

**RESOURCES SCRUTINY COMMITTEE  
18TH SEPTEMBER 2008**

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**FINANCIAL MANAGEMENT – BUDGET, COUNCIL TAX & TREASURY  
MANAGEMENT**

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**SUMMARY REPORT****Purpose of the Report**

1. To provide Members of Resources Scrutiny Committee with information regarding some of the Council's key financial management activities. This report and a presentation to the Committee aim to help Members to fulfil their scrutiny role by promoting discussion and understanding of those activities. They follow a suggestion made by Members at an earlier training event.

**Summary**

2. This Committee is responsible for scrutinising issues relating to the management of Human Resources, Contracts, Land and Property, and Finance. Under the Budget and Policy Procedure Rules, the Committee has specific responsibility to examine Cabinet's proposals in relation to the Council's budget.
3. The Council's budget and related financial management arrangements reflect the fact that it is a large and complex organisation. As a unitary authority, the Council is responsible for a very diverse range of services and receives funding from a variety of sources. Technical terminology, which can make financial management more difficult to understand, is highlighted in bold italics in this report, to try to help demystify some of the language of local government finance. This report and accompanying presentation aim to assist scrutiny of the arrangements relating to:
  - (a) Budget setting
  - (b) Council Tax
  - (c) Treasury Management

**Recommendations**

4. It is recommended that the report and presentation be noted.

**Paul Wildsmith  
Director of Corporate Services**

**Background Papers**

No background papers were used in preparing this report, other than those referred to in the report

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S17 Crime and Disorder	There are no Crime and Disorder implications
Health and Well Being	There are no Health and Wellbeing implications
Sustainability	There are no sustainability issues
Diversity	There are no diversity issues
Wards Affected	No specific wards are affected
Groups Affected	No specific groups are affected
Budget and Policy Framework	There is no change to the Budget or Policy Framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	The report and presentation aim to support Members' roles in delivery of the SCS.

## MAIN REPORT

### Information and Analysis

5. The procedure and timetable for setting the budget and Council Tax are largely prescribed in legislation. The Council's Constitution reflects statutory requirements for developing the budget, including that full Council must make these important decisions. Treasury management activities are also closely regulated by legislation and mandatory codes of practice.

### Budget Setting

6. The Council's budget setting procedure is set out in the Budget and Policy Framework Procedure Rules section of the Constitution  
[http://www.darlington.gov.uk/dar\\_public/documents/Corporate%20Services/Democratic/Constitution/Part%203.3%20-%20Budget%20and%20Policy%20Framework%20Procedure%20Rules.pdf](http://www.darlington.gov.uk/dar_public/documents/Corporate%20Services/Democratic/Constitution/Part%203.3%20-%20Budget%20and%20Policy%20Framework%20Procedure%20Rules.pdf)
7. The key features of the Rules affecting this Committees' role in developing the budget are: -
  - (a) Cabinet is required to publish initial proposals for the budget and to refer them to Resources Scrutiny Committee for advice and consideration.
  - (b) This Committee then reports the outcome of its deliberations to Cabinet, which may amend its proposals before submitting them to Council.
  - (c) Only full Council can approve the budget and the subsequent Council Tax.
8. The overall level of financial resources available to the Council is significantly influenced by Government funding, which makes up two-thirds of the annual income. The other third comes from charges and Council Tax, in approximately equal amounts.
9. The Council's spending on services is also largely driven by statutory duties to deliver services, most significantly education and personal social care, though there are many other statutory services.
10. Further details of the funding arrangements and decision-making processes will be included in the accompanying presentation to the Committee.

### Council Tax

11. As one of the most important decisions that the Council makes, directly affecting every household in the Borough, only full Council can set the Council Tax.
12. In practice, tax-setting follows automatically from the budget. The 'mechanics' of the Council Tax calculation are explained in **Appendix 1**. Members may wish to discuss this during the presentation to the Committee.
13. The budgeted Council Tax income for 2008-09 is £37.8M. In addition, £4.8M is collected on behalf of the Police Authority, £2.8M for the Fire Authority and £62,000 for Parish Councils.

## Treasury Management

14. **Treasury management** refers to the activities of
  - (a) Borrowing to finance capital expenditure
  - (b) Investing temporarily surplus money, to earn interest
  - (c) Borrowing to meet short-term cash-flow needs
  - (d) Actively managing previous borrowing.
15. With regard to the very large sums of money involved, and the potential consequences for taxpayers and service users, the treasury management function is governed by legislation and mandatory codes of practice, which require regular reporting to full Council. Three reports each year are made to Cabinet and are scrutinised by this Committee, prior to consideration by full Council.
16. Treasury management involves a balance of risk and return / cost. Extremely rare but very high profile incidents in other organisations have highlighted the need for prudence, particularly where public funds are concerned. The Council's priority is to manage risk then optimise performance.
17. The majority of the Council's capital expenditure is externally funded, through capital grants and '**supported borrowing**'. Central Government gives revenue grants to councils to meet the annual financing costs for capital expenditure paid for by supported borrowing. The borrowing is, however, done by the Council, usually from the **Public Works Loan Board** (PWLB), which is a Government agency.

## Outcome of Consultation

18. Members who attended the Finance Training in the Members' Training Programme in March 2008 suggested that a presentation to resources Scrutiny Committee would be helpful.

## CALCULATING THE COUNCIL TAX

Eight Council Tax '*bands*' and the ratio of tax relating to each band are prescribed in legislation. The relative amount of tax for each band is expressed in 9ths: -

Band	Relative amount of tax for each band
A	6 / 9
B	7 / 9
C	8 / 9
D	9 / 9
E	11 / 9
F	13 / 9
G	15 / 9
H	18 / 9

The starting point for calculating Council Tax is the '*Council Tax Base*'. This is a weighted-average of all of the domestic properties in the Borough. Band A properties, for example, equate to two-thirds of band D properties; Band H equates to two band Ds. This weighting is called '*band D equivalents*'. In Darlington, 47,500 properties represent 34,338.75 band D equivalents. An estimated collection rate of 99% produces a Council Tax Base of 34,013.56 for 2008-09.

The second key figure is the '*Budget Requirement*'. This is the Council's estimated gross expenditure, less its estimated income (including grants for specific services), plus Parish precepts. General Government grants are then deducted from the budget requirement to determine the '*Demand on the Collection Fund*'.

The calculation for 2008-09 is: -

	£M
Gross expenditure	221.559
Less income	-147.119
Add Parish precepts	<u>0.062</u>
Budget requirement	74.502
<i>Less</i>	
Revenue Support Grant (RSG)	-4.474
National Non-Domestic Rate grant (NNDR)	-32.140
<b>Demand on Collection Fund</b>	<b><u>37.888</u></b>

The Demand on the Collection Fund is then divided by the Council Tax Base to arrive at the '*band D Council Tax*' (an adjustment is made to take parish precepts out of the Tax for the rest of the Borough): -

Demand on Collection Fund	<u>£37.888M</u>	
Divided by Council Tax Base	34,013.56	= £1,113.90
Less Parish Council precepts		<u>-£1.81</u>
<b>Borough Council band D Council Tax</b>		<b>£1,112.09</b>

The statutory ratios are then applied to produce the Council Tax for each band.

The Police and Fire authorities make similar calculations to set their *precepts*. This Council is responsible for collecting the Tax for all 3 authorities (and the Parish councils).

The resulting Council Tax for 2008-09 is: -

Band	Darlington Borough Council £	Police Authority Precept £	Fire Authority Precept £	Total Council Tax £
A	741.39	94.98	55.08	891.45
B	864.96	110.81	64.26	1,040.03
C	988.52	126.64	73.44	1,188.60
D	1,112.09	142.47	82.62	1,337.18
E	1,359.22	174.13	100.98	1,634.33
F	1,606.35	205.79	119.34	1,931.48
G	1,853.48	237.45	137.70	2,228.63
H	2,224.18	284.94	165.24	2,674.36

Additional amounts are paid for Parish Councils where separate precepts are levied. These are relatively small, ranging from 25p to £60.22, with an average of about £10 per annum.