(ITEM NO. 2 (ii))

BUDGET SCRUTINY TASK GROUP

REPORT OF A MEETING HELD ON FRIDAY 12 DECEMBER 2008 AT COUNTY HALL, TROWBRIDGE

Present:

Members:	Peter Fuller, Tony Molland, Bill Moss and Jeff Osborn
Officers:	Sandra Farrington (Chief Financial Officer) and Karen Linaker (Scrutiny Support Officer)

APOLOGIES FOR ABSENCE

1. Apologies for absence were received from Patrick Coleman and Ricky Rogers.

REVIEW OF THE TREASURY MANAGEMENT STRATEGY

2. In response to a council decision that the treasury management strategy be scrutinised, the task group discussed the key issues and risks associated with the strategy, referring to a series of papers that had recently been written concerning treasury management and a briefing note from the Chief Financial Officer. The following comments and clarifications were made:

(a) the current downturn in the economic market and the level and extent of the collapses in the banking sector were thought to be extraordinary and unprecedented in recent times

(b) the strategy of the council was to optimise return and minimise risk on its investments and cash flow, which meant that it only invested in highly rated banks and building societies, and select institutions based on their credit rating first, and their interest rate second

(c) investments were limited to £16m in institutions with AAA (long term deposits) or F1 (short term deposits), or £8m in institutions with lower credit ratings or any overseas deposits

(d) these limits were increased in the summer of 2008, as a result of a number of banking institutions being removed from the council's lending lists, and the council having fewer institutions on its approved list with which to invest

(e) the consequence of the council decision to “move towards an even more risk adverse approach than at present” during the current period of economic instability, was to further reduce the number of banks the council could lend to

(f) any overseas banks had to have the highest credit ratings and more money was being put on deposit in ‘on call’ accounts with the council’s banker - HSBC

(g) this approach limits the amount of income the council receives from its investments, but ensures greater security of its funds

(h) a more significant issue was the downward trend in interest rates and the impact this had on the council’s income

(i) the council did not currently have money invested in the Iceland financial institution ‘Landisbanki Islands HF’, but £8m of frozen deposits remained the subject of negotiations with one of Landisbanki’s UK subsidiaries ‘Heritable Bank’

(j) this £8m was made up of three short term deposits

(k) the speed with which the assets of Heritable Bank had been frozen was very quick, and had left little time for the council to remove its deposits

(l) “Sector” – the council’s treasury management strategy advisers were a reputable organisation, following a robust code of practice, and had provided the council with good advice historically, e.g. the county council was benefiting from the lowest interest rate on borrowing in comparison with other local authorities, as a consequence of “Sector’s” advice

(m) “Sector” provided advice on all credit rating agencies, and would no doubt be reviewing its processes as a consequence of recent bank collapses

(n) the short term impact of the frozen deposits was a loss of £27,000 monthly interest, however, officers were hopeful that this and the £8m would be recovered, with £3m likely to be recovered in the short term, but the remainder more likely over the next 5 years

(o) the government had advised local authorities that it would not need to make provision for their losses from Heritable Bank in the 09/10 budget

(p) members were unsure of the reasons for this advice, and expressed scepticism that it was politically motivated, i.e. to prevent increases in council taxes in a year of a likely general election

(q) the chief financial officer suggested that it would be imprudent to make provision for the full potential loss of funds, as this would see unreasonable increases in council tax, which would be against government advice, and the audit commission’s requirements

(r) noting this with concern, the task group requested information on the potential implications of making different levels of provision to cover the current losses in the 09/10 budget

(s) the broader impact of the economic downturn on the council's finance meant that the annual investment income which had been historically factored into the budget setting process (approx. £3.5m), to offset borrowing costs, was now likely to be much less

(t) this depletion in income also needed to be considered in the context of rising borrowing costs, which in turn would have an impact on the council's revenue resources

(u) historically, the council's finances had been supported with a reasonable inflow of capital receipts, and levels of reserves to weather fluctuations in the economic markets

(v) now, as a consequence of the downturn and with the majority of the council's reserves earmarked to fund the cost of moving to a unitary authority, revenue resources were very short

(w) officers would continue to assess whether or not to deposit any of the council's finances with the government's Debt Management Account Deposit Facility, but, in the meantime, would keep a percentage of funds readily available in the on call account with HSBC

(x) officers were working with other local authorities to learn lessons from the economic and banking crisis

(y) the risks and issues affecting all of the council's investments similarly applied to the PFI sinking fund, and the principle which needed to be followed in the treasury management strategy was to maintain sustainable budgets, where sufficient available funds were annualised in order to facilitate cashflow.

AGREED: (1) To confirm the task group's confidence in the council's treasury management strategy and advice given by officers and Sector (as the treasury management advisers), mindful of the rising pressures associated with optimising return on investments whilst also minimising the risks

(2) To note with concern the challenges which the council will face in the short to medium term, as a consequence of falls in investment income and increases in the cost of borrowing

(3) To note with some scepticism, the government's advice to local authorities not to make provision in the 09/10 budget for the bad debt generated from the frozen assets of Heritable Bank, mindful that

this could lead to increased pressures on council taxes and funding of services

(4) To ask the Chief Financial Officer to provide further information as part of the budget setting process, to illustrate the implications of making different degrees of provision for the Heritable Bank losses in the 09/10 budget

(5) To request that the new council's governance arrangements ensure that the review of the treasury management strategy is carried out at least quarterly, until the economic crisis has subsided and risks are considered to have diminished.

3. **REVENUE BUDGET AND SERVICE STANDARDS MONITORING – OCTOBER 2008**

The task group considered this revenue budget monitoring paper, and in doing so, the following key points were highlighted and discussed:

(a) noting that the £1.125m projected saving in ESD would help to offset overspends in ESD and could assist with overspends in other departments, members expressed concern at the level of projected overspends for 08/09, bearing in mind the impact this would have on available funds for 09/10, which officers had highlighted would be very restricted

(b) whilst mindful that the overall projected variation for 08/09 was an overspend of £385,000 (0.1% variation on the total council budget), members were nonetheless concerned at the projected level of overspend within the overall total, of £470,000 for the Department of Resources

(c) this £470,000 projected overspend was mainly due to the increased level of work associated with the 1C4W and BMP projects, and the extra staff costs incurred. However, there were also costs associated with IT and loss of income from interest rate decreases which contributed to this overspend. The chief financial officer offered to provide a detailed breakdown of the costs included in this overspend

(d) whilst the DSG was not a council funded budget, some of its recurring pressures associated with premature retirement and maternity costs would have an impact on the council's revenue budget

(e) recovery of the projected overspend in the SEN transport budget continued, and over time, officers were hopeful that the drop in fuel costs would begin to have a positive impact.

AGREED: To note the current projections for the 08/09 revenue budget and to continue to monitor the ongoing cost

pressures within departments, bearing in mind the impact these may have on the setting of the 09/10 budget.

4. CAPITAL BUDGET AND SERVICE STANDARDS MONITORING – OCTOBER 2008

The task group considered this capital budget monitoring paper, and in doing so, the following key points were highlighted and discussed:

(a) the economic downturn could have an impact on capital projects currently ongoing within the programme

(b) the reason for the projected underspend on the hub strategy and the need for its detailed evaluation was to ensure that the aims and objectives of this strategy, first devised before the start of local government reorganisation, were aligned to the aims and objectives of the 1C4W project

(c) there were significant pressures on the 09/10 capital budget, including the level of resources needed to fund the local transport plan, the majority of which were likely to be raised through supported borrowing, which would have a consequent impact on the revenue budget, i.e. for every £1m borrowed, £100,000 of interest would be charged to the revenue budget.

AGREED: **To note the current projections for the 08/09 capital budget and to continue to monitor the ongoing cost pressures, bearing in mind the impact these may have on the setting of the 09/10 budget.**

5. NEXT MEETING

Members would be advised of a revised date of the next budget scrutiny task group meeting. In the meantime, reports published on the 09/10 budget setting process would be considered by the joint overview & scrutiny transition board.

(Duration of meeting: 11.00 am to 12.45 pm)

The Officer who produced this report is Karen Linaker, Scrutiny Support Officer, Corporate Services, direct line: 01225 713056