Barry Davies LL.B (Hons)
Solicitor/Cyfreithiwr
Head of Legal and Democratic Services
Pennaeth Gwasanaethau Cyfreithiol a Democrataidd

TO: ALL MEMBERS OF THE COUNCIL

Your Ref / *Eich Cyf*	
Our Ref / *Ein Cyf*	NI
Date / *Dyddiad*	30/06/2009
Ask for / *Gofynner am*	Mike Thomas
Direct Dial / *Rhif Union*	01352 702324
Fax / *Ffacs*	

Dear Sir / Madam,

A **SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL** will be held in the **COUNCIL CHAMBER, COUNTY HALL, MOLD** on **THURSDAY, 01 MARCH 2007** at **10:00** to consider the following items.

Yours faithfully

Assistant Director (Democratic Services)

A G E N D A

1. **PRAYERS**

2. **APOLOGIES FOR ABSENCE**

3. **DECLARATIONS OF INTEREST**

4. **MINUTES**
To Confirm As A Correct Record The Minutes Of The Meeting Held On 13/02/2007 (Copy Enclosed)

4.9. **DIRECTOR OF CORPORATE STRATEGY**

5. **ADOPTION OF THE DISCRETIONARY COMPENSATION POLICY**
Report of Director of Corporate Strategy enclosed

5.9. **COUNTY FINANCE OFFICER**

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6. **CAPITAL PROGRAMME 2007/08 TO 2010/11**
Report of County Finance Officer enclosed

7. **PRUDENTIAL INDICATORS AND ANNUAL INVESTMENT STRATEGY 2007/08**
Report of County Finance Officer enclosed

8. **GENERAL FUND BUDGET 2007/08**
Report of County Finance Officer enclosed

8.9. **RETURNING OFFICER**

9. **COUNTY COUNCIL BY-ELECTION - PENYFFORDD ELECTORAL DIVISION**
Report of Returning Officer enclosed

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 5

REPORT TO:	**SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL**
DATE :	**01 MARCH 2007**
REPORT BY:	**DIRECTOR OF CORPORATE STRATEGY**
SUBJECT :	**ADOPTION OF THE DISCRETIONARY COMPENSATION POLICY**

1.00 PURPOSE OF REPORT

1.01 To seek agreement for the adoption of the attached Discretionary Compensation Policy (Appendix 3) to replace the Interim Policy, which was approved by Council on 26th Septmeber 2006 to ensure compliance with the Age Regulations which came into force on October 1st, 2006. The interim Discretionary Compensation Policy was put in place to allow time for consultation with the Flintshire Joint Trade Union Commitee, before finalising the content of the Policy. The Interim Policy was planned to be in force from 1st October 2006 to 31st January 2007 to allow for this consultation to occur.

2.00 BACKGROUND

2.01 Under the Employment Equality (Age) Regulations 2006, which came into force in October 2006, to ensure the UK's compliance with the European Employment Directive, individuals have the right not to be discriminated against on the basis of age at all stages of their employment. This requirement together with the prosepct of a revamped Local Government Pension Scheme planned for April 2008, prompted the Government to take the opportunity to revise the powers available to local authorities to make discretionary one-off lump sum payments or award compensatory added years to employees where their employment is terminated early.

2.02 On the 18th December 2006, the DCLG issued the new Comepensation Regulations which confirmed the replacement of the old compensatory formula within the Discretionary Compensation Regulations (DCR) that provided a maximum payment of 66 weeks' pay, based upon age and length of service, with a discretionary power to award up to 104 weeks pay to eligible employees.

2.03 In addition the power to award compensatory added years pension membership to eligible employees aged over 50 has been removed. Authorities may still award added years in certain circumstances by using the augmentation provisions under the Local Government Pension Scheme, (see Paragraph 1.18 of Appendix 1).

3.00 CONSIDERATIONS

3.01 The Council has a duty to comply with the Regulations both with regard to Age and the discretions that it adopts within the Local Government Pension Scheme. In deciding to remove the old discretions it was reasonable for the Council to commit to undertake meaningful consultation with the Flintshire Joint Trade Union Comittee in order to afford the best solution for both the employees and the financial interests of the Council.

3.03 Full details of the changes to the Discretionary Compensation Regulations are given at Appendix 1.

3.04 The Council must publish any changes to the discretion's adopted and provide notice to the Pension Authority 4 weeks prior to utilising those discretions and if the policy attached is agreed then notice will be provided to staff and members of the Clwyd Pension Fund immediatley.

4.00 RECOMMENDATIONS

4.01 After consultation with the FJTUC and work on associated costs by Financial, Legal and Democratic Services, the recommended course of action is to keep the formula for calculating compensation the same as in the Interim Policy. This involves applying a multiplier of 1.5 to the statutory redundancy caclulator (based on actual pay). This allows for a fair deal for employees, without incurring additional costs for the Council. Appendix 2 provides an illustration of costs, compared against the previous Programme for Change exercise.

4.02 Offering Augmented membership of the LGPS is not recommended as it carries a high financial cost to the Council,(see Paragraph 1.23.2 of Appendix 2) and also consideration would have to be given to the criteria for deciding whom to grant extra years, without breaching the Age Regulations.

4.03 The option for staff to convert a cash sum payment into a period of LGPS membership is the recommended option (see Paragraph 1.22 of Appendix 2 for details). This does not incur any additional costs to the Council, apart from administration of the conversion.

5.00 FINANCIAL IMPLICATIONS

5.01 See Appendix 2, staying with a multiplier of 1.5 as in the Interim Policy provides a broadly cost neutral solution. See Appendix 2 for details.

6.00 ANTI POVERTY IMPACT

6.01 None

7.00 ENVIRONMENTAL IMPACT

7.01 None

8.00 EQUALITIES IMPACT

8.01 The introduction of the Age Regulations will ensure that all employees of Flintshire County Council are not discriminated against on the grounds of age. All HR policies have been reviewed to ensure compliance.

9.00 PERSONNEL IMPLICATIONS

9.01 As the proposed Discretionary Compensation Policy is materially the same as the Interim Policy, there will be no significant changes for employees who leave after its adoption. It will ensure that all employees who left after 1st October 2006 would have been treated equitably.

10.00 CONSULTATION REQUIRED

10.01 See below.

11.00 CONSULTATION UNDERTAKEN

11.01 Consultation has taken place with representatives from the FJTUC, Pensions and County Treasurers. A number of meetings where the options were discussed and financial illustrations analysed, took place between October the 1st 2006 and January 5th 2007. The FJTUC position is that they are seeking a higher multiplier to be applied, in the region of x 3, as oppose to the 1.5 option proposed in this report. On cost grounds this is not reccommended. In addition the proposed 1.5 multilpier is in line with the approaches proposed by both Denbighshire and Wrexham Councils.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

Consultation on the draft local Government (Early Termination of Employemnt)(Discretionary Compensation)(England and Wales) Regulations 2006 Report submitted to Council on 26th September 2006.

Contact Officer:
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Appendix 1

1.0 DETAILS OF CHANGES

1.1 Since 1976 there have been special provisions available to the Council to make discretionary payments to employees whose employment has been terminated early, either on the grounds of redundancy or in the interests of the efficiency of the service. As well as the DCR, authorities are able to use the power in regulation 52 of the Local Government Pension Scheme Regulations 1997 to increase the length of membership of an employee (augmentation).

1.2 The Government now believed that it was necessary to revoke the DCR and replace them with new regulations to comply with the age-related provisions of the European Employment Directive which have been implemented through the Employment Equality (Age) Regulations, which came into force on 1 October 2006. It is the Government's position that the age and length of service-related formula that governs the amount of the lump sum compensation payment that may be made to eligible employees upon the early termination of their employment would be discriminatory under the Age Regulations and it does not believe it is appropriate to objectively justify the potential discrimination.

1.3 In summary, the powers available to the Councils prior to October 1st 2006 to compensate employees under the DCR were:

- The discretionary power to remove the weekly pay ceiling placed on statutory redundancy payments under the Employment Rights Act and to calculate, instead, on pay up to the actual week's pay
- The discretionary power to award a one-off lump sum payment of up to 66 weeks' pay, based on a service and age-related formula
- The discretionary power to award added years on top of the benefits payable under the Local Government Pension Scheme (LGPS) for eligible employees aged 50 or over and under 65.

1.4 New provisions – From October 1st 2006

In summary, the new Regulations :

- Retain the discretionary power to waive the weekly pay ceiling placed on statutory redundancy payments and to calculate, instead, on pay up to the actual week's pay
- Provide a discretionary power to award a one-off lump sum payment of up to, but not exceeding, two years' pay (104 weeks), inclusive of any redundancy payment made

- Remove the power to award added years (although additional membership can still be awarded through the augmentation provisions in the LGPS).

1.5 Offsetting Pensions Or Lump Sums Against Statutory Redundancy Payment

Under the Redundancy Payments Pensions Regulations 1965, employers may offset pensions or lump sums which are paid from the occupational pension scheme (the LGPS) immediately on redundancy, or within a short time thereafter, and which satisfy prescribed conditions. Depending on the amount of the pension or lump sum payable, the statutory redundancy payment due may be reduced or extinguished completely. Employers are not compelled to offset pensions and lump sums in this way, or to apply the maximum offset.

It is important to note that any offset can only be applied to the statutory redundancy payment i.e. based on pay up to the statutory maximum week's pay limit of, currently, £290 per week. An offset cannot be applied to any discretionary redundancy payment i.e. that element of any redundancy payment in respect of pay in excess of, currently, £290 per week.

1.6 The Consultation completed by Government

The Government carried out initial consultation on the proposed changes as part of the "Facing the future – principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales". The consultation exercise sought key stakeholders' views on whether to revoke the DCR and, if so, what maximum level of award should be available to employers.

As a result of the initial consultation, it was the view of a majority of respondents, including the collective view of the LGA and the Local Government Pensions Committee, submitted following extensive consultation with local authorities and other stakeholders, that the favoured option was to provide discretionary powers to make a one-off lump-sum payment of up to two years' pay to relevant employees. The alternative options of providing a maximum award of either five years, one year or 33 weeks received significantly less support. The Government also discounted the option of taking no action because of its concerns over the discriminatory nature of an award being made on age and service-related grounds.

1.7 The Regulations

Below is a summary of the main provisions contained in the Regulations that came into force on 1 October 2006 (Although published late on the 8th of November), and will apply where an employee's termination date is on or after the 1 October 2006.

1.7.1 **Regulation 2**

The definition of an "employing authority" for the purposes of the Regulations remains the same as in the DCR. This includes all local authorities, and, amongst others, police authorities; fire and rescue authorities; magistrates' courts committees; a National Probation Service local board; a further education corporation; a higher education corporation and a housing management company. The Regulations do not, therefore, extend to 'admitted' bodies to the LGPS, which fall outside of the definition of an "employing authority". The Regulations apply to a person whose employment is terminated (see regulation 4 below). For the purposes of the Regulations, the term "employment" specifically includes officeholders, although it excludes elected councillors.

1.7.2 **Regulation 4**

The Regulations apply in relation to a person whose employment is terminated by:

- Reason of redundancy, or
- In the interests of the efficient exercise of the employing authority's functions

The person must be employed by an employing authority on the day of the termination of their employment and they must be eligible to be a member of the LGPS (whether or not they are actually a member), or would have been eligible had they not made more than one election with the employer to opt out of the LGPS.

The new Regulations only apply where the termination date is on or after 1 October 2006. Any termination prior to 1 October 2006 will fall under the provisions of the current DCR.

1.7.3 The Regulations in relation to regulations 2 and 4 generally mirror the provisions in the existing DCR this should not be a cause of concern.

1.7.4 **Regulation 5**

Regulation 5 remains unaltered from the corresponding regulation in the DCR. It allows the Council the power to increase the statutory redundancy payment by removing the weekly pay ceiling under Part XI of the Employment Rights Act 1996 and paying up to a normal week's pay. The weekly limit is currently £290.00.

The new Regulations also retain the clause that stipulates that it is the local education authority that has the power to pay the additional compensation for a person employed at a voluntary, foundation or foundation special school.

1.7.5 **Regulation 6**

Regulation 6 provides the Council with the discretionary power to compensate staff whose employment is terminated early with a payment that must not exceed 2 years' pay (104 weeks).

The new Regulation replaces the previous corresponding regulation that restricted compensation to a maximum of 66 weeks' pay, using a formula based on the employees' age and length of service.

Under the new regulation, the amount of compensation will not be based upon a pre-determined age and service-related formula but, instead, gives the discretion to decide, within 6 months of a person's termination, to make a lump sum compensation payment up to a maximum of 104 weeks' pay based on actual pay at the termination date (as opposed to pay at the calculation date as used for statutory redundancy payment purposes).

As under the previous provisions, a statutory redundancy payment or payment made under regulation 5 must be offset against the discretionary award, and the lump sum should be paid as soon as practicable after the decision to make the award is made.

A person is only entitled to receive a discretionary award under regulation 6 if they do not receive additional membership under regulation 52 of the LGPS (augmentation). The previous requirement that the person did not receive added years under regulation 7 of DCR falls because added years are no longer payable under the new Regulations. Similarly, all of the age-based qualification requirements do not appear in the new Regulations. There is also no longer a requirement for an employee to have 2 years service to qualify for a payment under this regulation.

1.7.6 In the absence of a prescribed formula for calculating the amount of compensation payable, it will be necessary to adopt a policy which encompasses all relevant circumstances.

1.7.7 **Regulation 7**

Regulation 7 replicates the provisions of regulation 26 of the DCR and specifies that the Council "must" formulate, publish and keep under review our policies on compensation under regulations 5 and 6.

The regulation specifies that if the Council decides to change its policy, then a statement of the amended policy “must” be published within one month of the decision and that effect “must” not be given to any policy change until one month has passed since the amended policy is published.

In formulating and reviewing our policy, the regulation specifies that the Council must have regard to the extent to which the exercise of our discretionary powers (in accordance with our policy), unless properly limited, could lead to a serious loss of confidence in the public service and be satisfied that the policy is workable, affordable and reasonable having regard to the foreseeable costs.

1.7.8 **Regulation 8**

Regulation 8 contains provisions regarding under and overpayment of compensation. The Council is required to inform the employee in writing of any error, setting out the relevant calculation and, in the case of an underpayment, make a further payment. Where there has been an overpayment, the letter should specify a reasonable time for repayment.

An employee who has been overpaid must repay the amount due within the specified period. If they do not, the Council can take such steps as it considers appropriate to recover the amount. Before taking such steps, however, it must consider the person’s circumstances so far as they are known or are reasonably ascertainable.

1.7.9 **Regulation 9**

This regulation specifies that any payment made under these Regulations must be paid by the employer and must not be met out of the Pension Fund.

1.7.10 **Regulation 10**

Regulation 10 sets out transitional provisions and savings. Any compensation awards made before 1 October 2006 under compensation regulations applying prior to that date will continue to be subject to those earlier regulations.

1.8 Whilst it is apparent from the regulations that the Council will, as a result of the changes, have more flexibility to set the most appropriate level of compensation for each individual case, this does seem to run contrary to the requirement to publish and keep under review a policy on how the discretions within the Regulations are to be exercised.

1.9 From a practical point of view, whereas there will be occasions where the Council may wish to consider each case on its merits before determining the amount of any compensation, this will, in some cases, not be a feasible way of proceeding, for example, where there are a significant number of redundancies. In such cases, a formula for calculating any compensation would be desirable for both reasons of fairness and administrative efficiency.

1.10 Complying With The Age Regulations

An added complication when considering what approach to adopt is the fact that any policy must comply with the Age Regulations. In this regard, one approach when developing a formula to pay anything other than a redundancy payment could be not to use any age or length of service criteria, but, instead, apply a blanket policy to everyone i.e. all employees could be given compensation of 6 months' pay or all employees could be given a fixed sum of money, say £2000, over and above the redundancy payment. However, these approaches may not be seen as fair as they would lead to a disproportionate award of compensation to, in the first scenario, an employee with little service in comparison to other employees who have been with the Council for many years and, in the second scenario, to an employee on a low salary/grade compared to one on a higher salary/grade.

1.11 The old '66 weeks' formula, based on age and length of service, is perceived to be relatively fair as it linked the amount of compensation with time served. However, basing a payment on age and/or length of service is now direct and indirect age discrimination respectively as from 1st October 2006. Nevertheless, this does not mean that payments cannot be based on such criteria provided they can be objectively justified. Indeed, the Government has decided to retain the current method of calculating statutory redundancy payments, which are based on age and length of service as it believes that the differential treatment can be objectively justified.

1.12 There are, however, two ways in which a formula, which takes into account the age and length of service of employees, can comply with the Age Regulations.

1.12.1 The first is through the exception in regulation 33 of the Age Regulations. This allows employers to pay enhanced redundancy payments calculated using both age and length of service to either all employees, including those with less than two years' service, **or** only to those employees with two or more years' service. To comply with the exception, the method of calculating the payment must be based on the statutory redundancy payment i.e. a ½ a week's pay for service under 22, one week's pay for service between 22 and 41 and 1 ½ weeks' pay for service over 41.

However, in addition, the Council can do one or both of two things. It can multiply the number of weeks service by the same multiplier for each group. For example, if the number of weeks were doubled payments could be based on 1 week's pay for service under 22, two weeks' pay for service between 22 and 41 and 3 weeks' pay for service over 41. The total amount from this calculation can then be multiplied by another multiplier. The Council also has discretion to decide whether to base a week's pay on the statutory maximum or anything up to the actual week's pay.

1.13 The Council can adopt any of the above approaches to develop a formula to apply in cases of redundancy when paying discretionary lump sum compensation, provided any payment does not exceed the equivalent of 104 weeks' pay. One way of achieving this is to limit the total multiplier applied to no more than 3.46 (104 divided by 30, the maximum number of weeks that can be taken into account under the statutory formula). A payment would be inclusive of any statutory redundancy payment made or any increase in the redundancy payment under regulation 5 of the draft Compensation Regulations (redundancy payment to be based on an actual weeks' pay).

1.14 The advantage of adopting a formula using one of the above options is that there is no need to objectively justify the use of age and length of service criteria. One of the requirements of the exception, however, is that redundancy payments are calculated in the same way for all employees. This would mean that once the decision to adopt a method of calculating payments was made the Council would have to apply that formula to all cases, until any change was made to that policy. Such an approach does not sit comfortably with the Audit Commission's view that each case should be treated on its merits but it is important to consider that any differences made between awards using an 'each case on its merits' approach would have to be objectively justified. However, as mentioned above, a consistent approach may be desirable, in the interests of fairness and transparency and would also, by using the exception, negate the need for objective justification.

1.15 Objective justification under the Age Regulations

If the Council decided to use age and/or length of service in a different way it would be necessary to objectively justify such an approach, however, this may be possible. To objectively justify less favourable treatment the Council must be able to demonstrate that it pursues a legitimate aim and that it is proportionate i.e. it is an appropriate and necessary means of achieving that aim. Given the fact that the Government has retained age and length of service as criteria for awarding a redundancy payment then it would seem that the use of these criteria is capable of objective justification. The legitimate aims that may be said to be pursued are:-

- rewarding loyalty, in the case of length of service, and
- compensating for the disadvantage older workers may face in the labour market, in the cases where employees above a certain age receive a higher payment.

If the Council decides to adopt a policy based on either or both of these criteria it will be necessary to satisfy itself that it will be able to defend any claim of age discrimination by satisfying a tribunal that its policy is justified. However, the fact that the Government has retained the use of both criteria in the calculation of statutory redundancy payments may bring some comfort, although it may be the case that it is easier for a member state to show objective justification than individual employers. There is also a view that there may be an early legal challenge to the Government's retention of age and service criteria for calculating redundancy payments.

1.16 The exception in the Age Regulations only applies to redundancy payments. Therefore, if the Council adopts a formula for calculating compensation on termination in the interests of efficiency that took account of age and/or length of service, it would be necessary to objectively justify such a decision. However, it may be more appropriate for the policy on such terminations to be more flexible as cases where payments are made for such terminations are much more likely to be "one- offs", where it may be more appropriate to take into account individual circumstances. This is also an approach that has been favoured by auditors for some time. However, it is important to consider what criteria would be used to determine a payment. Any age-related criteria or criteria which could be indirectly discriminatory would have to be objectively justified and care should be taken to ensure that the criteria does not discriminate on other grounds, such as race or sex. Alternatively, the Council could adopt criteria that are free from age influence, for example, by compensating employees based on the difficulty it is expected they may face in obtaining further employment due to the skills they have and the employment options available in the area. It must be recognised, however, that this is a difficult area as it could be argued that giving greater compensation to a person without skills is indirectly discriminatory against older workers who have had more time to acquire skills.

1.17 <u>What Service Can Be Taken Into Account?</u>

In cases where service is to be taken into account, whether it is for redundancy or efficiency purposes, the Council will also have to give consideration to what service to count. Under the current DCR, 'qualifying service' that can be taken in to account is based on service with an LGPS employer. Service covered by the teachers' and NHS pension schemes can also be taken into account and service does not need to be continuous for it to be included.

The new Regulations do not have any provisions regarding the service that can be taken into account. However, if – in redundancy cases – the Council decides to use the enhanced redundancy exception in the Age Regulations they must take into account previous continuous service with a body on the Modification Order.

If the Council decides to use service as a criterion, it will still be possible

(a) in redundancy cases, to also to take into account service with LGPS employers who are not on the modification order, service covered by the Teachers' and NHS pension schemes and previous broken service, but it would not be possible to rely on the exception in the Age Regulations in such cases, and such practices would therefore need to be objectively justified.

(b) in cases of efficiency to take into account service with bodies on the modification order, LGPS employers who are not on the modification order, service covered by the Teachers' and NHS pension schemes and previous broken service, but such practices would need to be objectively justified.

It is also technically possible to take into account other service, and even service for which a payment has previously been made (again, subject to objective justification). However, in considering this aspect of the policy it will obviously be necessary to take into account the requirements of regulation 7 (that the policy does not lead to a serious loss of confidence in the public service and that it is reasonable).

1.18 <u>Additional membership under the augmentation provisions of the LGPS</u>

The Council currently has a policy under the current DCR of giving an enhanced lump sum redundancy payment under the '66 weeks' provisions to those under 50 with 2 or more years qualifying employment (or to those aged 50 or over with under 5 years) and awarding compensatory added years (CAY) to those with 5 or more years service aged 50 or over and under 65. The provision allowing the award of compensatory added years under the DCR and the current '66 weeks' provisions under the DCR will, of course, be removed from 1 October. It is therefore necessary to consider whether to make use of the '104 weeks' provisions (as outlined in the previous paragraphs) or to utilise the augmentation provisions in regulation 52 of the LGPS Regulations 1997.

1.19 If the Council wishes to use the augmentation provisions to award extra years of membership in the LGPS it will be necessary to consider the criteria for deciding whom to grant extra years, and for determining the number of years to grant in each case, in order to ensure compliance with the Age Regulations. For example, should all employees be awarded the same number of extra years of Scheme membership (but pro-rated for part-time employees), regardless of age or service, or should the number of years awarded be based on specific criteria determined as part of the Council's policy? In either case, the Council would need to be satisfied that the policy was not directly or indirectly discriminatory and could be objectively justified if challenged. A policy of providing differential treatment on age grounds (e.g. those aged 50 or over will be awarded extra membership in the LGPS but those under age 50 will not) will be direct discrimination under the Age Regulations from 1 October. The Council will therefore need to consider whether they could justify the continued use of its present policy. The total amount of augmented membership that can be given cannot exceed the shorter of

- 6 2/3 years, or
- the period by which the member's total membership falls short of the total membership he / she would have had if he / she continued in the Scheme until age 65.

1.20 If the Council utilises the augmentation provision, any statutory redundancy payment would still be payable, assuming the Council does not use the offsetting provisions of the Redundancy Payments Pensions Regulations 1965, and any increase in the redundancy payment made under regulation 5 of the draft Compensation Regulations (redundancy payment to be based on an actual weeks' pay) would be payable.

1.21 <u>Policy on the use of regulation 52</u>

Flintshire has a policy currently of not utilising regulation 52 of the LGPS Regulations. However, if the Council wishes to change this position it will be necessary to send a copy of the amended policy to the pension fund administrator within one month of the date of the decision to amend the policy and must also publish the policy. In formulating the policy, it is necessary to have regard to the extent to which the provisions of the policy could lead to a serious loss of confidence in the public service.

1.22 <u>Converting cash sum to period of LGPS membership</u>

The Council can provide within its policy for an employee that provides a lump sum under the '104 weeks' provision, inclusive of any statutory redundancy payment made and any increase in the redundancy payment made under regulation 5 of the draft Compensation Regulations (redundancy payment to be based on an actual weeks' pay), but to give the employee (if he/she is contributing to the LGPS) the option to convert the cash sum in excess of any redundancy payment into a period of membership in the LGPS. The statutory redundancy payment would still be payable if the Council does not use the offsetting provisions of the Redundancy Payments Pensions Regulations 1965 and any increase in the redundancy payment made under regulation 5 of the draft Compensation Regulations (redundancy payment to be based on an actual weeks' pay) would be payable.

The amount of membership purchased by the excess cash sum would vary depending on the age of the employee, as this would be justifiable on actuarial grounds. For example, the same amount of cash sum would purchase less scheme membership for a 50 year old (because he/she would receive immediate payment of the LGPS benefits derived from that membership) than it would for a 25 year old (because of the age of the employee and the fact that the benefits derived from that membership would not be payable until, at the earliest, age 60 when the deferred benefit could be paid). The total amount of membership that can be purchased by the excess cash sum cannot exceed the shorter of

- 6 2/3 years, or
- the period by which the member's total membership falls short of the total membership he / she would have had if he / she continued in the Scheme until age 65.

It could be the case that some employees would not be able to convert the whole of their excess cash sum into additional membership. As it is not possible under the wording of the draft Regulations to give a mixture of the benefits, the employee would not be able to receive additional membership and take any remaining lump sum as cash and would, instead, only be able to take the cash sum. This would be a relevant consideration in making a decision regarding the two options.

For the Council to be able to provide additional membership under regulation 52 of the LGPS Regulations 1997 the employee has to be an active member of the pension scheme. This means that the decision whether or not to use the augmentation provisions must be made before the employee's employment is terminated. Obviously, employees who are not in membership of the LGPS cannot be awarded augmented membership.

1.23 Practical Considerations

There are a number of practical issues that need to be considered when comparing a cash sum under the '104 weeks' provision with an award of augmented membership under the LGPS. These can be summarised as follows:

3.23.1 **Eligibility and timing of award**

An award of a **cash sum** can only be made to an employee whose employment is being terminated on redundancy or efficiency grounds and the award is made when the employment is terminated.

Augmented membership can be granted under the LGPS to a pensionable employee (so employees who are not scheme members cannot be awarded augmented membership).

Augmented membership can only be granted whilst the employee is contributing to the Scheme. It does not have to be connected with a forthcoming redundancy or efficiency termination and augmented membership cannot be granted following termination of the employment.

1.23.2 **Funding**

Augmented Service must be paid for as a one off lump sum
In the same way as paying for added years now.

Meeting the cost of **augmented membership** by a lump sum payment into the pension Fund could lead to a reduction in management flexibility. A Directorate will have to be able to afford the cost of the lump sum payment to the Fund (spread over 3 years with interest) whereas they might be better able to afford payment via the employer's contribution rate spread over time.

1.24 Tax Considerations For The Member

It should be noted that the benefits derived from **augmented membership** will count towards the member's Lifetime Allowance under the new tax regime governing pension schemes. The LTA for 2005/2006 is £1.5 million. Similarly, the benefits derived from **augmented membership** will count towards the member's Annual Allowance under the new tax regime (£215,000 in 2005/2006) but not if the membership is awarded in the tax year in which the LGPS benefits are paid. A **cash sum** does not count towards the Lifetime or Annual Allowances.

When the extra annual pension arising from **augmented membership** in the LGPS is paid it is taxable, but the extra lump sum from the LGPS is not. If a **cash sum** (including any redundancy payment) and any pay in lieu of notice is given to the employee then, to the extent that the aggregate termination payments exceed £30,000, tax is due on the excess.

1.25 Re-employment

If a scheme member is given **augmented membership** and he/she subsequently becomes re-employed in local government, his/her LGPS pension including the augmented element might be subject to abatement depending on the administering authority's abatement policy and the level of re-employment earnings. If the employee is given a **cash sum** this would not be affected by re-employment.

2.0 SUMMARY

2.1 The Council has a range of options to consider before adopting a policy.

The Policy can:-

- Pay only the statutory redundancy payment
- Use the statutory formula but base it on an actual week's pay
- Use either or both of the multipliers that are a specific exception in the Age Regulations for redundancy payments
- Use a different method of calculating severance payments, either based on non-age related criteria or criteria that takes into account age and length of service, where objectively justified
- Pay the same number of weeks / months pay to everyone regardless of age or service
- Pay the same sum to everyone regardless of age or service
- Award additional membership under LGPS regulation 52 (plus, in the case of redundancy, the statutory redundancy payment or the redundancy payment based on an actual weeks pay)
- Provide either enhanced payment under the '104 weeks' provision or additional membership under LGPS regulation 52 depending on the age of the employee, if making different types of award to different groups can be objectively justified
- Provide the option of an enhanced payment under the '104 weeks' provision, or the amount of additional membership that could be purchased in the LGPS by the amount by which the enhanced payment exceeds any redundancy payment. In the latter case the redundancy payment would still be payable (assuming the council does not use the offsetting provisions of the Redundancy Payments Pensions Regulations 1965) and any increase in the redundancy payments made under regulation 5 of the draft Compensation Regulations (redundancy payment to be based on an actual weeks' pay) would be payable.
- Adopt a different approach in cases of redundancy to cases of other terminations

PROGRAMME FOR CHANGE APPENDIX 2

Directorate: **All**

Cost / (Saving) Element		Year 2005/06	Year 2006/07	Year 2007/08	Year 2008/09	Year 2009/10	New Regs Factor 1.5	New Regs Factor 2.0	New Regs Factor 2.5	New Regs Factor 3.0	New Regs Factor 3.46
	£	£	£	£	£	£	£	£	£	£	£
Employer Costs of Early Retirement											
Statutory Redundancy Payment	1,041,653.82	1,041,653.82	0.00	0.00	0.00	0.00	1,041,653.82	1,041,653.82	1,041,653.82	1,041,653.82	1,041,653.82
Additional Enhanced Redundancy Payment	665,186.68	665,186.68	0.00	0.00	0.00	0.00	520,826.91	1,041,653.82	1,562,480.73	2,083,307.64	2,562,468.40
Added Years Lump Sum	240,050.43	240,050.43	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00					
Pension Fund Strain	0.00	0.00	0.00	0.00	0.00	0.00					
Total Cost not falling on the Pension Fund	2,588,995.25	0.00	862,998.42	862,998.42	862,998.42	0.00	2,588,995.25	2,588,995.25	2,588,995.25	2,588,995.25	2,588,995.25
Other one-off costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total One-Off Costs of Early Retirement	**4,535,886.18**	**1,946,890.93**	**862,998.42**	**862,998.42**	**862,998.42**	**0.00**	**4,151,475.98**	**4,672,302.89**	**5,193,129.80**	**5,713,956.71**	**6,193,117.47**
Recurring Costs	0.00	0.00	0.00	0.00	0.00	0.00					
Added Years Pension	80,072.81	0.00	80,072.81	80,072.81	80,072.81	80,072.81	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00					
Post No.xxx	0.00	0.00	0.00	0.00	0.00	0.00					
Salary	120,296.00	0.00	120,296.00	120,296.00	120,296.00	120,296.00	0.00	0.00	0.00	0.00	0.00
On-cost	33,682.88	0.00	33,682.88	33,682.88	33,682.88	33,682.88	0.00	0.00	0.00	0.00	0.00
Travelling	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	153,978.88	0.00	153,978.88	153,978.88	153,978.88	153,978.88	0.00	0.00	0.00	0.00	0.00
Other	30,427.00	0.00	30,427.00	30,427.00	30,427.00	30,427.00	0.00	0.00	0.00	0.00	0.00
Total Recurring Costs	**264,478.69**	**0.00**	**264,478.69**	**264,478.69**	**264,478.69**	**264,478.69**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Recurring Savings	0.00	0.00	0.00	0.00	0.00	0.00					
This Post -	0.00	0.00	0.00	0.00	0.00	0.00					
Salary	-2,133,320.08	0.00	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08	-2,133,320.08
On-cost	-597,329.58	0.00	-597,329.58	-597,329.58	-597,329.58	-597,329.58	-597,329.58	-597,329.58	-597,329.58	-597,329.58	-597,329.58
Travelling	-22,411.63	0.00	-22,411.63	-22,411.63	-22,411.63	-22,411.63	-22,411.63	-22,411.63	-22,411.63	-22,411.63	-22,411.63
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	-2,753,061.29	0.00	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29	-2,753,061.29
Other	-16,062.90	0.00	-16,062.90	-16,062.90	-16,062.90	-16,062.90	-16,062.90	-16,062.90	-16,062.90	-16,062.90	-16,062.90
Total Recurring Savings	**-2,769,124.19**	**0.00**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**
Net Recurring Costs/Savings	**-2,504,645.50**	**0.00**	**-2,504,645.50**	**-2,504,645.50**	**-2,504,645.50**	**-2,504,645.50**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**	**-2,769,124.19**
Cost Recovery Period of Early Retirement	**-1.81**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**-1.50**	**-1.69**	**-1.88**	**-2.06**	**-2.24**

"Capitalisation will, as was previously the case, continue to be allowed only where costs exceed
both 5% of available reserves and 0.25% of budgeted expenditure
for the year in which the expenditure is incurred."

Available reserves	4,000,000	5%	200,000
Budgeted expenditure	195,000,000	0.25%	487,500

The above figures are based on those who were due to leave under PFC in 2005/06.

I have used the same amount for Pension Fund Strain as was incurred under PFC, the amount under the new regs will be less , but, at the present time we do not have the information from the Actuaries to the Pension Fund to enable an accurate calculation.

APPENDIX 3

FLINTSHIRE COUNTY COUNCIL

Draft Discretionary Compensation Policy

The following Statement sets out the Policy of the Council regarding the exercise of its discretionary powers under the recently updated Local Government (Early Termination of Employment)(Discretionary Compensation)(England and Wales) Regulations 2006 (SI 2914).

The Policy was made on 1st March 2007 and will be reviewed by 31st March 2008.

Background

The relevant discretionary powers under the 1996 Regulation for the purpose of this Policy are:

Part II - Power to increase redundancy payments above the statutory weekly pay limit.

Part III- Compensation for premature retirement.

Part IV – Other compensation for redundancy.

In operating and reviewing this Policy the Council must have regard to the extent to which the exercise of its discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service and must be satisfied that the Policy is workable, affordable and reasonable, having regard to the foreseeable costs.

POLICY

Where an employee ceases to be employed by the Council in any of the circumstances in which the Council's discretionary powers referred to above could be exercised, the Council will give proper consideration to the exercise of its discretionary powers, including consideration of the circumstances of the employee concerned, the financial position of the Council and the long-term effects on the Council, its employees and community. The Council will exercise its discretionary powers impartially and in a consistent and reasonable manner. The final decision on any matter set out above rests with the Council.

Increase of Statutory Redundancy Payments (Part 11)

The Council will pay the actual weekly rate of pay of the employee or the statutory limit on weekly pay (currently £290 per week) (whichever is the greater) as calculated against the statutory provisions (i.e. up to 30 weeks maximum).

Compensation for Premature Retirement (Part III)

The Council will not award any additional period of membership of the LGPS.

Other Compensation for Redundancy (Part IV)

The Council will not pay any additional compensation on redundancy or premature retirement on the grounds of efficiency in circumstances where Part III does not apply.

Multiplier

The Council will pay a multiplier of 1.5 times the redundancy payment as calculated against the statutory formula.

PROCEDURE

The Chief Executive Officer, in consultation with the County Finance Officer, County Legal and Democratic Services Officer and the Director of Corporate Strategy will consider all circumstances when any decision has to be made about the exercise of the Council's discretionary powers as outlined above and have the authority of the County Council to make such delegated decisions. All decisions made within this delegation will be reported bi-annually to the County Council.

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 6

REPORT TO: **SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL**

DATE : **01 MARCH 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **CAPITAL PROGRAMME 2007/08 TO 2010/11**

1.00 PURPOSE OF REPORT

1.01 To present to Council the recommendations of the Executive in relation to the Capital Programme 2007/08 to 2010/11.

2.00 BACKGROUND

2.01 At its meeting of 13th February 2007, the Executive considered the County Finance Officer's report in respect of the Capital Programme 2007/08 to 2010/11.

3.00 CONSIDERATIONS

3.01 The recommendations of the Executive to County Council are set out in Section 5.00 of the report to Executive of 13th February 2007, a copy of which is included as an appendix to this report.

3.02 A late amendment to the recommendation of the Executive arose in respect of the Housing Revenue Account (Section 5.02), taking account of additional CERA (Capital Expenditure from Revenue Account) funding resources (£0.409m) which were identified during the final stages of preparing the Housing Revenue Account (revenue) budget, and reduced Major Repairs Allowance entitlement (£0.100m). The preparation of the detailed Housing Revenue Account (capital) programme of works will take account of these net additional resources (£0.309m), which increase the programme value from £7.250m to £7.559m.

4.00 RECOMMENDATIONS

4.01 Council is requested to agree the recommendations of the Executive.

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI-POVERTY IMPACT

6.01 Individual capital programme schemes may have specific anti-poverty impacts

7.00 ENVIRONMENTAL IMPACT

7.01 Individual capital programme schemes may have specific environmental impacts.

8.00 EQUALITIES IMPACT

8.01 Individual capital programme schemes may have specific equalities impacts.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 Overview and scrutiny, trade unions, school budget forum, executive members and directors.

11.00 CONSULTATION UNDERTAKEN

11.01 Overview and scrutiny, trade unions, school budget forum, executive members and directors.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

2007/08 RSG Settlement Papers.
2007/08 Budget Working Papers

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AGENDA ITEM NUMBER: 6

REPORT TO: **EXECUTIVE**

DATE : **13 FEBRUARY 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **CAPITAL PROGRAMME 2007/08 TO 2010/11**

1.00 PURPOSE OF REPORT

1.01 To propose the 2007/08 to 2010/11 Capital Programme budget following consultation with the Corporate Management Overview and Scrutiny Committee.

2.00 BACKGROUND

2.01 The budget proposals for 2007/08 to 2010/11 were agreed at Executive on 30th January 2007 and referred to the Corporate Management Overview and Scrutiny Committee for consideration. A copy of the report to Executive of 30th January 2007 is included as an appendix to this report (Appendix A).

3.00 CAPITAL PROGRAMME

3.01 At the meeting of the Corporate Management Overview and Scrutiny Committee on 31st January 2007, the County Finance Officer presented the budget proposals. Members made comments and asked a number of questions. There were no comments made for Executive's consideration in formulating the final capital programme proposals.

4.00 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

4.01 The detailed programme of works will be reported to Executive as soon as the compilation of scheme information is completed.

5.00 RECOMMENDATIONS

5.01 That the Executive recommends the following to County Council on 1st March 2007 :-

a) That the schemes as set out in the report of 30th January 2007 (Appendix A, as attached) be included in the Capital Programme 2007/08 to 2010/11.

- Commitments - General Fund (Section 4.01 and Appendix 1)
- Provisions - General Fund (Section 4.02 and Appendix 2)

- New Schemes - General Fund (Section 4.05)
- Housing Revenue Account (Section 5.02)

b) That the principle of inflating provisions each year in line with inflation continues (Section 4.02 of the report of 30th January 2007).

c) That resources for 2008/09 to 2010/11 are not allocated at this stage, but that the Corporate Asset Management Group do further work to prioritise the list of potential capital schemes, alongside further work in identifying possible capital receipts and bring a further paper back in the early summer which sets out proposals for additions to the capital programme through to 2010/11 (Section 4.06 of the report of 30th January 2007).

d) That the Interim Director of Community and Housing reports to Executive with the detailed Housing Revenue Account capital programme once the exercise has been completed (Section 5.03 of the report dated 30th January 2007).

6.00 FINANCIAL IMPLICATIONS

6.01 As set out in the report.

7.00 ANTI-POVERTY IMPACT

7.01 Individual capital programme schemes may have specific anti-poverty impacts.

8.00 ENVIRONMENTAL IMPACT

8.01 Individual capital programme schemes may have specific environmental impacts.

9.00 EQUALITIES IMPACT

9.01 Individual capital programme schemes may have specific equalities impacts.

10.00 PERSONNEL IMPLICATIONS

10.01 None directly as a result of this report.

11.00 CONSULTATION REQUIRED

11.01 Overview and scrutiny, trade unions, school budget forum, executive members and directors.

12.00 CONSULTATION UNDERTAKEN

12.01 Overview and scrutiny, school budget forum, executive members and directors.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

2007/08 RSG Settlement Papers.
2007/08 Budget Working Papers

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Appendices

AGENDA ITEM NUMBER:

REPORT TO: **EXECUTIVE**

DATE : **30 JANUARY 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **CAPITAL PROGRAMME 2007/08 TO 2010/11**

1.00 PURPOSE OF REPORT

1.01 To advise Members of the Final Local Government Capital Settlement for 2007/08.

1.02 To present proposals for the Capital Programme for the four year period 2007/08 to 2010/11.

2.00 FINAL LOCAL GOVERNMENT SETTLEMENT 2007/08

2.01 The level of general capital funding included within the 2007/08 final Local Government Settlement as received on 20th December 2006 was confirmed in the sum of £10.365m, a figure comprising of Unhypothecated Supported Borrowing (USB) of £7.777m and General Capital Grant of £2.588m.

3.00 CAPITAL RESOURCES AVAILABLE (EXCLUDING HOUSING REVENUE ACCOUNT)

3.01 Table 1 below sets out details of those new non specific resources available for the four year period 2007/08 to 2010/11. The level for Unhypothecated Supported Borrowing and General Capital Grant for 2007/08 is as set out in the final settlement notified to the Council by the Welsh Assembly Government (WAG). Funding for 2008/09 and beyond is assumed to continue at the 2007/08 level.

3.02 In line with the policy adopted when the 2002/03 to 2004/05 capital programme was agreed (Council 26th February 2002), the level of capital receipts is set at a very prudent level of £0.100m. For 2007/08, additional receipts of £0.742m are anticipated.

3.03 In addition, a general funding total of £0.100m is carried forward from 2006/07 to 2007/08. This relates to the savings identified in the review of resources required for capitalised costs for Programme for Change.

3.04 New grants and contributions are excluded from the resources total. As in previous years, bids have been/will be made for specific schemes, and when it is known that such bids have been successful, these will be reported through the quarterly capital monitoring process. Examples of such specific schemes grants are Transport Grant, School Buildings Improvement Grant and Physical Regeneration Fund Grant.

Table 1: New Non Specific Resources				
	2007/08 £m	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
Unhypothecated Supported Borrowing (USB)	7.777	7.777	7.777	7.777
General Capital Grant	2.588	2.588	2.588	2.588
Total General Capital Funding	**10.365**	**10.365**	**10.365**	**10.365**
Capital Receipts	0.842	0.100	0.100	0.100
Total	**11.207**	**10.465**	**10.465**	**10.465**
Capital Receipts Brought Forward from 2006/07	0.100	0.000	0.000	0.000
Total	**11.307**	**10.465**	**10.465**	**10.465**

3.05 If any resources are rephased from 2006/07, they will add to the above figures. The 'Capital Programme 2006/07 (Month 9)' monitoring report which will be presented to Executive on 14th March 2007 includes currently identified rephasing estimated at £2.300m. This figure is subject to change and the final level of rephasing from 2006/07 to 2007/08 will be reported in the capital programme final outturn for 2006/07. The rephasing identified to date is financed from a combination of capital receipts/ general capital grant (£1.871m), and grants /contributions (£0.429m). When these resources are added to the resources identified in Table 1 above, the capital programme for 2007/08 (before the addition of further schemes met from grants and further capital receipts as set out on 3.02 and 3.03 above) increases to £13.607m as set out in Table 2.

Table 2: Total Resources Including Rephasing				
	2007/08 £m	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
Unhypothecated Supported Borrowing (USB)	7.777	7.777	7.777	7.777
General Capital Grant	4.459	2.588	2.588	2.588
Total General Capital Funding	**12.236**	**10.365**	**10.365**	**10.365**
Capital Receipts	0.842	0.100	0.100	0.100
Capital Grants and Contributions	0.429	0.000	0.000	0.000
Total	**13.507**	**10.465**	**10.465**	**10.465**
Capital Receipts Brought Forward from 2006/07	0.100	0.000	0.000	0.000
Total	**13.607**	**10.465**	**10.465**	**10.465**

4.00 USE OF CAPITAL RESOURCES (EXCLUDING HOUSING REVENUE ACCOUNT)

4.01 The first call on available resources is that which is required to meet commitments made in previous years. Included within the commitment totals are those resources allocated for Housing General Fund renovation grant purposes in accordance with the recommendations of the report to Executive - 20th September 2005 (£3.324m in 2007/08, £3.471m in 2008/09, £3.575m in 2009/10 and £3.682m in 2010/11). Responsibility for the control of the Empty Homes Grant Scheme budget, will transfer from Community and Housing to Environment and Regeneration with effect from 2007/08, and part of the renovation grants totals as referred to above has accordingly been transferred from the Housing General Fund to Environment and Regeneration (£0.200m in 2007/08, £0.200m in 2008/09, £0.206m in 2009/10 and £0.212m in 2010/11).
Members are asked to confirm commitments of £6.386m in 2007/08, £4.171m in 2008/09, £3.575m in 2009/10 and £3.682m in 2010/11. Details are set out in Appendix 1.

4.02 Traditionally, the capital programme has included a number of provisions for various works carried out across services. It is recommended that such provisions continue to be allocated in the 2007/08 to 2010/11 programme and that the level be inflated in line with the general level of price inflation. The Corporate Asset Management Group is to review the criteria for the future inclusion of provision sums within the capital programme.
Members are asked to confirm the inclusion of provisions on this basis amounting to £3.721m in 2007/08, £3.807m in 2008/09, £3.921m in 2009/10 and £4.039m in 2010/11 as set out in Appendix 2.

4.03 After the inclusion of commitments and provisions, the resources available for allocation in 2007/08 are £1.200m, but increase to £2.487m in 2008/09, £2.969m in 2009/10 and £2.744m in 2010/11.

4.04 As part of the Council's asset management planning, the Corporate Asset Management Group is developing an options appraisal methodology for the processing of capital scheme bids and to prioritise schemes to come forward for members' consideration.

4.05 At this stage, there are two capital schemes which are a priority, and following consultation with Executive Members and Directors it is proposed that they be included in the capital programme in 2007/08.

Table 3: Proposed Schemes	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Community and Housing				
Queensferry Depot - Relocation	0.700	0.000	0.000	0.000
	0.700	**0.000**	**0.000**	**0.000**
Education & Children's Services & Recreation				
Glazing in Schools	0.500	0.000	0.000	0.000
	0.500	**0.000**	**0.000**	**0.000**
Total	**1.200**	**0.000**	**0.000**	**0.000**

Members are asked to confirm that new pressures of £1.200m be included in the 2007/08 capital programme.

4.06 It can be seen from table 4 below that this would result in an estimated total of £8.200m being available for allocation over the following three years (£2.487m in 2008/09, £2.969m in 2009/10 and £2.744 in 2010/11).

Members are asked to confirm that resources are not allocated at this stage, but that the Corporate Asset Management Group do further work to prioritise the list of potential capital schemes, alongside further work in identifying possible capital receipts and bring a further paper back in the early summer which sets out proposals for additions to the capital programme through to 2010/11.

Table 4: Resources Available for Allocation	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Total Resources (Table 2)	13.607	10.465	10.465	10.465
Commitments (Appendix 1)	(6.386)	(4.171)	(3.575)	(3.682)
Provisions (Appendix 2)	(3.721)	(3.807)	(3.921)	(4.039)
New Pressures	(1.200)	0.000	0.000	0.000
Rephasing (Section 3.05)	(2.300)	0.000	0.000	0.000
Available for Allocation	**0.000**	**2.487**	**2.969**	**2.744**

5.00 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

5.01 Table 5 sets out details of estimated resources available for 2007/08 only. In view of the stock condition survey that is currently underway, and the outcome of the Stock Options Appraisal process which is also underway, it is considered more appropriate at this stage to await the outcome of that work, which will inform the Housing Business Plan and associated capital programme going forward.

5.02 The capital receipts total takes account of the usable element (25%) of anticipated dwelling disposal receipts and the full value of Housing Revenue Account land sales. The Major Repairs Allowance is a WAG grant that is designed to make a contribution to the cost of keeping stock in good capital condition, and CERA is capital funding provided through the revenue account to support the capital spending plans.

Table 5: Housing Revenue Account Resources	
	2007/08 £m
Capital Receipts	1.375
Grants and Contributions (Major Repairs Allowance)	5.300
Capital Expenditure from Revenue Account (CERA)	0.575
Total	**7.250**

5.03 A detailed proposed programme of planned works is currently in the process of being prepared, and it is recommended that the Interim Director of Community and Housing reports to Executive when this work is completed.

5.04 If any resources are rephased from 2006/07, they will add to the above figures. The 'Capital Programme 2006/07 (Month 9) monitoring report which will be presented to Executive on 14th March 2007 includes currently identified rephasing of £0.760m (7%), based upon present procurement activity. This figure is subject to change and the final level of rephasing from 2006/07 to 2007/08 will be reported in the capital programme final outturn for 2006/07.

6.00 <u>RECOMMENDATIONS</u>

6.01 Members are requested to:-

a) Note the report.

b) Confirm that the schemes as set out in the report be included in the Capital Programme 2007/08 to 2010/11.

- Commitments - General Fund (Section 4.01 and Appendix 1)
- Provisions - General Fund (Section 4.02 and Appendix 2)
- New Schemes - General Fund (Section 4.03)
- Housing Revenue Account (Section 5.02)

c) Confirm the principle of inflating provision each year in line with inflation continues (Section 4.02).

d) Confirm that resources for 2008/09 to 2010/11 are not allocated at this stage, but that the Corporate Asset Management Group do further work to prioritise the list of potential capital schemes, alongside further work in identifying possible capital receipts and bring a further paper back in the early summer which sets out proposals for additions to the capital programme through to 2010/11 (Section 4.06).

e) Request that the Interim Director of Community and Housing reports to Executive with the detailed Housing Revenue Account capital programme once the exercise has been completed (Section 5.03).

f) Refer these capital programme proposals to Scrutiny on 31st January 2007 for consideration.

7.00 **FINANCIAL IMPLICATIONS**

7.01 As set out in the report.

8.00 **ANTI-POVERTY IMPACT**

8.01 Individual capital programme schemes may have specific anti-poverty impacts.

9.00 **ENVIROMENTAL IMPACT**

9.01 Individual capital programme schemes may have specific environmental impacts.

10.00 **EQUALITIES IMPACT**

10.01 Individual capital programme schemes may have specific equalities impacts.

11.00 **PERSONNEL IMPLICATIONS**

11.01 None directly as a result of this report.

12.00 CONSULTATION REQUIRED

12.01 Overview and scrutiny, trade unions, school budget forum, executive members and directors.

13.00 CONSULTATION UNDERTAKEN

13.01 Overview and scrutiny, trade unions, school budget forum, executive members and directors.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

2007/08 RSG Settlement Papers.
2007/08 Budget Working Papers

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Appendices

APPENDIX 1

COMMITMENTS (SPECIFIC PROJECTS)

Original Estimate 2007/08					Revised Estimate 2007/08			Estimate 2008/09			Estimate 2009/10			Estimate 2010/11		
Estimated	Financing				Estimated	Financing		Estimated	Financing		Estimated	Financing		Estimated	Financing	
Payments	General	Specific			Payments	General	Specific	Payments	General	Specific	Payments	General	Specific	Payments	General	Specific
£000	£000	£000			£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
			COMMUNITY & HOUSING													
			Administrative Buildings													
300	300		Mold	County Hall - Improvement/Health & Safety Works	300	300										
100	100		Various	Asbestos Removal	100	100		100	100							
100	100		Various	Legionella Monitoring	100	100		100	100							
150	150		Various	Energy Efficiency Measures	150	150										
			Sustainable Waste													
644	644		Sandycroft	Recycling Park/Civic Amenity Site	644	644										
			EDUCATION & CHILDREN'S SERVICES & RECREATION													
			Education - General													
			Various	School Building Works				500	500							
			Secondary Schools													
1,500	1,500		Mold	Maes Garmon - Remodelling & Refurbishment	1,500	1,500										
			ENVIRONMENT & REGENERATION													
			General Environmental Enhancement													
			Various	Empty Homes Grants	200	200		200	200		206	206		212	212	
			Planning Grant Schemes													
42	42		Holywell	Townscape Heritage Initiative - Matched Funding	42	42										
26	26		Holywell	Townscape Heritage Initiative - Project Support	26	26										
			CENTRAL DIRECTORATES													
			Information Technology													
200	200		Various	E - Government	200	200										
			HOUSING (GENERAL FUND)													
			Grants													
3,324	3,324		Various	Renovation Grants	3,124	3,124		3,271	3,271		3,369	3,369		3,470	3,470	
6,386	**6,386**	**0**	**TOTAL**		**6,386**	**6,386**	**0**	**4,171**	**4,171**	**0**	**3,575**	**3,575**	**0**	**3,682**	**3,682**	**0**

APPENDIX 2

PROVISIONS

Original Estimate 2007/08					Revised Estimate 2007/08			Estimate 2008/09			Estimate 2009/10			Estimate 2010/11		
Estimated	Financing				Estimated	Financing		Estimated	Financing		Estimated	Financing		Estimated	Financing	
Payments	General	Specific			Payments	General	Specific	Payments	General	Specific	Payments	General	Specific	Payments	General	Specific
£000	£000	£000			£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
			ADULT SOCIAL CARE													
			General													
110	110		Various	Programme	110	110		113	113		116	116		120	120	
			COMMUNITY & HOUSING													
			Administrative Buildings													
275	275		Various	Building Works	275	275		282	282		290	290		299	299	
214	214		Various	Capitalisation of Revenue Expenditure	214	214		218	218		225	225		232	232	
			General													
55	55		Various	Minor Works	55	55		56	56		58	58		59	59	
			EDUCATION & CHILDREN'S SERVICES & RECREATION													
			Recreation - Other													
220	220		Various	Provision	220	220		226	226		233	233		240	240	
			Education - Other													
165	165		Various	Provision	165	165		169	169		174	174		179	179	
			ENVIRONMENT & REGENERATION													
			Engineering													
165	165		Various	Coast Protection Works - General	165	165		169	169		174	174		179	179	
110	110		Various	Land Drainage Works - General	110	110		113	113		116	116		120	120	
			Highways													
220	220		Various	Bridge Assessments	220	220		226	226		233	233		240	240	
275	275		Various	Structural Maintenance	275	275		282	282		290	290		299	299	
331	331		Various	Street Lighting Replacement	331	331		339	339		349	349		360	360	
1,091	1,091		Various	Capitalisation of Revenue Expenditure	1,091	1,091		1,113	1,113		1,147	1,147		1,181	1,181	

APPENDIX 2

PROVISIONS (CONTINUED)

Original Estimate 2007/08					Revised Estimate 2007/08			Estimate 2008/09			Estimate 2009/10			Estimate 2010/11		
Estimated	Financing				Estimated	Financing		Estimated	Financing		Estimated	Financing		Estimated	Financing	
Payments	General	Specific			Payments	General	Specific	Payments	General	Specific	Payments	General	Specific	Payments	General	Specific
£000	£000	£000			£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
			CENTRAL DEPARTMENTS													
			Information Technology													
380	380		Various	Programme	380	380		389	389		400	400		413	413	
			Access Improvements													
55	55		Various	Telephone Network Upgrade	55	55		56	56		58	58		59	59	
			Clwyd Theatr Cymru													
55	55		Mold	Minor Works	55	55		56	56		58	58		59	59	
3,721	**3,721**	**0**	**TOTAL**		**3,721**	**3,721**	**0**	**3,807**	**3,807**	**0**	**3,921**	**3,921**	**0**	**4,039**	**4,039**	**0**

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 7

REPORT TO:	**SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL**
DATE :	**01 MARCH 2007**
REPORT BY:	**COUNTY FINANCE OFFICER**
SUBJECT :	**PRUDENTIAL INDICATORS AND ANNUAL INVESTMENT STRATEGY 2007/08**

1.00 PURPOSE OF REPORT

1.01 To present to Council the recommendations of the Executive in relation to Prudential Indicators and the Annual Investment Strategy for 2007/08.

2.00 BACKGROUND

2.01 At its meeting of 13th February 2007, the Executive considered a report from the County Finance Officer in respect of Prudential Indicators, and a further report at its meeting of 20th February 2007 in respect of the Treasury Management Policy and Strategy Statement, including key indicators, limits and the annual investment strategy for 2007/08.

3.00 CONSIDERATIONS

3.01 The recommendations of the Executive to County Council are set out in Appendix A (Prudential Indicators) and Appendix B (Annual Investment Strategy).

4.00 RECOMMENDATIONS

4.01 Council is requested to agree the recommendations of the Executive.

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 Sterling Consultancy Services.

11.00 CONSULTATION UNDERTAKEN

11.01 Sterling Consultancy Services.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

Various WAG and CIPFA papers

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AGENDA ITEM NUMBER: 5

REPORT TO: **EXECUTIVE**

DATE : **13 FEBRUARY 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **PRUDENTIAL INDICATORS**

1.00 PURPOSE OF REPORT

1.01 To present proposals for the setting of a range of prudential indicators to be used in order to establish that the level of any future capital investment is affordable, prudent and sustainable.

2.00 BACKGROUND

2.01 The prudential system for local authority capital finance was introduced on 1st April 2004. Its legislative base is contained within the Local Government Act 2003, and the regulations subsequently made by the National Assembly enable local authorities to determine their own levels of affordable borrowing for capital expenditure.

2.02 Decisions to undertake capital investment will be limited by a local responsibility to determine whether any capital investment is affordable, prudent and sustainable. The Prudential Code for Capital Finance in Local Authorities is the main instrument that demonstrates that authorities have satisfied these obligations. The code:

- Sets out the factors that should be taken into account when deciding to borrow and make capital investments
- **Identifies a range of indicators that should be used to establish that the level of investment is affordable, prudent and sustainable**
- Details the main features of the corporate governance arrangements that need to be put in place in order to make the code function effectively
- Attempts to capture the main qualities of sound decision making on capital investment strategies

3.00 CONSIDERATIONS

3.01 Prudential indicators have been calculated in three areas; external borrowing, capital expenditure and treasury management. The prudential indicators are designed to support and record local decision making; they are not designed to be comparative indicators. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax and Council housing rents
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the corporate plan

3.02 Prudential indicators are required to be calculated for the forthcoming financial year and two subsequent financial years. In view of the circumstances underlying the decision to prepare a one year Housing Revenue Account capital programme only (as recommended for approval within the capital programme report included elsewhere on the agenda), the undermentioned information is accordingly provided for 2007/08 only -

- housing revenue account capital expenditure (section 3.03)
- ratio of financing costs to net revenue stream (section 3.04)
- capital financing requirement (section 3.05)
- incremental impact of capital investment decisions on housing rents (section 3.11)

3.03 Based on those resources currently allocated, the estimates of capital expenditure to be incurred in 2007/08 (excluding rephasing), and the following two years for non-HRA services only are:

CAPITAL EXPENDITURE				
	2006/07	**2007/08**	**2008/09**	**2009/10**
	Actual	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
Housing Revenue Account (HRA)		7.250	n/a	n/a
Non-HRA		11.307	7.978	7.496
Total		**18.557**	**7.978**	**7.496**

The actual capital expenditure for 2006/07 will be reported at a later stage, once outturn figures are available.

3.04 Estimates of the ratio of financing costs to net revenue stream for 2007/08 only, based on those expenditure assumptions outlined in the general fund and housing revenue account budget reports included elsewhere on the agenda are:

RATIO OF FINANCING COSTS TO NET REVENUE STREAM				
	2006/07	**2007/08**	**2008/09**	**2009/10**
	Actual	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**
HRA		12.96	n/a	n/a
Non-HRA		5.51	n/a	n/a

The HRA net revenue stream is the amount to be met from Welsh Assembly Government (WAG) grants and from rentpayers, and the non-HRA equivalent is the amount to be met from WAG grants and local taxpayers. The HRA ratio as calculated, reflects reducing financing costs attributable to the continuing reduction in HRA debt outstanding as a percentage of an increasing level of revenue stream income. The non-HRA ratio reflects an increasing burden of total external interest being borne by the general fund due to the continuing reduction in HRA debt outstanding, as a percentage of an increasing level of revenue stream income. The estimates of financing costs include current commitments and the proposals included in the capital programme report.

The actual ratio of financing costs to net revenue stream for 2006/07 will be reported at a later stage, once outturn figures are available.

3.05 Estimates of the capital financing requirement, as described in Section 3.06 below, for the authority for 2007/08 only are:

CAPITAL FINANCING REQUIREMENT				
	2006/07	**2007/08**	**2008/09**	**2009/10**
	Actual	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
HRA		32.647	n/a	n/a
Non-HRA		138.441	n/a	n/a
Total		**171.088**	n/a	n/a

The actual capital financing requirement for the authority for 2006/07 will be reported at a later stage, once final balance sheet figures are available.

3.06 The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, Flintshire County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services.* Flintshire County Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management policy and strategy. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

3.07 CIPFA's *Prudential Code for Capital Finance in Local* Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional financing requirement for the current and next two financial years."

The County Finance Officer reports no difficulty in meeting this requirement for the future period to which the prudential indicators apply. This view takes into account current commitments, existing plans, and all budget proposals.

3.08 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the County Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its next meeting following the change.

AUTHORISED LIMIT FOR EXTERNAL BORROWING				
	2006/07	**2007/08**	**2008/09**	**2009/10**
	Actual	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
All Borrowing (Capital/Revenue)		175.600	177.600	179.600
Other Long Term Liabilities		1.200	1.100	1.100
Total		**176.800**	**178.700**	**180.700**

The County Finance Officer reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the capital programme report, and with its approved treasury management policy and strategy statement. The County Finance Officer confirms that they are based on the estimate of most likely, prudent but not worse case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

3.09 The Executive is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the County Finance Officer's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the County Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Council is also asked to delegate authority to the County Finance Officer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council as its next meeting following the change.

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT			
	2007/08	**2008/09**	**2009/10**
	Estimate	**Estimate**	**Estimate**
	£m	**£m**	**£m**
All Borrowing (Capital/Revenue)	173.600	175.600	177.600
Other Long Term Liabilities	1.200	1.100	1.100
Total	**174.800**	**176.700**	**178.700**

The Council's actual external debt at 31st March 2007 will be reported at a later stage, once balance sheet figures are available.

3.10 It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time,

The Council is asked to note that the authorised limit determined for 2007/08 (see Section 3.08 above) will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

3.11 The estimate of the incremental impact of capital investment decisions as proposed in the capital budget report for the period 2007/08 to 2009/10, over and above capital investment decisions that have previously been taken by the Council are:

- for the Band D Council Tax - nil in each year (2007/08, 2008/09 and 2009/10)
- for average weekly housing rents - not applicable (in view of the circumstances referred to in section 3.02)

3.12 **An extract from Flintshire County Council's Treasury Management Policy & Strategy Statement for 2007/08 (as reported elsewhere on this agenda)**

Flintshire County Council has approved and adopted the CIPFA *Code of Practice for Treasury Management in the Public* Services on 1st April 2002 for 2002/03 onwards.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2007/08, 2008/09 and 2009/10 of 100% of its net outstanding principal sums.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2007/08, 2008/09 and 2009/10 of 35% of its net outstanding principal sums.

It is recommended that the Council sets the implied boundary of fixed rate exposures at between 65% and 100% and of variable rate exposures at between 0% and 35%

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

PROJECTED FIXED RATE BORROWING		
	Lower	**Upper**
	Limit	**Limit**
	%	**%**
Under 12 months	0	10
12 months and within 24 months	0	10
24 months and within 5 years	0	30
5 years and within 10 years	0	50
10 years and above	10	100

It is recommended that the Council sets a limit for sums invested for periods longer than 364 days of £40m for 2007/08. 2008/09 and 2009/10.

4.00 RECOMMENDATIONS

4.01 That Members recommend to County Council on 1st March 2007 -

(a) the prudential indicators as detailed in Section 3 of the report -

- Capital expenditure (Section 3.03)
- Ratio of financing costs to net revenue stream (Section 3.04)
- Capital financing requirement (Section 3.05)
- Net borrowing and the capital financing requirement (Section 3.07)
- Authorised limit for external debt (Section 3.08 and 3.10)
- Operational boundary for external debt (Section 3.09)
- Incremental impact of capital investment decisions on the council tax (Section 3.11)
- Incremental impact of capital investment decisions on housing rents (Section 3.11)
- Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services (Section 3.12)

- The upper limit on interest rate exposures - fixed and variable rate interest (Section 3.12)
- Maturity structure of borrowing (Section 3.12)
- Prudential limits for sums invested for periods longer than 364 days (Section 3.12)

(b) the delegated authority for the County Finance Officer to effect movements between the separately agreed limits within the authorised limit for external debt and the operational boundary for external debt (Sections 3.08 and 3.09).

(c) the intended future reporting arrangements in respect of 2006/07 final figures (Sections 3.03, 3.04, 3.05 and 3.08).

5.00 <u>FINANCIAL IMPLICATIONS</u>

5.01 As set out in the report.

6.00 <u>ANTI POVERTY IMPACT</u>

6.01 None.

7.00 <u>ENVIRONMENTAL IMPACT</u>

7.01 None.

8.00 <u>EQUALITIES IMPACT</u>

8.01 None.

9.00 <u>PERSONNEL IMPLICATIONS</u>

9.01 None.

10.00 <u>CONSULTATION REUIRED</u>

10.01 None.

11.00 <u>CONSULTATION UNDERTAKEN</u>

11.01 None.

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AGENDA ITEM NUMBER: 5

REPORT TO: **EXECUTIVE**

DATE : **20 FEBRUARY 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **TREASURY MANAGEMENT POLICY & STRATEGY STATEMENT INCORPORATING THE PRUDENTIAL CODE FOR CAPITAL FINANCE & ANNUAL INVESTMENT STRATEGY 2007/08**

1.00 PURPOSE OF REPORT

1.01 To present the Treasury Management Policy & Strategy Statement (Policy Statement), including key indicators, limits and an annual investment strategy for 2007/08 for adoption.

2.00 BACKGROUND

2.01 The Council adopted the CIPFA Treasury Management in the Public Sector Code of Practice 2001 from 1st April 2002. A requirement of the Code, which has been incorporated into the Council's Financial Procedure Rules, is for the Executive to receive an annual plan prior to 31st March each year.

2.02 In addition and in accordance with the Prudential Code for Capital Finance, the Council is required to determine certain key indicators and limits for 2007/08 before 31st March 2007.

2.03 Welsh Assembly Government (WAG) also requires that the Council approves an Annual Investment Strategy. These requirements have been incorporated into the Treasury Management Policy & Strategy Statement (see Appendix I) and the indicators and limits to be approved by Council are shown in sections 3 and 4.

2.04 In summary, the treasury management strategy for 2007/08 outlined in the Policy & Strategy Statement has been reviewed but remains unchanged from 2006/07. The 2006/07 Outturn Report to Executive in September 2007 will provide performance details but CIPFA benchmarking figures for the six month period to September 2006 show upper-decile performance. The new accounting SORP 2007 has been addressed by WAG and details on this are provided in section 2.10 of the Policy and Strategy Statement.

3.00 TREASURY MANAGEMENT POLICY & STRATEGY STATEMENT

3.01 Prudential Code for Capital Finance

The Policy Statement attached incorporates the key indicators which relate to External Debt and Treasury Management.

- Authorised Limit for External Debt:

  This reflects a level of borrowing which,while not desired, could be afforded, but may not be sustainable.

- Operational Boundary for External Debt:

  A means by which the Authority manages its external debt to ensure that it remains within a self-imposed limit. It is based on expectations of the minimum external debt of the authority according to probable, not simply possible, events.

The above two indicators are required to be monitored daily as part of Treasury Management function and if any breach of the limits is likely, the County Finance Officer will report this to Executive.

- Upper Limit on fixed interest rate exposures.
- Upper Limit on variable interest rate exposures.
- Upper and Lower Limits for maturity structure of borrowing.
- Limit for principal sums invested in periods longer than 364 days.

3.02 Annual Investment Strategy

The Policy Statement includes the requirements of WAG to document an Annual Investment Strategy as follows:-

- Specified Investments - investments offering high security and high liquidity.
- Non-specified Investments - investments with greater potential risk.
- Investments which can be prudently committed for more than one year.

3.03 External Fund Managers

The performance of external cash managers is monitored by Sterling Consultancy Services and if it is considered appropriate in the future to appoint such a manager, then a recommendation will be made to Executive.

4.00 LEGISLATIVE REQUIREMENTS

4.01 In accordance with legislation, the Council is required to approve key indicators and limits for both the Prudential Code for Capital Finance and the Annual Investment Strategy as stated in the tables below:

Prudential Code (as per 3.01 above)

Indicator Type	**2007/08 £ million**	**2008/09 £ million**	**2009/10 £ million**
Authorised Limit for external debt	176.8	178.7	180.7
Operational Boundary for external debt	174.8	176.7	178.7
Upper Limit on fixed interest rate exposures	100%	100%	100%
Upper Limit on variable interest rate exposures	35%	35%	35%
Implied Boundary of fixed rate exposures	65-100%	65-100%	65-100%
Implied Boundary of variable interest rate exposure	0-35%	0-35%	0-35%

Upper and Lower Limits for maturity structure of borrowing	Lower Limit	Upper Limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	10%	100%

Prudential Limits for principal sums invested in periods longer than 364 days (see Non-Specified Investments) - £40 million

The above limits are recommended for 2007/08,2008/09 and 2009/10.

Annual Investment Strategy (as per 3.02 above)

In accordance with the requirements of the WAG, the Annual Investment Strategy is detailed as follows:-

- Specified Investments

Specified Investments are shown in the table below:

Rating Type	UK & Other Banks	Building Societies	Local Authorities	Money Market Funds	Debt Management Office
Short term	F1+ & F1	F1+, F1 & F2	N/A	AAA	N/A
Long Term	AA+, AA, AA-, A+ & A	AA+, AA, AA-, A+, A & A-	N/A	AAA	N/A
Individual	A, A/B, B, & B/C	A, A/B, B, & B/C	N/A	AAA	N/A
Support	1, 2, 3 & 4	1, 2, 3 & 4	N/A	AAA	N/A
Sector Limit	100%	60%	100%	20%	20%

NB: By definition Specified Investments have a maturity of less than a year.

Ratings are by FITCH IBCA and are updated monthly by Sterling. However, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty.

- Non-Specified Investments

Non specified investments are those outside the definition of specified investments. The limits for these investments are as follows:-

- Non-rated building societies with minimum asset size of £1 billion - 60% of overall investments.
- Deposits greater than 1 year (including forward deals) - £20 million
- External Managers - £20 million

Each specified investment greater than 1 year is approved by the County Finance Officer.

- Liquidity of Investments

  The amounts that can be prudently invested for longer than one year have been ascertained by estimating short term cash flow requirements. The maximum period of an investment will be 5 years.

5.00 RECOMMENDATIONS

5.01 That the Executive recommends that Council approve the key indicators and limits for 2007/08 as set out in 4.00 above,

5.02 That the Executive approves the Treasury Management Policy & Strategy Statement 2007/08.

6.00 FINANCIAL IMPLICATIONS

6.01 None directly.

7.00 POVERTY IMPACT

7.01 None.

8.00 ENVIRONMENTAL IMPACT

8.01 None.

9.00 EQUALITIES IMPACT

9.01 None

10.00 PERSONNEL IMPLICATIONS

10.01 None

11.00 CONSULTATION REQUIRED

11.01 Sterling Consultancy Services

12.00 **CONSULTATION UNDERTAKEN**

12.01 Sterling Consultancy Services

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Appendices

FLINTSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT
POLICY & STRATEGY STATEMENT

2007/08

CONTENTS

1.0 TREASURY MANAGEMENT POLICY STATEMENT

The Council defines the policies and objectives of its treasury management activities as follows: -

1.1 "The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.0 TREASURY STRATEGY STATEMENT

2.1 Introduction

This Treasury Strategy Statement details the expected activities of the Treasury function in 2007/08. Its production and submission to the Executive is a requirement of the Council's Financial Procedure Rules. Its format and structure is that recommended in CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2001 as adopted by County Council from 1st April 2002, the Prudential Code for Capital Finance in Local Authorities from 1st April 2004 and an Annual Investment Strategy as issued by the National Assembly for Wales under section 15 (1) (a) of the Local Government Act 2003

.

The strategy covers:

- Prudential Code for Capital Finance in Local Authorities;
- Annual Investment Strategy
- Current Portfolio Position;
- Treasury Limits for 2007/08;
- Prospects for Interest Rates;
- Capital Finance and Borrowing Portfolio Strategy;
- Temporary Investment Strategy;
- Debt Rescheduling;
- Other Treasury Issues.

2.2 Prudential Code for Capital Finance in Local Authorities

2.2.1 A requirement of the code is to set key indicators and limits as detailed in 2.5.1.

2.2.2 The Prudential System introduced on 1st April 2004 allows local authorities to determine their own levels of affordable borrowing for capital expenditure.

2.2.3 The need to prudentially borrow during 2007/08 and the associated financing of that borrowing will be reviewed in the light of the Capital Programme requirements.

2.3 Annual Investment Strategy

2.3.1 Part 1 of the Local Government Act 2003, which introduced the Prudential Capital Finance System, gives a local authority power to invest for any purposes relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs. The Act requires an authority to ‘have regard to guidance issued by Welsh Assembly Government (WAG)’.

2.3.2 The WAG requires a local authority, before the start of each financial year, to draw up an Annual Investment Strategy which must be approved by the full council. This document should contain certain investment limits. In the case of Flintshire County Council the requirements are incorporated into this Policy Statement. The strategy needs to include investment limits on:

- Specified Investments – investments offering high security and high liquidity
- Non–specified Investments – investments with greater potential risk
- Investments which can be prudently committed for more than one year

2.4 Current Portfolio Position

The Council's treasury portfolio position at 31/03/2007 comprises:

	Type	Principal £m	Sub-total £m	Average Interest Rate %
Fixed Rate Funding	PWLB	154.66		
	Market*	18.95	173.61	5.64**
Variable Rate Funding	PWLB	0.00		
	Market	0.00	0.00	0.00
Total Long Term Debt			**173.61**	**5.64**
Borrowing Requirement	**for 2007/08*****		0.00	

* The above market loans are LOBO's (Lenders Option, Borrowers Option) with a 4 year fixed interest rate period, followed by a 34, 35 and 36 year variable period with an option in the variable period to repay the principal prior to maturity if the interest rate increases. The 4 year fixed interest rate period ceased on 24th January 2006, since when the interest rate has remained at 4.45%. The County Finance Officer under delegated powers will determine whether to prepay or continue the loan should the interest rate increase.

** If any re-structure opportunities are implemented before 31st March 2007, this may impact on the average interest rate as at 31.03.07.

*** Appendix II details the borrowing requirement for 2007/08.

2.5 Key Indicators and Treasury Limits for 2007/08

2.5.1 In accordance with Part 1 of the Local Government Act, 2003, the key indicators recommended to be set by full Council are as follows :-

Indicator Type	**2007/08 £million**	**2008/09 £million**	**2009/10 £million**
Authorised Limit for external debt	176.8	178.7	180.7
Operational Boundary for External Debt (Lower than authorised limit due to cash flow variations)	174.8	176.7	178.7
Upper Limit on fixed interest rate exposures	100%	100%	100%
Upper Limit on variable interest rate exposures	35%	35%	35%
Implied Boundary of fixed rate exposures	65-100%	65-100%	65-100%
Implied Boundary of variable rate exposures	0-35%	0-35%	0-35%

Upper and Lower Limits for maturity structure of borrowing	Lower Limit	Upper Limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	10%	100%

Prudential limits for principal sums invested in periods longer than 364 days	£ 40 million

The above limits are recommended for 2007/08, 2008/09 and 2009/10.

2.5.2 In accordance with the requirements of the WAG the Annual Investment Strategy is detailed as follows:-

Specified Investments

Specified Investments are shown in the table below:

Rating Type	UK & Other Banks	Building Societies	Local Authorities	Money Markets Funds	Debt Management Office
Short term	F1+ & F1	F1+, F1 & F2	N/A	AAA	N/A
Long Term	AA+, AA, AA-, A+ & A	AA+, AA, AA-, A+, A & A-	N/A	AAA	N/A
Individual	A, A/B, B, & B/C	A, A/B, B, & B/C	N/A	AAA	N/A
Support	1, 2, 3 & 4	1, 2, 3 & 4	N/A	AAA	N/A
Sector Limit	100%	60%	100%	20%	20%

NB: By definition Specified Investments have a maturity of less than a year.

Ratings are by FITCH IBCA and are updated monthly by Sterling. However, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty.

Non Specified Investments

Non specified investments are those outside the definition of specified investments. The limits for these investments are as follows:-

- Non rated building societies with minimum asset size of £1bn - 60% of overall investments

- Deposits greater than 1 year (including forward deals) - £20 million

- External Managers - £20 million

Each non specified investment greater than 1 year is approved by the County Finance Officer.

Liquidity of Investments

The amounts that can be prudently invested for longer than one year have been ascertained by estimating short term cash flow requirements.

The maximum period of an investment will be 5 years.

2.5.3 In addition to the above statutory limits, the following limits are also in place:-

Other Borrowing Limits		Limits
Bank Overdraft Limit		£2 million
Investment Limits		
Counterparty Limit	% of investment portfolio	15%
Country Limit	% of investment portfolio	30%
Counterparty Investment Limit		£5 million
Wholly Owned Subsidiary	Maturity Limit	6 months
De-minimis level of investment		£1 million

2.6 Prospects for UK Interest Rates - Prepared by Sterling Consultancy Services

2.6.1 Sterling Consultancy Services were re-appointed as Treasury Management Consultants for a further 3 years in May 2006 after participating in a tender. They provided the most economically advantageous offer.

2.6.2 The Current Position

The 2006/07 financial year began with the UK base rate at 4.50%. This increased by 0.25% in August, November and January to leave the current base rate at 5.25%

2.6.3 2007/08 Interest Rate Forecast

The Monetary Policy Committee (MPC) managed to surprise the markets for the second time in 2006/07 with an increase to 5.25% in January. Expectations had been for a rise to 5.25% in February with a possible further rise to 5.50% in the first half of 2007. However, the market has possibly overreacted and is now pricing in a rise to 5.75%.

The UK economy currently appears strong. Recent economic indicators suggest a reasonably firm near-term outlook, with the pace of economic growth likely to hold close to its long-term average during the next year. The manufacturing sector has recovered somewhat from a difficult 2005, with the resurgent Eurozone economy providing a ready market. However, a very strong pound has had a detrimental effect on exports and this will probably continue through 2007, with the manufacturing sector unlikely to contribute strongly to growth this year. The service sector has consistently expanded through the second half of 2006 with the rate of expansion increasing as the year finished.

UK headline Consumer Price Index (CPI) has been running above the Bank of England’s 2% inflation target for nine consecutive months, the current peak being 3% in January, with the Bank of England narrowly avoiding having to write a letter to the Chancellor to explain itself publicly as the index hit its highest reading since its creation in 1997. The biggest upward effect on prices last month came from transport costs which were boosted by the increase in fuel duty announced by Gordon Brown in his pre-budget report. Furniture prices also contributed to price pressures as retailers marked up prices before the January sales. It has become apparent in recent months that pricing power has returned to the high street with firms managing to pass on higher costs to consumers which is obviously putting upward pressure on the index.

Consumer demand has so far remained strong irrespective of the greater financial pressure households have found themselves under. Disposable income has been reduced by higher energy bills, interest payments on mortgages and credit cards and taxes. During the Christmas period, sales have remained robust despite forecasts of doom at the start of December. While it has been shown that some high street names have struggled, others, particularly at the luxury end, seem to have prospered as buyers change their spending behaviour for the festive period.

The housing market remains buoyant and has continued to gather steam with conditions seemingly unchecked by the two rate rises last year. However, recent data from the Halifax showed that house prices fell by 1% in December, and was backed up the latest RICS survey signalling the housing market slowed at its fastest pace in more than two years last month in the first clear cut sign that higher rates are cooling the market. The market will be studying the impact of the January increase, the third 0.25% increase in five months, to see whether the rate of demand slows further. It is expected that house price growth will stabilise to around 3 – 4% this year. The expansion of money and credit also remains rapid, with both corporate and personal borrowing running well ahead of the growth in national income.

There are currently two issues facing the MPC. Firstly, they have to control over-target inflation, while secondly, reducing the impact of wage settlements on medium-term CPI. As already mentioned, CPI is well over the target of 2% and has been in excess of this level for some time. The Bank of England's quarterly inflation report in November forecast CPI peaking upwards before falling back to target. Obviously, the forecast has proved to be slightly inaccurate, as it didn't foresee the strength in consumer activity over the Christmas period allowing firms to reduce the effect of discounting and rebuild lost profit margins. CPI may not have peaked and the Bank acted immediately to control this by increasing the Bank Rate to 5.25%. Consumer confidence remains below its long-term average, with deterioration in the outlook for personal finances and this further rate rise should reduce consumer activity throughout the first half of 2007. Firms will have to respond by engaging in promotional activity to stimulate demand.

The second issue is problematic for the MPC as by raising the Base Rate, mortgage rates also increase which affects the Retail Price Index upwards. This index is generally used as a benchmark in wage negotiations and could lead to average earnings exceeding the 4.5% MPC comfort zone. Employees have seen their purchasing power reduce through higher bills and inflation and will seek to re-establish some parity. The MPC is hoping that the show of strength by raising the base twice in the last three months will make employers think twice before awarding exuberant pay awards. This should keep pay growth muted, but there have been signs of earnings on the increase.

Although the market is pricing in another two further increases to 5.75%, a further short sharp shock in February should do enough to keep prices in line if it has the desired effect on consumer activity. After what seems to be excess over the Christmas period, the country will start paying for its debt in the New Year, which may lead to large numbers of personal insolvencies and repossessions. Although there will be some pressure on wage growth, earnings are unlikely to exceed the 4.5% level as firms will be aware that it is unlikely they will be able to pass any higher costs onto a struggling UK public.

Consumer demand will drop off in 2007, reducing high street inflation and so reducing the chances of firms being able to pass on higher wage costs to the public. This should bring inflation back towards target while at the same time cooling growth. Rates will be cut throughout the next two years as the economy cools and inflation falls.

2.6.4 Risks to the Forecast

There is an upside risk to Sterling's forecast and that is the behaviour of the UK consumer. As already mentioned, demand seems to have been strong despite the muted pay growth and high inflation in certain areas. If this demand continues to be strong, firms will find that they can still pass on costs to consumers, which could mean higher wage settlements. If this situation begins to unfold the Bank will display no hesitation in increasing again, most likely around the time of the May quarterly inflation report, after they have had the time to digest the impact of the pay rounds clustered in the early months of the year.

2.6.5 Summary

In summary, Sterling's view is that interest rates will stay at 5.25% until mid 2007, when they will increase to 5.50%, then begin to decrease at the end of 2007. Longer term interest rates are shown in the table below –

	Base Rate (%)
Current	5.25
Jun-07	5.50
Dec-07	5.25
Mar-08	5.00
Jun-08	4.75
Dec-08	4.50
Jun-09	4.25

2.7 Capital Finance and the Borrowing Portfolio Strategy

2.7.1 Capital Finance

To maximise the use of Unhypothecated Supported Borrowing, usable capital receipts, capital grants and the use of finance and operating leases.

2.7.2 Borrowing Portfolio Strategy

- To manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in 2.5.1. Appendix III analyses the debt portfolio of the Council, as at 1st April, 2007.

- To effect borrowing, if required in 2007/08 at the cheapest cost commensurate with future risk based on interest rate forecasts outlined in 2.6 above.

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in 2.5.1.

2.7.3 The County Finance Officer will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions to Executive.

2.8 Investment Strategy

2.8.1 Investments will be made in accordance with the Guidance on Local Government Investments issued by the National Assembly for Wales under section 15(1)(a) of the Local Government Act 2003, and with the institutions identified in the authorised lending list. Investments will be made with the aim of meeting cash flow requirements whilst achieving a level of return greater than would be secured by internal investment and maintaining capital security and policy flexibility.

2.8.2 The performance of external cash managers is monitored by Sterling Consultancy Services and if it is considered appropriate in the future to appoint such a manager, this will be reported to the Executive for approval.

2.9 Debt Rescheduling

2.9.1 The County Finance Officer will keep under review, along with its Treasury Consultants, the opportunities which may arise for restructuring the Council's debt in order to take advantage of potential savings as interest rates change and to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility). Any actions carried out under delegated powers will be reported to the Executive and County Council as appropriate.

2.10 SORP 2007

2.10.1 There are significant changes proposed in light of the introduction of Financial Reporting Standards 25, 26 and 29 (Presentation, Disclosure and Measurement of Financial Assets and Liabilities) due to be incorporated within the 2007/08 SORP and to take effect from 1st April 2007.

2.10.2 The majority of the changes will have little effect in terms of both debt and investments. The only real issues are with regard to the measurement of investments affecting local authorities with external fund managers or those that deal directly in gilts, Certificate of Deposits (CD's), corporate bonds and supranationals. On the debt side, the issue relates to the measurement of stepped loans/LOBO's.

2.10.3 The more serious ramifications from a treasury management viewpoint are with the proposed changes to accounting for premiums. The proposed changes set out that, following a restructuring exercise, if the replacement loan does not meet preset criteria it will have to be written to revenue in the year the restructuring takes place. This will prevent local authorities from undertaking debt restructuring due to the effect this would have on sound financial management and subsequently core service provision.

2.10.4 However, WAG has now put forward proposals in order to override the negative impact of the SORP in the treatment of discounts and premiums. If a new loan taken for restructuring does not meet the preset criteria as set out in the SORP, then the premium can still be written over the greater of the remaining length of the restructured loan or the length of the new loan, according to a formula outlined in the guidelines. The maximum length discounts can be written over is ten years.

2.10.5 The outcome of the proposals already referred to in 2.10.3 and 2.10.4 will be the subject of a separate report to Executive.

2.11 Other Treasury Issues

2.11.1 Treasury Management Practices (TMPs)

As part of the compliance with CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2001, the following TMPs have been documented:-

TMP 1	Treasury risk management
TMP 2	Best value and performance measurement
TMP 3	Decision - making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money laundering
TMP 10	Staff training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

3.0 CONCLUSION

The treasury management strategy for 2007/08 has been reviewed but remains relatively unchanged from 2006/07. The 2006/07 Outturn Report to Executive will provide performance details but CIPFA benchmarking figures for the 6 months to September 2006 show upper-decile performance.

The new accounting SORP 2007 is being addressed by WAG. The outcome of the proposals already referred to in 2.10.3 and 2.10.4 will be the subject of a separate report to Executive.

Borrowing Requirement 2007/08

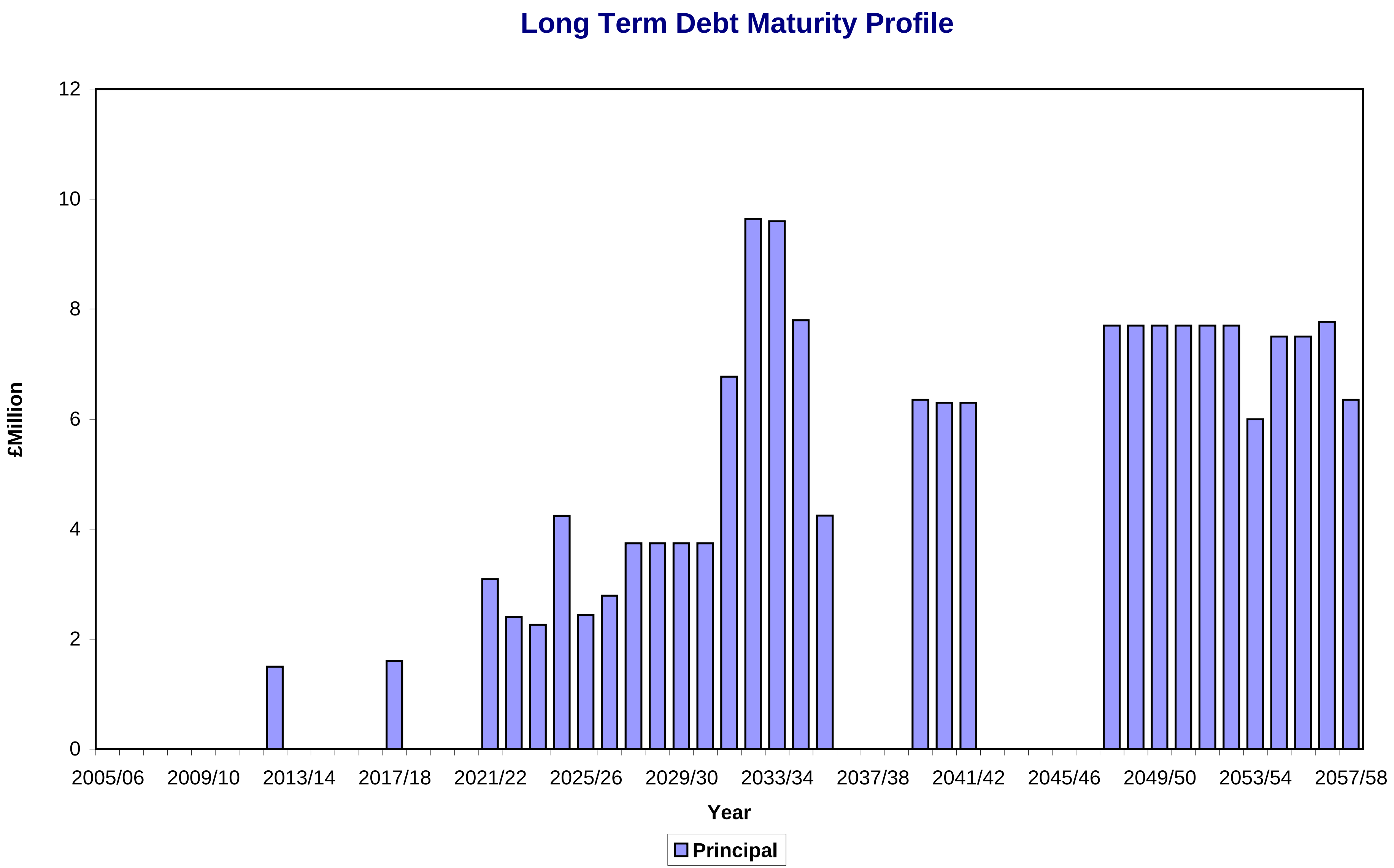
It is estimated that the Council will not need to borrow during 2007/08 to fund capital finance activities. This is analysed as follows:-

	£m	£m
Maturing Debt	0.00	
Unhypothecated Supported Borrowing (net)	7.77	
Provision for financing Vehicles, IT and various other equipment	1.00	
Sub-total		8.77
Less		
- CRPCS	6.12	
- CRSA	3.45	
Sub-total		9.57
Borrowing Requirement 2007/08		0.00

KEY :

CRPCS	=	Charges to Revenue for Past Capital Spend
CRSA	=	Capital Receipts Set Aside

At the Council Tax setting meeting of the Council, it is intended that sufficient reserves will be identified to meet the revenue expenditure for 2007/08. Whilst there may be timing differences between the receipt of income and incurring of expenditure, the Council expects its revenue budget, in cash flow terms, to be self-financing.



Long Term Debt Maturity Profile
£Million
0
2
4
6
8
10
12
2005/06
2009/10
2013/14
2017/18
2021/22
2025/26
2029/30
2033/34
2037/38
2041/42
2045/46
2049/50
2053/54
2057/58
Year
Principal

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 8

REPORT TO: **SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL**

DATE : **01 MARCH 2007**

REPORT BY: **COUNTY FINANCE OFFICER**

SUBJECT : **GENERAL FUND BUDGET 2007/08**

1.00 PURPOSE OF REPORT

1.01 To present to Council the recommendations of the Executive in relation to the General Fund Budget 2007/08.

2.00 BACKGROUND

2.01 At its meeting on 13th February, 2007, the Executive considered a report from the County Finance Officer on the General Fund Budget 2007/08.

3.00 CONSIDERATIONS

3.01 The recommendations of the Executive to County Council are set out in Section 7.00 of the report. (Appendix A).

4.00 SCHOOLS' BUDGET

4.01 Section 4.00 of the Appendix makes reference to the comparison between the proposed Education budget (Net Revenue Expenditure [NRE]) and the Education Indicator Based Assessment (IBA). This comparison comes as a direct result of the new requirement for local authorities to report to their School Budget Forum, their full Council and the Assembly Government if they set a budget different from their IBA.

4.02 This comparison shows that the proposed Education budget represents 96.8% of the IBA, a variance of £3.207m. In calculating that budget:

(a) all pressure bids have been incorporated;
(b) no savings have been assumed, other than demographic change;
(c) price inflation has been included at 2.7% compared to 1.95% for all other budgets;
(d) efficiency savings in the Settlement (0.3%) have not been applied.

4.03 It is also pertinent to note that the IBA is based upon historical spending patterns rather than need and for this reason has never before been seen as a spending target. Its sole function has been for the purposes of grant distribution.

4.04 Executive, therefore, recommends a budget which includes an amount for Schools that is considered reasonable in overall terms.

4.05 However, in recognition of the issues raised during the comparison of NRE and IBA, and particularly the absence of an assessment of actual need within Flintshire, Executive has established and Officer Task and Finish Group to undertake a detailed analysis (see Recommendation 7.01(k) in Appendix A).

4.06 Sections 4.01 - 4.05 will form the basis of the report to be submitted to the Assembly Government and the Schools' Budget Forum.

5.00 RECOMMENDATIONS

5.01 Council is requested to agree the recommendations of the Executive.

5.02 Council is also requested to note the issues relating to the Schools' Budget (Sections 4.01 - 4.05) and agree to those issues forming the basis of a report to the Assembly Government and the Schools' Budget Forum. That report will also be sent to all Members of the Council.

6.00 FINANCIAL IMPLICATIONS

6.01 As set out in the report.

7.00 ANTI-POVERTY IMPACT

7.01 Individual growth and savings items may have specific anti-poverty impacts.

8.00 ENVIRONMENTAL IMPACT

8.01 Individual growth and savings items may have specific environmental impacts.

9.00 EQUALITIES IMPACT

9.01 Individual growth and savings items may have specific equalities impacts.

10.00 PERSONNEL IMPLICATIONS

10.01 Individual growth and savings items may have specific personnel impacts.

11.00 CONSULTATION REQUIRED

11.01 Overview and Scrutiny, Business Ratepayers, School Budget Forum, Trade Unions, Executive Members and Directors.

12.00 CONSULTATION UNDERTAKEN

12.01 Overview and Scrutiny, Business Ratepayers, School Budget Forum, Trade Unions, Executive Members and Directors.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

2007/08 Budget Working Papers

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FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 9

REPORT TO:	**SPECIAL MEETING OF THE FLINTSHIRE COUNTY COUNCIL**
DATE :	**01 MARCH 2007**
REPORT BY:	**RETURNING OFFICER**
SUBJECT :	**COUNTY COUNCIL BY-ELECTION - PENYFFORDD ELECTORAL DIVISION**

1.00 PURPOSE OF REPORT

1.01 To advise Members of the outcome of the By-Election for the Penyffordd Electoral Division held on 15 February 2007.

2.00 BACKGROUND

2.01 The vacancy for the Penyffordd Electoral Division was caused by the death of Councillor Derek Darlington and the votes cast were as follows in a turnout of 33.5%.

ARMSTRONG-BRAUN	Klaus	38
GALLAGHER	William Edmund	203
HINDS	Cynthia	271
WEAVER	Dallus Mark	53
WILLIAMS	David Trevor Mostyn	304
WILLIAMS	Gordon Rhys	88

2.02 David Trevor Mostyn Williams was duly elected and signed the Declaration of Acceptance of Office as a Councillor in the presence of the County Legal & Democratic Services Officer on 16 February 2007.

3.00 CONSIDERATIONS

3.01 None.

4.00 RECOMMENDATIONS

4.01 Members are requested to note the Election of a Councillor to fill the vacancy in the Penyffordd Electoral Division.

5.00 FINANCIAL IMPLICATIONS

5.01 None as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 All Council Departments advised of the election of the new Member.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

None

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