at its December Meeting and the financial report considered by Cabinet on 2 February was based on those figures. As planned, those figures have now been reviewed and there is a separate report on your Agenda which considers them together with the other decisions required. The table below shows the variations.

<b>Pathfinder House and Operations Centre</b>	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000	£000	£000	£000
December figures								
Capital	144	6,917	7,990	7,580	757	299	35	12
Revenue	23	-49	-34	-88	-91	-93	-95	-97
Latest Figures								
Capital	429	6,707	7,995	7,156	1,081	0	0	0
Revenue	-89	-9	-11	-133	121	115	118	121

**N.B.** The revenue figures shown in this table relate to just revenue items and do not include the revenue impact of capital expenditure. The capital figures represent the total cost and have not been reduced by the provision for refurbishment that is included in last year's approved MTP. The impact of this change is shown as a separate line in Revised Annex A based on the standard 5% cost for lost interest.

2.4 **Savings and Interest.** Cabinet have recommended support of the strategy which is based on a smoothed savings profile. This approach has therefore been used for this report but the profile adjusted in the light of the above adjustments. The impact on interest

earnings of this re-profiling has also been included.

- 2.5 **Concessionary Fares.** Negotiations are still ongoing with the bus companies and so final costs for next year are not yet available and indeed one option being considered would not provide a definite figure until the end of next year. A further report will be prepared for Cabinet on this issue but any variations in cost to the provision already made will now need to be dealt with post budget.

### 3. FINANCIAL IMPACT

- 3.1 Although the above changes affect most of the Annexes to the Cabinet report the effect on some of them is not significant. Accordingly revised versions are now attached for:

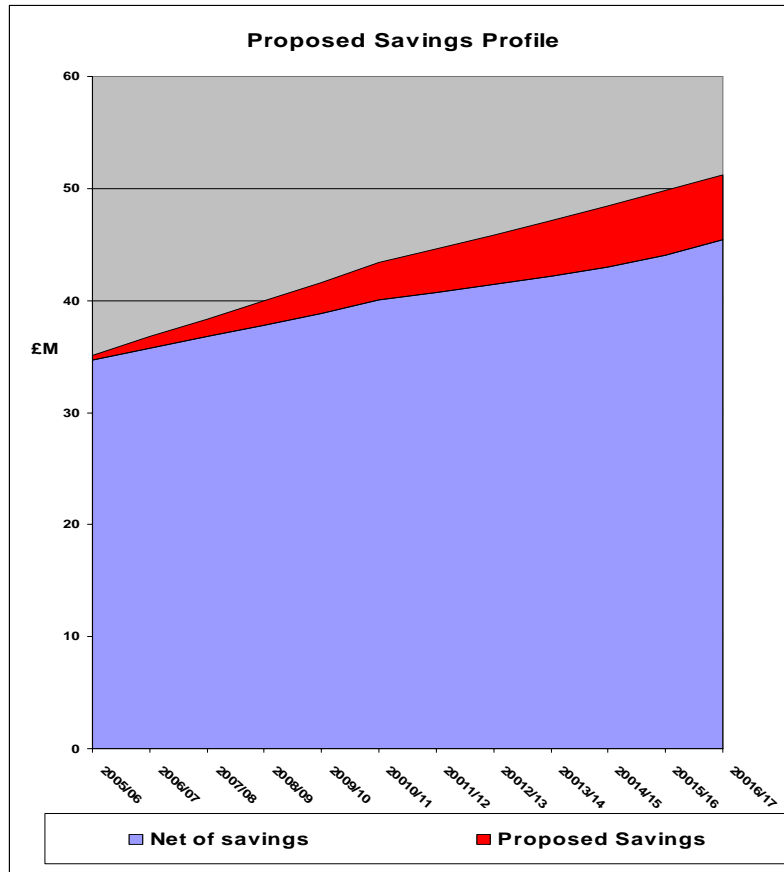
- ◆ Revised Annex A, MTP Schemes
- ◆ Revised Annex C, Summary Budget, MTP and Forecast
- ◆ Revised Annex D, Service Budgets
- ◆ Revised Annex E, Prudential Indicators

- 3.2 The table below updates the proposed option, supported by Cabinet, and shown in paragraph 6.9 of the Cabinet report.

<b>Proposed Option with smoothed savings profile</b>	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000	£000	£000
Net Spending before savings/reductions	17,230	19,331	20,706	22,610	24,999	26,858	27,820
Efficiency Savings Target	-402	-826	-1,273	-1,307	-1,342	-1,342	-1,342
Additional Spending Reductions		-200	-300	-850	-1,450	-2,000	-2,550
<b>Net Spending</b>	<b>16,828</b>	<b>18,305</b>	<b>19,133</b>	<b>20,453</b>	<b>22,207</b>	<b>23,516</b>	<b>23,928</b>
Funding excl. Reserves	15,159	16,778	17,970	18,868	19,812	20,803	21,843
Use of Reserves	1,669	1,527	1,163	1,585	2,395	2,713	2,085
<b>COUNCIL TAX</b>	<b>£ 99.71</b>	<b>£104.69</b>	<b>£109.91</b>	<b>£116.50</b>	<b>£123.60</b>	<b>£134.33</b>	<b>£ 145.57</b>
Increase £	£5.17	£4.98	£5.22	£6.59	£7.10	£10.73	£11.24
Increase %	5.5%	5.0%	5.0%	6.0%	6.1%	8.7%	8.4%
Increase in Budget Requirement %		10.7%	7.1%	5.0%	5.0%	5.0%	5.0%

Total Spending Reductions rise to £5.8M by 2016/17 when the Council Tax level would be £209.92.

- 3.3 The graph below shows the accumulating impact of the savings as they grow steadily over the forecast period.



#### 4. TREASURY MANAGEMENT

- 4.1 The Financial Strategy is based on the Council continuing to use its Capital Reserves to fund capital expenditure until 2008/09 when they run out. The Council will then need to commence borrowing and the required 4% provision for repaying the principal element of the loan together with interest at 4.3% (the rate current when the Cabinet report was prepared) are included. The table below shows the assumed borrowing:

	Assumed Borrowing (Capital Financing Requirement)
	<b>£M</b>
2008/09	0.8
2009/10	6.1
2010/11	3.9
<b>Total in MTP Period</b>	<b>10.8</b>
2011/12	3.1
2012/13	3.2
2013/14	3.3
2014/15	3.4
2015/16	3.5
2016/17	3.7
<b>Total in MTP plus Forecast Period</b>	<b>31.0</b>

- 4.2 At a meeting of the Capital Receipts Advisory Group with our Treasury Management Advisor on the 3 February we were informed that long term borrowing rates are currently very low for technical reasons related to Government decisions on how certain Pension Funds must provide a minimum percentage of liquid investments. The current rate (7 February) is 3.9% and this is likely to fluctuate up until 31 March but is then expected to increase.
- 4.3 Informal discussion has taken place with our External Auditors about the appropriateness of the Council taking advantage of these low rates in advance of the funds being needed to fund capital expenditure. As a result of this discussion (they are not permitted to give specific advice) it is clear that:
- ◆ a Council can borrow in advance of the capital expenditure taking place if they feel that they can demonstrate it is in the council tax payers' interests and a proper risk analysis has been undertaken to demonstrate this.
  - ◆ any borrowing would need to be within the limits set by the Council and comply with the Prudential Guidelines requirements that were introduced as part of the arrangement when the Government removed its controls on capital expenditure.
- 4.4 The borrowing limits that the Council set in February 2005 for the current year limit borrowing to £22M to cover **temporary** borrowing for cash flow purposes. The limit proposed in the next year's strategy was £30M which includes £10M for **long-term** borrowing which creates the option open to start borrowing in advance if rates are attractive. In both cases the temporary borrowing elements are high because of the plan to cover the temporary everyday fluctuations in cashflow for as long as possible before recovering funds from our Fund Managers, who generally earn greater interest than the cost of temporary borrowing.
- 4.5 The Prudential Code is based on, amongst other things, ensuring that the Council does not borrow long term for revenue purposes. To minimise the chance of this, it considers that long term borrowing should be limited to the total capital financing requirement (i.e. the capital expenditure planned to be funded from borrowing) over the preceding year, the current year and the next two years **or some longer financial planning period determined by the authority**. As the Council has a 5 year MTP in place that includes individual capital schemes it would be logical for this to be used as the financial planning period for this purpose. This would give a total to the end of 2010/11 of £10.8M.
- 4.6 It is therefore proposed that the Council increases its overall borrowing limit for the current year by £10.8M which would allow the Head of Financial Services to borrow up to £10.8M over the most appropriate period **if the borrowing rate is still attractive** under existing delegated powers. However it is suggested that given the significance of this change prior consultation with the Chief Executive and the Executive Councillor for Finance should take place. A full risk

assessment will be prepared in advance of that consultation.

- 4.7 The 2006/07 Strategy already contains provision for long term borrowing next year of £10M but it is proposed that this be revised to allow a higher figure but with total **long-term** borrowing always being limited to the amount to be funded by loan in the approved MTP. This requires some rewording and so a revised version is attached at Annex F.

## **5. PRUDENTIAL CODE**

- 5.1 A revised Prudential Code (Revised Annex E) is attached which takes account of the Financial Adjustments in section 2 and the proposed Treasury Management changes in section 4.

## **6. CONCLUSIONS**

- 6.1 Three financial adjustments are required to the Budget/MTP/Financial Strategy Report that was considered by Cabinet and a joint Overview and Scrutiny meeting. They result in an increase to the eventual level of savings required by 2016/17.
- 6.2 We have been informed of an opportunity to borrow funds in advance that could have a significant beneficial advantage. Approval is sought to permit this to take place if beneficial rates continue and a risk assessment supports that borrowing.
- 6.3 Amended Annexes are attached where relevant and the revised recommendations are shown below.


## **7. REVISED RECOMMENDATIONS**

**Council is requested to:**

- ◆ **Approve the Financial Strategy (Para 6.9 of the Cabinet report together with the revised summary table shown in Para 3.2 above and the revised Annex C attached)**
- ◆ **Approve the proposed budget and MTP (Revised Annexes A, C and D attached)**
- ◆ **Approve a Council Tax increase of £4.98 (just under 5%) for 2006/07.**
- ◆ **Approve the Prudential Indicators in Revised Annex E attached.**
- ◆ **Approve an increase in the 2005/06 Authorised Borrowing limit by £10.8M to £32.8M.**
- ◆ **Approve the Treasury Management Strategy. Revised version attached as Annex F**
- ◆ **Note that the Head of Financial Services will consult the Chief Executive and the Executive Councillor for Finance on a risk assessment before undertaking any long term borrowing this year.**

**ACCESS TO INFORMATION ACT 1985**

Grant Settlement Information – Files in Financial Services  
Working Papers - Files in Financial Services  
Project Appraisals  
2005/06 Revenue Budget and the 2006/010 MTP

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