Committee:	**Resources Committee**
Date:	**18 September 2003**
Agenda Item No:	**8**
Title:	**Policy Priorities and Budgets 2004/05**
Author:	**John Dickson (01799) 510300** **Philip O'Dell (01799) 510670**

Summary

1 This report outlines the Council's proposed approach to budget setting for 2004/05, within the context of the newly adopted Quality of Life Plan. It also contains early proposals for budget amendment and areas for further research following the meetings between the Leader of the Council, Chairman of Resources, Committee Chairmen, and appropriate officers, agreed at the meeting of the this Committee on 26 June and subsequently by Council in July. It is intended that this Committee on 18 September issues further guidance to officers and Committees following an updating of the Council's overall budget position, but in the meantime so far as its own budgets are concerned, this Committee is asked to comment on and approve the proposals included in this report, and to give any other observations on its priorities and budgets.

Background

2 The Council faces another challenging year on its General Fund Budget for 2004/05. The full projected position, at that time, was contained in the Financial and Policy Review report to this Committee on 26 June. The Committee agreed, for planning purposes, to continue with the previously set budget target of £7,253,960 as the District Council requirement, which would equate to a Council Tax rise of 7.5% at District level. This projection allowed for no uncommitted growth in services, and indeed required a modest saving of approximately £38,000 to balance the 2004/05 budget. As Members may be aware, a 1% increase in the Council Tax level raises approximately £30,000 in additional income for the Council at District level.

3 The budget scenario continues to evolve, based on external and internal factors, and many figures will change in the months ahead as estimates are refined and further external information is obtained.

4 The main development since this Committee adopted an overall strategy has been the budget review meetings in August at Member and officer level and involving Chairmen of Committees. These discussions looked at papers submitted by Heads of Service that covered possible growth areas, service reduction possibilities, and charging strategies for income, all in the context of the Quality of Life Plan, the key themes of which are contained in Appendix 1.

The dialogue was open and challenging, giving officers a full opportunity to put across the implications of budget changes, the known views of customers, and their own professional views. The meetings involved substantial preparation and lengthy attendance by many staff. All General Fund revenue budgets were examined in some detail, including 'below the line' items such as interest on balances.

5 As a result of those meetings it is considered that the Council is now in a better position to turn its policy aspirations into budget priorities. This process will inevitably take time to complete, with the current year very much a transitional one, yet with substantial and early progress still being made. The full intended approach involves a 5-stage process:

- Consideration of early ideas for budget review during the current cycle of meetings.
- Items for further research to be brought back to Committees in the October/November cycle. An important element of the analysis of these items will be the preparation of risk assessments for any significant changes.
- Consideration of base budgets, any growth bids, and full options for the review of fees and charges in the October cycle.
- Presentation of full Service Plans to the January Committee cycle, showing how each service will use its proposed funding
- A proposed 'zero- based budget' approach, with work starting early in the 2004/05 financial year for implementation in 2005/06. Zero-based budgeting is a technique which looks at every element of a budget from a nil (zero) starting point and seeks justification for each item.

6 The outcome of all these stages will be a 3-year plan showing the Council's priorities and funding approach in a full and detailed fashion which should be affordable and sustainable in accordance with the new statutory Prudential Code.

7 In addition to ideas to expand, reduce or amend specific services, several 'cross-cutting' themes were identified in the August meetings, and these are being looked at by officers prior to reporting back to Members. The areas involved are access to services, administrative support across the Council, and the idea of Trust status for various Council establishments. The emphasis of the first two of these themes will be on improving the way the Council works and interacts with the public, with the Trust status idea possibly bringing financial savings, depending on statutory limitations

8 Work on reviewing the Council's budget continues to dovetail with the activities being undertaken by the Interim Director, Strategic Development, and the further development of The Quality of Life Plan. In particular, there are Focus Groups planned around the District in early September, and the outcomes of these will feed into the budget process in the October/November cycle of committees.

The Budget Scenario For This Committee

9 In previous years this current cycle of Committees would result in each service Committee being set a target ‘cash limit’ for the next financial year. This is not the approach being adopted this year, as the Quality of Life Plan adds a significant new dimension to the Council’s service and financial planning and requires more detailed work to be undertaken Instead, Committees will receive their cash limits in the October/November committee cycle following the September meeting of this Committee.

10 Committees are asked at this stage to focus on 3 key themes included in Appendix 2:

- Any known variances on budgets for the current year
- Budget review items discussed at the August meetings. Further information on these will be presented in the next Committee cycle
- Any other views, messages, or priorities that they wish to pass on to t he Resources Committee at this stage

11 Appendix 2 contains an overview of this Committee’s budget for the current year, with any known or projected variations highlighted .It is relatively early in the financial year, making accurate projections difficult and unreliable, although significant variations are normally rare. A full budget monitoring report will be submitted to each Committee during the October/November cycle.

12 Appendix 2 also contains, by way of brief note, any known, likely, or possible variations to budgets for the 2004/05 financial year, either by way of possible reductions, increased spending, or adjustments to fees and charges and other income. Each of these items for next year was discussed at the recent budget meetings with Members.

RECOMMENDED that this Committee

1 Notes any budget variances highlighted in Appendix 2.

2 Considers and approves the proposals for budget review contained in Appendix 2, pending a more detailed report being submitted in the next cycle of meetings.

3 Makes any other comments about Council priorities and budgets as they affect this Committee, again pending more information at your next meeting.

Background Papers: Guidance from Director of Resources on Budget Review meetings, Submissions from Heads of Service to Budget meetings, August 2003, Revenue Estimates Book 2003/04, and budgetary control reports for 2003/04.

Quality of Life Plan - Key Themes

Strong community leadership

More openness through public scrutiny

Improve access to services

Protect the environment and character of the district

Promote tourism and green leisure opportunities

Encourage low cost housing

Develop better opportunities for young people

Committee: Resources Committee

Date: 18 September 2003

Agenda Item No: 9

Title: General Fund Policy Priorities and Budgets 2004/05

Author: John Dickson (01799) 510300
Philip O'Dell (01799) 510670

Summary

1 This report brings together the deliberations of Committees regarding their General Fund Budgets for 2004/05, and puts that in the context of the Council's overall financial position. It then recommends guidance to be given to officers and Committees to enable the budget process to continue, although this will not involve the setting of Committee cash limits at this stage. The whole budget process for the year ahead is dominated by the ongoing pensions deficit issue, and the need to comply with the new statutory Prudential Code, which comes into force in December 2003, plus the new Capital Finance Regulations, which affect the General Fund. The approach outlined builds on the principles included in the Financial and Policy Review report of the 26 June to this Committee, and incorporates the work being undertaken to fully develop the Council's Quality of Life Plan.

Background

2 The current financial year, and the budget preparation cycle for 2004/05 now in progress is a mixture of continuity and change, and can perhaps best be described as a transitional year. The continuity comes from the fact that the Council continues to have well-developed and effective procedures for budget preparation and a clear path to approve a budget and setting of a Council Tax at the meeting of the Council on 10 February 2004. The change, however is based on the following factors:

a) The specific issue of the potential financial consequences of increasing and ongoing deficit funding to Essex County Council's Pension Fund. Guidance from the Pensions Actuary has only just been received, and requires significant interpretation prior to advice being given to Members. A Member Workshop on this issue has been arranged for 6 October, prior to a report being brought to this Committee on 20 November. The uncertainty regarding this factor alone makes prudent financial planning and three-year indicative council tax levels difficult to embrace at this stage.
b) The introduction of the statutory Prudential Code from December 2003, which dictates, among other things, that the Council's budget must be

sustainable, affordable, prudent, and prepared in a robust fashion .It also requires calculation of indicative council tax levels resulting from three year financial plans. Irrespective of all the other changes going on, this Code alone would have necessitated a review of the budget process, with the Director of Resources as Section 151 Officer having to report on the Council's overall financial state. An initial report on the Prudential Code is contained elsewhere on the Agenda for this meeting

c) The adoption by the Council of a Quality of Life Plan. This Plan gives a clear direction regarding the Council's priorities and is likely to lead to the shifting of resources and/or the generation/utilisation of new resources over the next few years. Although the Plan has a medium to long-term focus, there are already short-term needs and aspirations emerging from it, and these could affect the budget for the year ahead. Detailed work on the Quality of Life Plan is being undertaken by the Interim Director – Strategic Development, and encompasses, among other things, discussions with Members and officers, meetings with Focus Groups, public meetings, and the Strategic Away day on 20 September.

d) The budget review meetings held in August involving the Leader of the Council, Chairman of Resources, Committee Chairmen, the Director of Resources and Heads of Service, as agreed by this Committee on 26 June. These meetings looked at submissions by Heads of Service covering possible growth areas, service reduction possibilities, and charging strategies for income, with reference to the Quality of Life Plan. The dialogue was open and challenging, giving officers a full opportunity to put across the implications of budget changes, the known views of customers, and their own professional views. All General Fund budgets were examined in some detail.

e) The forthcoming Comprehensive Performance Assessment (CPA) for this Council will look among other things at the Council's ability to prioritise, resource, and focus. In practical terms regarding the budget, this means that we need to demonstrate a rationale to all we do, which, over the years tends to be less easy to show by the use of incremental budgeting, where budgets are historical in origin, and can, over time, become somewhat remote from the Council's objectives. It is for this reason that the adoption of a zero-based budgeting approach is recommended from next spring/summer, for preparation of the 2005/06 budget. In the meantime, in this budget cycle, best efforts will be made to bring higher prioritisation into the process by, for example the work being done on the Quality of Life Plan, the use of Focus Groups, and the budget review meetings.

f) The Council's financial position is difficult, with the indicative projection for 2004/05 as contained in the Estimates Book and the report to this committee on 26 June showing the need to make modest savings of £38,000 to balance the budget back to the indicative target of £7,253,960 as the District requirement, equating to a Council Tax rise of 7.5% at District level. This figure for the District requirement includes nothing for uncommitted growth, even though it is known that some growth items are essential, and many other spending aspirations exist. All of this again points to the need for a more fundamental re-think and prioritisation of the whole budget, which has started with the budget review meetings but needs to continue in the coming months and indeed years.

g) The national scenario for local government funding remains uncertain, pending the outcome of the review of the balance between central and local funding. However, latest indications are that public spending controls will be tight over the next few years and that for local government there will be a continuation in the government's desire to see more local funding via Council Tax. The new Formula Funding System also continues to favour urban, rather than rural areas and puts great weight on deprivation as a cost driver. None of these factors is likely to benefit this Council, and Members may recall that last year the Council received only the minimum funding increase available from the government. In practical terms, we await the announcement of the funding settlement, due in December and based on the statement that no council will lose out in cash terms. For forecasting purposes we have assumed a grant settlement unchanged from the current year.
h) Several capital spending issues remain uncertain at national level and will have an impact on the General Fund. These include the Capital Finance Regulations and pooling of housing capital receipts, which will affect the Council's income from interest on balances, a key figure in budget setting. There are also changes to the rules regarding the Minimum Revenue Provision (MRP) and, longer term, the move towards full depreciation accounting.

Committee Deliberations

3 All Committees, except for Development Control, which meets on 22 September, have now received details of any major variations to their current year budgets, a forecast of their likely base budget position for next year, and early indications of budget review items flowing from the meetings with Members held in August. A summary for each Committee of the budgetary control position and adjusted base position for next year is shown at Appendix 1. It should be pointed out that the figures for next year are at current year prices, and only show known and approved base variations at this stage, and not growth/reduction or income changes possibly arising from the budget review items.

4 Each Committee also received a list and brief details of possible items for review arising from the Member and officer meetings held in August. These items are summarised in the pages for each Committee at Appendix 1. Each Committee endorsed the examination of these items for report in the next cycle of meetings.

5 In addition to items for review affecting their own budgets, Committees were informed of three 'cross-cutting ' themes identified in the Member and Officer meetings in August. The areas involved are access to services, administrative support across the Council, and the idea of Trust status for various Council establishments. The emphasis of the first two of these themes will be on improving the way the Council works and interacts with the public, with the Trust status idea possibly bringing financial savings, depending on statutory limitations. As with all the budget review items, any staffing implications of

these reviews are envisaged as involving re-deployment rather than redundancies.

6 In addition to considering any budget variances, their adjusted base position for 2004/05, and items for further research, Committees were invited to make any other comments that they wished about their priorities and budgets for next year. Subject to any views expressed by the Development Control Committee at their meeting on 22 September, the only comment received so far is from the Community and Leisure Committee, which indicated a possible need for an additional leisure officer. This will be added to the budget review items and brought back to the next Committee cycle.

Overall position at General Fund Level

7 Appendix 2 shows the summary position at General Fund level for 2003/04 and 2004/05. The current year figures do not represent a full revised budget, as that process is currently progressing, but does show any revised figures where known. Full details of the budgetary position for the current year will be contained in the report to Committees and this Committee in the next cycle. This will include a review of the corporate staff vacancy budget factor, based on experience to date this year. All vacant posts continue to be monitored to justify new appointments being made.

Issuing Guidance to Committees

8 The meeting of Resources Committee in this cycle would traditionally involve issuing guidance to Committees regarding cash limits on their budgets for next year. Because of many of the internal and external items outlined in paragraph 2 above, that approach is not considered realistic this year.

9 It is assumed that, if Committees support proposals for budget reductions and increased income, then this Committee will also be supportive. The real issue is how, if at all this Committee can accommodate growth items from Committees, including it’s own budget as a Committee. Rather than setting cash limits now it is considered better to await further analysis of the many external factors affecting the budget (such as the pensions and capital financing issues, as well as the proposals from Committees regarding bids and savings. This will allow choices to be made and/or guidance issued based on the overall position evident at that time. With so few figures available regarding potential growth, budget reductions or changes in income, setting cash limits now, would create the danger of setting targets that were somewhat arbitrary, unsustainable, and in need of fairly immediate review. Some of the budget review items have significant potential budget implications. On this basis attempting now to set targets is very difficult.

10 It is therefore recommended, pending the overall updating of the projected budget for next year, guidance be issued to Committees now on the following basis:

a All items identified for further research during the September Committee cycle should be robustly examined and placed in priority order.

b Committees should only recommend for submission to the Resources Committee review items involving budget growth which meet at least one of the following criteria:

- Significant contribution to the Quality of Life Plan
- Legal or contractual necessity
- Increased efficiency
- Significant support from customers or the public generally

c In the difficult financial position the Council faces, a robust and pro-active approach should be used when looking at possibilities for increased income from fees and charges. In preparing proposals for increasing the income from a service over and above normal inflationary provision the following should be clearly shown:

- Comparative prices for other councils/private sector
- Justification based on cost of service provision
- Links to the Quality of Life Plan
- Justification as part of a wider package of measures , some of which will compensate those who will pay higher charges for doing so
- Measures to protect disadvantaged or vulnerable groups

d Any proposals for budget reductions should show a clear rationale and explain the effect on quantity and quality of service provided, including the effect on the public, service users, and other stakeholders

e Proposals for one-off spending or financing temporary shortfalls in budgets will be considered for financing from reserves, subject to meeting the criteria under (b) above

f Proposals of all types (growth, reductions, income) should be accompanied by a rigorous risk analysis

11 To bring some standardisation to this process, and allow comparisons to be made, a standard template will be developed for reporting on budget review items.

Next stages of the Budget process

12 These can be summarised as

- October/November cycle. Committees to receive results of budget review items, plus base budget figures and proposals for fees and charges
- Resources Committee on 20 November to receive bid proposals, base budget position, review of fees and charges proposals, results

of the three corporate reviews, update on all relevant external factors (such as pensions and capital issues) and to issue overall cash limits
- Public consultation re budget in early December, plus Scrutiny Committees to review budget
- Summary Service Plans in January Cycle, plus how Committees propose to meet cash limits
- Resources committee January /February to recommend budget to Council on 10 February 2004

Budgeting beyond the year ahead

13 Paragraph 2 to this report explained many factors, which make this budget, cycle a transitional one and which dictate that a more fundamental review of the Council's budget needs to take place. There are three broad way to go about allocating resources in a budget process:

- Based on past expenditure
- Based on bids
- Based on some type of 'formula'

14 Past expenditure provides stability, but re-enforces the status quo, meaning that, over time, service priorities and budgets can get out of line. A split based on bids can help those with greatest need, or then again, just those who ask for most. A formula basis sounds complicated, but need not be. Both zero-based budgeting and priority based budgeting come under this broad heading. As has already been mentioned in this report, it is recommended that Zero- based budgeting be implemented from 2005/06.Full details of this approach will be brought back to this Committee for agreement prior to commencement of the process.

Conclusions

15 The budget year 2004/05 currently has many uncertainties at both local and national level. Rather than set arbitrary cash limits for Committees now it is considered better to work through the detail of the many factors which will affect the budget, and bring a clearer assessment to the November meeting of this Committee. In the meantime, base budget preparation can continue, items for review can be worked up in detail and the work on the Quality of Life Plan can continue.

It is recommended that

(a) Committees are given the guidance outlined in paragraph 10 regarding budget review items.

(b) Committees follow the particular guidance regarding the need for a robust and pro-active approach to raising income from fees and charges given in paragraph 10 (c)

(c) The Resources Committee make any comments of its own regarding the budget review items contained in Appendix 1, for submission to the relevant Committee.

(d) A report is submitted to the next Resources Committee on the three ‘cross-cutting’ budget review themes outlined in paragraph 5.

(e) The Resources Committee notes the revised budget projection at General Fund level for 2004/05 given in Appendix 2 and considers any other comments or guidance that it wishes to issue.

(f) The Resources Committee agrees the revised budget timetable set out in paragraph 12.

(g) The Resources Committee endorses the zero-based budgeting approach proposed for the 2005/06 estimates as outlined in paragraph 13.

Background Papers: Guidance from Director of Resources on Budget Review meetings, Submissions from Heads of Service to Budget Review meetings, August 2003.Revenue Estimates Book 2003/04, and budgetary control reports for 2003/04. Reports to Committees re budgets, September 2003.

Committee: **Resources Committee**

Date: **18 September 2003**

Agenda Item No: **10**

Title: **Statutory Prudential Code**

Author: **John Dickson (01799) 510300**
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Summary

1 This initial report outlines the key requirements of the Prudential Code, which will affect the Council's General Fund, Housing Revenue Account and Capital Programme. The Code was prepared by CIPFA, and will become statutory from December 2003 unless amendments are made to the Local Government Bill currently going through Parliament. The Code has at its main principle, that local authorities can invest in capital spending so long as their spending plans are affordable, prudent, and sustainable. This requirement will force councils to ask fundamental questions about how they manage their financial affairs, and will involve, for example preparation of three-year revenue and capital budgets, rather than the usual focus on one year at a time. The Government has now issued draft Capital Finance and Accounting Regulations, which cover the more detailed legislative requirements and specify the role of the CIPFA code, as well as two related consultation documents covering Government Support for Capital Investment and Subsidy for Housing Capital Investment. This report covers the main details of the Prudential Code, although the full implications will be worked through in time for the meeting of this Committee on 20 November and the remainder of the budget cycle for 2004/05.It is important to realise that the Code and new system will have a significant effect on the current budget process. The Prudential Code has specific issues for Debt Free Authorities such as Uttlesford, and these are addressed in this report as far as they are currently understood.

Background

2 The Prudential Code stems from the Government's desire to give back to local authorities the freedom to make capital investment decisions, whilst maintaining the need for good financial discipline. Council capital spending has been controlled, and some would say limited, by Part IV of the Government and Housing Act 1989, which was introduced at the time to stem the tide of increasing 'creative accounting' to maximise spending capacity on the part of councils who believed Government spending limits were unrealistic. The 1989 Act proved successful in curbing such approaches. It has however incurred growing criticism concerning, for example the lack of

resources available to invest in schemes, which would save money over time and provide better services. In these cases, the up front investment required often fails to materialise as it would breach government controls on capital spending.

3 The new system will be largely based on self-regulation by authorities themselves. Credit limits, the basis of the current system, and a key factor for Council's that are not debt free will be abolished. Instead, authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. In practice, this means a council can proceed to spend if it can afford to service the debt without extra government support. This approach will involve each council in setting affordable borrowing limits and other indicators for itself, and to keep them under review. The Prudential Code sets out the indicators that authorities must use, and factors they must take into account in making such judgements, but does not include suggested or indicative ratios or limits.

4 The Code does not remove all inconsistencies from council capital investment decisions. Since the cost of borrowing ultimately falls on the General Fund and Housing Revenue Accounts, the amount of government revenue support and capital investment support are also crucial. A review on the central /local funding of revenue spending continues, while the two consultation documents referred to in paragraph 1 give the government's initial views on their approach to capital support. These consultation drafts are still being reviewed and a report on their implications will be brought to the next meeting, although the overall view from the government is that the prudential system in itself has no direct effect on the level of capital resources they need to provide to councils and their method of allocation of such sums.

5 The Prudential code retains safeguards from the current system of capital spending controls. Lenders to councils will still have their loans secured against that council's revenue streams, and the loans are still due for repayment even if it later transpires that they were taken out unlawfully. The legislation also permits the government to set limits on the capital spending of all or individual authorities.

Detailed requirements

6 The following are the 7 key indicators included in the code, and each will require setting by the Council for a 3-year period and monitored through District Audit, starting with the 2004/05 budget:

(a) Capital Financing Cost Indicator

This is the ratio of capital financing costs to net revenue streams, expressed in percentage terms, for both the General Fund and Housing Revenue Account. A rapid rise over time will indicate a larger proportion of resources bring taken up for capital purposes, at the cost of annual service provision. Actuals for these indicators will need preparing at the end of each financial year.

(b) Council Tax and HRA Rent Levels Indicator
This involves preparing budgets and council tax/rent level indicative figure for 3 years, and flagging up major known variations beyond that time. This implicitly requires a move to three-year revenue and capital planning.

c) Capital Expenditure Indicator
This is a reasonable estimate of capital spending need for the next three years

d) External Debt Indicator
This involves setting both an authorised limit and an operational boundary for external debt for the next three years. The General Fund and HRA will be treated as one for this purpose. The authorised limit is the overall safety valve, but the operational boundary will be the normal scenario and the key monitoring tool for in-year reporting to Members.

e) Capital Financing Requirement (CRF) Indicator
With this an authority will need to calculate the capital financing requirement, or underlying need to borrow for capital purposes, at year-end and then estimate it for the next three years, for both the General Fund and HRA.

f) Net External Borrowing and the CFR Indicator Requirement
This means setting a borrowing limit net of investments. This links to the Capital Financing Requirement Indicator and is a key indicator of prudence.

g) Treasury Management Indicators
These keep in place the current CIPFA Code of Practice for Treasury Management Indicators and identify four new indicators:
- Annual upper limits over three years for fixed rate interest exposures on sums outstanding on borrowing and investments
- The same for variable interest rate exposures.
- Upper and lower limits for the maturity structure of an authority's debt for the next financial year
- Annual upper limits over three years for amounts which an authority can invest for periods of longer that 364 days.

7 These indicators in themselves should not be too difficult to prepare, and are largely a by-product of good capital and revenue budgeting. They will however necessitate a move to proper three year budgeting of revenue and capital spending, which will have major implications for our corporate financial processes. The use of the indicators will also strengthen the need for good option appraisal for capital schemes, better asset management planning, overall strategic management of the authority, and capital plan monitoring. The indicators will be published as part of the budget process.

8 The other detailed issue which the new Regulations address is how much councils should charge each year to the General Fund for the cost of external debt. The current mechanism is the Minimum Revenue Provision (MRP) and this will continue at a rate of 4% of external debt and other liabilities. The

rationale of the MRP is to force Councils to make proper provision for debt each year, rather than allow and provide incentives for them to avoid doing so via funding deals which postpone payment. Following the introduction of the major repairs allowance, there is no longer a comparable MRP requirement for the HRA.In the longer term CIPFA and the government favour a move to full depreciation accounting representing the cost of capital consumed.

Roles and Responsibilities

9 The Chief Financial Officer (CFO), in Uttlesford's case the Director of Resources, will have specific legal responsibility to ensure the Code is complied with and integrated into the budgetary process, and will be the final judge of the professional good practice on which the Code is based. The CFO will be the judge of whether the magnitude of any significant variations from expectations will need to trigger corrective action or the need for revised indicators. The CFO will also need to consider whether any additional local indicators are required, and inform and train Members and managers in the Code's implications. Members will formally agree the levels and limits of the indicators, and will need to ensure that capital schemes fit closely with the authority's corporate priorities.

Implications for Debt Free Authorities

10 There are several specific issues for Debt Free councils arising from the Prudential Code and associated changes under the Capital Finance and Accounting Regulations. Debt Free authorities will be able to continue to use any balance on their Provision for Credit Liabilities (PCL) to finance capital spending, and will still be the only authorities able to make capital payments into pension schemes, as this Council is considering doing. The other major issue affecting all councils, but which are particularly important to Debt Free councils is as yet unclear. This relates to whether future government support for capital expenditure will be by way of credit approvals and revenue support or by way of capital grants. This Council continues to favour the latter, as credit approvals are of no use to Debt Free authorities .The Council's view on this has already been submitted as part of earlier consultation.

Recommendations

That Members note this report and await further details of the implications for this Council.

Background Papers: The Prudential Code, draft Capital Finance and Accounting Regulations 2003, consultation documents on Government Support for Capital Investment and Subsidy for Housing Capital Investment.

Committee: **RESOURCES COMMITTEE**

Date: **18 September 2003**

Agenda Item No: **11**

Title: **STATEMENT OF ACCOUNTS 2002-03**

Author: **Nick Harris (01799) 510313**

Introduction

1 The report sets out the background to the requirement for Members to approve the Statement of Accounts and also includes some brief notes on the Statements.

Requirement for Approval

2 The revised Accounts and Audit Regulations 2003 set out the requirements for the production and publication of the annual Statement of Accounts. The Regulations require Authorities to approve the 2002-03 Statement of accounts (subject to Audit) before 30 September.

3 Although the Regulations require the Statement of accounts to be approved by resolution of an appropriate Committee it must be stressed that approval in this context has to some extent a different meaning than on other resolutions that require approval by Members. The responsible financial officer (RFO) which for Uttlesford is the Director of Resources as Section 151 Officer retains responsibility for the preparation of the Statement and indeed is required to certify their fair presentation. The Members' role in approval is to demonstrate their ownership of the accounting statements and their confidence in the RFO and in the process by which the accounting records are maintained and Statements prepared.

Statement of accounts

4 The Accounts and Audit Regulations 2002-03 require the RFO to sign and date the Statement of Accounts and shall certify that it presents fairly the financial position of the Council and its income and expenditure for the year. Following approval by the appropriate Committee the Statement of Accounts must be signed and dated by the Committee Chairman.

5 The draft Statement is attached to this report. New Statements of Recommended Practice (SORP) guidelines have required further development of the Statement particularly to the supporting notes. A report elsewhere on the agenda makes recommendations regarding the year end balances.

6 With effect from this year 2002-03, all local authorities should include within their Statement of Accounts Statements on the System of Internal Financial Control, Corporate Governance and Internal Audit arrangements. The first sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The second reports on the arrangements for proper management of the Council's business and safeguarding of public money. The third statement outlines the Councils' Internal Audit arrangements including the legislative background. These statements can be found on pages S8 and S9 of the Statement of Accounts.

7 Financial Reporting Standard (FRS) 17 will require by 2005 all organisations in the commercial world with pension schemes to provide enhanced reporting arrangements regarding their scheme's financial position. However, the Chartered Institute of Public Finance Accountants (CIPFA) that provides instructions on how local authorities prepare their accounts has decided that the requirements of FRS 17 will be fully incorporated into the SORP for 2003-04. This will happen on a staged basis and the notes to the Statement of Accounts for 2002-03 reflect this transitional position. Members will note that Uttlesford's element of the scheme is showing a deficit of £12.891m at 31 March 2003. The Council is currently awaiting information from the schemes actuary and Essex County Council that should assist in addressing this deficit. As with all authorities the impact of a pension fund deficit will have significant budgetary implications for this Council.

8 The overall picture for the General Fund is that net underspending allowed some £120,000 more than the Revised Estimate predicted to be added to the Financial Management Reserve. Details of all main variances against the original budget are given in the Statement.

Recommended that Members:

Approve the Statement of accounts for the financial year ended 31 March 2003.

Background Papers

2002-03 Final Accounts working papers files.

Committee: RESOURCES COMMITTEE

Date: 18 September 2003

Agenda Item No: 13

Title: TREASURY MANAGEMENT

Author: Nick Harris (01799) 510313

Introduction

1 At the meeting of this Committee on 21 March 2002 Members formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice (The Code) The current Local Government Bill further endorses The Code One requirement of The Code is an annual report to Members after the year end.

2 This report sets out details of the Council's borrowing and investments.

Long Term Borrowing

3 At 31 March 1996 all Long Term Borrowing had been repaid and the Council became debt free. No new long term borrowing was undertaken in 2002-03 and the Council's debt free status was maintained.

Short Term Borrowing

4 No short term borrowing was undertaken in 2002-03 or to date in 2003-04.

Investment Report

5 At 31 March 2003 the Council had £17.9 million invested in a number of Building Societies and Banks. Currently the total sum invested is approximately £24 million. All counterparties met the Council's approved lending criteria.

It is a requirement of The Code that more comprehensive information on performance and adherence to agreed policies and procedures is presented to Members than has been the practice. Officers will be developing the presentation of this information with a view to incorporating it into the report to the March 2004 meeting of this Committee.

Fund Managers

6 At its meeting on 20 June 2002 this Committee resolved that the Council appoints a fund manager to manage a fund of £5m and that advisors be appointed to assist in the selection process. Advisors have been appointed and an initial meeting has been held. A timetable for the selection process and transfer of the £5m is currently being prepared.

Money Market Funds

7 Also at the meeting on 20 June 2002 this Committee resolved that the Council pursues the establishment of Money Market Fund and engages advisors to assist it in this process. Two funds have been selected and work is ongoing to complete the necessary examination of the contract documentation.

Recommendation

That the report be accepted.

Background Papers

Treasury Management Files