

**Cabinet**  
**24 May 2007**

## **11. MONEY MATTERS**

### **Recommendation**

### **Provisional Financial Results for 2006/07 (Section 1)**

1. **The Director of Financial Services recommends that the Cabinet:**
  - (a) **endorses his conclusions concerning financial performance for the financial year ending 31 March 2007 (Section 1);**
  - (b) **endorses his conclusions concerning cost effective money market activities for 2006/07 (Section 2);**
  - (c) **recommends to Council revisions to the capital programme (Section 3);**
  - (d) **endorses the re-submission of the Council's case for area cost adjustment changes to the government (Section 4), and**
  - (e) **approve the submission of a response to the Department for Education and Skills (DfES) consultation concerning how the funding of schools could be improved and to include the key areas outlined in this report. (Section 5).**
2. The accountants completed the first phase of the process of compiling working papers to support the statutory financial statements as planned on 4 May. This enables a provisional assessment of last year's financial results to be made.
3. Revenue spending by Directorates was within the overall operating cash limit of £254.965 million. There has again been some modest use of between year budget flexibility. Provisional results are summarised in Appendix 1.
4. At 31 March 2007 the County Fund general balance is £0.036 million higher than forecast in February of this year at £17.654 million. It should be remembered that the Council has decided to use £5 million of the general fund balance during the financial year ending 31 March 2008 to support service delivery. By the end of the current financial year the general fund balance should have reduced to around £12.7 million.
5. School balances have increased by £0.8 million to £14.4 million or 5.9% of the School Formula Budget for 2007/08. School governing bodies will again have to justify

the reasons balances are being held.

6. Other revenue reserves earmarked for specific purposes have been reviewed. It is judged prudent to retain around £34.3 million:

- Retained PFI grant £9.4 million
- Future capital investment £6.7 million
- Insurance £3.4 million
- Directorate specific £14.8 million

7. Capital expenditure last year amounted to £74.8 million with £40.5 million spent on school projects, £21.6 million on local transport infrastructure and £12.7 million on other council services. The major sources of financing capital spending were from external borrowing £43.9 million, capital grants and contributions £18.7 million, capital receipts £7.5 million and direct revenue contributions £4.7 million.

8. The operating surplus on the Worcestershire Pension Fund was £41.438 million, an increase of £1.682 million on the previous year. The Fund's net assets rose by £89.333 million to over £1.2 billion. Set against this are more pessimistic actuarial assumptions. The Council's Actuary has calculated the net pension fund liability to be £152.060 million at 31 March 2007, a decrease of £24.290 million.

9. The accountants are due to complete the statutory financial statements for submission to the Audit Commission's independent external auditors on 21 May. Following the completion of external audit work the statutory financial statements will be submitted to the Audit and Governance Committee for approval on behalf of the County Council on 22 June.

10. The accountants are working with a new standard form of accounts and this has inevitably added to the work programme as prior year figures are restated and working papers adjusted to meet the requirements of the new format of accounts. Nevertheless the team of accountants has again improved the reporting timescale by a couple of weeks or so.

11. The Director of Financial Services concludes that the Council's Medium Term Financial Strategy for the period beginning on 1 April 2007 has a firm foundation based on the closing position at 31 March 2007.

12. In accordance with Financial Regulations and the Council's Treasury Management Policy Statement the Director of Financial Services is required to report annually on the activities of the Treasury Management operation.

## **Borrowing and Lending Transactions 2006/07 (Section 2)**

13. This report details the borrowing transactions undertaken by the Council for the 2006/2007 financial year. This borrowing is used to fund Capital Projects and to replace principal sums repaid during the year. Also included are the lending transactions comprising short-term investments on the London Money Markets.

**(a) Borrowing Transactions**

14. The borrowing transactions and debt outstanding for the Council in 2006/2007 are summarised in Appendix 2. The total debt outstanding increased from £249.648 million to £280.594 million during the year, an increase of £30.946 million.

15. During 2006/2007, £68.583 million worth of debt was rescheduled into longer-term loans attracting lower rates of interest. This attracted one-off savings of £0.583 million and annual revenue savings of £0.345 million.

16. The total of new longer-term loans taken during the year amounted to £109.457 million, which includes loans totalling £31.000 million taken to fund capital projects. These are shown as follows:

<b>Lender</b>	<b>Amount £m</b>	<b>Period Years</b>	<b>Interest Rate %</b>
PWLB (3 loans)	15.000	45.5 – 46.0	4.05
PWLB (2 loans)	10.000	35.5 – 40.5	4.10
PWLB (1 loan)	10.000	30.5	4.15
PWLB (1 loan)	5.000	45.5	4.20
PWLB (6 loans)	40.457	41.0 – 49.5	4.25
PWLB (1 loan)	8.000	45.5	4.35
PWLB (2 loans)	11.000	20.5 – 25.5	4.45
EuroHypo	10.000	2/60	4.44
	<b>109.457</b>		

17. The total debt consists of longer and short-term debt (as shown in Appendix 2). The longer-term debt of £279.872 million falls due for repayment as follows:

<b>Within</b>	<b>£m</b>	<b>% of Total Debt</b>
1 year	23.766	8.49
1 – 2 years	30.000	10.72
2 – 5 years	0.000	0.00
5 – 10 years	10.647	3.80
10 years and over	215.459	76.99
	<b>279.872</b>	<b>100.00</b>

18. The average rate of longer-term debt for 2006/07 stood at 4.42% compared with 4.48% in 2005/06.

19. The short-term debt consists of local deposit loans

repayable at seven days notice and a temporary loan which totalled £0.722 million on 31st March 2007, an increase of £0.072 million over the year.

**(b) Lending Transactions**

20. The temporary lending transactions for 2006/07 of the Council's cash balances are summarised as follows:

	£m	£m
Balance at 01/04/2006		134
Investments made during the year (534)	2,172	
<b>Less</b>		
Investments recalled during the year	2,166	
<b>Balance at 31/03/2007</b>		<b>140</b>

21. All investments are made in accordance with the Council's Treasury Management Policy and to institutions that satisfy the criteria in the Council's Treasury Management Practices.

22. The County Council's returns on its investments closely mirrored the movement in the Bank of England base rate. At the beginning of April 2006 the base rate stood at 4.50% having been unchanged at this level since August 2005. It increased to 4.75% in August 2006 and after two more 0.25% rate increases in November and January, ended the financial year at 5.25%.

23. The average rate earned on investments during 2006/07 was 4.88%, which outperformed the Council's benchmark target by 0.04%. The net interest earned on investments totalled £6.806 million.

24. The Director of Financial Services concludes that the management of capital debt and short-term investments continues to be cost effective.

25. The capital programme needs to be revised for the following schemes:

**Stourport Blight Notice**

26. On 9 June 2006 a valid Blight Notice was served on the County Council by the owners of Greenlands, Timber Lane, Stourport. The safeguarded line of the proposed Stourport Relief Road passes through the land belonging to this property and this land would need to be purchased in the future should the scheme be constructed. A purchase price has now been agreed with the owners and together with associated fees, the cost to the Council is estimated to

**Updating the Capital Programme  
(Section 3)**

**Formula Grant Review –  
Area Cost Adjustment  
submission department  
for Communities and  
Local Government  
(Section 4)**

**Schools Funding  
Review – Submission to  
Department for  
Education and Skills  
(Section 4)**

**Supporting Information**

be £465,000. It is recommended that this scheme be added to the capital programme.

***Local Transport Plan – Update***

27. The Department of Transport have confirmed that the allocation for street lighting purposes for 2007/08 has been increased by £139,000. This represents additional grant funding for new capital expenditure and therefore it is recommended that this be added to the capital programme.

28. The Department for Communities and Local Government (CLG) is currently undertaking a limited review of the operation of the Area Cost Adjustment (ACA) used in the formula grant distribution. It is intended that any changes would be implemented in time for the 2008/09 settlement.

29. Members will recall that reports prepared by Professors Blanchflower and Oswald, providing a strong case for Worcestershire to receive the ACA, was submitted to the government previously. The reports highlight flaws in the current calculation and the way in which the formula is applied to Worcestershire, concluding that the county is not properly compensated.

30. There is now a new ministerial team at CLG and the current review has provided an opportunity to resubmit the reports prepared by Professors Blanchflower and Oswald. Councillor Hardman has sent copies of the reports to the Department for Communities and Local Government.

31. On 7 March 2007, the DfES issued a detailed consultation document entitled 'Consultation on School, Early Years and 14-16 funding 2008-11'.

32. Consultees are requested to complete a consultation proforma questionnaire. This contains 40 questions covering a whole range of funding issues relevant to the next 3-year multi budget period commencing April 2008.

33. The consultation closes on the 1 June 2007 with the outcomes being available in the Summer 2007. Ministers will then make decisions on the proposed changes for implementation from April 2008. This will then be subject to further local consultation in the Autumn Term 2007.

34. Details of the areas included within the consultation and the key issues for inclusion in the Council's response are provided in Appendix 3.

- **Appendix 1** – Summarised provisional results of revenue spending by directorate.
- **Appendix 2** – Summary of borrowing transactions and debt outstanding for the Council in

2006/2007.

- **Appendix 3** – Summary of school funding consultation areas and key response issues.

## Contact Points

### County Council Contact Points

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## Background Papers

In the opinion of the proper officer (in this case the Director of Financial Services) the following are the background papers relating to the subject matter of this report:

1. Annual Financial Statements for 2005/06.
2. Budget Book 2007/08.
3. Cabinet report dated 26 April 2007.