

# Corporate Management Committee

Thursday 5 March 2009 7.30pm

Council Chamber  
Runnymede Civic Centre, Addlestone

## Members of the Committee

Councillors J R Furey (Chairman), D R Hamilton (Vice-Chairman), A Alderson, J M Edwards, Mrs L M Gillham, H W V Meares, C J Norman, P I Roberts, P J Waddell and G B Woodger

## AGENDA

### Notes:

- 1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Committee so resolves.
- 2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Administration and Leisure Department, Committee Section, Runnymede Civic Centre, Station Road, Addlestone (Tel Direct Line: 01932 425624). (Email: [john.gurmin@runnymede.gov.uk](mailto:john.gurmin@runnymede.gov.uk)).**
- 3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on [www.runnymede.gov.uk](http://www.runnymede.gov.uk).
- 4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

## **2LIST OF MATTERS FOR CONSIDERATION**

### **PART I**

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b) Confidential Information

(No reports to be considered under this heading)

1. FIRE PRECAUTIONS

The Chairman will read the Fire Precautions which set out the procedures to be followed in the event of fire or other emergency.

2. NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP

3. MINUTES

To confirm and sign the Minutes of the meeting of the Committee held on 5 February 2009. (attached at Appendix 'A').

4. APOLOGIES FOR ABSENCE

5. DECLARATIONS OF INTEREST

If Members have an interest in an item please record the interest on the form circulated with this Agenda and hand it to the Legal Representative or Committee Administrator at the start of the meeting. A supply of the form will also be available from the Committee Administrator at meetings.

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when attending the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must leave the room if the interest is personal and prejudicial.

6. NOMINATIONS FOR THE OFFICES OF MAYOR AND DEPUTY MAYOR FOR 2009/10 (DAL)

In accordance with Standing Order 7, at its last meeting on 5 February 2009, the Committee gave preliminary consideration to candidates for the office of Mayor and Deputy Mayor for 2009/2010 and deferred the issue to this meeting.

The Committee is required to recommend a nomination for the office of Mayor and a nomination for the office of Deputy Mayor to the first Ordinary meeting of the Council in each calendar year and, subject to such nominations being duly approved by the Council, the nominees will be put forward as candidates for the respective offices at the Annual Meeting in the following Municipal Year, provided they are still Members of the Council.

The Committee is therefore asked to consider candidates for the office of Mayor and Deputy Mayor and recommend a nomination for each office for 2009/2010 to the next Ordinary meeting of the Council.

**(TO RECOMMEND)**

Background Papers

Standing Orders of Runnymede Borough Council

7. SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE PLAN (CEO)

1. Purpose of Report

1.1 **To note the final version of “Making a Difference”, the updated Sustainable Community Strategy and Corporate Plan, in advance of the new Comprehensive Area Assessment inspection regime coming into force in 2009/10 (replacing the Comprehensive Performance Assessment).**

2. Background Information

2.1 As previously reported to this Committee, the Best Value/Best Value Performance Indicator regime has been replaced by a new National Performance Framework and new set of National Indicators. Obligations under the new Local Government Public Engagement in Health Act 2007 have required the Council to cooperate with statutory

partners and others in Surrey to create a Surrey wide Local Area Agreement (LAA) with effect from June 2008. In addition, there is a requirement for all Councils to produce a Sustainable Community Strategy (previously the Community Strategy) and this will be used to inform the work associated with the Local Development Framework.

2.2 Against this changing background, a new strategy, planning and performance management framework of Sustainable Community Strategy (and Corporate Plan) and committee-based Service Plans has been produced. This approach was endorsed at Corporate Management Committee on 30 October 2008, and approved by Council on 18 December 2008.

3. Report

3.1 "Making a Difference", the Council's Sustainable Community Strategy and Corporate Plan is attached at Appendix 'B'.

3.2 A full set of the committee-based Service Plans has been made available in the Members' Room. These provide a control document for senior managers and the responsible committees to monitor and review, as well as highlighting where slippage or other difficulties are occurring and appropriate recovery strategies need to be put in place.

4. Legal Implications

4.1 The Local Government and Public Engagement in Health Act 2007 places a duty on local authorities and other prescribed public bodies to cooperate in delivering the County wide LAA targets. Councils are also required to develop a medium term Sustainable Community Strategy.

5. Equality Impact Assessments

5.1 As individual policies, initiatives and service proposals are brought forward, impact assessments will be undertaken. Where appropriate, these will form part of reports to Committees.

6. Resource Implications

6.1 Costs of distribution of the Strategy will be contained within existing budgets.

7. Distribution

7.1 It is proposed to circulate a printed version of the Strategy to partner organisations and to make it available on request. It is also intended to publish it on the Council's website.

**OFFICERS' RECOMMENDATION that -**

**i) subject to final comments and endorsement by the Local Strategic Partnership at its meeting on 16 March 2009, the Committee notes the final form and content of the Sustainable Community Strategy and Corporate Plan; and**

**ii) the Chief Executive Officer, in consultation with the Chairman of the Committee agrees the final version of the Strategy for the purpose of publication.**

**(TO RESOLVE)**

Background Papers

Committee-based Service Plans

8. CONSTITUTION - ANNUAL REVIEW (DAL)

Officers will shortly embark on the annual review of the Constitution. Apart from the usual updating and adjustments, Members may wish to consider whether Officers should include the following matters:

- Whether the provisions for questions at Council meetings could be made more flexible so that the character could be more akin to Parliamentary questions. This could involve reducing the notice period for a question and allowing more scope for supplementaries although, as with the House of Commons, the asking of a question should not be turned into an alternative method of starting a full debate.
- Reviewing the Terms of Reference and the names of the Policy Committees and the Review Board.
- The introduction of additional provisions in Standing Orders for Contracts to ensure that duties under equalities legislation are addressed.

Comments on these or other matters would be welcomed. A further report will then be made to the Committee, or, if it so wishes, the Committee may ask the Local Government Act Member Working Group to receive a report on any proposed changes before submitting them for formal adoption.

**THE COMMITTEE IS ASKED -**

- i) whether it wishes to offer any observations on the matters to be included in the review of the Constitution for 2009; and**
- ii) whether it wishes to instruct that a report be made to the Local Government Act Member Working Group before formal proposals are brought back.**

**(TO RESOLVE)**

Background Papers

None.

9. MEMBERS' ALLOWANCES – CHAIRMAN OF STANDARDS AND AUDIT COMMITTEE AND MEMBERSHIP OF ADVISORY PANEL (DAL)

1. Purpose of Report

**To propose an adjustment to the allowance payable to the Chairman of the Standards and Audit Committee, and to confirm the membership of the Independent Remuneration Panel on Members' Allowances.**

2. Background Information

2.1 The Council is obliged to maintain a Scheme of Allowances for Members and co-opted Members which accords with the Local Authority (Members' Allowances) (England) Regulations 2003. The current scheme will expire at the end of March 2010 and is to be reviewed in the Autumn of 2009.

2.2 The Council must establish an Independent Remuneration Panel of at least three Members, none of whom is a Member of the Authority. Before making or amending any scheme for Members' Allowances, the Council must have regard to the recommendations of the Independent Remuneration Panel.

3. The Chairman of the Standards and Audit Committee

3.1 The present scheme was established when the Chairman of the Standards and Audit Committee was an elected Member. As such, he or she was entitled to the basic Members' Allowance of £2,335 in the current year, together with a Special Responsibility Allowance of £779. However, with effect from May last year, as a result of the Local Government and Public Involvement in Health Act 2007, the Standards and Audit

Committee has to be chaired by one of the independent Members (non Councillors specially appointed to the Committee following public advertisement).

- 3.2 Independent Members of the Standards and Audit Committee are treated as "co-optees" under the scheme of Members' Allowances. The Co-optees Allowance in the current year is £291.
- 3.3 When the 2003 Regulations were made, it is doubtful that it was envisaged that a co-optee would be Chairman of a Committee. However it appears inequitable, particularly given the expanding responsibilities of the Standards and Audit Committee, that the Chairman should receive less for his or her Chairmanship than an elected Member holding the same office. Accordingly, Officers have consulted the Independent Remuneration Panel on a proposal that the Co-optees Allowance for the Chairman of the Standards and Audit Committee be increased by £779, so that he would receive this in addition to the £291 normally paid to a co-optee. The Independent Remuneration Panel is prepared to recommend this proposal to the Authority, pending the larger scale review of the scheme due next Autumn.
- 3.4 The 2003 Regulations make specific provision for co-optees who chair overview and scrutiny committees, but not those who chair Standards Committees. In the case of the former, the allowance payable to the co-optee is not to be less than the Special Responsibility Allowance which would be paid to an elected Member chairing any other Committee or Sub-Committee. However, Officers believe that the Regulations do not prevent a similar approach being taken for the Chairman of a Standards Committee, and it is known that other authorities have done this.
- 3.5 It is recommended that the Co-optee's Allowance for the Chairman of the Standards and Audit Committee be increased accordingly.
4. Independent Remuneration Panel
  - 4.1 As mentioned above, it will be necessary to review the scheme in the coming Autumn.
  - 4.2 The present Members of the Independent Remuneration Panel have been drawn from the local voluntary sector, a residents group, and the local business community. They are respectively Mr Arthur Birkby, Mr Chris Fisher, and Mr Mark Adams.
  - 4.3 Subject to their willingness to continue, it is suggested that the Council confirms that it is content with the membership of the Independent Remuneration Panel for the next review of the scheme.
5. Resource Implications
  - 5.1 The effect of the recommendation in relation to the Chairman of the Standards and Audit Committee is to increase expenditure by £779 in the current financial year and in 2009/10. This can be met from within existing resources.

**OFFICERS' RECOMMENDATION that -**

- i) the Co-optee's Allowance payable to the Chairman of the Standards and Audit Committee be increased by £779 with immediate effect;**
- ii) an ex-gratia payment be made to the Chairman of the Standards and Audit Committee to place him in the same position as if the revised allowance had applied from the beginning of the Municipal Year; and**
- iii) the current membership of the Independent Remuneration Panel be approved for the next review, subject to a further report being made if any of the current Members wish to retire from the Panel before then.**

**(TO RECOMMEND)**

Background Papers:

Exempt

10. NATIONAL INDICATORS – 2008/09 – THIRD QUARTER PROGRESS REPORT (CEO)

To follow.

11. PRIORITY INDICATORS OF PERFORMANCE 2008/09 – THIRD QUARTER PROGRESS REPORT (CEO)

To follow.

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS): IMPLICATIONS FOR THE COUNCIL (DF)

**1. Purpose of Report**

- i) To inform Members of the proposals for the implementation of International Financial Reporting Standards (IFRS) to local authority accounting,**
- ii) To set out the implications for the accounting of the Council's income and expenditure and assets and liabilities,**
- iii) To explain how developing standards and interpretations generally impact on accounting treatments adopted by the Council for management accounting, and capital expenditure and receipts;**
- iv) To explain the accounting entries required in 2009/10 to recognise the occupation of the Civic Centre by the Surrey Police Authority; and**
- v) To explain the potential resource implications and how Officers propose to deal with these.**

**2. Background Information**

- 2.1 The principal statements of the accounting practices applicable to local authority accounts are:

- The *Code of Practice for Local Authority Accounting in the United Kingdom 2008* (the Code) and associated guidance. This is a comprehensive statement of the structure of local authority statements of accounts, and the accounting concepts, accounting policies and estimation techniques to be applied in preparing them.
- The *Best Value Accounting Code of Practice*. This sets out a mandatory service analysis for local authorities and a definition of "total cost" to be used in reporting service expenditure.

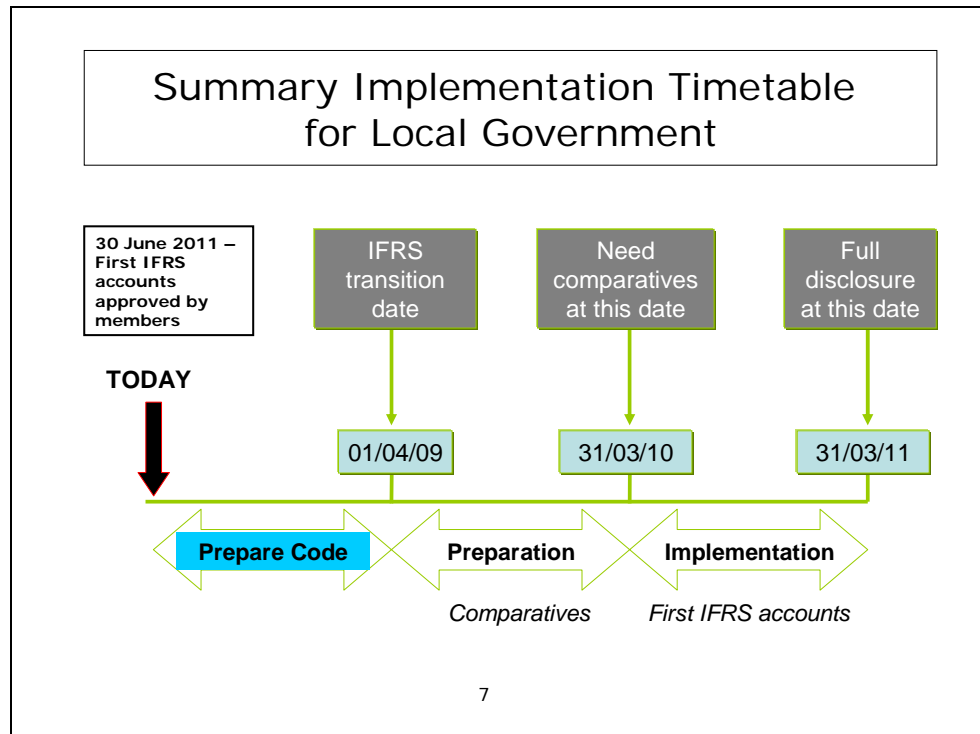
- 2.2 In England and Wales, both Codes constitute 'proper practices' under the terms of section 21 of the Local Government Act 2003. The Code is amended annually for changes in statute and accounting practice. Various other statutory provisions also effect the preparation of local authority accounts. The form and content of some accounts such as the Housing Revenue Account and Collection Fund are closely regulated by legislation.

- 2.3 The Code is developed by CIPFA/LASAAC, which is a standing committee of Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority Scotland Accounts Advisory Committee (LASAAC). It has been recognised by the UK Accounting Standards Board for the purpose of issuing Statements of Recommended Practice (SORPs). SORPs provide specific accounting guidance for sectors that have special accounting or financial reporting issues that require the clarification or interpretation of accounting standards.

- 2.4 In recent years there has been a drive to make public sector accounts generally more compliant with what is termed "Generally Accepted Accounting Practices" ("UK GAAP"). There is no precise definition of this term, but it is taken as a reference to the accounting practices regarded as permissible by the accounting profession. Recent Codes have introduced practices to steadily make local authority financial statements more compliant with UK GAAP.
- 2.5 There are some basic features relating to accounting for the Council's income and expenditure and assets and liabilities. These are summarised as follows:
- Financial statements are prepared on the accrual basis (matching principle) of accounting. This means that income and expenditure is recognised in the accounts when the event leading to the right to receive the income, or liability to pay expenditure, happens. Recognition is not dependent on the actual receipt or payment of cash, although the amounts due are of course recognised in the balance sheet.
  - Financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.
  - Assets and liabilities are recognised in the balance sheet in accordance with the requirements of accounting standards.
  - Statutory requirements override the requirements of accounting standards. There are a number of instances where this applies to the accounts of local authorities.
3. International Financial Reporting Standards
- 3.1 International Financial Reporting Standards (IFRS) aim to "*harmonise financial reporting in a world of cross-border trade and investment, and increased globalisation*". IFRS has been adopted by both the Australian and New Zealand public sectors. More generally, the term IFRS refers to the international equivalent to UK GAAP.
- 3.2 The international standard setting bodies are:
- The International Accounting Standards Board (IASB) which is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees (IASB Foundation) who are accountable to the public interest (website at [www.iasb.org.uk](http://www.iasb.org.uk)).
  - The International Financial Reporting Interpretations Committee (IFRIC) which is the IASB's interpretative committee, fulfilling a similar role under IFRS to that performed by the Urgent Issues Task Force in the UK.
- 3.3 There is much in common between UK GAAP and IFRS. For instance, the UK GAAP requirements for accounting for financial instruments (adopted by local authorities in 2007/08) are very similar to IFRS requirements. However, there are also areas of considerable change.
- 3.4 There is a whole new terminology associated with IFRS. The main change is that the Financial Reporting Standards (FRS) used under UK GAAP will be replaced by International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). These are supported by interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). A list of the current IFRS and IAS is presented at Appendix 'C' for information.
- 3.5 Listed entities in the UK private sector adopted IFRS in 2005. Experience shows that considerable effort was needed to convert to this new regime for public limited companies. When listed companies implemented IFRS, the average length of financial statements increased by 60%. This was because IFRS places a lot of emphasis on disclosures in the notes to the accounts. This, of course, means more work in preparing and auditing the accounts.
- 3.6 It was announced in the 2007 Budget that Whole of Government Accounts from 2008/09 will be based on the provisions of International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The Chancellor's Budget report, published in

March 2008, announced the Treasury's decision to defer the implementation of international financial reporting standards to 2009/10. Central Government and the NHS will all need to adopt IFRS within the same timetable. Local authorities will begin reporting on an IFRS basis in the following year, 2010/11.

3.7 The implementation timetable for local Government is illustrated in the following diagram:



- 3.8 The impact of IFRS on public sector organisations will vary. UK GAAP and IFRS have many similarities. Local authorities have already taken significant steps towards IFRS, particularly with the introduction of the UK versions of the IFRS-based financial instruments standards in their 2007/08 accounts. However, the treatment of leases and private finance initiative (PFI) schemes could introduce material changes for some local authorities. There are also a number of technical issues that will need to be resolved. There will be an increased number of disclosures required by IFRS.
- 3.9 There is debate on whether IFRS is appropriate for local authorities as they are designed to produce what the IASB calls "decision-useful information". This is defined as the information that investors, whom the IASB regard as sole users of accounts, need to decide whether to buy or sell shares in an entity. This is why IFRS focus on changes in balance sheet value. It is difficult to reconcile this emphasis with the financial (and taxation) framework that applies to local authorities, and there is concern that IFRS standards are therefore simply inappropriate for local authorities. Delivery of the Government's commitment to IFRS raises a range of specific issues for local authorities, the most important of which is the need to avoid any adverse impact on Council Tax.
- 3.10 In January 2008, the CIPFA/LASAAC Local Authority SORP Board announced its decision to implement International Financial Reporting Standards in the Code from 2010/11. CIPFA/LASAAC has also announced that the Code for 2010/11 will be prepared under the oversight of the Financial Reporting Advisory Board (FRAB) rather than the UK Accounting Standards Board as for previous years. FRAB was established in 1996 to act as an independent review in the process of setting accounting standards for Government during the development of resource accounting. The role of the Board was given statutory footing by the Government Resources and Accounts Act 2000, which requires the Treasury to consult on financial reporting principles and standards and this new governance framework. This new governance framework formalises a common accounting standards setting hierarchy across most of the UK public sector.

#### 4. External Audit

- 4.1 The Council's external auditors, KPMG, set out their interpretation of the challenges raised by implementing IFRS in their Annual External Audit report 2007/08.
- 4.2 Based on their experience of assisting companies and other public sector bodies with their IFRS conversion, KPMG recommend that the Authority should aim, by 31 March 2009, to have:
- Established a project team for the IFRS transition process:
  - Reviewed which standards will have the biggest impact and which will be the most complex;
  - Completed the information-gathering stage; for example, gathering the information on all leased assets in order to review whether they are finance or operating leases; and
  - Engaged the external audit team with the process and have discussed the key changes likely as part of the conversion.
- 4.3 KPMG state that all local authorities will need, as of 1 April 2009, to have begun this transition with the preparation of an IFRS compliant balance sheet. This is to capture the information needed in a timely manner and identify potential problem areas at an early stage. More realistically, this work can be left until later in 2009, when more time is available and further local authority specific guidance on the implementation of IFRS has been issued.
- 4.4 KPMG also state that the Authority will need to give early consideration to the following issues:
- Review of all current leases to determine whether they should be classified as operating or finance leases in accordance with IAS 17. This may present challenges if original documentation for longstanding leases cannot be located:
  - Determination of the monetary value of unused employee benefits for all staff at the end of the fiscal year to account for the employee benefits accrual in accordance with IAS 38.
  - Confirmation of previous review of all contracts to ensure appropriate disclosure of any embedded derivatives.
- 4.5 KPMG state that, given the breadth of the changes which transition to IFRS will bring, the Authority should engage early with these changes and ensure that sufficient capacity is in place to address each area. Whilst IFRS is being introduced to local Government later than in other areas of the public sector, the intervening period must be used wisely if some of the problems experienced by companies in moving to IFRS are to be avoided.
- 4.6 In December 2008, the Audit Commission issued its "*Work programme and scales of fees 2009/10 and indicative fee proposals 2010/11 and 2011/12*". The publication stated that the transition to IFRS will increase auditors' work, particularly in the first year when local authorities will need to restate their previous year's accounts on the new basis to provide prior year comparatives. This will result in a real additional increase in audit fees of 6% in 2010/11 and a net ongoing 3% in subsequent years. This would increase the basic audit fee by £5,600 in 2010/11 and £2,800 a year thereafter.
- 4.7 On 5 February 2009, the Audit Commission announced that it is to use savings from its efficiency programme to help Councils with the cost of moving to the IFRS. The package is designed to cover the transitional costs (i.e. the additional 3% in 2010/11) of moving to the new standard which the Government requires of all public bodies. It will be funded from reductions in the cost of the Commission's operations.

#### 5. Accounting changes introduced by IFRS

- 5.1 The main accounting changes introduced by IFRS are:

- First time adoption and presentation: IFRS1 applies when an entity adopts IFRS for the first time. IAS 1 sets out the requirements for presentation of financial statements (see paragraphs 5.2 to 5.5).
- Leases: The requirements of IAS17 and IFRIC4 are extensive (see paragraphs 5.6 to 5.11).
- Fixed assets: IFRS includes a number of standards on accounting for fixed assets. These deal with accounting for property valuation and revaluations, component accounting and depreciation, impairments, and assets held for sale. There are a number of differences between UK GAAP and IFRS requirements (see paragraphs 5.12 to 5.17).
- Segmental reporting (see paragraph 5.18).
- Public Finance Initiative (PFI) accounting: This is the change that has promoted the most headlines. Thankfully, Runnymede has not participated in PFI deals. For the Government, the introduction of IFRS is expected to require significant assets and liabilities to be disclosed in respect of past PFI deals.
- Employee Benefits: IAS 19 requires organisations to account fully for benefits during employment. This includes accounting for accrued holiday and other benefits as at 31 March. UK GAAP allows such accounting treatments and, therefore, it is Officers' intention to fully accrue for holiday accrued and other significant employment costs accrued at 31 March 2009 in the 2008/09 financial statements. Staff have a leave year based on the date that they commenced employment with the Council. This means that the value of leave earned, but not yet taken, at 31 March could be a considerable sum. This would need to be recognised in the 2008/09 accounts and revenue reserves would have to be reduced accordingly.

#### Implementation and Presentation (IFRS 1 and IAS 1)

- 5.2 The starting point for introducing IFRS is, unsurprisingly, IFRS 1 entitled "*First-time Adoption of International Financial Reporting Standards*". IFRS 1 requires organisations that adopt IFRS to restate the accounts for the previous year to an IFRS compliant basis. This means that for 2010/11 financial year (the first year of adopting IFRS), the accounts for 2009/10 will need to be restated. This, in turn, means that the balance sheet at 1 April 2009 will need to be restated on an IFRS basis (i.e. as if the Council had always applied IFRS). IFRS 1 sets out extensive disclosure requirements that require the organisation to set out the changes made. IAS 1 also introduces extensive additional on-going disclosures, for example, more information about judgements made in coming to figures for items such as valuations, bad debts and estimates of amounts owed or owing.
- 5.3 To comply with IAS 1, "*Presentation of Financial Statements*", an entity's [first IFRS financial statements](#) shall include;
- At least three statements of financial position,
  - Two statements of comprehensive income,
  - Two statements of cash flows,
  - Two statements of changes in equity,
  - Related notes, including comparative information.
- 5.4 Extensive reconciliations and explanations of the financial statements prepared under UK GAAP rules with the new IFRS statements will also be required. Taken together, these are the main reasons for the significant increase in the length of the statement of accounts publication of organisations that adopt IFRS for the first time.
- 5.5 The Audit Commission has stated that full retrospective application of IFRS will be required in most cases and authorities should work on that basis.

#### Leases

- 5.6 The transition to IFRS will have significant influence on the way in which local authorities account for leases. Many advisors point to this area being potentially the most problematic, and are very keen to sell their consultancy services to the Council accordingly. However, until proposals are confirmed for local Government, it is not possible to be precise as to the practical implications.
- 5.7 Runnymede Borough Council does not normally purchase assets using leasing. The Council's capital receipt position allows it to pay for assets outright, thereby avoiding having to pay the commercial rates of interest implicit in leasing agreements. Leases are used for purchasing cars, but these fall into the straightforward operating lease category for accounting purposes.
- 5.8 It is in land and property transactions that the major implications arise. On occasions, Runnymede Borough Council has sold assets on a long leasehold basis, typically with the "premium" paid at the time of the sale. The premium has simply been treated as a capital receipt.
- 5.9 This treatment will change. IAS 17 requires that a lease of land and buildings should be split at inception of the lease into a separate lease of land and a lease of buildings. Unless title is expected to pass at the end of the term, leases of land should be treated as operating leases. The building element would be classified as an operating or finance lease as appropriate. This means that leases of buildings are more likely to be classified as finance leases under IAS17. There are a number of rules to follow in determining the correct classification of finance and operating leases.
- 5.10 These rules mean that the accounting treatment of a lease premium received by the Council should an asset be sold on a long-lease could change. Instead of being a straight capital receipt, it will be necessary to identify the elements of the transaction, and then the appropriate accounting treatment of those elements. Such an analysis may mean that certain elements of the lease are treated as revenue income, rather than capital income. The revenue income will (almost always) not be credited to the accounts in the first year, but spread over the life of the lease. This means that a substantial part of a premium is not treated as a capital receipt, but as a deferred revenue receipt to be credited to revenue over a long period of time.
- 5.11 This could be modestly beneficial to the Council. A sale on a long-leasehold could create additional revenue credits (albeit over a long period of time) compared to the present treatment (all capital). It is more advantageous for income to be classified as revenue whenever legislation allows, as revenue can be used to finance all activities whereas use of capital receipts is restricted to financing new capital projects or repaying debt.

#### Fixed Asset Accounting

- 5.12 A major difficulty with using IFRS in local Government is that the standards are intended for use in the commercial world. A large proportion of the fixed assets in the Council's balance sheet, especially land and property assets, are used for activities for which there is little or no comparison in the commercial sector. For instance, Council houses are let on secured tenancies at below market rents, and assets like parks and cemeteries have very few parallels with the assets used in commercial activities. Therefore, the production of understandable and applicable interpretations for local Government of IFRS relating to fixed assets will be a major challenge for FRAB and CIPFA/LAASAC.
- 5.13 There are a number of standards under IFRS for fixed asset accounting. The definition of capital expenditure remains broadly the same under IFRS. The current statutory additions (e.g. capital grants, software, and authority-specific exceptions) are expected to remain, although further additions ("mitigation measures" – see paragraphs 5.20 to 5.22) may be required to avoid unwarranted demands of taxpayers.
- 5.14 IAS 16 introduces new rules for depreciation of fixed assets, including a greater emphasis on recording significant building "components" separately. This could require significant additional work for accountants and valuation staff. Hopefully, auditors will adopt a pragmatic approach to the valuation and depreciation of building components to minimise the extra work arising from this requirement.

- 5.15 Under IAS 40, investment properties are re-valued each year, and the profit or loss recorded in the revenue account. It is probable that the Government will issue Regulations that will require local authorities to reverse out such profits or losses for Council Tax setting purposes. It will also be necessary to identify the Council properties that are defined as investment properties under IAS 40.
- 5.16 The initial cost of a fixed asset is defined as the purchase price, plus directly attributable costs, plus finance costs. The addition of finance costs is new (under IAS 23) and provides the opportunity of adding finance (borrowing and/or interest foregone) costs to a scheme. Although there has not been a restriction under UK GAAP on recognising finance costs, it has not been widely adopted and would be certain to raise the eyebrows of external auditors. There is a potential modest benefit from this new requirement in that capital resources (e.g. capital receipts) could be used to pay for the finance costs, thereby preserving the often more precious revenue reserves.
- 5.17 Other less significant changes introduced by IFRS in respect of accounting for fixed assets include:
- Accounting for impairments: Impairment is a term that has been a growing feature of UK GAAP. Impairment is the reduction in the value of an asset resulting from the consumption of economic benefits or a general fall in prices. The accounting treatment of impairment is complex and depends on the reasons for the impairment, and whether previous gains or losses have been recognised for that asset. IFRS introduces further changes.
  - Accounting for depreciation: IAS 16 on property plant and equipment will change requirements for measuring residual values (at current prices) and useful lives of assets. It is unlikely that these changes will have a significant impact on current depreciation charges. However, the level of detail and review required in coming to a depreciation charge will increase.

#### Segmental Reporting (IFRS 8)

- 5.18 IFRS 8 requires disclosure of information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Reportable segments are components of an entity about which separate financial information is available that is evaluated regularly in deciding how to allocate resources and in assessing performance. There will also be increased disclosures that require the Council to relate income and expenditure results to net assets.
- 5.19 Currently, the Income and Expenditure Account reports on Council activities in accordance with the mandatory service analysis for local authorities set out in the *Best Value Accounting Code of Practice*. As with other elements of IFRS, further guidance is awaited on the precise implications for local authorities of these requirements.

#### Mitigation Measures

- 5.20 The DCLG propose to establish a set of regulations to make sure that, where appropriate, accounting entries arising from IFRS are "reversed out" for the purposes of determining Council Tax and available reserves. A number of such mitigation measures have previously been established as part of the move towards adopting UK GAAP (for example, pension accounting entries made under FRS 17 are reversed out and replaced with the sums determined by the fund actuary).
- 5.21 A new example of this would be for accounting entries relating to investment properties. Under IFRS, profits or losses from the revaluation of investment properties are recognised in the income and expenditure account. This does not accord with the long established principle that capital profits (or losses) cannot be used to subsidise Council Tax. Therefore, regulations are expected that will require local authorities to reverse such entries.

5.22 Not all changes introduced by IFRS will be "reversed out" when the Budget Requirement and Council Tax is calculated. However, the Government will wish to avoid the accusation that technical accounting changes have led to an increase in Council Tax.

6. Other Accounting Issues

Management Accounting Information

6.1 The Audit Commission have stated that organisations that have performed strongly in closing their accounts have a close relationship between their management accounting (used by setting and controlling budgets) and financial accounting systems (used to construct the statement of accounts). This enables those organisations to minimise the year-end workload. This has generally been the practice at Runnymede. However, the changes introduced by adoption of UK GAAP have not always been adopted in the Council's management accounts. Appendix 'D' sets out a schedule that identifies the significant differences between the Council's management accounts (used for budget setting and control purposes) and the Council's UK GAAP compliant statement of accounts.

6.2 It will be necessary to review the changes introduced by IFRS to evaluate whether the accounting entries are suitable for inclusion in the Council's management accounts. The review will look at the relevance of IFRS changes to budget setting and budgetary control, and factors such as facilitating year-on-year comparisons.

Capital Expenditure

6.3 An understanding of what constitutes capital expenditure is fundamental to the proper accounting and associated financing arrangements for capital. Unless expenditure qualifies as capital, it must usually be charged to the revenue account. If expenditure meets the definition of capital expenditure, it can be financed from capital receipts or borrowing.

6.4 There are three routes by which expenditure can qualify as capital:

- The expenditure results in the acquisition, construction or enhancement of fixed assets in accordance with 'proper practices' (i.e. accounting standards, in particular, FRS 15 under UK GAAP and IAS 16 under IFRS)
- The expenditure meets one of the definitions set out in Regulations (e.g. accounting software, grants for capital purposes); and
- The Secretary of State makes a specific direction that the expenditure can be treated as capital expenditure.

6.5 There are grey areas. These have been used in the past to enable a wide range of projects to be treated as capital expenditure. Examples are the capitalisation of a proportion of the 'strategic maintenance programme' and expenses linked with developments (e.g. disturbance allowance paid to tenants decanted from Pinefields prior to the sale of the site).

6.6 However, the rules are being progressively tightened and auditors are adopting a more questioning attitude over the accounting treatment of capital expenditure and income. Examples where accounting treatment has tightened up include:

- Costs of clearing sites prior to selling the site are now expected to be accounted for as revenue items. However, regulations allow the cost of preparing housing land for development to be included in the "capital allowance" used in the housing receipts pooling system. This indicates that costs such as removal and disturbance payments to tenants on housing sites (e.g. Pinefields) can be treated as being financed from capital resources.
- Costs of maintaining sites and site security prior to disposal are now clearly to be treated as revenue items.
- Costs on speculative projects and costs of aborted plans should not be capitalised.

- The rules for expenditure that counts as enhancement of fixed assets are becoming more stringently applied. This may mean that it will not be possible to capitalise a significant proportion of the strategic maintenance programme, thereby increasing the direct charge to revenue.
  - The cost of training staff on new computer systems should not be capitalised.
- 6.7 A stricter definition of what constitutes capital expenditure will inevitably increase the charges to revenue accounts. This means that revenue budgets will need to be created for such items, rather than capital budgets.

#### Capital Receipts

- 6.8 Section 9 of the Local Government Act 2003 defines a capital receipt as "*a sum received by the authority of the disposal of an interest in a capital asset*". This definition is based on the mirror principle for capital expenditure, i.e. if the acquisition of an asset would count as capital expenditure then income from a similar disposal is a capital receipt.
- 6.9 The definition is not based on size; large receipts can be revenue. It also relates to "an interest in a capital asset" and legal advice will be needed in cases where the authority sells rights to use land (e.g. easements) that comprise a disposal of an interest in land. A capital receipt is also recognised when it becomes payable, not when the cash is actually received.
- 6.10 Regulations also prescribe certain receipts as capital receipts (e.g. repayments of loans and grants) and a statutory requirement that capital receipts under £10,000 are credited to revenue.
- 6.11 It is common practice in other parts of the public sector and in the commercial world for the costs of disposing of a fixed asset to be met from the sale proceeds. However, the generally accepted interpretation of statutory arrangements for capital receipts proscribes this treatment. Therefore, the previous practice of deducting disposal costs (e.g. legal fees) from the capital receipt is no longer acceptable. Disposal costs (e.g. legal costs) must be charged to revenue. An exception to this is made for housing sales where, by Regulation, certain costs can be set against the capital receipts.

#### Civic Centre: Surrey Police Authority

- 6.12 The 2009/10 accounts will have to include an appropriate accounting treatment that properly recognises the occupation by Surrey Police of part of the Civic Centre.
- 6.13 The intention of the agreement with Surrey Police was broadly that the proceeds of the sale of the old police station site would be sufficient to pay for their share of the cost of building the Civic Centre and an additional land value. Receipt of these proceeds has been delayed in the current market conditions.
- 6.14 The current position with regard to the Civic Centre and Surrey Police is:
- Runnymede Borough Council has paid for construction of the Civic Centre.
  - Surrey Police Authority has occupied their part of the Civic Centre since early May 2008.
  - A lease agreement has been entered into with Surrey Police for a term of 125 years from 8 August 2008 at a peppercorn rent for the agreed areas of the building and associated parking areas
  - Consideration for the lease is based on a proportion of the build cost (or market value if lower) and a share of the sale proceeds of the site of the old police station. Surrey Police Authority has made no capital contribution to date as the obligation to do so does not arise until their former site is sold.
  - The development agreement with Surrey Police provides that both parties obtain "best value" for the combined sale of the old police station and civic office sites, and that overage provisions may be incorporated into any sale to ensure that the

Council and Police Authority benefit from any uplift in development value of their former sites.

- The development agreement provides for the distribution of surplus sale receipts in the proportion 60% Council, 40% Police should the old police station site be sold for more than the construction costs of the Police element of the new Civic Centre (or 110% of market value if lower).
  - The development agreement provides that if the old police station site is sold for less than the construction cost, Runnymede Borough Council must bear the shortfall.
  - The development agreement provides that the Council may call for the transfer of the old police station site to Council ownership should the site not have been sold within a year of the grant of the lease. The Council would pay the Police Authority their share (if any) when the site is sold, subject to any later overage payments. The Council may call for the land to be transferred to it after 8 August 2009.
- 6.15 These factors combine to present an unusual and unforeseen set of circumstances. The linking of the sale of the old sites to the payment by Surrey Police Authority for their lease of the Civic Centre left a degree of risk (i.e. amount and timing of receipt) with the Council in any case. Now that a sale seems unlikely in the near future, it is not possible to use the cash considerations in the accounting entries.
- 6.16 There is now a significant possibility that the consideration for the lease will be the transfer of the old police station site. This is, in effect, a barter transaction (i.e. a swap of land for the lease). Accounting rules will require recognition of the transaction in the 2008/09 financial year, i.e. the year that the lease was signed, as if it were a cash transaction.
- 6.17 To provide a value for this consideration, it will be necessary to prepare a valuation of the old police station site. This valuation would be for accounting purposes only at this stage.
- 6.18 The accounting entries, using this valuation, would be to recognise a capital receipt in respect of the lease. The sum will not, of course, have been paid to the Council, or the land transferred, at 31 March 2009. Therefore, it would appear in the Council's balance sheet as a debtor (as deferred consideration). The statement of accounts will need to disclose the nature of the accounting entries and, in particular, that the capital receipt has not been received.
- 6.19 It will also be necessary to consider the impact of IAS 17 on this transaction. This is a significant transaction and will have to be accounted for in the opening IFRS compliant balance sheet for 1 April 2009, in accordance with IAS 17. However, the guidance for local authorities on the application of IAS 17 is still at an early stage of development and it is not possible to be precise about the impact on this transaction.
- 6.20 It is Officers' intention to discuss the accounting treatment for these entries with the Council's external auditor in the near future. The proposed accounting treatment will also be discussed with Surrey Police because auditors will expect each party to account for this agreement in a complementary way. It will be necessary to have agreement on the appropriate accounting entries in time for the preparation of the statement of accounts for 2008/09.
7. Resource Implications
- 7.1 In recent years there have been a large number of additional statutory and profession-led disclosures and explanations required to support the Statement of Accounts. The statement for 2007/08 contained 106 pages. By comparison, the statement of accounts for 1999/2000 ran to only 48 pages. The additional disclosures and explanations primarily relate to accounting for capital assets, supporting information for the HRA, pension fund accounting, and the Annual Governance Statement.
- 7.2 The compiling of the Statement of Accounts requires a great deal of concentrated work within the Accountancy Section. The Section traditionally deals with this workload by

planning the production process and involving Budget Managers in the closing process in a positive way. The Section also has the benefit of a stable and experienced staffing complement. However, the burden of adopting UK GAAP (and soon IFRS accounting standards) is becoming difficult to cater for within existing staffing resources. In particular, the concentration of work in the April to June period means that the burden on senior accountancy staff is particularly severe at that time of year. The current internal protocols for compensatory staff leave and/or overtime for the senior staff do not cater for this now routine peak in work, and the section is reliant on staff goodwill to carry out this exercise.

- 7.3 Financial reporting is one of the use of resources (UoR) judgements that assess how well Councils manage and use their financial resources. Runnymede scored 4 out of 4 in this area in 2008. The Audit Commission report that the pace of change in the SORP (arising from implementation of UK GAAP and now IFRS) has caused problems for many authorities. Clearly, Runnymede has more to lose in terms of reputation if the precise requirements of accounting standards and associated controls are not met, and this increases the pressure on accountants.
- 7.4 It has been possible to absorb some of the burden on accountants through using the time saved from the incremental adoption of more efficient working practices and systems. Nevertheless, there has been a real and increasing cost to produce the Council's statutory accounts. Meeting these additional burdens within existing staffing resources will need continued investment in accounting systems. Officers are discussing proposals with the supplier of the Council's accounting software to upgrade the current system with the objective of generating operational efficiencies. A report will be made to this Committee with proposals at the appropriate time.
- 7.5 At the more detailed level, the following practical actions will be taken in respect of the implementation of IFRS:
- Officers will start work as early as possible and spread the burden over the transition period
  - Issues will be discussed with the Council's external auditors and agreement secured on new accounting treatments as early as possible
  - Staff will continue to be trained and kept up-to-date with guidance
- 7.6 However, the approach suggested by KPMG (see section 4 of this report) will be modified to fit the circumstances of Runnymede Borough Council. For instance, the project "team" will simply comprise the senior accountants and the Valuer. Furthermore, the implementation process will be assisted by the fact that the Council has made no PFI deals, has a relatively limited number of leases, a good quality property and associated legal library, and has generally straightforward financial arrangements (e.g. an initial analysis of contracts has so far not identified arrangements that would have to be treated as "embedded derivatives").
- 7.7 At this stage, the greatest burden seems to be in the requirement for greater information about fixed assets and leases, and the associated accounting records and entries. This will require greater input from the Valuer and his team, and this will inevitably take them away from other tasks.
- 7.8 There is no recognition of the additional burden of introducing IFRS in the current grant settlement (covering the 2008/09 to 2010/11 financial years). It is not clear whether the Government will recognise the additional burden of implementing IFRS in grant settlements for 2010/11 onwards.
- 7.9 The cost of IFRS is directly recognised in the increase in the charge made by the external auditor (see section 4 of this report).
8. Conclusions
- 8.1 There is much to commend in adopting accounting standards that are common for all sectors, and are internationally accepted.

- 8.2 However, there is a good argument that the wholesale application of accounting standards intended for use in the commercial world into the public sector is not appropriate. The most significant area of difficulty is the adoption of the requirements for accounting for capital expenditure and income and fixed assets.
- 8.3 There will be a need for an increasing number of "statutory overrides" to convert IFRS statements to the costs chargeable against Government grant and tax, and this will add further complication. The statutory requirement for local authorities to account for revenue and capital activities, overlaid with a complicated set of statutory capital controls, also means that the IFRS statements have no relationship with the amount raised from taxation or the value of capital activities.
- 8.4 It will be important to create the internal resources necessary for the additional workload required for the introduction of IFRS. The work required to obtain the information for the accounting entries for fixed assets and leases is likely to represent the most extensive area of work for accountants and valuation staff. As far as possible, Officers will attempt to absorb the workload within current resources. However, this will inevitably mean less time for other areas of work. It will be necessary to generate efficiencies to absorb this burden effectively in the long-term. Regrettably, the additional fee payable to the external auditor is unavoidable.

**OFFICERS' RECOMMENDATION that -**

**appropriate provision be made in the Financial Forecast for the resources necessary to implement International Financial Reporting Standards.**

**(TO RESOLVE)**

Background Papers

1. A commentary on the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008. DCLG, 28 February 2008 (DF).
  2. Letter from Audit Commission to Chief Executives and Directors of Finance of all audited bodies on the Cost of Transition to International Financial Reporting Standards (IFRS), dated 5 February 2008 (DF).
13. ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2009/10 (DF)  
(Ref: Minutes of Corporate Management Committee, 26 June 2008, page 112, para. 115; and Council, 17 July 2008, page 153, para 140).

1. **Purpose of Report**

**To approve the policy for making a minimum revenue provision in 2009/10.**

2. **Background Information**

- 2.1 When a Council funds capital expenditure by borrowing, the costs are charged to the Council Tax payer in future years, reflecting the long-term use of the assets. There are two elements to this cost – the interest on borrowing is charged in the year it is payable, and the principal (or capital) element is charged as a "minimum revenue provision" (MRP).
- 2.2 Until recently, the amount of MRP to be charged was determined by regulation, although the Council was allowed to make an additional voluntary charge to the revenue account. In 2007/08, the old arrangements were replaced by a general duty for local authorities to determine their own prudent level of MRP.
- 2.3 The Department for Communities and Local Government (DCLG) has issued guidance on what constitutes prudent provision and recommends that local authorities prepare a statement of policy on making a MRP in respect of the forthcoming financial year. The guidance also requires the full Council to approve an annual MRP statement before the start of each financial year.

- 2.4 Local authorities may only borrow for the purposes of financing capital schemes or for short-term cash flow shortages. For many years the Council has financed its capital programme from capital grants and capital receipts, and has not needed to borrow for capital purposes. Therefore, the Council is "debt free". As long as the Council remains debt free the MRP arrangements are of academic interest because it is not necessary to make any charge in the revenue accounts (there being no debt to repay).
- 2.5 The accounting and control arrangements for borrowing for capital purposes are set out in the CIPFA Prudential Code. The amount of borrowing for capital purposes is termed the "capital financing requirement". The report to the previous meeting of this Committee set out the calculation of the capital financing requirement in more detail.
- 2.6 The MRP statement for 2007/08 and 2008/09 was considered by this Committee on 26 June 2008 and approved by Council on 17 July 2008.

### 3. Report

- 3.1 The Regulations require the Council to approve a MRP statement even though it is debt free.
- 3.2 The Council was debt-free on 31st March 2008, and had no underlying need to borrow in accordance with the CIPFA Prudential Code. There are no plans to borrow for capital purposes during 2008/09 or 2009/10, so the Council is expected to remain debt free.
- 3.3 Therefore, the Council does not need to, and does not intend to, make any MRP in the 2009/10 financial year.

### 4 Legal implications

- 4.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 which came into force on 31st March 2008, state:

*" A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."*

### 5. Council Policy

- 5.1 Council policy is to remain debt free.
- 5.2 The Financial Forecast included a statement on revenue reserves and capital receipts that indicated that there would be sufficient capital receipts to fund the capital programme for the following 5 years without recourse to borrowing. However, this is dependent on capital receipts being realised in accordance with the forecast timetable. In particular, if the receipt from the disposal of the former civic offices site is delayed beyond 2010/11, it is likely that the Council will need to borrow to finance its capital programme in 2010/11.

#### **OFFICERS' RECOMMENDATION that –**

**the statement below be adopted by the Council :-**

**as the Council intends to be debt-free, the Council does not need to, and does not intend to, make any MRP in the 2009/10 financial year.**

**(TO RECOMMEND)**

#### Background Papers

1. A commentary on the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008. DCLG, 28 February 2008
14. FINANCIAL MONITORING STATEMENT (DF)

1. **Purpose of Report**
  - 1.1 **To inform the Committee of the latest financial projections for the 2008/09 financial year for corporate and business services.**
2. **Background Information**
  - 2.1 The Financial Monitoring Statement was introduced to all Committees in September 2006 to inform Members of the current financial position of the services under the remit of each Committee.
  - 2.2 Each statement reflects an updated position based upon the probable 2008/09 and the 2009/10 original estimates approved by this Committee in January. The projection in the Financial Forecast approved by Corporate Management Committee on 30 October 2008 has been updated accordingly.
3. **Report**
  - 3.1 The statement at Appendix 'E' is split into three distinct parts:
    - Projected budget and forecast
    - Savings still to be delivered
    - Current year key budget indicators
  - 3.2 The projected budget and forecast sections show any anticipated variations in the current year's budget. These variations are categorised as approved changes and other potential changes. Implications for the following three years are included for completeness so that the full-year effect of any changes can be seen.
  - 3.3 The achievement of the revenue reductions programme approved by the Council is one of the Council's key performance indicators. Savings targets not yet achieved are reported in the second section of each statement. These savings are all incorporated into the projected budget and forecast figures in section one.
  - 3.4 The final section sets out the key budget indicators for the significant areas of this Committee's budget. This indicates the actual income received set against the amount expected (the budget) for the period covered by each statement.

**(FOR INFORMATION)**

Background Papers

None stated.

15. EXCLUSION OF PRESS AND PUBLIC

**OFFICERS' RECOMMENDATION that –**

**the press and public be excluded from the meeting during discussion of the following reports under Section 100A(4) of the Local Government Act 1972 on the grounds that the reports in question would be likely to involve disclosure of exempt information of the description specified in paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act.**

**(TO RESOLVE)**

**PART II**

**Matters involving Exempt or Confidential information in respect of which reports have not been made available for public inspection**

- | a)  | <u>Exempt Information</u>                               | <u>Paras</u> |
|-----|---|--------------|
| 16. | REFERENCE FROM ECONOMIC DEVELOPMENT COMMITTEE (SPECIAL) | 3            |

|     |  |         |
|-----|--|---------|
| 17. | ANNUAL PAY AND WORKFORCE PLAN                              | 1       |
| 18. | LOCAL AND EUROPEAN ELECTIONS JUNE 2009 – RETURNING OFFICER | 1       |
| 19. | APPOINTMENT SUB-COMMITTEE MINUTES                          | 1 and 3 |
| b)  | <u>Confidential Information</u>                            |         |
|     | (No reports to be considered under this heading)           |         |

