

Runnymede Borough CouncilCORPORATE MANAGEMENT COMMITTEE8 January 2004 at 7.00 p.m.

Members of the Committee present : Councillors R.K. Habgood (Chairman), N. Thewlis (Vice-Chairman), J.R. Furey, P.A. Greenwood, J.E. Haas, P.J. Poole, Mrs E.E. Price, Ms. C.M. Simmons, P.J. Waddell and G.B. Woodger

Members of the Committee absent : None

Councillors A. Alderson, Mrs L.M. Gillham and J.R. Whiteley also attended.

614. NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP

The Conservative Group had notified the Chief Executive Officer of its wish that the changes listed below be made to the membership of the Committee. The changes were for a fixed period ending on the day after the meeting and thereafter the Councillors removed would be re-appointed.

Remove from Membership	Appoint instead
Councillor C J. Norman	Councillor J.E. Haas
Councillor P.B. Tuley	Councillor P. J. Poole

The Chief Executive Officer had given effect to these wishes in accordance with Section 16(2) of the Local Government and Housing Act 1989.

615. MINUTES

The Minutes of the meeting of the Committee held on 4 December 2003 were confirmed and signed as a correct record.

616. EXTERNAL FUND MANAGERS - PERFORMANCE REVIEW

(Ref: Minutes of Corporate Management Committee, July 2003, page 246, para. 159)

The Committee received presentations from the Council's two external fund managers, Investec and Invesco, which between them managed £22m on behalf of the Authority. The fund managers outlined the market background, global and UK economic outlook and reported on performance and future strategy.

Members noted with concern that both funds had under-performed in 2003/04 to date with neither being likely to match the benchmark London Inter-Bank Bid rate of 3.6%. The funds had maintained significant gilt holdings in the expectation that deflationary pressures in the US, weak economic growth and a cooling housing market would produce further reductions in interest rates. In the event, however, there had been an unexpectedly strong US led global recovery, the UK housing market remained buoyant, manufacturing and service sector confidence had strengthened and base rates had begun to rise. This had prompted the worst bond market for many years.

Both fund managers had subsequently taken remedial action. Invesco had disposed of its gilt holdings and concentrated all its investments in short dated Certificates of Deposit (CDs) to restrict the exposure to further losses. Invesco, meanwhile, had halved its position in gilts, to 9%, with the remainder of its holdings being in CDs of 0 - 12 months duration. It was recognised, however, that there was little opportunity in a rising market to fully recover the position. As a consequence Investec expected returns of only 2.4% in the current financial year while Invesco

forecast between 3.1 - 3.5%. The latest projection indicated a deficit on the budgeted investment income of approximately £250,000.

Members noted that both managers now forecast a subdued inflationary environment with continuing, but relatively modest, interest rate rises over the course of the year. Investec foresaw base rates peaking at 5.5% in 2005 while Invesco predicted that the high levels of consumer indebtedness and a moderating housing market would limit the increase to no more than 4.5%. Market volatility was likely to remain a feature as investors sought to assess the pace and sustainability of the recovery. The gilt market continued to offer opportunities for added value but Investec would not return to it until there was clear evidence of whether UK growth was likely to be above the trend or at more modest levels. In the meantime it expected to lengthen the maturity profile of its CDs at higher yields. The fund was expected to return a minimum of 4 - 4.25% in 2004/05. Invesco still saw some immediate advantage in gilts in a low interest rate environment and hoped to take advantage of its assessment that base rate rises would be less aggressive than the general market view. Returns of between 4.5 - 5.0% were predicted for 2004/05.

In expressing disappointment at the under-performance of the funds, the Committee noted that the Managers' fee structures were based on fixed sums rather than any performance-related incentive. This had proved to be cost-effective over the long-term and avoided the possibility of fund managers adopting high risk strategies in order to enhance their own income. A report on the Council's Treasury Management Strategy 2004/05 was due to be presented to the next meeting of the Committee, in February, which would provide the opportunity to give consideration to any corrective action that may be required as a result of the forecast deficit. In view of the financial pressures on the Council and the diminishing sums available for external investment, Members agreed that it would also be appropriate to review the arrangements for the fund managers, in particular whether there was a need to continue to retain two.

617. LOCAL AUTHORITY FINANCE SETTLEMENT

The Committee received details of the provisional 2004/05 Local Authority finance settlement announced by the Office of the Deputy Prime Minister.

Members noted that with one significant exception the features of the grant support were similar to the previous year. Runnymede's provisional Formula Spending Share for 2004/5 had been set at £10.248m. This consisted of a base amount of £72.81 per head of population, various additive top ups intended to reflect particular geographic and social features of the area, an Area Cost Adjustment designed to reflect the higher cost of providing services in various parts of the country and a capital financing block meant to reflect the cost of financing capital expenditure and the interest earned from investments.

The Council's entitlement to Formula Grant, the actual cash it would receive from the Government, was based on its Formula Spending Share and comprised two elements, namely income from Business Rates and Revenue Support Grant. The latter element represented the Council's Formula Spending Share, less the income from business rates and the income an Authority would derive by charging its share of the Assumed National Council Tax. The result of the calculation was subject to protection provided by a 'floors and ceilings' arrangement which provided Runnymede with £240,000 more than would otherwise be the case.

The Committee noted, however, that the Government proposed to change the way in which it supported the payment of Housing and Council Tax benefits. The Council presently received a 95% subsidy towards these payments. The remaining 5% fell on the General Fund and was taken into account in the calculation of the Formula Spending Share. With effect from 2004/05 a 100% subsidy would be paid for all categories of benefit payment. The Government also proposed to increase the amount of subsidy it paid for various incentive areas and contribute to local scheme costs for the first time. This was, in principle, a welcome development consistent with the Council's response to earlier consultation papers on the subject.

Members were, however, concerned to note that the reduction in the Council's Formula Spending Share to reflect this direct subsidy had been based on a notional apportionment of national totals rather than actual benefits paid. The mismatch between the amounts taken out of Formula Grant and the additional sum paid in benefit subsidy represented a net loss to Runnymede of approximately £77,000. As a consequence the Council's cash entitlement,

comprising a total of £4,510,600 in Formula Grant and £390,000 in direct benefit payment subsidy, would amount to only £4,900,600. This was £50,000 less than had been assumed in the Revenue Forecast and meant that the Council would not receive the 3% minimum grant increase announced by the Government for all shire districts. Officers had already made representations to both the Office of the Deputy Prime Minister and the Department of Works and Pensions in the hope that the formula would be changed to make the impact neutral. It was agreed that these should be supplemented by more formal representations to the same effect.

The final grant figures approved by Parliament would be reported to the next meeting of the Committee, in February, when the overall budget for 2004/05 would be considered.

RESOLVED that -

representations be made to the Office of the Deputy Prime Minister regarding the methodology for the distribution of benefit administration grant support with a view to securing the minimum 3% uplift in Formula Grant in 2004/05.

618. ESTIMATES 2004/05

Members gave consideration to the draft Estimates and fees and charges for the Committee's services in 2004/05. It was noted that the Civil Contingencies Bill, which sought to establish a comprehensive statutory framework for civil emergency planning, was likely to place significant additional obligations on local authorities. The means by which these were to be financed had yet to be resolved.

RESOLVED that -

- i) the proposed fees and charges for 2004/05 be approved to be effective from 1 April 2004 or as appropriate; and**
- ii) the draft revenue estimates for 2004/05 be approved as submitted.**

619. COUNCIL TAX DISCOUNTS

(Ref: Minutes of Corporate Management Committee, January 2002, page 714, para. 469)

The Committee received details of the provisions of the Local Government Act 2003 in relation to Council Tax discounts and gave consideration to the exercise of Council discretions.

Members noted that the Act gave Local Authorities the discretion to reduce the present 50% discount on Council Tax awarded in respect of second homes or empty properties to 10% and nil respectively. The discretion to change the rate of the discount was to be exercised by the billing authority but the financial benefit would be shared by all the precepting authorities in proportion to their share of the Council Tax. Thus, on the basis of a reduction in the discount to the minimum of 10%, the 263 second homes in the Borough would generate an additional tax yield of £147,300 at 2003/04 tax levels, of which Runnymede would derive £11,700, Surrey County Council £117,000 and the Surrey Police Authority £18,600. This additional revenue would not affect the figures used by the Government to calculate grant entitlement so the money raised could be used to fund additional services. Members noted that if all of the precepting authorities were able to agree on a common spending initiative the combined sum could be applied for the purpose, thereby providing a meaningful incentive for the exercise of the discretion.

The Council also had the opportunity to benefit from the removal of discounts in respect of empty homes. Ordinarily the additional income generated from this source would be taken into account by the Government in Revenue Support Grant calculations, effectively offsetting any local financial benefit arising from the increased tax base. However, in the case of authorities such as Runnymede, which was subject to grant protection, it was likely that there would be no corresponding adjustment in the annual grant entitlement. Furthermore, the latest Government guidance appeared to suggest that both Surrey County Council and the Police Authority would also be able to retain their share of the additional empty homes income, on a once only basis, in 2004/05. Based on current tax levels it was estimated that the additional tax yield from the removal of discounts for the 421 empty homes in the Borough would amount to £251,000, of

which Runnymede's share would be £20,000. Only the latter sum would be available for use locally year on year.

The Committee was of the view that any reduction of discounts should preferably be applied on a county-wide basis in order to secure a consistency of policy and maximise the benefits to local residents through some form of joint initiative. The provision of key worker or affordable housing had been identified as an additional suitable use of combined funds derived from the additional second homes income since the policy objectives were common to the Borough Council, County Council and Police Authority. Any income used for affordable housing purposes would partly offset the recent withdrawal of Local Authority Social Housing Grant. Equally, the reduction of the discount on empty homes would provide the Council with a powerful lever to achieve its strategic aim of bringing the properties back into use, thereby reducing housing need. The additional income to be retained by Runnymede could be utilised to complement the Council's various empty homes initiatives.

Members were therefore disappointed to note that Officer level discussions with Surrey County Council had so far failed to produce agreement on a joint scheme. It appeared that while the County favoured a reduction in discounts, it intended to retain its share of the annual second homes income and one-off empty homes windfall for its own purposes. The Committee agreed that discussions should take place with the County Council and other Surrey Districts at Member level in an attempt to resolve the matter and identify a common position. The issue would also be raised at the next meeting of the Surrey Local Government Association. It was noted that the potential betterment to the County Council arising from the retention of its share of the empty homes income in 2004/05 might provide some scope for negotiation.

There was, however, a need to secure an early resolution since precepting authorities had to be notified of the tax base by 31 January. Any significant delay would prevent the exercise of the discretions in 2004/05. In this case not only would the additional annual income from second homes be foregone, but so too would the substantial one-off tax yield to be derived from the retention by Surrey County Council and the Police Authority of the additional empty homes income. With this in mind, the Director of Finance was authorised to implement an appropriate policy, in consultation with the Chairman, as soon as agreement was reached with the County Council. If the discussions failed to produce a satisfactory County-wide solution within the necessary time scales, the Director of Finance would seek the agreement of the Chairman under Standing Order 42 to implement an appropriate policy in respect of empty homes consistent with the views expressed by Members at the meeting. In both instances it would be necessary to first establish that the legislation did not require a decision on the matter to be reached by the full Council.

Finally, Members noted that the Local Government Act also gave billing authorities the power to reduce the amount of Council Tax payable to nil for any chargeable dwelling in the area, either on an individual or class of dwellings basis. This would allow the Council to introduce discounts and exemptions for specific local situations, such as a flooding emergency. The whole cost of the reduced tax yield would, however, fall on the billing authority. It was agreed that the Council would consider the merits of awarding any such discount as each case arose.

In view of the need for an urgent decision in respect of the second homes and empty homes discounts, the Chairman agreed that the matter should be treated as a delegated function in accordance with paragraph 1.3 of Part 3 of the Constitution.

RESOLVED that -

- i) the Council's policy on exercising its discretion to reduce Council Tax discounts on second homes and empty homes be deferred pending discussions with Surrey County Council and other Surrey Districts on the possibility of the totality of the funds being used by the Districts on a suitable initiative such as key worker housing or affordable homes;**

- ii) **the Director of Finance be authorised to implement an appropriate policy with the agreement of the Chairman following such discussion, subject to confirmation that a decision by full Council is not necessary;**
- iii) **if the discussions with the County Council and other districts referred to in (i) above are not settled to the satisfaction of the Director of Finance and the Chairman, it be noted that a suitable policy in respect of discounts on empty homes for the year 2004/05 will be implemented using Standing Order 42 (subject to the same confirmation as mentioned in (ii) above); and**
- iv) **requests for discounts not otherwise covered by national discounts or exemptions be considered on their merits when they arise.**

620. COUNCIL TAX AND BUSINESS RATES - PRINTING OF ANNUAL BILLS

The Committee noted that it had been necessary to waive Contract Standing Orders under the Council's urgent action procedures in order to extend the existing contract in respect of the printing and despatch of Council Tax and Business Rates bills for a further year. The need to re-advertise the contract for the 2004/05 billing had initially been overlooked. As this left insufficient time to seek competitive quotations, the Director of Finance had authorised the reappointment of the existing contractors on the same terms as had applied previously, with an adjustment of 2.75% for inflation, with the agreement of the Chief Executive Officer and Director of Administration and Leisure under Standing Order C1.6. Tenders would be invited for a three year contract in the coming months.

621. LOCAL GOVERNMENT PENSION SCHEME - DISCUSSION PAPER

The Committee considered its response to a discussion paper, issued by the Office of the Deputy Prime Minister, which proposed changes to the Local Government Pension Scheme (LGPS). The paper, which was intended to inform the preparation of draft amending regulations rather than being part of a statutory consultation exercise, reflected recent policy changes applicable to all occupational pension schemes, proposals to simplify the taxation of pensions and the responses to previous discussion papers circulated as part of the ongoing 'stock take' of the LGPS.

In commenting upon the proposals, Members emphasised the value of the pension scheme both to employees and employer. The benefits offered by the LGPS were an important part of the staff recruitment and retention package. It was, however, necessary to strike a balance between the preservation of these benefits and the need to contain the growing burden of costs the LGPS placed on local authorities. Members felt that a more equitable sharing of the increased costs would be required if the principal features of the scheme were to be maintained. It was therefore recommended that the level of employee contributions, currently set at 6% of salary, should be reviewed. An amendment to the motion which deleted a reference to a specific level of increase in the employee contributions having been carried, it was

RESOLVED that -

the comments set out in Appendix 'A' be conveyed to the Office of the Deputy Prime Minister as the Council's response to the discussion paper.

622. APPOINTMENTS TO OUTSIDE BODIES

- a) St. Jude's Church of England School

Members noted that St. Jude's Church of England School intended to reconstitute its Board of Governors in September 2004 in accordance with statutory requirements. The school had requested that the term of its Runnymede appointed Governor, which was shortly due to expire, be extended in the interim.

RESOLVED that -

Mr E.P. Carr be re-appointed as a Governor of St Jude's Church of England School until such time as the school re-constitutes its Governing Body in accordance with the Education Act 2002.

b) Basingstoke Canal Joint Management Committee/CAB Management Committee

Members agreed to defer the appointment of a replacement for the late Councillor A.G. Collins on the Management Committees of both the Basingstoke Canal and CAB.

RESOLVED that -

consideration of the vacancies on the Basingstoke Canal Joint Management Committee and CAB Management Committee be deferred.

(The meeting ended at 10.20 p.m.)

Chairman