

Corporate Management Committee

Thursday 30 September 2010 7.30pm

**Council Chamber
Runnymede Civic Centre, Addlestone**

Members of the Committee

Councillors J R Furey (Chairman), P I Roberts (Vice-Chairman), A Alderson, M J Brown, Mrs L M Gillham, H W V Meares, P Taylor, P B Tuley, 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).**
- 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.
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اردو

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LIST OF MATTERS FOR CONSIDERATION

PART I

Matters in respect of which reports have been made available for public inspection

	<u>Page</u>
1. FIRE PRECAUTIONS	4
2. NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP	4
3. MINUTES	4
4. APOLOGIES FOR ABSENCE	4
5. DECLARATIONS OF INTEREST	4
6. REFERENCE FROM HOUSING AND COMMUNITY SERVICES COMMITTEE	4
7. RESPONSE TO GOVERNMENT CONSULTATIONS ON FORMULA GRANT	6
8. PROGRESS IN ACHIEVING NET REVENUE REDUCTIONS	13
9. INTERIM TREASURY REPORT AND PROPOSED REVISED ANNUAL INVESTMENT STRATEGY FOR 2010/11	14
10. FINANCIAL MONITORING STATEMENT	20
11. EXCLUSION OF PRESS AND PUBLIC	21

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>	
12. VAT OPPORTUNITY	22
13. WRITE-OFF	24
b) <u>Confidential Information</u>	

(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 2 September 2010 (at Appendix 'A') (to follow).

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. REFERENCE FROM HOUSING AND COMMUNITY SERVICES COMMITTEE (DHCS)

Disabled Facilities Grant

1. At its meeting on 8 September 2010, the Housing and Community Services Committee agreed to recommend the virement of capital funds from the provision for new affordable housing for use on Disabled Facilities Grants.
2. Disabled Facilities Grants (DFG) are mandatory grants available to homeowners and tenants to cover the cost of works required to adapt their home to meet their needs. They are usually provided to disabled and older persons and families which have a disabled child.
3. The works can be to the property or to the garden and the maximum amount of grant available, including fees, is £30,000. The most common works are provision of stair lifts and walk-in showers. However, extensions are also provided.
4. The grant is means tested and for works that cost over £10,000 a charge is placed on the property which is recovered from the owner if the property is sold or assigned within 10 years. For all other work below £10,000 (the majority) there is no charge made on the property.
5. The number of DFG applications has risen over the last 3 years as shown in the table below:-

Number of Cases Funded by Runnymede		
2007/08	2008/09	2009/10
52	63	77

6. As well as an increase in cases, there has also been a rise in the number of expensive adaptations, e.g. extensions. So far in 2010/11, 57 cases have been progressed and 10 of these are for over £10,000. The current capital budget for private sector DFG is £425,000. The current financial commitment for the 57 committed cases is £466,101.
7. There are a further 37 cases that have applied for work to be undertaken and it is estimated that the cost of completing these could be as high as £380,000. When added to the work completed and current commitments, this brings the total estimated expenditure required for DFG to £846,101.
8. This expenditure is separate to that spent on Council properties that require disabled adaptations. However, the trend of an increasing demand for such work is common across

both private and public housing. The current year's budget for DFG in Council properties is £260,000. However, this budget is also under pressure.

9. Unfortunately, the rise in applications has not been matched by increases in Government funding. The grant from the Government towards the capital cost of private sector DFG in 2010/11 is £270,000, the same as for 2008/09 and 2009/10. There is no Government funding for DFG work to Council housing.
10. In order to meet the various applications made for DFG, the Housing and Community Services Committee considers that it will be necessary to increase the current budget. There are uncommitted sums available within the Housing Capital Programme, but using these funds for DFG will be at the expense of providing grant for new affordable housing or for capital works to existing stock, e.g. Beomonds.
11. In the past, the Council has been very successful in attracting grant for affordable housing schemes from the Homes and Communities Agency (HCA). However, the HCA have now made it clear that local authorities should not assume that grant will be available for schemes and that in future their grant is likely to be used on a gap funding basis.
12. The majority of applications for DFG are either for a shower or a stairlift to be installed. On average, a shower costs around £5,900 and a stairlift £2,200. There are risks to the applicant if either type of adaptation is significantly delayed, but the risks are likely to be greater in the absence of a stairlift.
13. An assessment is made of each case to see if equipment can be used instead of expensive adaptations, but this is not always the case. Officers are also considering ways in which the cost of the works can be reduced e.g. by different procurement methods. However, these are only likely to modestly reduce the call on grant.
14. As indicated above, there are currently 37 outstanding applications. It is felt that at least a third of these will need to be paid for this year and the remainder in 2011/12. Officers therefore feel that an additional £100,000 is required for the 2010/11 and 2011/12 budgets.
15. Officers have recently established that it is possible to place a charge on the property for works over £5,000, rather than the current practice of only charging for those over £10,000. In view of the increasing expenditure, and the need to recoup funds to pay for new cases, the Housing and Community Services Committee has agreed that as from 1 October 2010, a charge be placed on the property for any work over £5,000.
16. There is currently an uncommitted provision of £1,417,000 available within the Housing Capital Programme for expenditure on new affordable housing. The Council has to decide whether or not it wishes to retain these funds to meet affordable housing, or whether it should utilise the funds to pay for the required DFG works.
17. It should be noted that this increasing demand for DFG is unlikely to abate and there could be a similar demand in future years. The Council's Officers will press the Government to provide more funding for DFG. However, it seems highly unlikely in the current financial climate that these requests will be heeded.
18. In March 2010, the Housing and Committee Services Committee approved a new Grant Policy which allowed for £25,000 of the grants budget to be used to help people move home rather than undertake more expensive works to an unsuitable property. It is proposed that, if these funds are not committed by December of this year, that the opportunity be used to vire this budget to provide additional monies for urgent outstanding DFG works.
19. In order to manage the case load, both in the short and longer term, the Housing and Community Services Committee feels that it is appropriate to raise the budget both in 2010/11 and 2011/12 by an additional £100,000.

**HOUSING AND COMMUNITY SERVICES COMMITTEE'S RECOMMENDATION
that –**

a virement be approved of £100,000 for both 2010/11 and 2011/12 from the provision in the housing capital programme for new affordable housing, to the capital budget for private sector Disabled Facilities Grant.

(TO RECOMMEND)

Background Papers

None

7. RESPONSE TO GOVERNMENT CONSULTATIONS ON FORMULA GRANT (DF)

1. **Purpose of the Report**

1.1 **To report the publication of a consultation paper by the Government and propose responses to questions raised.**

2. Background Information

2.1 The Government distributes formula grant to all local authorities to support local expenditure on services. The grant comprises Revenue Support Grant and redistributed business rates. It is allocated to each local authority on the basis of complex formulae that take into account the services provided and the local characteristics of the area, including demographic, geographic and social factors.

2.2 The Government has issued a consultation paper that examines the options for changing the distribution formulae from 2011/12 onwards. The consultation paper can be viewed on the web-site of the Department of Communities and Local Government (DCLG) at <http://www.local.communities.gov.uk/finance/1112/sumcon/index.htm>. The introduction (at <http://www.local.communities.gov.uk/finance/1112/sumcon/chapter1.pdf>) provides a short background to the current consultation. Responses are required by 6 October 2010.

2.3 The DCLG circulated a further consultation letter on 25 August seeking authorities' views on a proposal submitted by the Local Government Association (LGA) that the Revenue Support Grant "top-slice", used to fund bodies that provide services to local government, should be paid to the LGA in future. The consultation letter is reproduced at Appendix 'B' and this includes explanatory background information. A response to this letter is also required by 6 October.

2.4 In the current financial year (2010/11) this Council will receive £5,620,300 in Formula Grant (see the Budget Book, page 1 or the General Fund Summary on the Council's web-site. This represents 56% of the Council's Budget Requirement, so any change in the Council's entitlement to grant has a significant impact on the Council's overall financial position.

2.5 The consultation paper invites responses to 25 questions. For the purposes of this report, the questions relating to the service blocks that do not cover this Council's services have been ignored (i.e. education, social services, police, fire and rescue services and highways maintenance). The relevant questions are reproduced in section 3 of this report together with a commentary and a suggested response.

2.6 A glossary of terms is reproduced at Appendix 'C'.

3. Report

Environmental, Protective and Cultural Services

3.1 **Question 11: Do you agree that foreign visitor nights is a suitable replacement for day visitors in the district-level and county-level EPCS Relative Needs Formulae (RNF)s?**

Comment

- 3.1.1 The present grant calculation for Environmental, Protective and Cultural Services (EPCS) (the service block that includes all district services) includes a weighting based on the local population adjusted for two factors that increase or decrease the population. One of these factors is the number of commuters and the other is day visitors. The argument for including visitors in the calculation is that they can create additional demands on local services (e.g. street cleaning). Runnymede has a large number of day visitors because of local attractions like Thorpe Park, Wentworth and Windsor Great Park. The inclusion of this factor in the 2010/11 formula grant calculation increased Runnymede's grant entitlement by around £170,000. Unfortunately, the data that the DCLG has been using in the calculation is derived from surveys undertaken twenty years ago and the DCLG rightly argue that this is no longer fit for purpose. In Officers' view, the correct response would be to commission a new survey. This would undoubtedly show an increase in day visitors to the Runnymede area. Instead, the DCLG are proposing to replace day visitors with foreign visitor nights (on which statistical information is already available). The DCLG argue that "this indicator is highly correlated with the old day visitors indicator" (consultation paper page 146). However, the weightings used in their exemplification reduce the Council's grant entitlement by £44,500. This is not surprising because one would expect relatively more UK visitors to Runnymede attractions like Thorpe Park than foreign visitors. Indeed, the DCLG exemplification shows that the impact of their proposal on the national distribution will be to benefit London at the expense of the rest of the country.

Response

- 3.1.2 No. The Council does not agree that foreign visitor nights is a suitable replacement for day visitors. This understates the impact of major attractions in the Runnymede area like Thorpe Park, Wentworth and Windsor Great Park, all of which generate significant inflows from UK visitors. The use of foreign visitor nights will benefit London at the expense of the rest of the country and is also dependent on random factors such as the availability of hotels. This will fail to reflect the additional pressures on local services created by UK visitors. The Council urges the Government to use updated information on day visitors in the EPCS formulae.
- 3.2 ***Question 12: Do you agree that the new GIS-based flood defence formula should be used?***

Comment

- 3.2.1 Flood defence expenditure for local authorities like Runnymede where there is no Internal Drainage Board levy has been based on the average cost incurred on flood defence over the previous three years. The Council continues to commit large sums to flood defence so it has been reassuring that this has been reflected within formula grant. The 2010/11 budget for flood mitigation is £355,800 (page 158 of the Budget Book). The Government proposes to end the linkage between local authority expenditure and formula grant and base grant entitlement in future on the length of ordinary watercourses in the area. This will reduce Runnymede's entitlement significantly. Since the last major flooding in the Borough, the responsibility for main watercourses like the Bourne has transferred to the Environment Agency so this has reduced the length of watercourses that are the Council's responsibility (Runnymede's formula grant was reduced by £33,000 in 2006/07 when these "critical ordinary watercourses" were transferred). The exemplification provided with the consultation paper shows that the proposed change in methodology could reduce Runnymede's grant by £372,000. Were this to occur, there would be little option but to reduce expenditure on drainage and flooding measures. Recent changes proposed by the Pitt Review (and now being implemented) mean that County Councils have become the lead local flood authority except for main rivers, where the Environment Agency fulfils this role. This however means that whilst they have responsibility for co-ordinating flood risk management, they have no role in maintaining local ordinary watercourses. Whilst riparian owners have the main responsibility for maintenance, in reality this is carried out by local authorities. The change proposed in the consultation would mean that there would still be a local public expectation that maintenance and improvements would be carried out by Runnymede Borough Council, but that the grant funding to realise this would no longer be in place.

Response

- 3.2.2 The Runnymede area is vulnerable to flooding for reasons that do not directly correlate with the length of ordinary watercourses and it has been the Council's continued investment in flood defence that has protected many residents from more frequent inundations. Runnymede stands to lose grant of £372,000 as a result of this proposal and, if this is implemented, this will jeopardise the Council's ability to continue funding this work.

Area Cost Adjustment

- 3.3 ***Question 14: Do you agree with the proposal to update the weights given to the labour cost adjustment?***

- 3.3.1 Comment

The area cost adjustment has been an important element for Runnymede because it increases grant for high cost areas. It has two components: a labour cost adjustment and a rates cost adjustment. There is no proposal to change the rates element but the Government are proposing to revise the weighting for labour costs in the EPCS block from 65% to 60%. This proposal is based on an analysis of 2005/06 data. The complication for the EPCS Block is that many of these services have been contracted out by local authorities so the DCLG have estimated the labour component for contracted-out services. The DCLG exemplification shows that a revised weighting of 60% would reduce Runnymede's entitlement by £76,000. Generally, there is a significant redistributive impact of this proposal, moving funds away from London and London fringe areas like Surrey.

Response

- 3.3.2 No. Changes to parts of the formula grant system for technical factors like area costs, day visitor nights, and scaling factors are unhelpful and add an unwarranted and illusory accuracy to the system. Instead of improving the grant distribution, these changes make the process more opaque. The introduction to the consultation paper states that "this review is mainly looking to update and fine tune the existing system" (paragraph 11). Officers believe that, with the exception of changes that reflect alterations in functions or responsibilities, no changes should be made to the grant distribution methodology until a complete review of the system has taken place.

Scaling Factor

- 3.4 ***Question 15: Do you think that the scaling factor for the central allocation should be close to one, so that equal importance is attached to the amounts above and below the minima?***

Question 16: If so, would you prefer Ministers to be able to set judgemental weights for the Relative Needs Amount, as in option CAS1, or the Relative Resource Amount, as in option CAS2?

Comment

- 3.4.1 These questions challenge the way in which the grant distribution is reconciled with the Government's control total. Each authority's entitlement is based on its Relative Needs, assessed by ascribing values to a range of indices related to its services, a deduction for its Relative Resources, calculated by assessing its taxbase in relation to its population, and a Central Allocation that is paid on a population based formula. As the consultation paper explains, in order to ensure that the total grant distribution is identical to the amount approved by the Treasury, a scaling factor has been applied to the Central Allocation. The problem with this approach is that it has an impact on the distribution of grant. Since 2006/07, the scaling factor for the Central Allocation has been greater than one and this has had the effect of reducing the importance of relative needs formulae in attracting grant. The DCLG has produced two exemplifications for comment: one based on a revised weighting of the Relative Needs Amount (CAS1) and the other based on a revised weighting of the

Relative Resources Amount (CAS2). Both produce a scaling factor for the Central Allocation that is close to one and in both cases increase Runnymede's grant entitlement (CAS1 by £55,600 and CAS2 by £27,500).

Response

3.4.2 Question 15: Yes.

3.4.3 Question 16: Runnymede Borough Council prefers the outcome in CAS1.

Floor Damping Levels

3.5 ***Question 17: Over the next Spending Review period do you think that the floor level should be set close to the average change or such that it allows some formula change to come through for authorities above the floor?***

Comment

3.5.1 Grant floors have guaranteed a minimum grant increase for local authorities, thereby creating more certainty when changes in grant formulae might otherwise result in volatility in entitlement. Up to 2006/07, Runnymede benefitted from this arrangement because the operation of the grant floor protected the Council from losing grant. Changes to the formulae resulted in Runnymede's grant entitlement exceeding the floor in 2007/08 and this position has continued each year to 2010/11. Nationally the operation of the floor arrangements are self-financing, so Runnymede's grant increase since 2007/08 has been scaled back to pay for those local authorities still receiving floor protection. The argument against grant floors is that it can take several years before changes in need or distributional arrangements are fully reflected in the grants that are paid. Officers believe that this is a price worth paying in order to maintain grant stability, particularly when capping prevents Councils from increasing the Council Tax to pay for any reduction in grant. The question asked in the consultation paper deals with the extent to which floor protection is applied. If there is more protection in the system, it means that those authorities that stand to benefit from the changes in the distribution methodology will have to wait longer for those benefits to feed through to the grant they receive. Runnymede has been in this position since 2007/08, with the result that its grant in 2010/11 is still £152,100 less than the amount determined by the formulae. Some of the potential changes discussed in this consultation paper suggest that this position is likely to be reversed in future distributions.

Response

3.5.2 Runnymede Borough Council believes that floor protection has been an important feature of the grant distribution system, even though it has been a contributor to the protection arrangements over the last four years. It favours a floor level that is set close to the average change.

Concessionary Fares

3.6 ***Question 18: Which of the four options for removing concessionary travel from lower-tier authorities do you prefer (CONCF1, CONCF2, CONCF3, CONCF4)?***

3.6.1 The responsibility for the administration of the concessionary bus fares scheme will transfer from Runnymede Borough Council to Surrey County Council with effect from 1 April 2011. The cost of the concessionary fares scheme for Runnymede in 2010/11 is partly funded by a direct grant from the Department of Transport but most of Runnymede's expenditure is a General Fund borne cost and is taken into account in the Formula Grant calculations. This has become a large budget in recent years as a result of the enhancements to the scheme introduced by the previous Government. The Council's net expenditure on concessionary fares in 2010/11 is expected to be £394,500 (see page 60 of the Budget Book) made up as follows:-

	£
Administrative costs	63,300
Subsidy to bus operators	<u>415,000</u>
Gross expenditure	478,300

Less DoT grant	-83,800
Net expenditure	<u>£394,500</u>

- 3.6.2 Until 2005/06 the scheme was a local half price concession but from 1 April 2006 the Government required the Council to provide free concessionary travel. To compensate for the additional cost, the Government increased Runnymede's Formula Grant by £279,900. From 1 April 2008 the Government enhanced the scheme so that free concessionary travel became available on bus journeys throughout the country. The direct grant from the Department of Transport (£83,800 in 2010/11) is supposed to cover the extra cost of the national scheme.
- 3.6.3 The DCLG have suggested four alternative ways of changing the Formula Grant distribution formulae for 2011/12 in order to reflect the change of responsibility on 1 April 2011. These four options are set out in the table below. Some of these options would strip out more of Runnymede's formula grant than is currently expended and consequently would have an adverse effect upon the Council's financial position, with the most extreme example being CONCF2. The DCLG model produces the following results for Runnymede, based on an assumed national cost of £813 million:-

Option	Basis of distribution	Before damping £	After damping £
CONCF1	Unchanged district-level EPCS formula and reduced the base position by the 2008-09 Concessionary Travel Net Revenue Expenditure.	-577,194	-294,717
CONCF2	Unchanged district-level EPCS formula and adjusted the base position by total expenditure prorata to the district-level EPCS formula	-794,376	-804,894
CONCF3	Used the 2005-06 district-level EPCS formula and adjusted the base position by the 2008-09 Concessionary Travel Net Revenue Expenditure	-310,889	-246,320
CONCF4	Used the 2005-06 district-level EPCS formula and adjusted the base position by total expenditure prorata to the district-level EPCS formula	-480,163	-486,204

- 3.6.4 The results produce considerable distortions because of the way in which the four block model works. This becomes even more apparent when the national results are compared. For example, the second and fourth options produce much larger transfers of grant from the shire areas into London and the other metropolitan areas. The third option produces the most favourable result for Runnymede and this is based on a reversal of the weightings that were applied in 2006/07. If this option were implemented using these figures, after allowing for the removal of net expenditure of £394,500, Runnymede's General Fund would be £143,000 better off. However, if the Government adopt the second option, the net result for Runnymede after removing the expenditure would be a deterioration in the General Fund position of £415,000.

Response

- 3.6.5 Runnymede Borough Council's expenditure on concessionary fares in 2010/11 is expected to be £478,300, including £415,000 paid to the bus operators. This is offset by a grant of £83,800 from the Department of Transport, resulting in a net expenditure on the service of £394,500. In 2006/07, the Council's Formula Grant was increased by £279,900 to take account of the additional cost of free travel. Of the four options considered for removing concessionary fares from the lower tier EPCS, the Council prefers option CONCF3 because this is consistent with the methodology that was used in 2006/07 to increase the EPCS block. It would be grossly unfair to adopt the second option (CONCF2) because this would reduce Runnymede's grant by around £800,000, which is twice Runnymede's expenditure on the service.

Drainage

- 3.7 **Question 21: Do you agree with the methodology for adjusting the base position for unadopted drains?**

Comment

- 3.7.1 Local authorities have in the past incurred costs where they have acted in default of the owner (of the sewer) or where the authority is an owner itself. Runnymede's past expenditure on unadopted drains has generally been covered by the charges made to private owners or a recharge to the Housing Revenue Account where the works related to Council housing. There have been few cases where works in default were necessary and the full cost fell on the General Fund. Under the Flood and Water Management Act, it is proposed to transfer the responsibility for private sewers from local authorities to sewerage and water companies. If a transfer from Formula Grant occurs, the Government proposes to remove funding from the lower tier EPCS sub-block. This will be based on the number of properties in each authority area. No exemplification has been provided in the consultation paper to illustrate the potential impact but figures circulated by the DCLG at meetings with local authority representatives have been based on transferring £50 million out of the district EPCS block which could reduce Runnymede's grant by £68,000.

Response

- 3.7.2 Runnymede Borough Council strongly objects to this proposal. Data provided to the Settlement Working Group on 23 March 2010 shows that this will reduce Runnymede's grant by £68,000. The Council recovers the cost of works on unadopted drains from landowners and, therefore, if the Government implement this proposal, cuts will be required in other services to offset the loss of grant.

Student Exemptions and the Council Tax Base

- 3.8 ***Question 24: Would you prefer that May data only is used for the student exemptions adjustment in the taxbase projections (DATA3)?***

Comment

- 3.8.1 Runnymede has a large number of student households relative to the total number properties in the borough and, because students are exempt from paying the Council Tax, this has a significant impact on the tax base. This is an important issue for formula grant because the grant distribution uses the taxbase as a measure of local resources available to each authority. When the Formula Grant methodology was originally devised the student data was based on a date in October and this invariably overstated the average taxbase because it is near the start of the academic year and not all students have applied for an exemption from Council Tax by this date. Since 2008/09 the grant distribution has used student information based on the average position from two dates in May and October. While this has been better than relying on one date in October, it has still overstated Runnymede's taxbase and therefore reduced grant entitlement. The question asks if using May data only would be preferable. Runnymede's data shows that this would be a much fairer basis for determining the taxbase figure in the grant calculation, as the following figures demonstrate.

	Estimated average student exempt properties for the year	Student exempt properties in May	Student exempt properties in October
2008/09	954	911	716
2009/10	1,022	974	783

- 3.8.2 The exemplification in the consultation paper of using only May data produces an increase of £18,700 in Runnymede's grant entitlement. The reason why this is a relatively small figure is that Surrey County Council and Surrey Police will derive most of the benefit from this change because between them they account for over 90% of the Council Tax.

Response

- 3.8.3 Using student exemption numbers from 31 May will be a fairer basis for adjusting the starting position of the taxbase projections because the evidence shows that this will be closer to the

average position for the year. The Council therefore supports the proposal to use May data only.

Government Consultation Letter on Revenue Support Grant Top Slice (at Appendix 'B')

3.9 The Government would welcome your organisation's views on:

- 1. The principles of the proposal for future RSG top-slice funding (as set out in Annex 'A' to the consultation letter at Appendix 'B'); and**
- 2. Whether a sole specified body should be the LGA or LGID.**

Comment

3.9.1 The Government will distribute £25 billion in national non-domestic rates and revenue support grant to local authorities in 2010/11. From this total £38 million is deducted (or "top-sliced") and, together with an additional £7 million from departmental budgets, paid to nine specified bodies. The table below lists the organisations that will receive a share of the grant in 2010/11:

	£
Improvement and Development Agency for Local Government	31,035,000
Local Government Employers	3,680,000
The National Foundation for Educational Research in England and Wales	1,311,000
The National Institute of Adult Continuing Education	694,000
The Local Government International Bureau	1,797,000
The Local Authorities Co-ordinators for Regulatory Services	2,080,000
Public Private Partnerships Programme	2,950,000
National Youth Agency	1,461,000
TOTAL	<u>£45,008,000</u>

3.9.2 The proposal is at Appendix 'B'. The LGA have suggested that if either the LGA or Local Government Improvement and Development were the sole specified body, it would streamline the arrangements and enable the grant of £45 million to be reduced by 30%. Officers have no preferred response on this matter and the Committee is requested to consider what response it wishes to submit.

4. Resource Implications

4.1 The Government is expected to release the financial settlement data for 2011/12 at the beginning of December. This is expected to form the basis of a two year settlement. The financial impact of potential changes identified in the recent consultation paper are set out in section 3 of this report. The table below provides a summary of the best case and worst case outcomes shown in the consultation paper's exemplifications.

	Best case £000	Worst case £000
Q.11 Replacing Day Visitors	- 45	- 45
Q.12 Flood Defence	-372	-372
Q.14 Area Cost Adjustment	-76	-76
Q.15 / Q.16 Scaling Factors	56	27
Q.18 Concessionary Fares	-246	-805
Q.21 Private Drains	-68	-68
Q.24 Student exemptions	19	19
Potential impact on Formula Grant	<u>- 732</u>	<u>-1,320</u>

4.2 Responsibility for concessionary fares will transfer to Surrey County Council with effect from 1 April 2011 so most of the net expenditure of £394,500 will be removed from the General Fund budget. The Council is likely to be left with some residual costs of around £5,000 representing the cost of office accommodation allocated to this service but the remaining reduction of £389,000 will offset the loss of Formula Grant.

- 4.3 The Council's net budget in 2010/11 for flood mitigation totals £355,800. If the Government proceeds with the proposal to reduce the flood defence component in Runnymede's grant by £372,000, it will call into question the ability of the Council to continue funding this service.
- 4.4 Floor protection may reduce the grant loss but this is unlikely to offer much protection where the responsibility for services is being transferred (as in the case of flood defence and concessionary fares) because the Government will assume that the Council will no longer incur the related expenditure.
- 4.5 The Chancellor is due to announce the outcome of the comprehensive spending review on 20 October 2010. There are suggestions that non-protected areas of spending will see funding cuts of 25% over the next 5 years and some projections go as high as 40%. It remains to be seen if there will be further reductions in formula grant on top of the proposals contained in the consultation paper. The full implications for the Council are unlikely to be fully quantified until the Government publishes details of the local government finance settlement at the end of November.

OFFICERS' RECOMMENDATION that -

the responses set out in this report be submitted to the Department of Communities and Local Government.

(TO RESOLVE)

Background Papers

None

8. PROGRESS IN ACHIEVING NET REVENUE REDUCTIONS (DF)

1. Purpose of Report

1.1 **To inform the Committee of the progress in achieving the Council's revenue reductions targets.**

2. Background Information

2.1 The Council's current programme of savings targets totals £2,578,500, approved at the following Council meetings:-

	£
Savings numbered 1 to 29 approved in December 2008	712,000
Savings numbered 30 to 49 approved in October 2009	653,000
Pay freeze (numbers 50 and 51) approved in February 2010	327,000
Savings numbered 52 to 60 approved in April 2010	886,500
	<u>£2,578,500</u>

2.2 It is worth noting that these targets only relate to the current revenue reductions that the Council aims to achieve. It follows other savings programmes, the last of which achieved savings of £2.4 million.

3. Report

3.1 The schedule at Appendix 'D' lists each of the savings initiatives totalling £2,578,500 that have been approved. In each case there are financial projections and a narrative explaining the latest position. The schedule has been split between those initiatives where action to achieve the savings has been completed and the remainder where action is still pending. For each of the savings initiatives that are not yet complete there is a risk indicator showing Green (G), Amber (A), or Red (R).

3.2 Changes in the financial projections since the last report to Committee on 29 July 2010 are indicated by directional arrows.

- 3.3 There is a separate list at the end of Appendix 'D' that shows savings initiatives that are in addition to the schedule of savings that have been formally approved.

(FOR INFORMATION)

Background Papers

None

9. INTERIM TREASURY REPORT AND PROPOSED REVISED ANNUAL INVESTMENT STRATEGY FOR 2010/11 (DF)
(Ref: Minutes of Corporate Management Committee, 4 February 2010, page 518, para. 557)

1. Purpose of Report

- 1.1 **To report treasury activity for the first five months of 2010/11; and**
- 1.2 **To consider changes to the Council's criteria for making investments and the consequent revision to the Annual Investment Strategy for 2010/11.**

2. Background Information

- 2.1 The Council's treasury management policies require the Director of Finance to present a mid-year report to this Committee. Although this report is for the first five months of the year only, it does give a timely opportunity to combine the information contained in a mid-year review with the proposals for changes to investment criteria also set out in this report.
- 2.2 Local authorities must draw up an "Annual Investment Strategy" for each financial year. The strategy is to be approved by full Council. This strategy may be revised at any time, but full Council must approve the revisions. DCLG guidance requires local authorities to cover a number of issues in their Annual Investment Strategy.
- 2.3 The Council's Treasury Management Strategy and the Annual Investment Strategy for 2010/11 were considered by this Committee at its meeting on 4 February 2010 and subsequently approved by full Council on 9 March 2010.
- 2.4 The DCLG statutory guidance states that it is for each authority to determine what they consider as high credit quality in their Annual Investment Strategy. The Council's investment strategy uses credit ratings as the major way of assessing the credit worthiness of counterparties. The Council uses credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investments. The credit ratings are supplied via the Council's treasury management consultants. The Annual Investment Strategy includes a table that compares ratings used by the credit rating agencies to enable the appropriate assessment to be made. It is recognised that credit ratings are only a guide to the credit-worthiness of counterparties and other factors (e.g. credit default swap prices) are considered when making investment decisions.
- 2.5 In March 2007, the Committee approved an investment strategy for the £15 million of funds then available for investment over the medium-term (periods from one to five years). The strategy involved investing a proportion of the portfolio (£5 million) in fixed term investments for a 2 to 5 year period in order to give a greater degree of certainty over the yield that the portfolio would generate. It was also agreed to use a manager specialising in cash investments for the remaining £10 million.
- 2.6 Tradition (UK) Limited were appointed and commenced the management of £10 million of the Council's funds on 3 September 2007. The mandate for this portfolio requires Tradition to follow the same investment parameters as for the management of internally managed investments.
- 2.7 At its meeting on 8 July 2010, the Overview and Scrutiny Select Committee considered the annual report on the Council's treasury management activity in the 2009/10 financial year. Although the Committee had no recommendations to make to the Corporate Management Committee it had a number of observations which it was agreed should be included in the

next report to the Corporate Management Committee on treasury management. It was suggested that rather than relying purely on credit ratings, the test of a building society's stability might be an assessment of the amount of money it obtained from wholesale markets and the amount of income it obtained from mortgage portfolios. It was noted that the Council was not currently investing in gilts because it was not considered that gilts would provide a good return at present. However, the Committee suggested that short-dated gilts should be kept under review as a potential future investment.

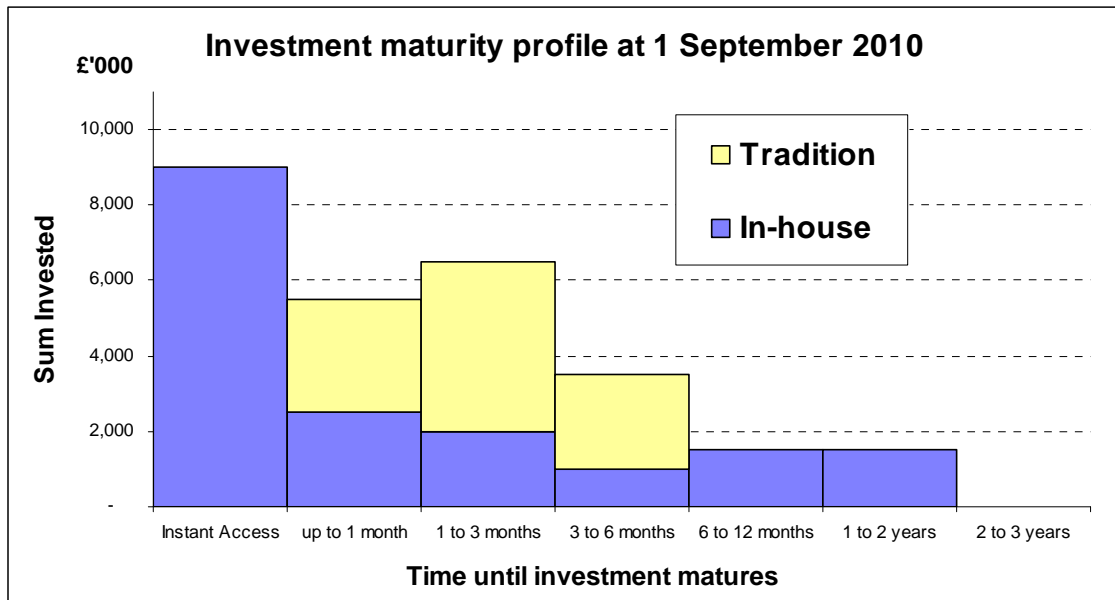
2.8 In accordance with the revised governance arrangements approved by the Council in March, a copy of this report will be presented to the next meeting of the Overview and Scrutiny Select Committee on 7 October 2010.

3. Mid-year treasury report on treasury performance and investment activity

Investment Activity

3.1 A list of investment activity for the period 1 April to 1 September 2010 is shown at Appendix 'E'.

3.2 The chart below illustrates the maturity profile of the Council's investment portfolio at 1 September 2010. Investments made on the advice of Tradition are separately identified:



3.3 A list of the investments held at 1 September 2010 is shown at Appendix 'F'.

3.4 The large amount of money held in instant access and up to one-month maturities was required to pay large commitments. These include, in particular, the precept to Surrey County Council and Surrey Police on 10 September (£4.4m) and the payment of the net amount of business rates (£1.8 million) to the Government on 22 September. The holdings shown as "instant access" are the deposits held in money market funds.

3.5 The one remaining longer-term (over 1 year) maturity is a holding arising from the investment strategy approved in 2007 to hold a proportion of investments in longer term maturities (see paragraph 2.5). These investments were made before the "credit crunch" and in terms of the interest rate the timing of the investments was beneficial. However, mainly because of the considerable uncertainties over credit-worthiness of institutions, no new long-term investments have been made since September 2008.

Interest rates and investment policy

3.6 Interest rates remain at low levels, both for short-term and longer periods. With inflation running at 3.1% using the CPI measure and 4.7% using the RPI measure (August 2010 indexes), the current outlook for savers is negative. Short-term interest rates have now been

at low levels for some time, with the Base Rate sitting at 0.5% since 5 March 2009 and showing seemingly little prospect of changing significantly in the next few months. The following table illustrates market rates available on 20 September 2010.

Interest rates at 20 September 2010		
	3-Month	12-Month
Treasury Bills	0.50%	N/A
LIBOR	0.70%	1.37%
Top 10 building society	0.90%	1.65%
Small building society	0.95%	1.75%

- 3.7 The option of lending for longer terms would provide better returns. However, the number of counterparties with whom longer-term investments can be made in accordance with the credit criteria in the Annual Investment Strategy is very limited. Although it would be possible to buy longer-term government securities, the yields on these are not attractive, especially given the outlook on inflation. In other words, the interest rate risk is high, i.e. the risk of interest rates increasing thus leaving the Council holding an investment at an unattractive rate. In particular, it is possible that the current rates of inflation will not significantly fall (or may increase) and this would strongly indicate that interest rates will need to increase at some point in time. Therefore, new investments are currently limited to terms of up to 12 months, but at the cost of (hopefully short-term) lower investment income.

Investment Income

- 3.8 The estimate for 2010/11 is based on achieving an overall return on investments of 3.0%. It now seems probable that the overall return will be nearer 2.5% and this would depress investment income from the Budget figure of £360,000 to around £300,000. However, the interest accruing to the General Fund arising from the transfer of £2m of balances from the Housing Revenue Account will substantially make good this shortfall.

4. Changes to the Council's criteria for investments and the consequent revision to the Annual Investment Strategy for 2010/11

Investments with UK Banks

- 4.1 The Annual Investment Strategy includes the following limits for investments with UK banks.

Current limits with UK Banks (in the Annual Investment Strategy)					
	Minimum credit ratings (Fitch)			Maximum limits	
	Short-term	Individual	Support	Term up to	Sum
UK Banks	F1	B/C	3	364 days	£2m
Subsidiaries of UK Banks (if the parent bank satisfies the credit rating criteria)	F1	B/C	3	3 months	£2m
UK Banks (Government-owned or likely to receive Government support)	F1+	Any	1	2 months	£1m

- 4.2 These limits were set to enable short-term investments to be made with the main UK banks and their subsidiaries. The high level of support offered by the UK government to certain UK banks was seen as a reasonable security for lending to those banks.
- 4.3 However, since the Strategy was approved, the Standard and Poor's rating agency lowered the short-term rating of the Lloyds Banking Group and the Royal Bank of Scotland Group. The change means that the Council is currently unable to invest with the banks in these groups (i.e. Bank of Scotland, Lloyds Bank, National Westminster, and Royal Bank of Scotland). This is despite these banks being substantially backed (and part-owned) by the UK Government and being very unlikely to default, or being allowed to default, by the UK Government.

- 4.4 Furthermore, the Council's treasury management consultants advise that long-term credit ratings are now a more appropriate guide to the credit quality of banks and building societies. This is because long-term ratings provide a finer grading scale – there are 10 long-term investment grade ratings but only 3 or 4 short-term ratings. Therefore, it is proposed to change the Annual Investment Strategy to use long-term ratings to measure the credit quality of UK banks, even for short-term investments.
- 4.5 Therefore, it is proposed to revise the Annual Investment Strategy to enable investments with these two major UK banking institutions to be resumed. The proposed change is to allow investments of up to £2.5m for up to 12 months duration to be made with UK banks holding a long-term credit rating no lower than A+ or equivalent, with lower limits and terms for banks with a rating of A or A-. The definition of "A" is for institutions of high credit quality with a low default risk, and A- is 3 levels higher than the lowest rating classified as investment grade. The use of the A- grade would also address the anomaly that the Co-operative Bank (the Council's bankers) is currently rated below the Council's minimum credit rating for making short-term investments.
- 4.6 UK banks continue to receive significant actual or implicit Government support. In the event that the Government propose to remove support in part or in whole, or otherwise propose change to the structure of the banks or the banking system, Officers would exercise caution accordingly. However, any such changes will be introduced over a period of time and therefore it is highly unlikely that there will be a need to take emergency action to recover any investments.

Investments with Building Societies

- 4.7 The Annual Investment Strategy includes the following limits for investments with UK building societies.

Current limits with UK Building Societies (in the Annual Investment Strategy)					
	Minimum credit ratings (Fitch)			Maximum limits	
	Short-term	Individual	Support	Term up to	Sum
UK Building Societies with assets exceeding £1,000m	F1	B/C	4	364 days	£2m
	F2	C	4	6 months	£1m
UK Building Societies with assets between £500m and £1,000m	F1	B/C	4	364 days	£1m
	F3	C	4	3 months and 7 days	£1m
UK Building Societies with assets exceeding £750m without a credit rating or with credit ratings that would not satisfy the credit criteria set out above.	N/A	N/A	N/A	3 months and 7 days	£1m
UK Building Societies, without a credit rating, with assets between £500m and £750m	N/A	N/A	N/A	3 months and 7 days	£0.5m

- 4.8 The number of mergers and other proposals to restructure building societies points to retaining a modestly cautious approach to making investments with this sector. However, the UK Government will wish to avoid the turmoil that resulted during the demise of Northern Rock, and it seems unlikely that a building society will be allowed to completely fail. The present level of scrutiny, both regulatory and market driven, on the building society sector also provides some comfort against the risk of catastrophic collapse of a society.
- 4.9 The current limits are restrictive because there is only limited demand by building societies for deposits for periods of 3 months or shorter. Therefore, it is proposed to revise the Annual Investment Strategy to extend the credit parameters for investments with building societies.

Also, as for banks (see paragraph 4.4), it is now proposed to use long-term credit ratings to measure the credit worthiness of societies.

- 4.10 The proposed change to the Annual Investment Strategy will allow investments of up to £2.5 million for up to 12 months duration to be made with UK building societies holding a long-term credit rating no lower than A- or equivalent. Building societies are rated more harshly than banks mainly because of their focus on a single product (mortgages). Therefore, it seems appropriate to recognise that building societies that achieve at least an investment grade rating of BBB also represent a good short-term credit risk. Investments will not be made with building societies that hold a rating below BBB, or are on negative outlook and hold a BBB rating.
- 4.11 It is also proposed to modestly increase the permitted maximum term (for smaller societies) and amount (for high rated societies) of investments.
- 4.12 The table below sets out the proposed revised criteria for lending to UK building societies:

Proposed limits with UK Building Societies			
	Credit rating (Fitch)	Maximum limits	
		Term up to	Sum
UK Building Societies (credit rating of A- or better)	A-	364 days	£2.5m
UK Building Societies (credit rating of BBB+)	BBB+	6 months and 7 days	£1.5m
UK Building Societies (credit rating of BBB)	BBB	6 months and 7 days	£1.0m
UK Building Societies with assets exceeding £500m without a credit rating	N/A	4 months and 7 days	£1.0m

- 4.13 A balance has to be struck between the desire to have a reasonable number of available counterparties and to obtain a fair rate of return, with the need to make sure that the Council's investment parameters minimise the risk of credit default. The proposed criteria are still rigorous with, for instance, only 2 building societies meeting the highest category, a further 1 the second highest category, and a further 3 the third highest category.
- 4.14 For building societies without a credit rating, it is proposed to increase the maximum term from 3 to 4 months. Although this change seems very modest, there does seem to be more market demand for 4 month deposits and this change will enable the Council to make investments with these societies without significantly increasing risk. Also, the previous £2bn and £750m asset size limits added little in terms of risk management, and it is proposed to remove these. The limit that a building society must have at least £500m of assets before an investment can be made is retained.
- 4.15 In the event that the Government propose to remove support in part or in whole, or otherwise propose change to the structure of the regulatory system for building societies, Officers would exercise caution accordingly. However, any such changes will be introduced over a period of time and therefore it is highly unlikely that there will be a need to take emergency action to recover any investments.
- 4.16 For both UK banks and building societies, the credit criteria for long-term (non-specified) investments remain unchanged.

Foreign Countries and Counterparties

- 4.17 In February, this Committee agreed that it was prudent to recommence lending to foreign banks, but subject to higher credit criteria than UK banks and for short-term duration only.
- 4.18 Therefore, in addition to a high quality credit rating, it was agreed that investments could be made in foreign banks domiciled in one country that held an AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £2 million per country. The Strategy limited investments to deposit and/or call accounts of foreign banks with a maximum investment of £1 million.

- 4.19 This change was made with a view, in particular, of making investments in the deposit accounts of the UK based banks that form part of the Santander Group. However, the sovereign credit rating of Spain was lowered shortly after the new strategy was approved.
- 4.20 In recent months, the risk in investing in foreign banks seems to have increased, mainly reflecting concern over sovereign ratings. Given that security of funds is the main objective of the Council's treasury strategy, no investments will be made with foreign banks at this time. However, for the sake of completeness, the revised Annual Investment Strategy also makes the change to using a long-term rating to measure the credit worthiness of foreign banks, and these are set at the higher level of AA-

Money Market Funds

- 4.21 The Council has successfully used three money market funds for short-term investments. These funds are all AAA rated and therefore provide the highest credit quality. These funds are designed for short-term liquidity needs and pay a return around base rate (0.5%). These funds offer immediate access to funds and very low possibility of capital loss.
- 4.22 It is possible to make investments in longer duration funds. These funds are also AAA rated. The funds comprise a range of longer-term securities and therefore offer the prospect of a greater return. Access to the funds is after a notice period, usually one week, although it is possible to invest in good funds for fixed terms up to 6 months. Returns can be more volatile, especially over short periods. However, these funds provide secure access to a range of diverse instruments and are an alternative to making long-term investments in individual institutions. Some of the funds also have the benefit of not locking the Council into fixed interest rates, thus mitigating the interest rate risk referred to in section 3 of this report.
- 4.23 The Council's treasury management consultants have suggested that the Council considers using these funds as an alternative to investing for longer periods with individual institutions.
- 4.24 The current Annual Investment Strategy enables investments to be made with highly liquid money market funds up to £3 million a fund. It is proposed to add to this to allow investments in longer duration funds to be made up to £2 million a fund.

The Public Sector Deposit Fund

- 4.25 A proposal to establish a public sector money market fund was announced at the conference of the Local Government Association (LGA) in June. Subject to regulatory approval, the fund would be managed by CCLA Investment Management, which currently manages a range of funds for the local government and charity sector. The fund will be UK domiciled and carry an AAA credit rating. Investment returns will be modest – as is the case with other short-term funds - but it is hoped to keep management fees at a low level. The timetable for the start of the fund is not yet established.
- 4.26 This could be a very useful addition to the options available for investing short-term cash holdings. The lower management fees alone make this an attractive option and the focus on the needs of local authorities is also useful. CCLA require pledges of at least £150m as seed funding to enable them to start the fund. Therefore, the Director of Finance has written to CCLA stating an intention to subscribe £1,500,000 from Runnymede Borough Council as a seed fund investor.
- 4.27 The Annual Investment Strategy already contains the necessary authority for participation in this new fund.

Gilts

- 4.28 The yields on gilts are still modest and they would not be an appropriate investment for Council funds at the present time, even for short term deposits. The table below shows the current redemption yields.

Redemption yield of gilts on 13 September	
Duration	Yield
Less than 1 year	0.44%
5 year	1.97%
10 year	3.12%

Revised Annual Investment Strategy

- 4.29 The proposed revised Annual Investment Strategy is set out in Appendix 'G' with the changes highlighted.
5. Legal Implications
- 5.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code when carrying out their treasury management functions.
- 5.2 Section 15 of the Local Government Act 2003 provides the power for the Government to issue guidance about investments to which authorities are to have regard. This report takes account of the current and proposed guidance issued by the Government.
- 5.3 The Government has issued Regulations to require investment in share and loan capital to be treated as capital expenditure. The Government state that this acts as a disincentive to local authorities to make such investments, as they would consume the authority's capital resources. However, the Government has excluded investments in money market funds, multilateral development banks and real estate investment trusts (REIT)s from this definition, as it has no wish to deter authorities from considering these investments.

OFFICERS' RECOMMENDATION that -

the proposed revised Annual Investment Strategy for 2010/11 be submitted to the full Council meeting on 21 October 2010.

(TO RECOMMEND)

Background Papers

1. Guidance on Local Government Investments from the DCLG dated 11 March 2010 (DF)
 2. Summaries of the minutes of Monetary Policy Committee meeting of 4 & 5 August 2010, and of the Bank of England Quarterly Inflation Report of 12 August 2010, and an interest rate forecast. All written by Sterling Consultancy Services on 20 August 2010. (DF) (Exempt).
 3. Invitation from CCLA to participate in the establishment of The Public Sector Deposit Fund, dated 27 July 2010 (DF).
10. FINANCIAL MONITORING STATEMENT (DF)
1. Purpose of Report
 - 1.1 **To inform the Committee of the latest financial projections for the 2009/10 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 2010/11 estimates approved by this Committee in January.

3. Report

3.1 The statement at Appendix 'H' is split into two distinct parts:

- Projected budget and forecast
- 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. The achievement of the revenue reductions programme approved by the Council is one of the Council's key performance indicators and these savings targets are now included in this section of each statement. 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 second section of each statement 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.

11. EXCLUSION OF PRESS AND PUBLIC

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following report(s) under Section 100A(4) of the Local Government Act 1972 on the grounds that the report(s) 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>
12.	VAT OPPORTUNITY	3
13.	WRITE-OFF	1 and 3
b)	<u>Confidential Information</u>	

(No reports to be considered under this heading)