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Friday, 29 January 2016

To: The Members of the **EXECUTIVE**
(Councillors: Moira Gibson (Chairman), Richard Brooks, Mrs Vivienne Chapman, Colin Dougan, Craig Fennell, Josephine Hawkins and Charlotte Morley)

Dear Councillor,

A meeting of the **EXECUTIVE** will be held at Surrey Heath House on Tuesday, 9 February 2016 at 6.00 pm. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Karen Whelan

Chief Executive

AGENDA

Pages

Part 1
(Public)

1. Apologies for Absence

2. Minutes **3 - 10**

To confirm and sign the minutes of the meeting held on 12 January 2016 (copy attached).

3. Declarations of Interest

Members are invited to declare any interests they may have with respect to matters which are to be considered at this meeting. Members who consider they may have an interest are invited to consult the Monitoring Officer or the Democratic Services Officer prior to the meeting.

4. Questions by Members

The Leader and Portfolio Holders to receive and respond to questions from Members on any matter which relates to an Executive function in accordance with Part 4 of the Constitution, Section B Executive Procedure Rules, Paragraph 16.

Part 2
(Exempt)

To review those items or parts thereof which can be released as information available to the public.

Minutes of a Meeting of the Executive held at Surrey Heath House on 12 January 2016

+ Cllr Moira Gibson (Chairman)

+	Cllr Richard Brooks	+	Cllr Craig Fennell
+	Cllr Mrs Vivienne Chapman	+	Cllr Josephine Hawkins
+	Cllr Colin Dougan	+	Cllr Charlotte Morley

\+ Present

In Attendance: Cllr Rodney Bates and Cllr Paul Deach

51/E Minutes

The minutes of the meeting held on 1 December 2015 were confirmed and signed by the Chairman.

52/E Revenue Grants 2016/17

The Council funded a number of voluntary organisations which either worked in partnership with the Council or perform functions on the Council's behalf. The allocation of these grants in 2015/16 had been £133,970 for community organisations and £24,900 for leisure organisations, totalling £158,870.

The Executive considered a table providing a breakdown of these organisations' funding requests, together with supporting information. The table compared the funding requested against the grant awarded for 2015/16, the percentage of funding requested against annual running costs and, where appropriate, the in-kind financial support given to the organisations.

Members were also provided with information relating to the achievement of targets contained in each of the Service Level Agreements (SLA).

With regard to Tringhams, West End it was proposed that the grant be reduced to £15,000 as a number of SLA targets had not been met. In addition it was noted that the future viability of the club would continue to be monitored.

An application had been received from the Camberley Central Job Club for the first time. The organisation provided training and support to local people who were unemployed. A grant of £5,000, which would be subject to a SLA, was recommended which would help to fund staff costs.

In relation to the Surrey Heath Sports Council, the Business Portfolio Holder proposed that the grant be reduced to £1,500, in 2016/17, in view of the current level of reserves.

The Executive also noted that the External Partnerships Select Committee would review these grants over the coming year and would report back to the Executive in due course.

Resolved that

(i) subject to the delivery of the service level agreements, revenue grants be allocated for the period 1 April 2015 to 31 March 2016 as follows:

Organisation	Grant for 2016/17
Surrey Heath Citizens Advice	**£80,000 - subject to the Portfolio Holder being asked to monitor the local situation and any potential impact in relation to the Money Advice Service, and other changing trends within local demand and service provision.**
Voluntary Support North Surrey	**£30,000 - subject to specific terms of the service level agreement to be delegated to the Transformation Portfolio Holder.**
Surrey Heath Age Concern	**£10,000 - subject to the continued delivery and expansion of the visiting and befriending service provided to combat loneliness in the elderly, and for a clear strategy to be implemented around respite care within Surrey Heath.**
Tringhams, West End	**£15,000 - with the specific terms of the service level agreement to be delegated to the Transformation Portfolio Holder to focus upon increasing the existing client numbers.**
Camberley Central Job Club	**£5,000 - subject to monitoring with the specific terms of the service level agreement to be delegated to the Transformation Portfolio Holder.**
Basingstoke Canal Authority	**£10,000**
Blackwater Valley Countryside Partnership	**£10,000**
Surrey Heath Sports Council	**£1,500**
Surrey Heath Arts Council	**£1,400**

(ii) all of the above organisations be informed that there was no guarantee that the Council would be able to award any grants in 2017/18; and

(iii) the Blackwater Valley Countryside Partnership be given 12 months formal notice of termination of the current arrangements in order to provide for the cessation or reduction in the grant should this become necessary in the future.

(Note: In accordance with the Council's Members Code of Conduct, Councillors declared interests as set out below:

(a) Councillor Rodney Bates, for the record, as a friend was a volunteer at the Camberley Central Job Club;

(b) Councillor Colin Dougan, for the record, as his daughter was a volunteer at Surrey Heath Age Concern; and

(c) Councillor Charlotte Morley, a non pecuniary interest as the Secretary and the Council's representative on the Surrey Heath Sports Council.)

53/E Response to Cross Rail 2 Consultation

It was reported that Transport for London had consulted in relation to the proposals for Cross Rail 2. It was considered that the Council should support the proposal of Cross Rail 2 in principle. Cross Rail 2 could deliver further South West Main Line capacity which could deliver released capacity for the Bagshot, Camberley and Frimley route and released capacity at Ash Vale. Both these options would help the Council's ambitions to seek an improved service to Waterloo.

In addition the proposals relating to improvements at Woking Railway station and the possibility to terminate Cross Rail 2 services at Woking were also supported.

Resolved to endorse the response set out in the letter at Annex 1 of the agenda report as the Council's formal response to the Cross Rail 2 consultation.

54/E Local Plan Annual Monitoring Report

The Executive considered the Surrey Heath Authorities Monitoring Report (AMR) which had been produced in line with the requirements set out in the Localism Act 2011, which stated a report must be produced and planning authorities must publish this information direct to the public at least yearly. The AMR monitored the period from 1st April 2014 to 31st March 2015.

The purpose of the AMR was to provide details of the actions which had been taken to implement a Local Development Plan and the Local Development Scheme, to indicate the extent to which policies in the current Surrey Heath Local Plan had been achieved, and to identify any solutions and changes where targets were not being met.

Concern was expressed that, over the plan period to date, around only 5% of completed dwellings had affordable housing, against a Core Strategy and Development Management Policy target of 35%. However it was noted the new policies had only been in place for 3 years and it would take some time for their effects to become fully apparent. In addition a significant quantity of applications had come through as prior notifications for the conversion of offices to residential accommodation which meant that there was no incentive or requirement for developers to provide affordable housing. Furthermore the requirement to provide

SANGs payments affected the financial viability of developers being able to deliver affordable housing in the Borough.

Resolved that the Surrey Heath Local Plan Authorities Monitoring Report be approved for the purpose of making the document publically available at the Council offices and on the Council's website.

55/E The Council Tax Base and the Local Council Tax Support Scheme

The Executive received a report on the setting of the Council Tax Base for 2016/17 which reviewed the changes to Council Tax made in 2013/14 and the Local Council Tax Support Scheme introduced in April 2013.

Members noted that there had been an increase in the tax base of 289.70 which would generate an additional income of £61,500 based on the current Band D council tax charge. The Executive received detailed breakdowns of the calculations of the Tax Base for each part of the Borough and a breakdown of the calculation of the Tax Base for the whole area.

Technical changes to Council Tax had been introduced from April 2013 under the Local Government Finance Act 2012 which meant that the Council was empowered to set a number of changes to Council Tax discounts and exemptions as well as introduce a premium for long term empty properties.

On 1 April 2013 the Council had introduced a new Local Council Tax Support Scheme (LCTSS) to replace Council Tax Benefit, for working age claimants. The new scheme operated as a Council Tax discount and the Council was able to vary the value of discount on Council Tax granted to working age claimants. Pensioner claimants were protected and would continue to receive help towards their council tax based on regulations set by Central Government.

The funding given by Government to fund the new scheme was insufficient to pay the full cost of granting all claimants 100% discount. Members had taken the view when setting the scheme in January 2013 that the cost of the LCTSS should not fall on local tax payers and so had set the discount level at 70% for working age claimants, subject to a number of specific exemptions for defined vulnerable groups.

Members had also agreed to put £10,000 into a hardship fund for individual cases for 2015/16. An increasing number of hardship payments had being refused as the current procedural guidance required the applicant to have been in receipt of council tax benefit as at 31 March 2013. It was proposed that the guidance be amended to remove the reference to this requirement.

In 2013/14, a separate grant of £419,000 had been received from the Government to fund the scheme. This however had been included within the overall support grant from 2014/15 onwards and was not separately identifiable. It was anticipated that the loss of income to the Council would amount to £416,000 in 2016/17 as a result of the discount given for the LCTSS. Given that overall government funding was being reduced it was likely that the reduced grant paid would not meet the cost of the LCTSS. If reductions in funding continued it was likely that the scheme might have to be reviewed in 2016/17 with a view to increasing the amounts claimants paid from the existing 30% to 40%.   However this would need to be balanced against claimants' ability to pay any additional council tax.

In addition, the Department for Communities and Local Government had launched a review into how local Council Tax support schemes were working across the country. It was recognised that any revisions to the scheme would need to reflect government changes.

For ease of administration it was important that there was alignment in respect of treatment of income and calculation of applicable amounts between housing benefit and the local council tax support scheme. Each year the Government made minor changes to its scheme to reflect uprating of benefits etc. In order that the housing benefit and LCTSS remained aligned, it was proposed that the Executive Head of Finance be authorised to make such minor changes as may be necessary to the LCTSS for all types of claimant.

The introduction of the LCTSS in April 2013 had had the effect of reducing the Council Tax base since it operated as a discount rather than a benefit.   In order to recognise the effect that this had on parishes the Government had provided a grant to in 2013/14 to give to parishes to ensure they were no worse off because of the introduction of the LCTSS. This amounted to £22,923. The grant had again been provided in 2014/15 but as it had not been separately identifiable the Council had agreed to reduce the parish element by 13% in line with the overall reduction in funding received by the Council. It was proposed that no reduction be made in the current financial year and that the situation be reviewed again in 2016/17 in the light of further anticipated Government funding reductions. This would also mean that Parishes would not have to increase their precepts in 2016/17 just to cover any grant reduction.

Resolved

(i) to note the calculations of the tax base in Annexes A to F summarised below:

	Band D Equivalent Properties
Bisley	**1,513.05**
Chobham	**1,928.94**
Frimley and Camberley	**23,382.72**
West End	**2,013.81**
Windlesham	**8,051.68**
Surrey Heath Borough Council	**36,890.20**

(ii) to note that the changes to Council Tax discounts made by Executive on 7 January 2014 under the freedoms given

in the Local Government Finance Act 2012 and relevant statutory instruments remain unchanged for 2016/17;

(iii) that £19,943 be given to Parishes in 2016/17 to offset the effect on the tax base of the Local Council Tax Support scheme; and

(iv) that the final setting of the Tax Base be delegated to the Executive Head of Finance.

Recommended to Full Council that

(i) the Local Council Tax Support Scheme for Surrey Heath, approved by Council on 22 January 2013, be amended to remove the award of a Family Premium for any new claims or new births after 31 March 2016;

(ii) the Executive Head of Finance make any further minor changes to the Local Council Tax Support scheme so as to ensure that where applicable to income and applicable amount calculation it remains in line with Housing Benefit changes introduced by legislation; and

(iii) incomes and applicable amounts and non-dependant deceptions be uprated, in line with the percentages and amounts supplied by the Department of Work and Pensions and the Department of Communities and Local Government, and applied to Housing Benefit claims.

56/E Quarterly Financial Monitoring

The Executive received the second quarter monitoring report against the 2015/16 approved budget, which provided an update on the Revenue, Treasury and Capital budget position as at 30 September 2015 and an early view for the financial year.

Overall services expect to be £250,000 under budget at the end of the year due to £50,000 underspend on the Business portfolio; £280,000 underspend on Community portfolio; and £174,000 additional income in Corporate property. This would be offset by the £250,000 savings target included within the original budget,

Interest on investments was on track to exceed the expected income provided for in the 2015/16 budget.

It was estimated that there would be an underspend of £77k on wages and salaries at the end of the year based on expenditure to date.

The total capital programme for the year was £19.773m. Of this, £17.289m had been spent during the year so far, mainly on property acquisition with other sums being spent on air conditioning, computer software, car parks and disabled facilities grants.

Sundry debts as at 30 September totalled £606k; a small reduction against the £627k outstanding last quarter. Of the total debts due, £218k related to one invoice for Surrey County Council for recycling credits due in year. The second largest element, £80k, related to invoices for temporary housing costs.

At the end of the second quarter Housing Benefit debts was £643k which was an increase of £33k compared to the last quarter. Although £57k had been recovered, a further £139k had been raised in invoices for new overpayments generated by fraud investigation or claimant information.

Resolved to note the Revenue, Treasury and Capital Position for the first half of 2015/16.

57/E Response to consultation on proposed changes to national planning policy

The Executive considered a draft response to the Government's consultations on changes to National Planning Policy.

The proposed changes concerned housing delivery and related specifically to affordable housing, density around commuter hubs, new settlements, starter homes and development on brownfield land and small sites. The consultation also sought views on transitional arrangements for the introduction of changes to policy.

Whilst the principle of increasing the density of development around commuter hubs and supporting sustainable new settlements was generally welcomed, concerns were raised in respect to other elements of the consultation proposals.

Resolved that the response set out at Annex 1 of to the agenda report be the Council's formal response to the Department of Communities and Local Government's consultation on changes to national planning policy.

Chairman

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General Fund Estimates 2016/17

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the financial year 2016/17.

Portfolio - Finance
Date Signed Off: 13 January 2016

Wards affected – All

Recommendation

(i) The Executive is advised to RECOMMEND to Council that the 2016/17 General Fund Revenue Budget of £10,973,280 as set out in Annex A be approved.

(ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme unchanged for 2016/17 compared to 2015/16

(iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2016/17.

(iv) The Executive is asked to NOTE

1. That the budget contains £746,900 per paragraph 11 chargeable to reserves;

2. The savings and minimum revenue payment required;

3. The provisional Revenue Support Grant & NNDR allocation of £1,792,175 and the final allocation will be reported to Council at its meeting on 24th February 2016;

4. The use of £800,000 of the New Homes Bonus to support the budget;

5. The additional pension payment of £507,000 for 2016/17 to contribute to the deficit and;

6. That a full report, setting out Council Tax proposals for 2016/17 will be presented to Council on 24th February 2016.

7. The future savings that will be required as a result of reductions in Government funding in the period to 2020 and the impact this may have on the future financial viability of the council and its services

1. Resource Implications

2016/17 Budget

1.1 The budget has been prepared on the assumption that Council Tax will be increased by 1.94%. This is because the Government has announced that it is their intention to set the referendum limit at 2%. Should this not be the case then other options will be presented at the meeting.

1.2 **It is a matter for full Council to decide upon the level of Council Tax set however Executive can make a recommendation.**

1.3 The revenue support grant the Council receives to pay for services has been reduced by £738k or 67%. The remaining £357k will be withdrawn in 2017/18. This will mean that after next year the Council will receive no money from Central Government for its services, including the funding of the Council Tax Support Scheme which replaced Council Tax benefit.

1.4 The net cost of Services for 2016/17 as presented as shown is £320k lower than last year. However this is after charging an additional £169k in pension contributions and £202k minimum revenue payment to repay debt. Actual service costs have fallen almost £600k due to savings and additional income.

1.5 The total budget is attached as Annex A and a full set of budget pages detailing each service are available on the Escene and in the member's room.

1.6 A number of fees and charges have been increased and have been approved in accordance with financial regulations. These changes are reflected within the budget. A list of these can be found on the internet under finance.

1.7 Wages and salaries for the year have fallen by £17k overall compared with last year. This is despite an increase in National insurance of 2% and increments totally £113,000. Services have been told that they must keep within the cash envelope form 2015/16 however this does mean that they will need to find in year savings of £235k. As a result of these pressures the vacancy margin has been set at 2% this year rather than 3% as in previous years. An allowance has also been included for a potential pay increase.

1.8 The Chancellor announced in his Autumn Statement that the grant funding for Local Authorities would be halved by 2019/20 and those Councils would be able to retain 100% of Business Rates from that date. However from the provisional settlement released on the 17th December the reduction for Districts and in particular Surrey Districts is a lot steeper with funding being withdrawn in 2 years. Members may wish to note that there is now no funding for the Council tax support scheme. There are no details available at the moment as to how the 100% retention of business rates is designed to operate. What will be critical for Surrey Heath is where the baseline and tariffs are set since this will determine whether the Council will be in an ongoing deficit or surplus situation.

1.9 The Government have brought in a new measure of Council funding called "Core Spending Power". This is the total of Revenue Support Grant, New Homes Bonus and Council Tax. Using the Government Figures this is set to fall in cash terms by 12.9% or £1.5m between 15/16 and 19/20. It should be noted that this assumes that Council Tax will increase by 11% over that period. If inflation is factored in then this is equivalent to a real terms reduction of over 20%. What the Government's figures do not include is an additional deduction being made from Business Rates which will amount to an additional £933k by 2019/20 thereby making the reduction nearer 30% in real terms.

1.10 The Council is due to receive £1.418m in New Homes Bonus in 2016/17 compared to £1.271k in the previous year. This money is not new money but rather top sliced business rates which are then redistributed to those Councils which build the most houses. The rate of building in Surrey Heath is still one of the lowest in the Surrey and the south east. Guildford for example is due to receive almost £2.3m, Woking and Runnymede £2.0m and Elmbridge £3m. In fact of all the Surrey districts only Mole Valley receives less. It is proposed that £800k is used to support the budget in this financial year.

1.11 The Government has announced that the New Homes bonus i.e. an incentive for house building will be retained indefinitely. However they are about to consult on potential changes to the scheme which could reduce the amount of funding for individual councils. This will form part of a separate paper in due course. What does remain certain is that the funding is only guaranteed year to year if house building continues making economic growth in the borough all the more important..

1.12 Savings of £270k will need to identify in year however the council has always managed to achieve this target.

1.13 Expenses totalling £747k are being charged directly to reserves and this is explained in more detail later in this paper. The General fund is estimated to be at least £1.5m at the end of 2016/17 if the savings and budget are delivered as shown.

<u>Future Resource Implications</u>

1.14 The Department for Communities and Local Government (DCLG) has published the amount of funding Councils can expect in the period to 2019/20. Many Districts have been pursuing a strategy of being free from Government funding and indeed at Surrey Heath we have made steps along that road by increasing income and investing in property. However from the information available it would appear that not only does Surrey Heath lose its grant in 2017/18 but in fact becomes a contributor i.e. the grant becomes negative or basically a charge. This is completely new territory and shows that it will become very difficult for districts to be free of Government funding. This has been achieved by applying a tariff adjustment payable out of business rates. By 2019/20 of the £1.555m baseline business rates that Surrey Heath is due to receive £933k will be returned to Government meaning that the borough is only guaranteed to get 1.5% of the business rate we collect. This is the case for all districts in Surrey as can be seen in the attached table.

Future funding for Surrey Districts

			Cumulative		Cumulative		Cumulative		Cumulative
			% reduction		% reduction		% reduction		% reduction
	15-16 RSG	16-17 RSG	on 15-16	17-18 RSG	on 15-16	18-19 RSG	on 15-16	19-20 RSG	on 15-16
	£M	£M		£M		£M		£M	
Elmbridge	1.776	0.67	-62.4%	-0.3	-116.9%	-0.86	-148.4%	-1.48	-183.3%
Epsom and Ewell	1.006	0.42	-58.6%	-0.05	-102.8%	-0.32	-118.0%	-0.62	-134.9%
Guildford	2.079	1.10	-47.3%	0.32	-82.0%	-0.15	-108.4%	-0.67	-137.7%
Mole Valley	0.903	0.27	-69.7%	-0.22	-112.4%	-0.5	-128.1%	-0.82	-146.2%
Reigate and Banstead	1.665	0.50	-70.3%	-0.42	-123.6%	-0.95	-153.5%	-1.54	-186.7%
Runnymede	1.322	0.75	-43.5%	0.29	-83.7%	0.01	-99.4%	-0.3	-116.9%
Spelthorne	1.331	0.58	-56.4%	-0.1	-105.6%	-0.36	-120.3%	-0.75	-142.2%
Surrey Heath	**1.095**	**0.36**	**-67.4%**	**-0.22**	**-112.4%**	**-0.56**	**-131.5%**	**-0.93**	**-152.4%**
Tandridge	1.175	0.53	-55.0%	-0.03	-101.7%	-0.36	-120.3%	-0.73	-141.1%
Waverley	1.574	0.76	-51.4%	0.06	-96.6%	-0.35	-119.7%	-0.81	-145.6%
Woking	1.483	0.59	-60.4%	-0.11	-106.2%	-0.53	-129.8%	-0.99	-155.7%
Surrey districts	15.409	6.514	-57.7%	-0.78	-105.1%	-4.93	-132.0%	-9.64	-162.6%

1.15 In addition there is uncertainty as to what the future funding from the new homes bonus will be. Although the Government has pledged to maintain the bonus indefinitely the level of reward for Districts may well reduce substantially. This will further increase the financial pressure on the council.

1.16 The 100% retention of business rates by Councils by 2020 will bring with it risks in terms of increased volatility in income but also opportunities. Economic development, and in particular hard development, will be key to the Council's ability to fund services in the future. Similarly the Council will need to maintain its focus on projects which deliver financial rather than non-financial benefits if it is to try to fill the gap created by reductions in government funding. On top of this the Council will continue to operate in an environment where there is increasing pressure on wages and staffing and so will need to continue to be innovative in the way it delivers services and works with partners.

1.17 The Council has made significant internal efficiency savings and increased income to meet the reduction in funding so far without any detrimental effect on services to the public. Staff have worked hard to minimise the effect of Government cuts on the community. The financial projection driven by funding reductions shows that further significant savings will be required. Most of the significant internal efficiencies have already been realised and so more emphasis is being put in to the way services are being delivered be that by shared services, joint working, joint contracting, outsourcing or demand management. The Council has also worked hard on its strategy of increasing income and has achieved better returns on its treasury investments and borrowed money to invest in property for regeneration and financial return. Clearly this work will need to be accelerated if core services are to be maintained at their current levels.

1.18 It would appear for the settlement that the Government is pursuing a strategy where limited public funds in two tier areas are being diverted from the lower to the upper tier. This is to ensure that services such as Adult and Children's services, which are subject to demographic pressures, are funded at the expense of what are perceived to be less important functions provided by Districts. This will mean that unless Districts can raise substantial levels of funding themselves it will become increasing difficult to maintain the existing arrangements of local government in two tier areas.

2. **Key Issues**

3. Introduction

3.1 The level of budget set and the allocation of resources fundamentally impacts across all the Council's services. This report:

- reviews the current year's budget position
- recommends to Executive for recommendation to Council the Budget for 2016/17
- gives details of the provisional Government grant settlement for 2016/17
- includes a financial projection for 5 years going forward

3.2 This year's budget is again prepared against a background of major reductions in public expenditure, the financial volatility of Business Rates and increasing demand for service driven by an aging population and economic factors. This is making it increasing difficult for the Council to continue to deliver all its services in their current form in the medium term.

4. General Fund Estimates 2016/17

4.1 This year services were asked to prepare their budget using the following parameters:

- No growth unless contractual and even then to be absorbed by compensatory savings
- No inflationary uplift
- Base Wages and salaries to keep at least to the 2015/16 cash limited total. i.e. increases in NI, pensions and increments to be absorbed by each service. An exception to this was where in order to generate additional income extra staffing was required

4.2 Management Board in 'Star Chamber' review workshops examined and challenged the draft estimates in some detail and checked that the budget parameters above had been complied with.

4.3 A summary of the budgetary position is as follows:

	Note	£000	£000
2015/16 Net Cost of Services			11,573
Grant treated as revenue	a		-299
One off items removed			-50
			11,224
Variations to Original Estimate:			
Savings and income	b	-2,329	
Increased Expenditure	c	1,956	
Change in portfolios			-373
			10,851
Pay provision and vacancy margin	d	37	
Pension adjustment	e	-90	
Internal asset charges	f	107	
Pension fund contribution	g	169	
Minimum Revenue payment	h	202	
Change in savings target	i	-23	
Non portfolio changes			402
2016/17 Net Cost of Services			**11,253**

4.4 The table above gives reconciliation between this year's budget and last years. A more detailed breakdown of the budget movement is shown in Annex B

4.5 The notes for the table above are as follows. It should be noted that a minus "- "indicates a decrease in the budget and a plus "+" an increase.

a. This is the grant received to pay for Disabled Facilities Grants which is being treated as a revenue grant

b. These are savings and additional income offered as part of the budget process

c. This relates to increased expenditure through volume and prices

d. This includes a provision for a pay increase and the vacancy margin. The 2% vacancy margin assumes that the actual staff costs will be less than the budgeted cost due to vacancies arising in the year. This has been 3% in previous years but due to pressures within the budget from increases in national insurance costs it has been reduced to 2% this year. That said it is always exceeded on a corporate basis.

e. These are accounting adjustments. The pension adjustment arises because the cost of services includes the actuarial cost of pension provision whereas the Council is only allowed to charge to Council tax payers the actual contributions made.

f. The asset charge depends on the number of assets held, their valuation and the depreciation policy. It is against local government accounting rules to charge this to Council Tax and it is therefore reversed out as an accounting entry.

g. This is an additional payment required to contribute to the pension fund deficit as determined by the actuary at the triennial review in 2013. This means the total deficit payment is now £507,000. An actuarial review will be carried out in March 2016 and a new deficit contribution will be assessed at that time for the 2017/18 budget and the next 3 years after that.

h. This represents the Minimum Revenue Payment that is required in order to ensure that revenue funds are put aside for the repayment of debt.

i. This is the movement in the corporate savings target for the year

4.6 Provided the actual expenditure, including savings, meets the budget the General Fund will be unchanged at the end of 2016/17 at about £1.5m. This is considered to be a prudent level.

5. Localisation of Business Rates (LBR)

5.1 LBR gives local authorities a direct financial incentive to increase economic growth activity, as measured by an increase in business rates driven by development, in their local area. Broadly speaking for every additional £1 collected above the initial baseline 50p goes to government to be redistributed as grants such as New Homes Bonus and grants, 10p goes to Surrey CC, 20p goes to fund a safety net for areas suffering large reductions in rateable income and 20p remains in Surrey Heath. Conversely a fall in income of £1 will result in a loss of income of 50p to the government, 10p to the county and 40p to Surrey Heath – however this loss is capped at 7.5% of our overall baseline meaning the most Surrey Heath can lose is £107k.

5.2 The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

Total Business Rates and Council Share
2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Final	Provisional	Provisional	Provisional	Provisional
	£000	£000	£000	£000	£000
Baseline - assumed minimum collected	34,025	34,310	34,988	36,018	37,170
Less: 50% to Government	-17,013	-17,155	-17,494	-18,009	-18,585
Less: 10% to SCC	-3,402	-3,431	-3,499	-3,602	-3,717
Share for SHBC	13,610	13,724	13,995	14,407	14,868
Less Fixed Tariff	-12,187	-12,289	-12,531	-12,900	-13,313
Business Rates for SHBC	1,423	1,435	1,464	1,507	1,555
Less Tariff Adjustment	0	0	-220	-557	-933
Remining share of Business Rates	1,423	1,435	1,244	950	622
%age share	4.2%	4.2%	3.6%	2.6%	1.7%
Safety Net	1,317	1,328	1,354	1,394	1,438

5.3 It can be seen from the above table that it has been assumed that Business Rates will increase by 9% over the spending review period. In 2020 Councils will be allowed to retain 100% of business rates however how this affects Surrey Heath will be dependent on the baseline and tariff set. It can be seen that the amount the borough current received compared to what it collects is actually very small and amounts to only 4% of the total.

5.4 If Surrey Heath collects more than £34.310m in 2016/17 then it can retain 20% of any excess. If conversely it collects less then it loses 40% of any loss up to £107k in total.

5.5 The cost of any revaluations, irrespective as to which year they relate, falls on the borough together with any interest due. The Government did introduce a time limit on claims which came in last year and is also looking to review the whole appeals process.

5.6 The safety net applies to the share of business rates before the tariff adjustment. i.e. this is the minimum the Council is guaranteed to receive.

5.7 A national business rates revaluation is due to take place in 2017 and this will result in changes to individual authority's baselines and tariffs. In theory no one Council should be worse off as a result of the revaluation but this remains to be seen. In addition a rebalancing of business rates between authorities is due to take place in 2020. This may mean that gains in one area are passed to other areas where there have been losses. Alternatively gains up to 2020 could all be transferred to the centre. It will become clear as to the implication for Surrey Heath once the proposals for 100% rate retention have been revealed.

5.8 The table below shows estimated direct gains and losses for %age changes in business rates income against the government baseline of £34m.

Table showing effect of changes in Business Rates		
Actual NDR achieved in 2015/16 (relative to NDR Baseline)	**Change in Business Rates Required (£000)**	**Difference in Funding (£000)**
Baseline NDR +3%	1,020	204
Baseline NDR +2%	680	136
Baseline NDR +1%	340	68
Baseline NDR	0	0
Baseline NDR - 1%	-340	-107
Baseline NDR - 2%	-680	-107
Baseline NDR - 3%	-1,020	-107

To put this in to perspective the 12th largest rateable property in the borough generates about 1% of the total business rates.

5.9 Given the continued uncertainty over the level of revaluations on appeal only the baseline level of £1.435m has been put in to the budget. Any increase above this will be taken to reserves to offset future losses.

6. Local Government Settlement 2016/17

6.1 The Council received notification of an indicative settlement for 2016/17 its rate support grant of £357k on the 17th December representing a reduction of 67% in cash terms compared with 2015/16. This will confirmed by Parliament in January 2016. The grant will be completed abolished in 2017/18 and indeed after that will effectively become negative.

6.2 Surrey Heath's allocation is as follows:

	Final Allocation	**Final Allocation**	**Final Allocation**	**Final Allocation**	**Prov Allocation**	**Prov Allocation**	**Prov Allocation**	**Prov Allocation**
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Core Funding	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
Revenue Support Grant	63	1,415	1,441	965	357	0	0	0
Share of Business Rates	3,080	1,370	1,304	1,330	1,435	1,464	1,507	1,555
Tariff adjustment						-220	-557	-933
	3,143	2,785	2,745	2,295	1,792	1,244	950	622
Other Grants rolled in:								
Council Tax Freeze Grant	176	176	176	174				
Homelessness Grant		50	50	49				
Returned funding			3	0				
Council Tax Support Funding		419						
	3,319	3,430	2,974	2,518	1,792	1,244	950	622

6.3 The funding for the Local Council Tax support scheme is no longer shown separately and Councils are now expected to fund this themselves going forward.

6.4 The Council tax freeze grant paid as compensation to those councils that froze council tax has been withdrawn. No further freeze grants are being offered for 2016/17 and beyond.

7. Council Tax and Council Tax Freeze Grant

7.1 Council Tax will be set by the Full Council at its meeting on the 24th February 2016.

7.2 The Minister has confirmed that there will be a cap on council tax increases as follows:

- 4% - For those Councils with Adult Social Care responsibilities
- £5 – for those Councils with historically low Council tax
- 2% - for all others including Surrey Heath
- Parishes are not included with in the capping legislation

7.3 Any council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase in council tax.

7.4 No freeze grant is being offered this year so the budget has been prepared on the basis that council tax will be increased by 1.94%. This has been chosen because the %age increase on bills is rounded to 1 decimal place.

7.5 The current Surrey Heath band D Council Tax is £196.30. The table below shows the effect on an increase of 1.94%

Council Tax Increases

Percentage	**Increase £**	**SHBC Weekly Increase £**	**SHBC Weekly Cost £**
1.94%	3.81	0.07	3.84

The Table shows the costs for Band D properties only.
Every 1% increase in Council tax raises approximately £72,400 annually
Surrey Heath only gets about 12% of the total Council Tax charged

7.6 **The Council is at liberty to set whatever level of Council Tax it so wishes.** Increases deemed to be “excessive” i.e. over 2% will trigger a local referendum (at the Council’s expense) on the increase requested.

8. Tax Base, Parish Support and Collection Fund

8.1 The tax base has risen during the year due to as can be seen in the table below:

Council Tax Base

	2016/17	**2015/16**	**Change**
Bisley	1,513.05	1,507.32	5.73
Chobham	1,928.94	1,922.82	6.12
Frimley and Camberley	23,382.72	23,125.93	256.79
West End	2,013.81	1,997.80	16.01
Windlesham	8,051.68	8,046.62	5.06
Total	36,890.20	36,600.49	363.47

8.2 This increase will create additional council tax income of £70,000 and shows the value in financial terms in delivering housing.

8.3 The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2015/16 and is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	**Support given in 2015/16 & 2016/17**
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
TOTAL	**19,943.44**

8.4 The Collection fund shows a projected surplus at the end 2015/16. The Sec 151 officer has determined that a surplus of £600,000 can be declared for the year. Of this will £448,460 will be paid to Surrey County Council, £79,370 to the police and the remaining £72,170 to the borough. This will be used to support the budget for 2016/17.

9. <u>Investment income</u>

9.1 The 2016/17 estimates include a provision of £300k for investment income.

10. <u>Pensions</u>

10.1 Surrey Heath along with all the other boroughs and districts, the county, police, a number of parishes and other organisations are members of the Surrey Local

Government Pension Scheme. This is managed by Surrey CC and in accordance with regulations a triennial actuarial review was carried out as at the 31st March 2013.

10.2 As a result of this review no increase was implemented in respect of the future service cost of pensions which stayed at 15.7%. However additional contributions were required to address the historic deficit.

10.3 This meant that the £381k Surrey Heath paid in 2013/14 towards the deficit increased to £550k in 2014/15 and is £719k in 2015/16 and £888k in 2016/17. These are large increases that will need to be funded by from the current budget. It is hoped that the next triennial review in 2016 will show that the deficit has reduced substantially meaning that contributions can be reduced but there is no certainty of that.

11. Items funded from reserves

11.1 As in previous years £746,900 of expenditure is funded directly from reserves as follows:

- £75,000 of expenditure relating to community grants included in the budget is being funded from the community fund. Typically this budget is under spent.

- £250,000 of costs related to Transformation is being financed from the Capital Revenue reserve as it is deemed to be an investment to deliver transformational change to Council services and thus deliver savings in the medium term. This may become an additional budget pressure going forward.

- £91,900 for community safety using Crime and Disorder Partnership funding.

- £150,000 for property maintenance from reserves.

- £150,000 for Family Support from the Family Support funding reserve which was created when the service was initially set up.

- £30,000 from SANGS reserves to pay back borrowing to purchase SANGS land in Chobham.

12. Funding transferred to Reserves

12.1 Unused new homes bonus is budgeted to be transferred to reserves.

13. Minimum Revenue Payment

13.1 There is an amount of £202k included within the budget to cover the cost of the Minimum Revenue Payment for assets purchased in the precious year funded through borrowing. This payment is to ensure that there is adequate funds to repay the capital when it becomes due. The MRP charge has been made in line with the council's policy.

14. <u>New Homes Bonus (NHB)</u>

14.1 In 2010 the Government announced a new incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. The bonus is calculated each year using the tax base growth and the reward is paid for that year and the 5 years following.

14.2 Amounts received so far are as follows:

Year	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Amount	£69k	£307k	£634k	£918k	£1.271m	£1.418m

14.3 The increasing amount of money paid out as New Homes Bonus rather than general grant reflects the government's policy to reward those Councils that deliver hard housing development. Surrey Heath has one of the lowest level of new housing in Surrey hence our payment is a lot less than our neighbours.

14.4 NHB is not "new" money and instead comes out of redistributed local authority funds – mainly by top slicing business rates. However it is becoming and increasingly important source of revenue for those areas that want to build housing.

14.5 The Government has assumed that New Homes Bonus is there to support on-going services and so £800k has been used to support the Councils revenue budget with the remaining £618k being transferred in to reserves.

14.6 The Government has launched a consultation on the future shape of New Homes Bonus which will result in a reduction to the level of incentive given. This could be done by:

- reducing the number of years an incentive is paid
- changing the district/county split
- reducing growth for a baseline housing delivery
- reducing the bonus for houses passed on appeal
- not paying the bonus where no local plan is in place

The outcome of this is not known at the moment and will affect the 2017/18 budget onwards. Given that this funding is time limited and it is unclear what will happen when the scheme ends the Council will need to take steps to reduce its cost base or generate income to cover reduction in this funding stream in the future.

15. <u>Overall Budget</u>

The overall budget taking account of the items above is shown in Appendix A

16. Financial Risks

16.1 There are a number of financial risks contained within the estimates. These are as follows:

Income Projections

16.2 The economic climate continues to affect the income raised from charges and rental income. The estimates used are considered to be prudent based on current knowledge.

Achievement of savings

16.3 There is a savings target included within the budget. There is a risk that this may not be deliverable given the savings already made which will then place more pressure on reserves.

Inflation

16.4 There is general allowance for inflation in this budget. Cost inflation has either been absorbed or budgeted for.

Salaries

16.5 As the council reduces headcount and churn reduces achievement of the 3% headcount is becoming more difficult. In addition services have been told to operate within a cash limited envelope for wages. This means absorbing all increments within their spend envelope. This has also meant that there are £235k of savings required in wages which have yet to be identified but have been built in to the budget.

Business Rates Funding

16.6 A change in the business rates income has a direct impact on Council funding. This has been explored earlier in this paper.

17. Financial Forecast

17.1 Each year as part of the budget process a 5 year financial forecast is prepared which attempts to model the Council's finances over this period. The Government has announced the funding allocations for 2016/17 to 2019/20. Whilst we do not have details beyond that it has been assumed that the reductions in that period will carry on beyond 2019/20.

17.2 The forecast assumes that there is no change in services or income. Its purpose is to show the scale of the challenge over the next 5 years.

17.3 The introduction of 100% localisation of Business Rates in 2020/21 will lead to increased volatility in income for Councils however for the purposes of the forecast it has been assumed that there will be no major changes. The potential impact of changes in business rates is highlighted elsewhere in this paper.

17.4 The introduction of the Council Tax Support scheme transfers financial risk to the Council in terms of increased bad debts and changes in number of claimants. Based on experience so far the risk would appear to be low and so it has been ignored but should still be noted. It should also be reiterated that this is no longer funded by Government.

17.5 The Council is becoming increasingly reliant on reserves to support its budget. Whilst this is manageable it does have implication for the medium to longer term.

17.6 The forecast take no account of any significant projects that may arise during the life of the forecast. Part of the decision process for these projects will be a consideration of their impact on the Council's future funding.

17.7 Each Financial Forecast is made up of 4 parts as follows:

Revenue fund projection

17.8 This rolls forward the current proposed budget, reflecting future changes as agreed by Management Board and the assumptions in the table below.

Capital Expenditure forecast

17.9 This shows a projection of the level of Capital Reserves based on known "approved" future expenditure. For the purposes of this forecast it has been assumed that significant capital projects will be funded by borrowing and be self-financing.

Capital and revenue balances

17.10 This sets out the predicted use of reserves based on the financial forecast.

Assumptions

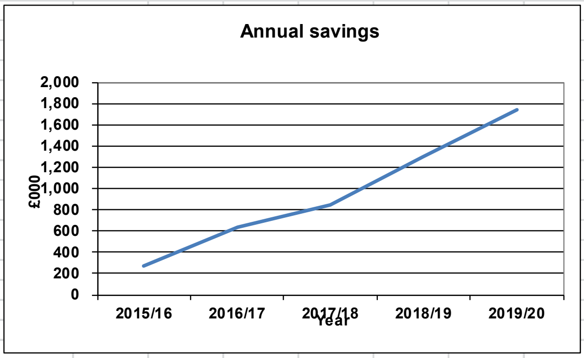
17.11 The assumptions used in the forecast are set out below:

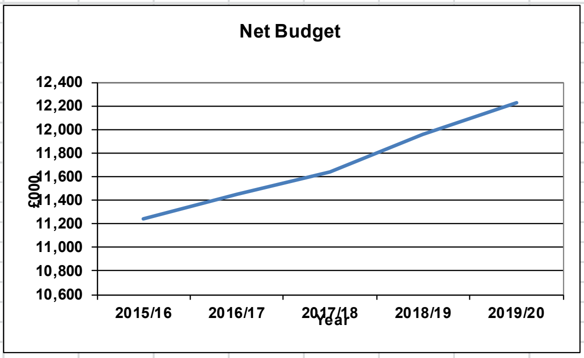
Forecast Assumptions

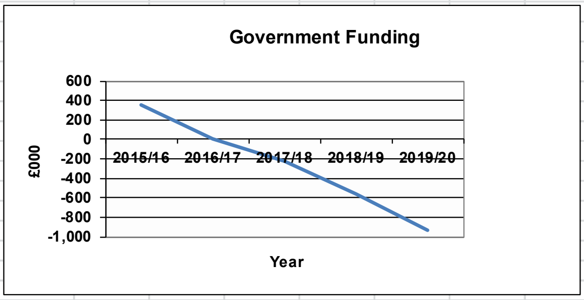
Category	**Assumption**
Inflation - wages	1.5% rising to 2%
Inflation - Expenses	1% to 1.5%
Investment Returns	2%
Government Funding	As per SR2015
Council Tax	1.94% increase
Fees and Charges	2.0%

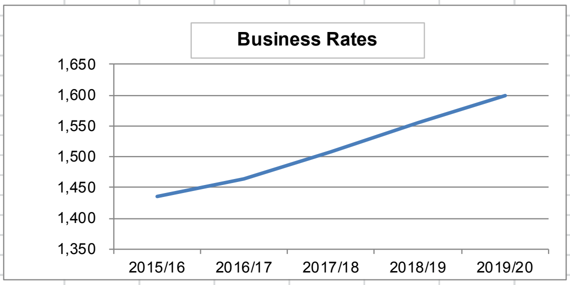
18. Financial Projection based on a Council Tax increase in 2016/17

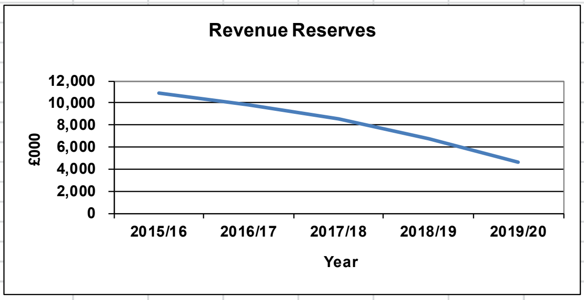
18.1 The graphs show the projected outcomes for 2016/17 to 2020/21. The detailed schedules are in Annex B

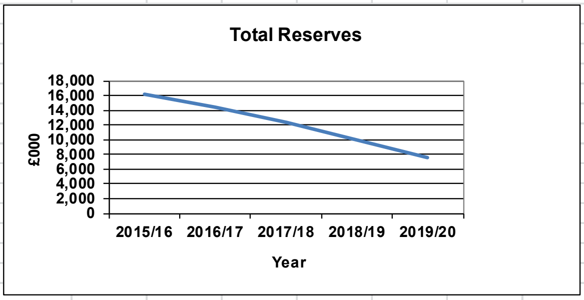












18.2 The outcome from this scenario is that savings of about £1.7m will be required by 2020/21.

19. <u>Risks to be considered in relation to financial forecast</u>

19.1 The “prudent” scenario above is based on a set of assumptions that are in reality a “best guess”. This year more than ever there are a number of areas of uncertainty, particularly in relation to the local government finance reforms, which potentially could have a huge effect on forecasts.

19.2 Income Projections
It has been assumed that income will not decline any further as we are now at the bottom of the economic cycle. .

19.3 Local Government Funding
It has been assumed that funding will continue to fall in line with spending review 2015 and continue to fall at the same rate after that. This will mean that Surrey Heath will receive no money for services from Government and in fact become a net contributor.

19.4 Council Tax increases
These forecasts assume that Council Tax will be increased by 1.94% in the future. The Government could reduce the level at which a referendum is triggered thereby limiting the ability of Councils to increase Council Tax.

19.5 Pension Deficit payments
It is assumed that these payments will remain at the same level after the next revaluation.

19.6 New Homes Bonus
The forecast assumes that this will be retained but reduced over the period. The Government’s estimates have been used in the forecast but these may change as a result of a review of NHB.

19.7 Interest Rates
Interest rates continue to be low reducing investment returns. A 1% rise would generate an additional £150,000 income.

19.8 Inflation
It has been assumed that public sector, in particular wage, inflation will remain low.

19.9 Legislative changes
Legislative changes, such as the transfer of the administration of benefits from the Council to the DWP and the responsibility for Council Tax benefit moving to Councils may have an unpredictable impact financially for the council.

19.10 Changes
It has been assumed in the forecast that there will be no changes to services. Transformation of services will be one of the ways that the funding gap is addressed. The purpose of the forecast is to give an indication as to the size of that challenge. In respect of agency services such as Supporting families it is

assumed that this will be funded externally on the same basis as it is currently. If this were not to happen then this would be an additional budget pressure on the Council.

20. Conclusions to be drawn from the Financial Forecast

20.1 The removal of Government funding was anticipated although the speed of removal came as a surprise. What was not expected was the fact that Surrey Heath would become a net contributor thereby adding a £1m of cost pressure that has now to be dealt with. As stated earlier the projection assumes that no action is taken to deal with the Council's financial challenges. This is clearly not the case. Work is ongoing in identifying future savings and income streams however the scale of the challenge should not be underestimated especially in the light of the savings already made. The next 5 years will require some more innovative and radical action to be taken if core services are to be maintained. This will mean that Surrey Heath by 2021 will need to radically different from what it is now.

20.2 Members should be aware that the scale of the reduction in funding, especially taken I the context of the savings already made, is so great that it calls in to question the financial viability of the Council and its services in the period to 2020.

20.3 Funding of capital continues to be a real issue. Capital receipts have all been exhausted and funding is being done form revenue reserves. Services are being required to fund capital out of future savings to ensure that reserves are no run down. The Council has also borrowed to fund investment assets which generate returns.

20.4 Pensions continue to be a significant cost. Total contributions now amount to almost £2m pa and further increases as a result of the triennial review on the 31st March 2016 whilst not anticipated cannot be ruled out.

21. **The Next stage**

21.1 At this stage, the following information is required before details of the level of Council Tax for 2016/17 can be proposed:

- The Revenue Support Grant Settlement and Redistributed Business Rates as detailed at paragraph 6, is still provisional. It is anticipated that the final settlement will be announced in Parliament towards the end of January.
- The County Council needs to determine its precept for the year
- The Police Commissioner needs to determine his precept for the year.
- Details of all the Parish Precepts.
- Confirmation of the referendum limit of 2%

21.2 All this information should be available in time for the Council Tax setting meeting in February

21.3 The revenue estimates or budget is a fundamental cornerstone of the resourcing of Council services and the delivery of the corporate plan. Members are asked to pay particular attention to:

- The savings that have been included within the estimates for 2016/17
- The major reductions in Government funding as a result of the 2015 Spending review and its implications for the maintenance of services
- Items financed from reserves
- The underlying assumptions in the budget
- The financial forecast and its implications in respect of the need for further savings if financial stability is to be achieved and the underlying assumptions in its preparation

22. **Options**

22.1 The Executive is asked to consider and recommend to Council the 2016/17 Revenue Estimates as set out in this paper including the savings target and amounts chargeable to reserves. It can of course amend or reject any part of the budget as set out as it sees fit.

23. **Officer Comments**

23.1 Any change relating to 2016/17 budget agreed by Executive will be adjusted for in the budget presented to Full Council on the 24th February 2016.

24. **Proposals**

24.1 It is proposed that as follows:

(i) The Executive is advised to RECOMMEND to Council that the 2016/17 General Fund Revenue Budget of £10,973,280 as set out in Annex A be approved.

(ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme unchanged for 2016/17 compared to 2015/16.

(iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2016/17.

(iv) The Executive is asked to NOTE

1. That the budget contains £746,900 per paragraph 11 chargeable to reserves;

2. The savings and Minimum Revenue Payment required;

3. The provisional Revenue Support Grant & NNDR allocation of £1,792,175 and the final allocation will be reported to Council at its meeting on 24th February 2016;

4. The use of £800,000 of the New Homes Bonus to support the budget;

5. The additional pension payment of £507,000 for 2016/17 to contribute to the deficit and;

6. That a full report, setting out Council Tax proposals for 2016/17 will be presented to Council on 24th February 2016.

7. The future savings that will be required as a result of reductions in Government funding in the period to 2020 and the impact this may have on the future financial viability of the council and its services

25. **Supporting Information**

25.1 This is all included in the report and the annexes. A separate booklet showing individual budgets by portfolio is available on the website and a copy has been placed in the member's room.

26. **Corporate Objective and Key Priorities**

26.1 The budget underpins all of the Corporate Objectives and Key Priorities.

27. **Legal Issues**

27.1 The process for setting the budget is outlined in the constitution. The Council does have a legal duty to set a budget and precept for Council Tax.

28. **Sustainability**

28.1 This budget is part of the process to make the Council financially sustainable.

29. **Risk Management**

29.1 There are a number of risks inherent in the budget and in the financial forecast. These have been outlined in the relevant sections

30. **PR and Marketing**

30.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. The Council may consider it important that the public is informed as to how little central government funding the borough receives and how this is to be reduced further in the future.

31. **Equalities**

31.1 The Council recognises that where budgetary proposals are likely to have a significant impact on Council policies or service provision, such changes may have a disproportionate impact on particular sectors or groups within the population. It is thus important to conduct an assessment of such impact, in line with the Council's commitments as set out in our Corporate Equality Plan, and in compliance with our statutory equality duties.

31.2 Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council is thus conducting Equality Impact Assessments (EIA) of these proposals. EIAs are all about considering how such proposals may impact, either positively or negatively, on different sectors of the population in different ways. The purpose of such assessments is to

- Identify whether the proposals are likely have a disproportionate impact on any particular group within the population;
- whether such an impact is positive or negative; and
- whether such an impact might constitute unlawful discrimination.

31.3 Where disproportionate negative impact and/or unlawful impact are identified, the assessment provides a means for the Council to take appropriate steps to either avoid such an impact or take appropriate action to mitigate it.

Annexes	**A – 2016/17 Summary Budget** **B – Financial Forecast**
Background papers	**Revenue estimates for 2016/17**
Author/contact details	**Kelvin Menon – Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Head of service	**Kelvin.menon@surreyheath.gov.uk**

	Required	**Consulted**	**Date**
Resources			
Revenue			
Capital			
Human Resources			
Asset Management			
IT			
Other Issues			
Corporate Objectives & Key Priorities			
Policy Framework			
Legal			
Governance			

Sustainability			
Risk Management			
Equalities Impact Assessment			
Community Safety			
Human Rights			
Consultation			
P R & Marketing			

ANNEXE A

GENERAL FUND REVENUE ACCOUNT

2016/17 SUMMARY BUDGET

PORTFOLIO'S	2015/16	2016/17	Variance
	Budget	Budget	
	£	£	
Business	1,988,870	1,878,830	-110,040
Community	5,672,080	5,041,616	-630,464
Corporate	1,413,990	1,520,080	106,090
Finance	1,980,810	1,907,470	-73,340
Regulatory	2,241,520	2,438,507	196,987
Transformation	1,098,350	886,950	-211,400
	14,395,620	13,673,453	-722,167
Less: Staff cost amendments	-129,940	-92,676	37,264
Less: Savings Target	-246,597	-270,295	-23,698
Pension adjustment	-472,370	-561,965	-89,595
Add: Additional pension contribution	338,000	507,000	169,000
Add: Minimum Revenue Payment		202,000	202,000
Internal asset charges reversed	-2,311,760	-2,204,180	107,580
NET COST OF SERVICES	11,572,953	11,253,337	-319,616
Less: Investment Interest earned	-300,000	-300,000	0
Add: Contribution to Parishes	19,943	19,943	0
BUDGET REQUIREMENT	11,292,896	10,973,280	-319,616
Less: Collection Fund Surplus	-120,000	-72,170	47,830
Less: Business Rates baseline	-1,329,778	-1,435,359	-105,581
Less: Rate Support Grant	-965,188	-356,817	608,371
Less: New Homes Bonus	-1,271,000	-1,418,000	-147,000
Less: Other Grants in settlement	-223,402	0	223,402
Add: Tfr to Reserves	671,000	618,000	-53,000
Less: Funding from Reserves	-693,850	-746,900	-53,050
Add: Parish Precepts	513,517	513,517	0
COUNCIL TAX REQUIREMENT	**7,874,195**	**8,075,551**	**201,356**
Less: Special Expenses	-176,000	-180,000	-4,000
Less: Parish Precepts	-513,517	-513,517	0
OWN COUNCIL TAX REQUIREMENT	**7,184,678**	**7,382,034**	**197,356**
Band D equivalent Properties	*36,600.49*	*36,890.20*	
Base Council Tax per Band D property	***£196.30***	***£200.11***	

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ANNEX B

REVENUE FUND PROJECTION 2016/17 to 2020/21
BASE MODEL

2016/17		2017/18	2018/19	2019/20	2020/21
£000		£000	£000	£000	£000
Budget	**Portfolio**				
1,879	Business	1,879	1,879	1,879	1,879
2,438	Regulatory	2,438	2,438	2,438	2,438
1,520	Corporate	1,520	1,520	1,520	1,520
5,041	Community	5,041	5,041	5,041	5,041
1,907	Finance	1,907	1,907	1,907	1,907
888	Transformation	888	888	888	888
13,673		13,673	13,673	13,673	13,673
	Non service costs				
(2,204)	Internal Asset charges	(2,204)	(2,204)	(2,204)	(2,204)
(193)	Vacancy Margin	-290	-290	-290	-290
(562)	FRS17 Pensions	(562)	(562)	(562)	(562)
507	Pension deficit funding	507	507	507	507
20	Contribution to Parishes	20	20	20	20
202	MRP funding	430	430	430	430
0	Non recurrent costs			35	
11,443		11,574	11,574	11,609	11,574
	Financing Changes				
(300)	Investment Income	(352)	(399)	(347)	(288)
	Income Inflation	(140)	(283)	(428)	(577)
	LCTSS growth	20	40	60	80
100	Wages Inflation	250	453	660	871
	Expense Inflation	100	252	405	561
(200)	**Total**	(122)	63	350	648
11,243	**Total Budget to be funded**	**11,452**	**11,637**	**11,959**	**12,222**
	Financed By				
357	Rate support Grant	0	-220	-557	-933
746	Funding from reserves	983	983	983	983
1,435	Business Rates	1,464	1,507	1,555	1,600
7,382	Council Tax	7,508	7,658	7,811	7,959
72	Colllection Fund Surplus	80	80	80	80
800	New Homes Bonus	600	600	600	600
180	Special Expenses	183	187	191	194
10,972	**Total Finance**	**10,818**	**10,795**	**10,663**	**10,483**
271	**Funding Gap/Savings**	**633**	**842**	**1,297**	**1,738**

ANNEX B

CAPITAL EXPENDITURE FORECAST 2016 TO 2021
BASE MODEL

	Estimated 2016/17 £'000	Estimated 2017/18 £'000	Estimated 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000
Disabled Facilities Grants	520	520	520	520	520
Renovation Grants	25	25	25	25	25
IT	35				
Property development	375				
Other	90				
GRAND TOTAL OF ALL SCHEMES	1,045	545	545	545	545
CAPITAL RECEIPTS RESERVE B/F	0	0	0	0	0
Add: Funding from Capital Revenue Reserve	680	180	180	180	180
Add: Funding from Revenue					
Add: Government Grant	315	315	315	315	315
Add: Capital Receipts	50	50	50	50	50
Less: Capital Expenditure	(1,045)	(545)	(545)	(545)	(545)
CAPITAL RECEIPTS RESERVE C/F	0	0	0	0	0
CAPITAL REVENUE RESERVE B/F	9,237	8,307	7,877	7,447	7,017
Less: Transformation	(250)	(250)	(250)	(250)	(250)
Less Funding Required for Capital	(680)	(180)	(180)	(180)	(180)
CAPITAL REVENUE RESERVE C/F	8,307	7,877	7,447	7,017	6,587

NB The effect of significant capital purchases has been excluded and is has been assumed that either they will make a positive contribution or be self-financing

ANNEX B

GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2016 TO 2021 WITH COUNCIL TAX INCREASE

Estimated Balance 31-Mar-16 £000	Capital Reserves	Estimated Balance 31-Mar-17 £'000	Estimated Balance 31-Mar-18 £000	Estimated Balance 31-Mar-19 £000	Estimated Balance 31-Mar-20 £000	Estimated Balance 31-Mar-21 £000
0	Capital Receipts	0	0	0	0	0
0	**Sub Total Capital Reserves**	0	0	0	0	0
	Earmarked Revenue Reserves					
13	Atrium Public Art	11	11	10	10	9
316	Affordable housing	316	316	0	0	0
311	Atrium s106	280	250	200	150	100
90	Blackwater Valley & Developer Conts	90	70	50	30	0
11	Gum Machine	8	6	4	2	0
4	Chobham Partnership	0	0	0	0	0
600	Commuted Sums	500	400	300	250	200
299	Community Fund	250	200	150	100	50
39	Crime and Disorder Partnership	0				
377	Deepcut Commuted Sums	370	360	350	340	300
35	Heathside Muga	0	0	0	0	0
217	Insurance	150	100	90	80	80
329	Land Drainage	300	250	200	150	100
0	Land Charges	0	0	0	0	0
100	new burdens	0	0	0	0	0
19	Old Dean Toddlers Playground	15	12	12	10	8
0	Personalisation	0				
134	Sec 106	100	70	50	30	10
459	Planning Tariffs	400	500	600	300	350
1,815	Reapirs and Property Fund	1,600	1,450	1,300	1,150	1,000
206	Recycling Fund	150	50	0	0	0
45	Remediation Fund	45	45	45	45	45
72	Surrey Family Support	0	0	0	0	0
1,046	SANGS	700	600	500	600	700
6,537	**Total Earmarked Revenue Reserves**	5,285	4,690	3,861	3,247	2,952
	Other Revenue Reserves					
8,967	Capital Revenue Reserve	8,307	7,877	7,447	7,017	6,587
500	New Homes Bonus	1,000	1,000	1,000	1,000	1,000
2,000	General Fund Working Balance	1,529	896	54	-1,242	-2,980
11,467	**Total Other Revenue Reserves**	10,836	9,773	8,501	6,775	4,607
18,004	**TOTAL RESERVES**	16,121	14,463	12,362	10,022	7,559

Corporate Capital Programme 2016/17 – 2018/19

Summary

To consider the Corporate Capital Programme for 2016/17, the Prudential Indicators for 2016/17 to 2018/19, and the provisional capital programme for 2017/18 to 2018/19.

Portfolio - Finance
Date signed off: 19 January 2016

Wards Affected	All

Recommendation

The Executive is advised to recommend to the Council that:

(i) the new capital bids for £670k in Annex A for 2016/17 be approved, and that the be incorporated into the Capital Programme;

(ii) the Prudential Indicators summarised below and explained in Annex D, including the MRP statement, for 2016/17 to 2018/19 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 be approved.

Prudential Indicator	**2016/17 Estimated £000**	**2017/18 Estimated £000**	**2018/19 Estimated £000**
Capital Expenditure	1,045	525	525
Capital Financing Requirement	20,357	20,057	19,752
Ratio of financing costs to net revenue stream	4.29%	7.20%	7.24%
Incremental impact of investment decisions on Band D council Tax	£11.46	£6.63	-£0.16
Operational Boundary	24,000	24,000	24,000
Authorised Limit	26,000	26,000	26,000

The Executive is also advised to note:

(i) that the Capital Financing Requirement for this Council as at 31 March 2017 is estimated to be £19,982m and as such a Minimum Revenue Payment of £202k is required;

(ii) the provisional Capital Programme for 2017/18 and 2018/19; and

(iii) the available capital receipts forecast shown in Annex C.

Resource Implications

1. Executive Heads of Service were required to present capital bids for 2016/17 and these have been reviewed by Management prior to submission to Executive. Bids were only considered if they met a statutory obligation or it could be demonstrated that they would be self-funding.

2. The 2016/17 Capital Programme as proposed is shown in Annex A and its effect on the Councils available capital receipts is shown in Annex C. This indicates that it will not be possible to fund the current Capital Programme from capital receipts and existing revenue and/or borrowing will have to be used.

3. Additional capital receipts could be realised from the sale of Council assets although there is a risk in the current climate that prices would be depressed or that such sales will not be realised.

4. The Revenue Capital Fund is estimated to be about £9.0m at 31 March 2016 and will be used to support the Capital Programme if required. However this reduces the amount of reserve available to support revenue expenditure and hence the General Fund in the future. The Council did undertake borrowing during 2015/16 to fund significant property acquisitions and is prepared to do this again should the need arise.

5. The estimated loss of investment income as a result of the proposed capital programme is shown in the table below based on the estimated average rate of 2% for 2015/16.

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**
Annual	3	1	1
Cumulative Total	3	4	5

6. Additional capital schemes may be brought during the year for the Executive and Council to consider. These may result in a change to the prudential indicators, the Capital Financing Requirement (CFR) and the Minimum Revenue Payment (MRP). If this is the case those changes will be reflected in the relevant reports for the Executive and Council to consider.

Key Issues

7. Financial Regulations state that as part of the annual budget process the Full Council, following recommendation by the Executive, is required to approve formally the Capital Programme and its revenue implications.

8. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code, which it has done, and to approve Prudential Indicators on an annual basis.

Options

9. The Executive has the option of agreeing, amending or rejecting the proposed capital expenditure and prudential indictors. However the adoption of the prudential code and prudential indictors is statutory requirement.

Proposals

10. The Executive is advised to RECOMMEND to Council: that

(i) the new capital bids for £670k in Annex A be approved for 2016/17 and that they be incorporated into the Capital Programme.

(ii) the Prudential Indicators summarised below, including the MRP statement, and explained in Annex D for 2016/17 to 2018/19 be approved in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

Prudential Indicator	**2016/17 Estimated £000**	**2017/18 Estimated £000**	**2018/19 Estimated £000**
Capital Expenditure	1,045	525	525
Capital Financing Requirement	20,357	20,057	19,752
Ratio of financing costs to net revenue stream	4.29%	7.20%	7.24%
Incremental impact of investment decisions on Band D council Tax	£11.46	£6.63	-£0.16
Operational Boundary	24,000	24,000	24,000
Authorised Limit	26,000	26,000	26,000

11. The Executive is also advised to NOTE:

(i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2017 is estimated to be £20.357m and as such a Minimum Revenue Payment (MRP) of £202k is required.

(ii) The provisional Capital Programme for 2017/18 and 2018/19.

(iii) The available capital receipts forecast shown in Annex C.

Supporting Information

12. Annex A sets out the capital schemes proposed by Executive Heads/Heads of Service and approved by Management.

13. Annex B provides brief background information for schemes.

14. Annex C sets out the impact on available capital receipts of the proposed capital programme.

15. Annex D sets out the Prudential Indicators for 2016/17 to 2018/19.

Corporate Objectives and Key Priorities

16. The adoption of the capital programme and the prudential indicators supports the corporate objective of providing services efficiently, effectively and economically.

17. In addition the affordability tests of the corporate plan link to the Council's key priority of a sustainable medium term financial plan.

Legal Implications

18. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code 2011 and produce Prudential Indicators.

Risk Management

19. The Council has exhausted its capital receipts and hence all capital expenditure has to be financed from revenue or loans. This will mean that future programmes will need to be financed by borrowing which has an impact on revenue as both the capital (MRP) and interest need to be financed.

Annexes	Annex A – 2016/17 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex D – Prudential indicators.
Background Papers	None
Author/Contact Details	Sheena Adrian 01276 707259 Email: Sheena.adrian@surreyheath.gov.uk
Executive Head Of Service	Kelvin Menon – Executive Head of Finance

Consultations, Implications and Issues Addressed

	Required	Consulted	
Resources			
Revenue	✓	✓	
Capital	✓	✓	

Human Resources	n/a		
Asset Management	✓	✓	
IT	n/a		
Other Issues			
Corporate Objectives & Key Priorities	✓	✓	
Policy Framework	n/a		
Legal	n/a		
Governance	n/a		
Sustainability	n/a		
Risk Management	✓	✓	
Equalities Impact Assessment	n/a		
Community Safety	n/a		
Human Rights	n/a		
Consultation	n/a		
P R & Marketing	n/a		

Version:

Capital Programme Schemes submitted by Executive Heads/Heads of Service.

TABLE 1 – ACTUAL AND ANTICPATED CAPITAL SCHEMES FROM 2016/17 to 2018/19

3 YEAR CAPITAL PROGRAMME	2016/17	2017/18	2018/19	3 Year Funding Requirement
	Estimated Total	Estimated Total	Estimated Total	
	£ 000's	£ 000's	£ 000's	£ 000's
Property Development	375			375
Wifi for Surrey Heath house	35			35
Theatre seating	90			90
Disabled Facilities Grants	520	500	500	1,520
Renovation Grants	25	25	25	75
GRAND TOTAL OF ALL SCHEMES	**1,045**	**525**	**525**	**2,095**

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2016/17 which total £1.045m

Executive and Council will be asked to approve any carry forwards from 2015/16 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2016/17 CAPITAL PROGRAMME

FUNDING FOR 2016/17 CAPITAL PROGAM	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£ 000's	£ 000's	£ 000's	£ 000's
Property Development	375			**375**
Wifi for Surrey Heath house	35			**35**
Theatre seating	90			**90**
Disabled Facilities Grants	520	315		**205**
Renovation Grants	25			**25**
GRAND TOTAL OF ALL SCHEMES	**1,045**	**315**	**-**	**730**

Of the £670k schemes recommended for 2016/17, grant funding of £315k is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and borrowing.

Executive Heads of Service have confirmed that the revenue costs (such as the repayment of principal sums (MRP) and interest) arising from borrowing (i.e.) can be funded from extra income/savings arising from the schemes

Background Notes on New Schemes

Disabled Facilities Grants

Disabled Facility Grants are mandatory grants offered to disabled persons requiring modifications to their home on the recommendation of social services. Central Government provides a cash-limited sum (£315,000 for 2016/17) but grant expenditure above this sum is funded entirely by the Council. This expenditure used to be funded from Capital receipts but as these have now expired this will now need to be funded from revenue reserves and/or Council Tax payers as an on-going pressure on the budget. It is not possible to borrow against this expenditure nor is there an income stream to repay it

Renovation Grants / Home Assistance

Discretionary grants and financial assistance for the renovation and maintenance of properties. These were funded out of capital receipts but as these have now run out they will need to be funded from Council Tax and revenue reserves as an ongoing budget pressure

Wifi for Surrey Heath House

The current wifi system cannot now support the number of users and hence needs to be upgraded. The life of the new system is estimated to be 5 years and will be paid for from savings in the original equipment and more flexible working. This will be funded by internal borrowing

Theatre Seating

The existing theatre seating is old and worn. This is beginning to have an impact on customers perception as to the theatre experience and hence their wish to return. Although the seating rake can be replaced for £120k it is recommended that it is refurbished at a cost of £88k. This will give it an extra life of at least 12 years. It is proposed that the investment is paid for with a ticket levy of £1 per ticket. This will mean that the investment can be repaid in 3 years. This will be funded by internal borrowing

Property Development

This represents the costs to enable planning permission and a development scheme to be delivered for the development of housing at Ashwood House and Pembroke House.

Movement in Available Capital Receipts

	2016/17 Estimate £'000's	2017/18 Estimate £'000's	2018/19 Estimate £'000's
Forecast Capital Receipts 1st April	0	0	0
Capital Receipts during year	50	50	50
Capital Grants (Disabled Facilities Grant)	315	315	315
TOTAL AVAILABLE FUNDS	**365**	**365**	**365**
Proposed Capital Programme	(1,045)	(525)	(525)
TOTAL SCHEMES REQUIRING FUNDING	**(1,045)**	**(525)**	**(525)**
FUNDING REQUIREMENT	**(680)**	**(160)**	**(160)**

This will be funded by internal borrowing from revenue reserves

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2016/17

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the earlier part of this report.

Capital Expenditure and Financing	**2015/16 Revised £k**	**2016/17 Estimate £k**	**2017/18 Estimate £k**	**2018/19 Estimate £k**
Capital Program	21,272	1,045	525	525
Total Expenditure	**21,272**	**670**	**525**	**525**
Capital Receipts	903	50	50	50
Government Grants	280	315	315	315
Reserves	183			
Revenue				
Borrowing	17,900			
Total Financing	**2,006**	**355**	**160**	**160**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Total CFR	**19.879**	**20.357**	**20.057**	**19.752**

The CFR is forecast to fall over the next three years as capital expenditure financed by debt is repaid and outweighs capital expenditure.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Borrowing	17.9	17.9	17.9	17.9
Finance leases	0	0	0	0
Total Debt	**17.9**	**17.9**	**17.9**	**17.9**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	22	22	22	22
Other long-term liabilities	1	2	2	2
Total Debt	**23**	**24**	**24**	**24**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	23	24	24	24
Other long-term liabilities	2	2	2	2
Total Debt	**25**	**26**	**26**	**26**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2015/16 Revised %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**
General Fund	-.0.12	4.29	7.20	7.24

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
General Fund - increase in annual band D Council Tax	**11.46**	**6.63**	**-0.16**

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in 22nd February 2013

Annual Minimum Revenue Provision Statement 2016/17

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

In the first instance any capital expenditure incurred will be paid for with capital receipts if available.

For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal repayment on an annuity with an annual interest rate of equal to the rate of borrowing on the loan, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set as follows:

	31.03.2016 Estimated CFR £m	**2016/17 Estimated MRP £000**
Capital expenditure before 01.04.2008	**0**	0
Supported capital expenditure after 31.03.2008	**17.9**	162
Unsupported capital expenditure after 31.03.2008	**1.6**	40
Total	**19.5**	**202**

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Treasury Management Strategy Report 2016/17

Summary
Report for Executive to consider and recommend to Council the treasury strategy for 2016/17

Portfolio Finance
Date Portfolio Holder signed off report: 13 January 2016
Wards Affected All

Recommendation

The Executive is advised to RECOMMEND to Council the adoption of

(i) The Treasury Management Strategy for 2016/17;

(ii) The Treasury Management Indicators for 2016/17 at Annex C; and

(iii) The Annual minimum revenue provision policy statement at Annex D.

1. Resource Implications

1.1. The budget for investment income in 2016/17 is £300,000 based on an average investment portfolio of £20 million at an interest rate of 1.5%. The budget for debt interest paid in 2016/17 is £505,000, based on an average debt portfolio of £18 million at an average interest rate of 2.9%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

1.2. Funding for the proposed corporate capital programme for 2016/17 – 2018/19 will need to be paid for through borrowing or out of revenue due to the fact that the Council's pool of capital receipts is virtually exhausted.

1.3. Any changes to levels of investments and borrowing, or to the interest rates forecast in this report and which result in changes to the approved treasury management indicators will be reflected in relevant future reports for Executive and Council to consider.

2. Key Issues

2.1. Treasury Management is "the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.2. The Council's investment portfolio comprises of funds available for longer-term investment, and short term investments sufficient to meet cash flow requirements. Investment income is a significant source of income which is used to maintain services.

2.3. On the 22nd February 2013 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

2.4. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Council Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

2.5. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

2.6. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

3. Options

3.1. The Executive can receive or amend the report, or ask for further information.

3.2. The Executive can approve or amend the proposed recommendations to Council.

4. Proposals

4.1. The Executive is asked to approve and recommend to Council the adoption of:

a) The Treasury Management Strategy for 2016/17 at Annex B.

b) The Treasury Management Indicators for 2016/17 at Annex C.

c) The Annual minimum revenue provision policy statement at Annex E.

5. Supporting Information

External Context

5.1. The Council's treasury management advisors Arling Close Limited have advised us of their assessment of the external context the council's investment strategy needs to consider in terms of the economy, interest rates and credit outlook. This is shown below:

5.2. Economic background:
Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

5.3. The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

5.4. China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

5.5. Credit outlook
The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

5.6. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

5.7. Interest rate forecast

The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

5.8. A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

5.9. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

5.10. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.5%, and that new long-term loans will be borrowed at an average rate of 3%.

Local Context

5.11. The budget for investment income for 2015/16 is £300k based on the current investment strategy and the one proposed. However this level of income is not guaranteed as it depends on the performance of the markets and the world economy.

5.12. The Council currently has £17.9m of borrowing and £38 million of investments (as at 31st December 2015) as set out in Appendix B.

5.13. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £5 million. However the Council will also borrow externally if there is a sound business case for doing so.

5.14. The Council has a CFR of £19m due to the capital programme and a lack of capital receipts to finance it, which is current and will continue to be be funded by external or internal borrowing in the future.

5.15. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2015/16.

Borrowing Strategy

5.16. The Council currently holds £17.9m of loans which were all taken out in 2015/16 as part of its strategy for funding and acquiring property. The Council expects to borrow up to £0.3m in 2016/17. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £26 million.

5.17. Objectives:

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.18. Strategy:

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With interest rates currently low the authority has fixed its borrowing for the longer term to give certainty of cost. However for future borrowings it may be more cost effective to borrow for a shorter period and then renew or to use internal resources.

5.19. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

5.20. Sources:
The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Surrey Pension Fund)
- UK Municipal Bond agency Plc, such as the LGA bond company, created to enable local Council bond issues
- Local Enterprise Partnership

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.21. The Council will generally raise all of its long-term borrowing from the PWLB but will continues to investigate other sources of finance, such as local Council loans and bank loans, that may be available at more favourable rates. Currently the Council has borrowed £16.4m from the PWLB and £1.5m from the LEP.

5.22. UK Municipal Bond agency Plc:

The UK Municipal Bond agency Plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local Council borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds will be withheld from the Council and used to bolster the Agency's capital strength instead. For these reasons it is unlikely that this will be used as a source of finance. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

5.23. Short-term and Variable Rate loans:

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

5.24. Debt Rescheduling:

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.25. Annual Minimum Revenue Provision (MRP) Statement

When a Council borrows, it is required to indicate how it intends to fulfil its duty to make prudent provision for the repayment of the capital borrowed from revenue. This provision is called the Minimum Revenue Payment or MRP. Best practice guidance recommends that Councils prepare a statement of policy on making MRP in respect of the forthcoming financial year. This statement must be submitted to full Council for approval before the start of the financial year. If it is subsequently changed it must be approved by full Council again.

5.26. The recommended policy is attached in Annex E and will be recommended for Council to approve.

5.27. The forecast MRP is shown in the table below:

	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
Forecast MRP	0.202	0.453	0.458

Investment Strategy

5.28. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £15 and £30 million, and similar levels are expected to be maintained in the forthcoming year.

5.29. Objectives:

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.30. Strategy:

5.31. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to remain diversified into higher yielding asset classes during 2016/17. This is especially the case for the estimated £8m that is available for longer-term investment which has been invested in to Corporate Bond, Equity and Property Funds. The remainder of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, Loans to other Councils and money market funds. No changes are proposed to the 2015/16 investment strategy for 2016/17

5.32. Approved Counterparties:

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Building Societies	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£3m 10 years	£2m 3 years	n/a	£2m 20 years	£2m 10 years
AA+	£3m 3 years	£3m 10 years	£2m 3 years	n/a	£2m 10 years	£2m 10 years
AA	£3m 3 years	£3m 5 years	£2m 3 years	n/a	£2m 5 years	£2m 5 years
AA-	£3m 3 years	£3m 4 years	£2m 3 years	n/a	£2m 4 years	£2m 5 years
A+	£3m 2 years	£3m 3 years	£2m 2 years	n/a	£2m 3 years	£2m 3 years
A	£3m 12 months	£2m 2 years	£2m 12 months	n/a	£1m 2 years	£2m years
A-	£3m 6 months	£2m 12 months	£1m 6 months	n/a	£1m 12 months	£2m 1 years
BBB+	£3m 100 days	£1m 6 months	£1m 100 days	n/a	n/a	£1m 6 months
BBB or BBB-	£1m next day only	N/A	n/a	n/a	n/a	n/a
None		n/a	£1m 6 months	n/a	n/a	n/a
Pooled funds	£2m per fund					
Challenger Banks	£1m for 6 months					
Supranational Banks	£3m for up to 5 years where rated A or above					
UK Local Councils	£2m per authority for up to 5 years					

This table must be read in conjunction with the notes below

5.33. Credit Rating:

5.34. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody’s or Standard & Poor’s. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.35. Banks Unsecured:

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank Natwest Bank.

5.36. Banks Secured:

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.37. Building Societies

Covered Bonds, accounts and deposits with Building Societies. The Council invests with unrated building societies where independent credit analysis shows them to be suitably creditworthy. In respect of insolvency Building societies are now treated the same as banks and there are no preferential treatment for depositors.

5.38. UK Government:

Loans bonds and bills issued or guaranteed by the UK Government. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.39. Corporates:

5.40. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.41. Registered Providers:

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed.

5.42. Challenger Banks

Loans, covered bonds and deposits placed in unrated challenger banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. The strategy has been changed on the advice of our advisors to bring the investment period in to line with unrated building societies. i.e. from £2m for 1 year to £1m for 6 months. The Council currently ahs no investments with Challenger Banks

5.43. Pooled Funds:

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.44. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.45. Supranational Banks

Loans bonds and bills issued or guaranteed by Supranational Banks such as the European Investment Bank, European central bank etc. These investments are not subject to bail-in, and there is an insignificant risk of insolvency.

5.46. UK Local Authorities

Loans to UK local authorities and public bodies whether credit rated or not.

5.47. Risk Assessment and Credit Ratings:

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.48. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.49. <u>Other Information on the Security of Investments:</u>

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The advice of our treasury advisors will also be taken in to account. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.50. When deteriorating financial market conditions affect the creditworthiness of all organisations this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.51. <u>Specified Investments</u>:

The CLG Guidance defines specified investments as those:
denominated in pound sterling,

- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

5.52. The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.53. <u>Non-specified Investments</u>:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

<u>Non-Specified Investment Limits</u>

	Cash limit
Total long-term investments	£15m
Total investments without credit ratings or rated below A-	£10m
Total investments with supranational banks domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£35m

5.54. <u>Investment Limits:</u>

5.55. The Authority's revenue reserves available to cover investment losses are forecast to be £15 million on 31st March 2016. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and industry sectors as below:

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£3m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total

5.56. Liquidity Management:

The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed.

6. Other Items

6.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its treasury management strategy. These are shown in Annex B

7. Treasury Management Indicators

7.1. The Council measures and manages its exposure to treasury management risks using a range of indicators which members are asked to approve. These are set out in Annex C.

8. Corporate Objectives and Key Priorities

8.1. The Treasury Management supports the Council's Key Priority 2.

9. Policy Framework

9.1. The Council fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The current relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:

a. New borrowing is to be contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.

b. Investments to be made in accordance with the CLG guidance on Local Council Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings for rated institutions and as detailed in the Treasury Management Policy statement and approved schedules and practices.

c. Sufficient funds to be available to meet the Council's estimated outgoings for any day.

d. Investment objectives are to maximise the return to the Council, subject to the overriding need to protect the capital sum.

e. The Council's response to interest rate changes is to minimise the net interest rate burden on borrowing and maximise returns from investments, subject to (a-d) above.

10. Legal Issues

10.1. These are addressed in the report and relate to a requirement to set and agree both a treasury management strategy and prudential indicators.

11. Governance Issues

11.1. The recommendations address best practice and are required as part of the CIPFA code

12. Sustainability

12.1. None

13. Risk Management

13.1. Poor returns on investments could lead to a reduction in income required to support the revenue budget.

13.2. The limits proposed in this report in respect to counterparties and investments are the overall limits for agreement by Council. However from time to time these may be tightened temporarily by the Executive Head of Finance in consultation with the portfolio holder for Resources to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

13.3. The investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating.

14. Consultation

14.1. The Council's treasury advisors have been consulted on the treasury strategy.

15. Officer Comments

15.1. Included within the paper.

Annexes	Annex A – Arlingclose Economic and Interest Rate Forecast October 2015 Annex B – 2016/17 Treasury Management Strategy Annex C – 2016/17 Treasury Management Indicators
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2011 Edition
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Head of Service	Kelvin Menon - Executive Head of Finance

Consultations, Implications and Issues Addressed

Resources	**Required**	**Consulted**
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		
Other Issues	**Required**	**Consulted**
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing		

Review Date: November 2014
Version: 1

Arlingclose Economic & Interest Rate Forecast November 2015
Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Other Items

There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

1. **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

   The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives including those present in pooled funds and forward starting transactions will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

   Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

2. **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

   Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

3. **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

4. **Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening

period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £26million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

5. **Other Options Considered** :The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Member believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Treasury Management Indicators for 2016/17

1. The Council measures its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

2. Security: average credit rating

   The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A

   This is calculated by applying a score to each investment (AAA=1, AA+=2 etc.) and taking the arithmetic average weighted by the size of each investment. For the purpose of this indicator, unrated building societies are assigned an indicative rating of BBB, and unrated local authorities are assumed to hold a AA+ rating.

3. Liquidity: cash available within three months

   The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	Target
Total cash available within 3 months	£5m

4. Interest rate exposures

   This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposures	£26m	£26m	£26m
Upper limit on variable interest rate exposures	£26m	£26m	£26m

   Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date of later. All other instruments are classed as variable rate.

5. Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6. Principal sums invested for periods longer than 364 days

7. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£15m	£15m	£15m

8. Borrowing limits

The Council is being asked to approve these Prudential Indicators as part of the capital programme report. However they are repeated here for completeness.

The Council is required to set two Prudential Indicators for external debt:

- the Operational Boundary – estimate of most likely scenario for external debt.

- The Authorised Limit – represents the limit beyond which external debt is prohibited. It is a statutory limit set under S3(1) of the Local Government Act 2003.

	2016/17	2017/18	2018/19
Operational boundary – borrowing	£22m	£22m	£22m
Operational boundary – other long-term liabilities	£2m	£2m	£2m
Operational boundary – TOTAL	**£24.0m**	**£24.0m**	**£24.0m**
Authorised limit – borrowing	£24m	£24m	£24m
Authorised limit – borrowing & long-term liabilities	£2m	£2m	£2m

Authorised limit – TOTAL	**£26m**	**£26m**	**£26m**

Any borrowing required for a specific project would need separate approval. This prudential indicator would need to be adjusted accordingly and approval sought from Council to increase the limit.

Annex C

List of Investments and Borrowings as at the 31st December 2015

Investments

		Maturity Date	
Lloyds Bank Call Account	3,003,773	Instant Access	A+
Goldman Sachs Bank	2,000,000	11-Dec-15	A
Total Banks	**5,003,773**		
Debt Management Office	**0**		
Coventry Building Society	2,000,000	02-Mar-16	A
Cumberland Building Society	1,000,000	10-Feb-06	
National Counties Building Society	1,000,000	04-Apr-16	
Nationwide Building Society	2,000,000	08-Apr-16	A
Total Building Society	**6,000,000**		
Icelandic Banks	676,779	In Receivership	
Total Banks, Building Societies and DMO	**11,680,552**		
Glasgow City Council	2,000,000	30-Oct-18	Unrated
Greater London Authority	2,000,000	28-Oct-16	AA+
Lancashire County Council	1,500,000	30-Sep-16	Unrated
The London Borough of Islington	2,000,000	28-Oct-16	Unrated
Total Local Authorities	**7,500,000**		
AAA Rated MM Fund - Aberdeen (SWIP)	2,959,304	N/A	AAA
AAA Rated MM Fund - Blackrock	2,000,000	N/A	AAA
AAA Rated MM Fund - CCLA	1,000,000	N/A	AAA
AAA Rated MM Fund - Insight	1,003,614	N/A	AAA
AAA Rated MM Fund - Standard Life (Ignis)	3,000,000	N/A	AAA
Total Money Market Funds	**9,962,918**		
CCLA Property Fund	2,109,679	N/A	None
M & G Investments - Global Dividend Fund	896,091	N/A	None
M & G Investments - Strategic Corp Bond Fund	1,976,758	N/A	None
Threadneedle - Global Equity Income Fund	1,005,130	N/A	None
Threadneedle - Strategic Bond Fund	1,960,618	N/A	None
Total Longer Term Investments	**7,948,276**		
Total Invested (excluding the NatWest SIBA)	**37,091,747**		
NatWest SIBA	1,517,012	Instant Access	BBB+
Total Invested (including NatWest SIBA)	**38,608,759**		
War Stock	13		
Total Invested (Including SIBA & War Stock)	**38,608,772**		

Annex C

Borrowings

Date loan taken out	Capital Borrowed	Lender	Period of Loan	Interest rate	Fixed/Variable
21/04/15	£1.5m	M3 LEP	5 years	0%	Fixed
21/04/15	£8.4m	PWLB	50 years	3.16%	Fixed
24/06/15	£6m	PWLB	50 Years	3.44%	Fixed
24/06/15	£2m	PWLB	5 Years	2.11%	Fixed

Annex D

Proposed Minimum Revenue Policy (MRP) Statement

1. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008 with 2008/09 being the first year of operation. The Council has assessed its method of MRP and is satisfied that the guidelines for its annual amount of MRP set out within this policy statement will result in its making the prudent provision that is required by the guidance.

2. For capital expenditure incurred and funded through borrowing the Council will calculate MRP using the asset life method as summarised in the table below. MRP will be based on the estimated life of the assets purchased by unsupported borrowing.

   Estimated economic lives of assets

Asset Class	Estimated economic life
Land and heritage assets	50 years
Buildings for services	40 years
Vehicles and Plant	10 years
IT equipment and software	5 years
Investment property and property for regeneration	0% to 1% depending on change in value

3. The Council will aim to minimise the impact of MRP on the General Fund by funding assets with a longer economic life from borrowing in the first instance.

4. In accordance with provisions in the guidance MRP will be charged in the year following the date an asset becomes operational.

5. MRP may not be made on investment properties where they increase in value as the asset could be sold to repay any outstanding debt.

6. The Council reserves the right to determine alternative MRP approaches in particular cases in the interests of making prudent provision where this is material, taking in to account local circumstances, including specific project timetables and revenue earning profiles.

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Syrian Vulnerable Persons Relocation Scheme.

Summary

To agree the number of families the Council will assist under the Syrian Vulnerable Persons Relocation Scheme

Portfolio - Regulatory
Date Portfolio Holder signed off report: 21st January 2016

Wards Affected: ALL

Recommendation
The Executive is advised to resolve that a provisional undertaking be given to the Home Office to resettle 10 households in Surrey Heath over the next five years under the Syrian Vulnerable Persons Relocation Scheme for Syrian Nations, subject to the project being deliverable within the funding available.

1. Resource Implications

1.1 The funding available from central Government was set out in the spending review and in two-tier authorities will be shared between County and Borough (a breakdown of this funding is at Annex A). Agreement will be formalised with the Home Office and Surrey County Council on the division and payment of funds.

1.2 People resettled under the scheme will receive ‘Humanitarian Protection’ leave to stay for 5 years. This type of leave to stay makes it possible for people to return to Syria – e.g. to assist with rebuilding – or can be extended as a pathway to permanent settlement in the UK.

1.3 They will have full recourse to public funds, will be entitled to work and access services in the UK. This means that welfare benefits will cover their living costs, including housing costs through Local Housing Allowance, while they are not working.

1.4 The Council can also explore other funding options: internally, from partner agencies and from the third sector both financial and in kind. There may also be individuals or businesses willing and able to assist. The experience in Woking was that they had not anticipated the level of support from the community and are now carrying out some more work to better make use of that assistance for future arrivals.

1.5 A guide of the items to be provided for households has been produced which will need to be met through the grant and potentially through charitable donation. Guidance specifically states that luxury goods such as TVs, PCs, etc. should not be provided by the funding although charitable donation may support any additional help the Council deems appropriate to help integrate families.

2. Key Issues

2.1 In September 2015 the Government committed to resettling up to 20,000 Syrian refugees in the UK during this Parliament. To achieve this Ministers have expanded an existing [2014] Syrian Vulnerable Persons Relocation Scheme [SVPRS]. A description of the scheme can be found at Annex B.

2.2 The expanded scheme sought to resettle 1000 people prior to Christmas 2015 and then a further 19,000 people over the life of the current Parliament.
Success in meeting the offer of 20,000 refugee places depends on the commitment of local authorities throughout the UK to accept refugees and the Government has indicated that they will try and place Syrian refugees equitably across the country.

2.3 Selection of refugees coming to the UK will be undertaken by the United Nations High Commissioner for Refugees [UNHCR]. Around 80% of refugee cases are expected to be straight forward and 20% will have complex needs, such as severe medical needs.

2.4 The process is that UNHCR refer cases to the Home Office who check they meet the eligibility criteria and then carry out medical and security checks. Exit visas from the host country and entry visas into the UK are arranged and at the same time the cases are referred to a Local Authority. The Local Authority is asked to accept or reject cases. The referral forms give detail on family make up, age and specific needs. Further detail on any medical needs will follow shortly after via a full medical health assessment report. On accepting a case, local authorities then need to arrange housing, school places etc. In parallel an arrival date is agreed.

2.5 Unaccompanied children are not included in the Scheme and anyone wishing to support such children should contact the Fostering Team at Surrey County Council.

2.6 The Home Office is keen to see a significantly higher number of South East Authorities coming forward and Surrey County Council has requested local District & Boroughs to pledge to make offers to accept Syrian refugees.

2.7 Other Surrey Authorities already known to be involved in the scheme are Woking (12 households per year), Mole Valley (4 households per year), Reigate & Banstead (10 households in total) and Runnymede (10 households in total). This information will be updated at Executive.

2.8 A Surrey Group has been formed to coordinate the offer under the VPR scheme which includes all leads from Surrey County Council, health and the participating Boroughs and Districts.

2.9 A local partnership will need to be established to develop a resettlement offer to households that draws on the support and services available from local services in all sectors.

2.10 There are also a number of best practice tools and organisations specifically dealing with this programme that can assist in designing the local response.

2.11 There are a number of decisions to be made including the size and type of households resettled and how services are delivered (in-house or by an external organisation) and this work would be co-ordinated by the Housing Services Manager with a cross-services Team.

3. Options

3.1 Options available to the Council are:
(i) To make no positive offer of help and wait to be 'allocated' households at a later stage in the programme or
(ii) To identify an appropriate number and type of households that can be successfully supported to resettle in Surrey Heath.

3.2 If the Council waits to be allocated families it could mean dealing with some of the households with greatest needs towards the end of the programme and being given a target number of families, which may raise resource issues. For this reason a proactive approach which allows a greater control in matching households with the support and accommodation available locally is recommended.

4. Proposals

4.1 It is proposed that an undertaking be given to resettle 10 households over the next five years.

4.2 That with immediate effect officers start to link in with Surrey County Council and those Boroughs and Districts already committed to welcoming families to identify resources and cost implications, that a project Team to be led by the Housing Manager Clive Jinman be set up to develop a local resettlement offer including engaging with local agencies to develop the appropriate local response.

5. Supporting Information

5.1 Financial information and a description of the Syrian Vulnerable Persons Relocation Scheme can be found at Annex A and Annex B respectively along with a Member's briefing at Annex C and a letter to Chief Executives at Annex D.

6. Corporate Objectives And Key Priorities

6.1 While there is no specific Corporate Objective or Key Priority for this work the Council, and in turn our residents, are being asked to support a humanitarian programme for vulnerable people and welcome them to a community where they can live happily and healthily, and where they can be supported to contribute to community life.

7. Policy Framework

7.1 The work would be undertaken under the Government's Syrian Vulnerable Person Scheme.

8. Risk Management

8.1 This piece of work is not to be undertaken lightly as significant planning and resources are required to effectively plan to resettle Syrian households successfully. Signing up to the Surrey VPR Group is essential as well as forming a local multi agency VPR group to develop localised actions and resources.

8.2 Risk will be better managed by taking a proactive and planned approach and identifying cases that can be assisted and resettled successfully rather than a reactive response to direct Home Office requests.

9. Equalities Impact

9.1 A full equalities impact will be carried out if the Council agrees to participate in the scheme however it is anticipated that there will be no negative impacts for existing residents as new resources and specific funding will be used rather than the redirection of existing resources e.g. it is not anticipated that high demand social housing tenancies would be used to house households.

10. Consultation

10.1 Consultation with statutory, voluntary and private sectors partners will be part of the strategy of ensuring the successful resettlement of households.

11. PR And Marketing

11.1 Media coverage and political comment often confuse the issues of immigration, asylum and refugees so a clear communication strategy on the Council's participation in the Scheme will need to be developed to avoid negative responses to this humanitarian action and ensure Syrian families are welcomed and supported in the community.

Annexes	Annex A – Funding information Annex B – Scheme description Annex C – SE Member Briefing Annex D – Letter to Chief Execs and Leaders
Background Papers	None
Author/Contact Details	Clive Jinman – Housing and Homelessness Manager Clive.jinman@surreyheath.gov.uk
Head of Service	Jenny Rickard – Executive Head of Regulatory

Consultations, Implications and Issues Addressed

Resources	**Required**	**Consulted**
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		
Other Issues	**Required**	**Consulted**
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing		

Review Date:
Version:

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From: Mary Burguieres
Sent: 30 November 2015 10:26
To: Moccia, Rosemarie
Cc: [Redacted]
Subject: Syrian refugee funding update

Dear colleagues

Last week, Richard Harrington, the Minister for Syrian refugees, wrote to local authority leaders and chief executives to confirm the additional funding for local authority costs that was announced in the Spending Review.

Year 2 - £5000 per person
Year 3 - £3700 per person
Year 4 - £2300 per person
Year 5 - £1000 per person

The funding is to provide any additional social care, school and early years support, language and integration support beyond the first year of resettlement. It is unringfenced funding. The Minister has announced an 'extreme cases fund' with details to follow on how this is to be administered and accessed.

This funding is in addition to the **Year 1 unit costs** confirmed by Dr Emma Haddad (Home Office Director) in October - see below:

UNIT COST FOR SYRIA VPR SCHEME					
	Adult Benefit Claimant	**Other Adults**	**Children 5-18**	**Children 3-4**	**Children U-3**
	£	**£**	**£**	**£**	**£**
Local Authority Costs	8,520	8,520	8,520	8,520	8,520
Education	0	0	4,500	2,250	0
Special Educational Needs	0	0	1,000	1,000	0
DWP Benefits	12,700	0	0	0	0
Primary medical care	200	200	200	200	200
Secondary medical care	2,000	2,000	2,000	2,000	2,000
TOTALS	**23,420**	**10,720**	**16,220**	**13,970**	**10,720**

Local authorities will therefore receive the following unit costs:

Children under the age of 3: Unit cost = £8,520

Children aged 3-4: Unit cost = £11,770

Children aged 5-18: Unit cost = £14,020

Adults in receipt of mainstream benefits: Unit cost = £8,520

Other adults: Unit cost = £8,520

The Minister also confirmed that there is no special assistance beyond the funding above to meet the **higher housing costs in the South East.** He suggested that as the grant is unringfenced it could be used to top up housing costs, or Discretionary Housing Payment (DHP) would be another option.

Home Office officials have also confirmed that they are working up their **monitoring and evaluation framework** for the programme as a whole, including what information and data (hard and soft) they will expect to be collected at a local level. The intervals indicated were at 3 months, 6 months, 9 months and 1 year. They are aiming to simplify what they recognise has been a very data intensive process for local authorities that have been in the scheme to date.

I'll keep you posted as developments occur. This is clearly still a 'work in progress' on Government's part. It would be helpful to pick up in our teleconference if local reality matches with central messages!

Kind regards

Mary

Mary Burguieres
Lead Manager Policy and Strategic Partnerships
Surrey County Council
Room 318
County Hall
Kingston upon Thames
Surrey KT1 2EA

Home Office

Syrian Resettlement Programme

How many additional people will you resettle?

- The Government will expand the existing Syrian Vulnerable Person Scheme and intends to resettle 20,000 Syrians in need of protection during this Parliament.

- The UK is at the forefront of the response to the crisis in Syria and this expansion is part of our comprehensive approach designed as far as possible to help refugees in the region but recognising that for some vulnerable people the only solution is to bring them to countries like the UK.

How will the arrival of 20,000 be spread out?

- It will take several months to reach full capacity but when we do we would expect to bring in roughly several hundred refugees each month over the course of the Parliament, subject to continuing need and capacity.

How else is the Government supporting Syrians in need of protection?

- Our priorities are on continuing to provide humanitarian aid to those most in need in the region and actively seeking an end to the crisis. We believe this approach is the best way to ensure that the UK's help has the greatest impact for the majority of refugees who remain in the region and their host countries.

- As the brutal conflict continues in Syria, millions of people continue to be in need. Hundreds of thousands have been killed in the conflict between the Assad regime, extremist groups and moderate opposition groups. In response to the crisis, the UK has allocated over £1.1 billion since 2012 to meet the immediate needs of vulnerable people in Syria and of refugees in the region – more than any other country in the world except the United States. The UK is the only major country in the world that has kept its promise of spending 0.7% of our national income on aid and we should be proud of this. By the end of March 2015, UK support had delivered over 18 million food rations, each of which feeds one person for one month, provided access to clean water for 1.6 million people (peak month), and over 2.4 million medical consultations in Syria and the region.

How will the expansion of the programme operate?

- We already have significant experience of resettling vulnerable people and our existing domestic resettlement mechanisms provide a basis for a relatively quick increase in numbers. And we are already working with existing partners to ensure that we can begin to increase numbers as quickly as possible. Over the coming weeks and months, we will work with local authorities, the UNHCR and others to put in place the full structures to ensure we can scale up the current arrangements so that we can meet the aim of bringing up to 20,000 Syrians over the lifetime of this Parliament and deliver on the expansion that has been announced.

How long will the expansion take?

- Although we have simplified the process as much as we can the UNHCR must still assess each individual case before referring them to the Home Office. The Home Office must conduct visa checks and at the same time a place must be found in a local authority. We do all this already but it is important we get it right and scaling up a system like this in a way that protects the interests of all concerned, including local communities, will take a little bit of time.

How do you choose who comes to the UK?

- The Syrian VPR is based on need. It prioritises those who cannot be supported effectively in their region of origin: women and children at risk, people in severe need of medical care and survivors of torture and violence amongst others. We work closely with the UNHCR to identify cases that they deem in need of resettlement and we will continue this work to ensure we deliver our commitment to provided refuge to 20,000 Syrians.

- The UNHCR identifies people in need of resettlement based on the following criteria: women and girls at risk; survivors of violence and/or torture; refugees with legal and/or physical protection needs; refugees with medical needs or disabilities; children and adolescents at risk; persons at risk due to their sexual orientation or gender identity; and refugees with family links in resettlement countries.

How does the process work?

- UNHCR refer cases to the Home Office. We check they meet our eligibility criteria and carry out medical and security checks. We arrange exit visas from the host country and entry visas into the UK. At the same time, we pass the cases to a local authority who has asked to participate in the scheme. The Local Authority is asked to accept or reject cases. The referral forms give detail on family make up, age and specific needs. Further detail on any medical needs will follow shortly after via a full medical health assessment report. On accepting a case, local authorities then need to arrange housing, school places etc. In parallel we would agree an arrival date. We are working to make this process as quick as possible.

What if an area is new to resettlement?

- Local authorities will need to think carefully about whether they have the infrastructure and support networks needed to ensure the appropriate care and integration of these refugees. It would be worth speaking to existing resettlement areas to learn best practice. Regional Strategic Migration Partnerships can put you in touch.

How can local authorities find out more about the profiles and needs of the refugees they will be hosting?

- All cases will differ and it is very difficult to generalise. We do not have detail of the cases before UNHCR refer them to us. As soon as a local authority wants to participate, we will send these referrals that give detailed information on the individual cases. If authorities want a particular make up of cases, they should state this and we will do our best to match cases.

Will the 20,000 be on top of existing schemes?

- The Government will expand the existing Syrian VPR Scheme and we expect to resettle up to 20,000 Syrians in need of protection during this Parliament. This is in addition to those we resettle under Gateway and Mandate and the thousands who receive protection in the UK under normal asylum procedures.

How will these people be accommodated? Where will they go when they are here?

- The UK has been operating resettlement schemes for many years and we already have established and effective networks to accommodate and support resettled people. However, we recognise that the increase in numbers will require an expansion of current networks and the impact on local communities and infrastructure will need to be managed carefully. That is why we are working with a wide range of partners including local authorities and civil society organisations to ensure that people are integrated sensitively into local communities.

- Our existing dispersal policy is aimed at ensuring an equitable distribution of refugees across the country so that no individual local authority bears a disproportionate share of the burden. We are working closely with local authorities to ensure that this remains the case.

How will you ensure refugees are dispersed fairly and in a way that manages the impacts on local communities and services?

- We are determined to ensure that no local authority is asked to take more than the local structures are able to cope with. That is why we will talking to local authorities and other partners over the coming weeks to ensure that capacity can be identified and the impact on those taking new cases can be managed in a fair and controlled way.

How will schools be supported to provide language support for refugee children?

- Financial support for English as an Additional Language (EAL) pupils is a matter for local discretion. The funding arrangements enable local authorities to allocate a proportion of their funding to schools on the basis of the number of pupils in each school who have EAL and who have been in the school system for a maximum of three years. The pupil rate for this is also decided locally and can therefore reflect specific challenges in the area. Schools can also use the additional money they receive through the pupil premium to raise the attainment of disadvantaged EAL pupils.

- Local authorities have the freedom to take account of high migration in their local funding formula, to address the additional costs of having a large number (over 10%) of pupils arriving at unusual times in the school year.

- Schools can access information about good practice in meeting the needs of EAL pupils - Ofsted has published some case studies showing good practice at schools with high proportions of pupils with EAL. Resources are also available from the National Association for Language Development in the Curriculum, an organisation that seeks to promote effective teaching and learning for EAL pupils in UK schools.

How will you ensure that there are enough schools places in areas where refugees are resettled?

- We have committed to investing £7bn on new school places over the next six years, and in the last Parliament funding for school places doubled to £5bn to create 445,000 additional places. Local Authority's are allocated funding for school places based on their own local data on school capacity and pupil forecasts, in which they take account of factors including rising birth rates, housing development, trends in internal migration and migration to England from elsewhere in the United Kingdom and from overseas. We continue to work with LAs to make sure that every child has a school place.

How can I become a foster carer for a refugee child?

- We are not expecting the refugees arriving in the first months of the scheme to include unaccompanied children, but if you are interested in finding out more about fostering, you might wish to contact your local authority. They can provide you with details about applying to foster for them. You can also find out more about fostering by contacting Fosterline, a government funded service providing independent advice and support for people considering becoming foster carers. In addition, you might wish to look at information about applying to foster that Fostering Network give on their website at: http://www.couldyoufoster.org.uk/.

- Further information for foster carers is also available on GOV.UK : https://www.gov.uk/foster-carers. This page sets out the process people should follow and explains how much financial support and training foster carers can get.

I am interested in adopting an unaccompanied refugee child?

- We are not expecting the refugees arriving in the first months of the scheme to include unaccompanied children. Even if we do support unaccompanied children in the future it is unlikely that adoption will be an appropriate option for these children. The United Nations and other humanitarian charities advise that no new adoption applications should be considered in the period after a disaster or from a war zone before the authorities in that State are in a position to apply the necessary safeguards. This is especially true when civil authority breaks down or temporarily ceases to function.

- It is not uncommon in an emergency or unsettled situation for children to be temporarily separated from their parents or other family members who may be looking for them. Moreover, parents may send their children out of the area for their safety. Premature and unregulated attempts to organise the adoption of such a child abroad should be avoided and resisted with efforts to reunite children with relatives or extended family being given priority. So whilst some lone refugee children may come to the UK for temporary care, we would wish to support them to be reunited with their parents or other relatives where this is possible.

How can people help now?

- People can already make donations to charities and volunteer to help local refugee support groups. We would encourage that to continue but we will also be consulting partners on options to do more - including ways to sponsor refugees alongside those supported by the government.

- People can also refer to the Government release on the GOV.UK website https://www.gov.uk/government/news/syria-refugees-what-you-can-do-to-help--2

  The British Red Cross has created a Crisis Helpline on 0800 107 8727 to triage calls to appropriate organisations.

Key facts and statistics on resettlement

- The UK operates three resettlement routes, Gateway, Mandate and the Syrian Vulnerable Persons Relocation (VPR) Scheme, working closely with the UNHCR on each. The Gateway programme has run for 10 years and has resettled almost 6,400 people in that time, and aims to resettle around 750 people a year.

- On the VPR, we are working closely with the UN High Commissioner for Refugees to identify some of the most vulnerable displaced Syrians and bring them to the UK.

- The scheme is helping those in the greatest need who cannot be supported effectively in the region by giving them protection and support in the UK – the scheme prioritises people requiring urgent medical treatment, survivors of torture and violence, and women and children at risk. The current criteria for acceptance under the scheme will be expanded to ensure more of those in the greatest need are resettled in the UK.
- Since the first arrivals in March 2014 to the end of June 2015 (the last published figures), 216 people were relocated to the UK under the Syrian VPR scheme.
- Since the crisis began in 2011 we have granted asylum or other forms of leave to almost 5,000 Syrian nationals and dependants through normal asylum procedures.
- In response to the increase in asylum claims, the UK introduced a concession in October 2012 for Syrian nationals who are already legally present in the UK, allowing them to extend their leave or change immigration category without leaving the UK. This currently runs to 28 February 2016.

How does the current Syrian Vulnerable Persons Scheme work?

The UK sets the criteria and then UNHCR identifies and submits potential cases for our consideration. Cases are screened and considered on the papers and we retain the right to reject on security, war crimes or other grounds. Once the screening process has been completed a full medical assessment is conducted by the International Organisation for Migration (IOM) in the host country. Full details of the case and medical history are sent to the local authority for assessment of need, including whether suitable accommodation and care are available locally. The local authority then provides details of the estimated costs.

Eligibility is then confirmed and IOM start the visa application process. UK Visas and Immigration International issue UK visas (3 months Leave Outside of the Rules) and on arrival, arrangements are made for Biometric Residence Permits to be issued with 5 years' humanitarian protection.

Worldwide trends

How many refugees are there worldwide?

- The UNHCR reports that by the end of 2014, the number of forcibly displaced individuals worldwide stood at 59.5 million. There are 19.5 million refugees worldwide. 51% of refugees were under 18 years old.

Where do most refugees come from?

- Syria is the world's largest source country of both internally displaced people (7.6 million) and refugees (3.88 million at the end of 2014). Afghanistan (2.59 million) and Somalia (1.1 million) are the next biggest refugee source countries. This is followed by Sudan (648,900) and South Sudan (616,200).

What are the reasons for refugee flows?

- The humanitarian situation in **Syria** continues to deteriorate. The number of people in need of humanitarian assistance now stands at 12.2 million, and four in every five Syrians live in poverty. Flagrant human rights violations, indiscriminate attacks against densely populated areas and targeting of civilian infrastructure, in particular aerial bombardment by the Assad regime, continues in violation of international norms.

- **Afghanistan** remains one of the poorest countries in the world, with 1 in 3 people living below the poverty line and without access to basic services or opportunities to support their families. The ongoing insurgency across many parts of the country means people are facing violence as part of their daily lives and has given rise to a sharp increase in population displacement. As of December 2014, UNHCR listed over 2.5m Afghans as refugees and over 800,000 Afghans are internally displaced.

- **Somalis** are the third largest group, following Eritreans and Sudanese, arriving in Europe from the East African region. They make up 9% of migrants to Europe. The main causes of migration from Somalia are understood to be spikes in insecurity and humanitarian need (driven by conflict and Al-Shabaab activity). There are also likely to be a significant number of 'economic migrants' looking for better economic opportunity than exists in Somalia. Large diaspora communities in the UK (thought to be 3-500,000) and elsewhere in Europe create a pull factor.

- We believe that **Sudan** is primarily a country of transit, though there are refugees fleeing conflict in Darfur. Numbers of economic migrants from Sudan are unknown - if someone claims to be from Darfur it is difficult to prove otherwise. The security services have periodic clamp-downs on Eritreans in Sudan (usually in Khartoum) with some forcible returns for not having the correct paperwork.

General Asylum Statistics

- There were 25,771 asylum applications (main applicants) in the UK in the year ending June 2015. (Including dependants, there were 32,508).
- In recent quarters, we have seen fewer applications from some countries with traditionally higher refusal rates (Pakistan, Bangladesh and Nigeria), and more from countries with higher grant rates (Eritrea, Syria, Sudan).
- In the year ending June 2015, the highest numbers of applications came from Eritrean (3,568), Pakistani (2,302) and Syrian (2,204) nationals (main applicants only). Including dependants, the largest number of asylum applications came from Eritrea (3,624), Pakistan (3,276) and Iran (2,533).
- Compared to the year ending June 2014, the number of initial decisions on asylum applications (main applicants) increased by 107% in the year ending June 2015, to 28,538 from 13,795. (Including dependants, initial decisions increased by 117%, to 38,373 from 17,697).
- The total number of outstanding initial decisions has fallen in recent quarters (main applicants only – Q3 2014: 18,149, Q4 2014: 17,067; Q1 2015: 12,878, Q2 2015: 12,368; main applicants and dependants – Q3 2014: 24,369, Q4 2014: 22,898; Q1 2015: 16,879, Q2 2015: 16,163).
- We are certifying more cases, thus refusing clearly unfounded cases a right of appeal in the UK. In the year ending June 2015, 14% of all refusals for main applicants were certified, unchanged from the year ending June 2014. (Including dependants, 15% of refusals were certified, compared with 14% in the previous year).

Support

- We currently support a total of over 36,000 asylum seekers (main applicants and dependants; sections 95, 98 & 4). At the end of June 2015, 30,457 asylum seekers and their dependants were being supported under Section 95.
- There are over 26,000 asylum seekers in dispersed accommodation, in over 200 local authorities. Our dispersal policy ensures a reasonable spread amongst those local authorities.

UASCs

- There were 2,168 asylum applications from Unaccompanied Asylum-Seeking Children (UASCs) in the year ending June 2015, an increase of 46% from the year ending June 2014 (1,488). These applications represented 8% of all main applications for asylum.
- Despite the recent increase in UASC applications, they remain below the peak of 3,976 in 2008.

Resettlement

- In the year ending June 2015, 166 Syrians were relocated to the UK under the VPR scheme (216 since the scheme began in March 2014).This is in addition to almost 5,000 Syrians (including dependants) who have been granted protection under our normal asylum rules since the crisis began in April 2011.

- In the year ending June 2015, we resettled 640 refugees under the Gateway Resettlement Programme. Since 2004, we have resettled 6,380 refugees under the programme and we met our target in the last financial year (April 2014 to March 2015), resettling over 750 refugees.

Removals

- In the last two years (July 2013 to June 2015) there were over 8,500 enforced removals of people who had sought asylum at some stage (including dependants). In the same period there were over 5,500 voluntary departures of people who had sought asylum at some stage.

International comparisons

- The number of asylum applications to the EU in the year ending June 2015 was the highest it has been since 2002.
- There were an estimated 754,700 asylum applications by main applicants and dependants to the 28 EU countries in the year ending June 2015 (an increase of 65% on the previous year). Of these, the UK received 32,600 (4% of EU asylum intake) compared to 259,300 in Germany, 92,600 in Hungary and 78,400 in Sweden. In 2010, the EU received 241,100 applications for main applicants and dependants, and of this the UK received 22,600 (9% of EU asylum intake).
- The UK had the seventh highest number of asylum applications within the EU in the year ending June 2015 (fifth in year ending June 2014). In the year ending June 2015, Germany, Hungary, Sweden, Italy, France and Austria received more asylum applications than the UK.
- Asylum claims in Germany were eight times those in the UK (259,300 vs 32,600) in the year ending June 2015. Hungary had the second highest number of applications in the year ending June 2015 after being ranked ninth during the previous 12 months.
- When the relative size of resident populations of the 28 EU countries is taken into account, the UK ranked 16th in terms of asylum seekers per head of the population in the year ending June 2015 (it was also 16th in the previous year).

South East England Councils
South East Strategic Partnership for Migration

Member briefing: Syrian refugee update November 2015

1. Government commitment to Syrian refugees

1.1 In September 2015, the Government committed to resettling up to 20,000 Syrian refugees in the UK during this Parliament. To achieve this Ministers have expanded an existing (2014) Syrian Vulnerable Persons Relocation Scheme (SVPRS). Richard Harrington (Home Office) is the lead Minister.

1.2 Success in meeting the Government's offer of 20,000 refugee places depends on the commitment of local authorities throughout the UK to make 'pledges' to accept refugees. Delivery of the expanded SVPRS will happen in two stages:

- Phase One: 1,000 people will be resettled in the UK before Christmas 2015
- Phase Two: will run for the rest of the lifetime of this Parliament.

1.3 Selection of refugees coming to the UK will be undertaken with the United Nations High Commissioner for Refugees (UNHCR). Around 80% of refugee cases are expected to be straight forward and 20% will have complex needs, such as severe medical needs. Each area of the UK will be required to accept all cases referred to it.

1.4 People resettled under SVPRS will receive 'Humanitarian Protection' leave to stay for 5 years. They will have full recourse to public funds, will be entitled to work and access services in the UK. This type of leave to stay makes it possible for people to return to Syria – eg to assist with rebuilding – or can be extended as a pathway to permanent settlement in the UK.

2. South East local authority responses

2.1 **Phase One**: By 18 November, some 11 South East authorities had indicated willingness to accept a combined total of 120-130 refugees before Christmas. Direct discussions are being held between these local authorities and the Home Office.

2.2 **Phase Two:** By 18 November, a total of 22 of the 74 South East authorities had indicated willingness to participate over the reminder of this Parliament, offering places to around 2,550 people in total. The Home Office is seeking proposals for a regional approach to allocating refugees for Phase Two.

2.3 The Home Office is keen to see a significantly higher number of South East authorities coming forward for Phase Two as there needs to be substantially more pledges than referrals to enable effective matching. The allocation process will aim to match refugees to places with the facilities to meet differing needs – for example whether there is accommodation for families or single people.

2.4 The South East Strategic Partnership for Migration (SESPM) continues to provide support and advice for South East local authorities considering pledges to accept refugees. SESPM has also helped coordinate meetings in two-tier areas to support integration between districts and counties. Since September, a county council co-ordination role has developed across the South East, although for Phase One arrivals there is some direct liaison between the Home Office and individual districts.

3. Funding

3.1 **First year funding:** Government funding to cover the costs of refugees for the first 12 months have now been confirmed. It will be allocated on a per head basis (see table A below). Costs have been drawn from other resettlement schemes operating in the UK. Funding will cover local authority costs including management of the scheme, housing procurement and any necessary void periods, cultural integration such as English language provision and social care. Amounts are also specified for education, health and benefits. It is recognised that there may be instances where further discussion is needed and some costs may need to be topped up.

Table A: Agreed first year funding for refugees under the SVPRS

UNIT COST FOR SYRIAN VPR SCHEME					
	Adult Benefit Claimant	**Other Adults**	**Children 5-18**	**Children 3-4**	**Children U-3**
	£	**£**	**£**	**£**	**£**
Local authority costs	8,520	8,520	8,520	8,520	8,520
Education	0	0	4,500	2,250	0
Special Educational Needs	0	0	1,000	1,000	0
DWP benefits	12,700	0	0	0	0
Primary medical care	200	200	200	200	200
Secondary medical care	2,000	2,000	2,000	2,000	2,000
TOTALS	**23,420**	**10,720**	**16,220**	**13,970**	**10,720**

3.2 Housing costs in the South East are the most frequently cited barrier to local authority participation in the SVPRS. Although these refugees are entitled to public funds there is often a gap between Local Housing Allowance and market rents. Where this is an issue, local authorities should talk directly to the Home Office.

3.3 **Future years funding**: The Minister has written to local authority chief executives confirming additional funding will be available to assist with costs incurred in future years. Details of future funding are still being worked through, with more information expected after the Government Spending Review in late November. Once future funding is clarified, it is anticipated that South East authorities will be in a better position to confirm pledges to accept refugees.

4. Security checks

4.1 When refugees arrive in the UK they will have been through a thorough two-stage vetting process to ensure we know who is entering the country.

4.2 The Home Office takes security extremely seriously in cases referred to them for resettlement and works closely with the UNHCR who have their own robust identification processes in place. This includes checking biometrics, documentary evidence and interviewing potential refugees.

4.3 Potential refugees are also screened and considered by the Home Office for suitability to enter the UK. This includes further checking of biometric data. The Home Office retains the right to reject individuals on security, war crimes or other grounds, including where there is insufficient information to undertake effective screening.

5. More information

5.1 SESPM is sending regular updates to South East local authority Chief Executives/ Managing Directors and nominated officers. SESPM Manager Roy Millard will be pleased to attend any internal local authority meetings (subject to availability). Contact Roy via:
Email: roymillard@secouncils.gov.uk
Phone: 01304 872186 or 07881 521092.
If councillors wish to join the circulation list for refugee updates, please contact Roy.

Home Office

Richard Harrington MP
Minister for Syrian Refugees

2 Marsham Street,
London SW1P 4DF
www.gov.uk/home-office

Local Authority Chief Executives and Leaders

2 October 2015

Dear colleagues,

SYRIAN RESETTLEMENT PROGRAMME

Thank you for all the support you have offered so far which reflects the overwhelmingly generous support of the British public. I know that funding is important for your planning and there is work to do to develop the details. My team and I are looking forward to working with you further on this point.

We all want to bring refugees from the Syrian conflict to the UK as quickly as possible. We share the desire to see things happen rapidly and want to harness the support and goodwill emanating from across the United Kingdom at every level of society. We remain extremely grateful for all expressions of interest and pledges of places from local authorities on this national and voluntary scheme with which we have made genuine progress in a short period of time. Last week we welcomed the first group of refugees since the Prime Minister's announcement that we would take 20,000 more people during the course of this Parliament. Further new arrivals are due in the UK in the coming weeks.

We have been working closely with UNHCR which has resulted in them referring more cases to us. A team of officials were at the UNHCR headquarters in Geneva last Friday and will return this Friday to discuss expansion plans in detail. The first phase of our programme is to build on the fact that we have been operating resettlement schemes for many years and have established effective networks to accommodate and support resettled people. In the short term, we may contact individual local authorities or Regional Strategic Migration Partnerships directly about possible participation in the current resettlement scheme with a view to many more refugees arriving before the end of the year.

However, we recognise that the increase in numbers will require an expansion of current capacity. The second phase of our programme will therefore involve working together to build systems that can meet the needs of more people, more quickly whilst minimising the impact on local communities. Our programme will utilise strategic and operational expertise encouraging innovative practice from all levels of government, NGOs and the civil society.

The expansion of the scheme needs careful planning. As I mention above, local authorities will play a vital role as we turn the strong offers of support and assistance from across the UK into long-lasting and life-changing guarantees.

The first 12 months of a refugee's resettlement costs are fully funded by central government using the overseas aid budget. To ensure that local authorities can plan ahead and continue to respond to the overwhelmingly generous response of the British people, we will also provide additional funding to assist with costs incurred in future years. These arrangements will be applied to all cases since the 20,000 expansion was announced. We understand that Councils need certainty about the financing of the scheme in order to enter into contracts and commit resources. We will be working closely with local government to develop the process for drawing down the funding in order that this certainty can be given, including to those councils offering help under the existing scheme

I attach an updated factsheet and we will continue to work with you and local authorities to provide further updates as quickly as possible as the process for phase two develops. I welcome your ongoing support and commitment and look forward to continue working with you.

Yours sincerely,

Richard Harrington

RICHARD HARRINGTON, THE MINISTER FOR SYRIAN REFUGEES

Surrey Pension Fund

Summary
The Surrey Pension Fund held its Annual General Meeting in November and this paper is to update Executive on the membership and performance of the fund and to highlight any issues going forward including implications for the 2017/18 budget

Portfolio - Finance
Date Signed Off - 12 January 2016

Wards Affected
All

Recommendation

The Executive is advised to NOTE and comment on the contents of the report

1. Resource Implications

1.1 Pension contributions are a significant financial commitment for the Council. In 2016/17 employer contributions are expected to exceed £2m of which £800k are to fund pension deficits – this has increased by £500k in the last 3 years. As a result of these payments the deficit for Surrey Heath has fallen by £4m since the 2013 valuation and as a result contributions are likely to remain unchanged at the next actuarial review.

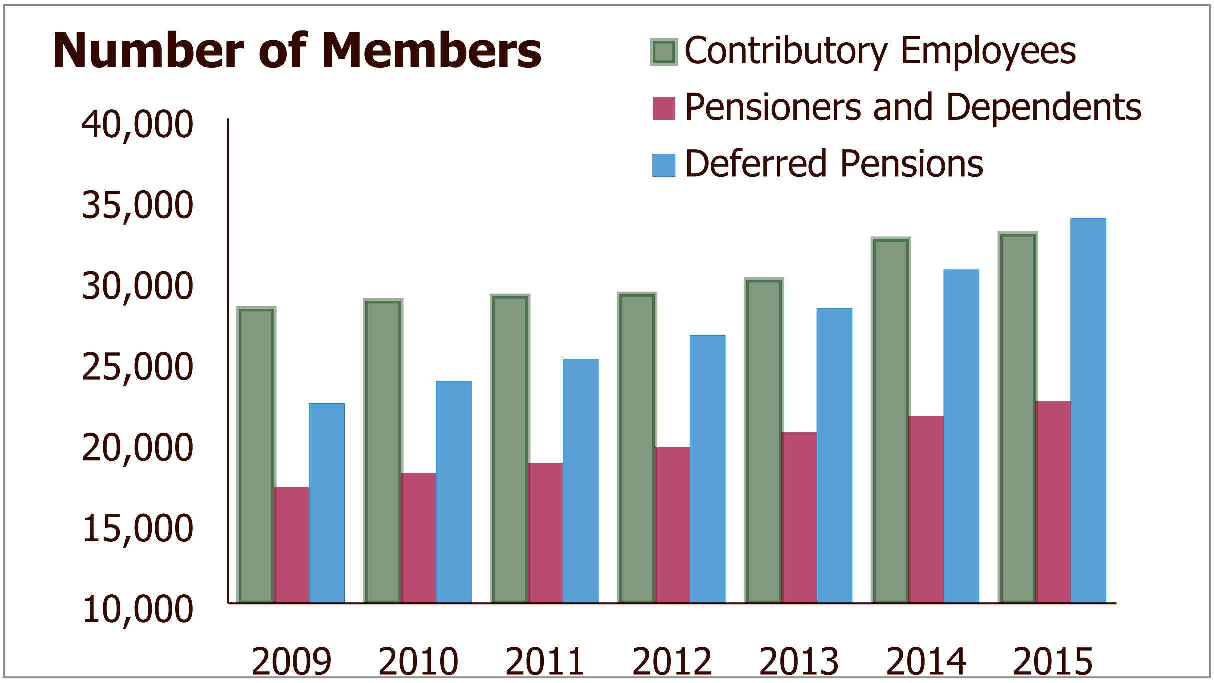
1.2 The Council can make a lump sum contribution towards the deficit which would result in on going revenue savings. Surrey Pensions are in the process of calculating the benefits of doing this and if it is beneficial this may be brought forward to Executive at a later date for consideration.

2. Key Issues

2.1 The Surrey Pension Fund is managed and administered by Surrey County Council on behalf of all Districts, the County and a number of other organisations. All of the figures given in this report are for the fund as a whole and not just for Surrey Heath.

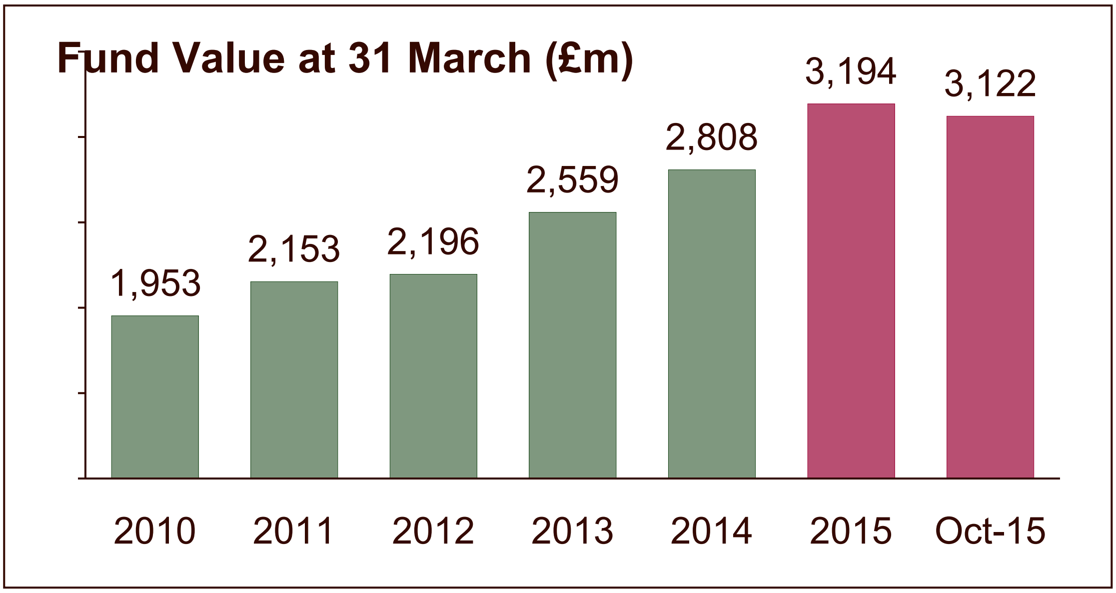
Membership

2.2 At the end of March 2015 there were 89,165 members in the fund of which 32,851were active, 22,481 pensioners and 33,833 deferred. Despite reduction in headcount this is an increase on previous years as a result of auto enrolment brought in by the Government for all employees. The graph below sets out the changes in membership



Market Value of the Fund

2.3 The fund was valued at £3.122bn on the 30th October 2015 a slight reduction on the £3.194bn valuation as at the 31st March 2015. The graph below illustrates how the fund valuation has changed over the course of the last 5 years.



Investment Strategy

2.4 The investment strategy is set by the Pension fund committee which includes representatives of the county and districts. The fund is managed so as to generate longer term growth to meet the future liabilities of the scheme. On a day to day basis it is managed by 10 professional fund managers. The table below shows the split of investments

	Policy at 30/09/15 %	Actual at 30/09/15 %
UK Equity	27.5	25.3
Overseas Equity	32.3	32.9
Bonds	17.6	16.4
Property	6.2	6.1
Diversified Growth	11.4	12.6
Private Equity	5.0	4.8
Cash	0.0	1.9

Funding Update

2.5 Despite the investments in the fund growing the value has not kept pace with the increase in liabilities thereby increasing the deficit each year. Liabilities have risen due to:

- An increase in life expectancy – which continues to rise
- Very low gilt yields which are used to value liabilities as a result of the Government's low interest rate policy
- Changes to the scheme which rather than reducing liabilities have actually increased them.

The table below shows how the deficit has increased over the last few years.

	Actuarial Valuation 31/03/10	Actuarial Valuation 31/03/13	Quarterly Valuation 31/03/14	Quarterly Valuation 31/03/15	Quarterly Valuation 30/09/15
Liabilities	£2,699m	£3,538m	£3,523m	£4,245m	£4,255m
Assets	£1,944m	£2,559m	£2,808m	£3,194m	£3,016m
Deficit	£755m	£979m	£715m	£1,051m	£1,239m
Funding Level	72%	72.3%	79.7%	75.2%	70.9%
Total Contribution Rate	25.2%	30.7%			

Outlook for the 2016 valuation and contribution rates for 2017/18 to 2019/20

2.6 The fund is due to have its triennial actuarial review at the 31st March 2016. This review will set the contribution rates for the next three years from 2017/18. As a result of the last revaluation deficit funding contributions were increased – for Surrey Heath by £510k pa.

Although on the face of it this was a large increase this was in fact a lot less than normal due to the fact that a longer term “stabilisation” approach had been taken by the actuaries. This approach seeks to smooth increases (and decreases) in contribution rates over a longer period rather than changing them to reflect short term movements in the market.

2.7 The current view of the actuaries is that the current employer contribution rate is likely to be unchanged at 15.7% and that the deficit contribution which was increased after the last review will remain at the current level. This is because the deficit for Surrey Heath has decreased since the last valuation. However this will depend on the final performance of the fund in March 2016. Pensions costs continue to be a significant financial cost for the council especially in the light of future reductions in Government funding.

3. Options

3.1 The Executive are only asked to note the contents of the report.

4. Proposals

4.1 It is proposed that the Executive NOTES the report COMMENT as appropriate.

5. Supporting Information

5.1 The Surrey Pension Fund AGM report available on the Surrey County Council website.

6. Corporate Objectives And Key Priorities

6.1 The funding of pensions is a key part of the budget and therefore can influence all of the council’s key priorities.

7. Policy Framework

7.1 The Councils is required to be a member of the fund and to comply with any funding directions.

8. Legal Issues

8.1 The Council is a member together with other organisations of the Surrey Pension Fund. All members underwrite the liabilities of the fund irrespective of where they arise.

9. Governance Issues

9.1 The Districts nominate representatives to sit on the Pensions Board.

10. Sustainability

10.1 Not Applicable

11. Risk Management

11.1 The fund is advised by actuaries and investment advisors with a view to minimising financial risk within the fund.

12. Officer Comments

12.1 None.

Annexes	**None**
Background Papers	**Surrey Pension fund Annual report 2015 available on the Surrey County Council website**
Author/Contact Details	**Kelvin Menon Kelvin.menon@surreyheath.gov.uk**
Executive Head of Service	**Kelvin Menon – Executive Head of Finance**

Consultations, Implications and Issues Addressed

Resources	**Required**	**Consulted**
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		

Other Issues	**Required**	**Consulted**
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing		

Review Date:
Version:

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Pay Policy Statement 2016/17

SUMMARY

To note the Surrey Heath Borough Council's Pay Policy Statement 2016/17**.**

Portfolio – Corporate (Cllr Josephine Hawkins**)**
Date Portfolio Holder signed off report – 21 January 2016

Wards Affected
N/A

RECOMMENDATION
The Executive is asked to recommend to Full Council that the Surrey Heath Borough Council Pay Policy Statement 2016/17, as attached at Annex A to this report, be adopted.

1. RESOURCE IMPLICATIONS

1.1 There are no resource issues arising from this report.

2. KEY ISSUES

2.1 This Pay Policy Statement is provided in accordance with Section 38(1) of the Localism Act 2011.

2.2 The Council is required to update this on an annual basis and the requirement is for it to be approved by full council.

2.3 The Policy Pay Statement 2016/17 is attached at Annex A.

3. OPTIONS

3.1 There are no options for the Executive to consider as the Council is required to publish its Pay Policy Statement as detailed in the Localism Act 2011.

4. EQUALITIES IMPACT

4.1 Completed

Annexes	**Annex A –** Pay Policy Statement 2016/17
Background Papers	**None**
Author/Contact Details	**Belinda Tam – HR Manager** **belinda.tam@surreyheath.gov.uk**
Executive Head	**Louise Livingston – Executive Head of Transformation**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	Required	**Consulted**
Resources		
Revenue	✓	✓
Capital		
Human Resources	✓	✓
Asset Management		
IT		
Other Issues		
Corporate Objectives & Key Priorities	✓	✓
Policy Framework	✓	✓
Legal	✓	✓
Governance	✓	
Sustainability		
Risk Management		
Equalities Impact Assessment	✓	✓
Community Safety		
Human Rights		
Consultation	✓	✓
P R & Marketing		

Annex A

Surrey Heath Borough Council Pay Policy Statement – Financial year 2016-17

Purpose

This Pay Policy Statement is provided in accordance with Section 38(1) of the Localism Act 2011 and this will be updated annually from April each year.

This pay policy statement sets out Surrey Heath Borough Council's policies relating to the pay of its workforce for the financial year 2016-17.

Background

Remuneration at all levels needs to be adequate to secure and retain high-quality employees dedicated to fulfilling the council's business objectives and delivering services to the public. This has to be balanced by ensuring remuneration is not, nor is seen to be, unnecessarily excessive. Each council has responsibility for balancing these factors and each council faces its own unique challenges and opportunities in doing so and retains flexibility to cope with various circumstances that may arise that might necessitate the use of recruitment and retention allowances or other such mechanisms for individual categories of posts where appropriate.

Responsibility for decisions on remuneration

Pay for all employees including Chief Officers is agreed by Full Council in consultation with the Joint Staff Consultative Group. The Joint Staff Consultative Group comprises elected Councillors from the main political parties and staff representatives and has responsibility for local terms and conditions of employment for staff within Surrey Heath Borough Council's pay framework.

The Surrey Heath Borough Council's pay framework was implemented in April 1988 and is based on Local Pay Conditions.

All new appointments to the Council's service since April 1988 have been made on the basis of locally devised and negotiated conditions of service, with the facility that all existing members of staff had the opportunity to enter voluntarily into a fresh contract of employment based on these conditions. Contracts of employment are entirely local and do not incorporate the provisions of the National Conditions.
The aims of local conditions are:-

a) To offer a competitive salary and benefits package;
b) To link progression to personal performance;
c) To take account of skills shortages by the use of recruitment and retention allowances (if required);
d) That all salary and conditions of service matters are negotiated internally by the Joint Staff Consultative Group.

Salary grades and grading framework

Each post within the establishment has a salary scale determined by job evaluation using the Local Government Management Board Scheme. The starting salary on appointment is subject to negotiation within the evaluated grade and will be dependent upon the appointee's level of experience, attained qualifications and the salary being paid to others undertaking the same work.

As part of this, Surrey Heath Borough Council determined a local pay framework, dividing established posts into 12 grades (SH1 – SH9 and SH20 – SH22), grade SH1 being the lowest and grade SH22 the highest (see Appendix 1). Each employee will be on one of the 12 grades based on the job evaluation of their role. Employees can progress to the salary range maximum of their grade subject to assessment of their performance in the annual performance appraisal process. In 2013/14 the pay scales were reviewed and a new scp was added to grade SH1- SH9.

Pay awards are considered annually for staff, the year running from 1st April until 31st March. Local pay negotiation is used but consideration is given to the national award in negotiation with the Joint Staff Consultative Group and Trades Unions locally.

The Annual Pay Settlement procedure is to determine the value of the annual pay settlement that will be paid to all staff when determined on/or backdated to 1st April each year. The pay award for all grades is determined in the same way.

There was no annual pay award to any group of staff for the period 1st April 2010 – 31st March 2012, however, for the period 1st April 2012 – 31st March 2013 an unconsolidated payment of £500 was paid to all staff (pro rata'd for those working less than 37 hours per week). A cost of living increase of 1.5% was awarded to staff on grades SH1 to SH9 for 2014/15. An award of 2% was made for 15/16 (see Appendix 1). If an award is made for 16/17 this document will be updated to reflect this.

Chief Officers Remuneration

The Council has a group of nine Chief Officers (including two statutory roles) which currently consists of the following:

Post
Chief Executive
Executive Head Business
Executive Head Community
Executive Head Corporate
Executive Head Finance
Executive Head Regulatory
Executive Head Transformation
Head of Legal

Head of Property Development

Surrey Heath publishes the salaries of the Chief Executive, Executive Heads and Heads of Service, this means that all our senior salaries (including all those of £50,000 and above) are easily accessible:

http://www.surreyheath.gov.uk/council/information-governance/publication-scheme/what-we-spend-and-how-we-spend-it

The level and elements of employee remuneration, including performance related pay and bonuses

There is no provision for bonus payments pay for all employees (including Chief Officers) comprises payments by way of salary, pensions and other standard elements of contractual remuneration required in law. All employees have the opportunity to take advantage of a childcare voucher salary sacrifice scheme (at no cost to the Council). They also have the opportunity to join the private medical scheme after a number of years' service.

All employees (including Chief Officers) are subject to an annual assessment of performance, and where performance meets the appropriate standard, contractual increments will be given, until the maximum of the pay scale is reached.

Any allowance or other payments will only be made to staff in connection with their role or the patterns of hours they work and must be in accordance with the Council's policies which include Recruitment & Retention Allowances, Exceptional Payments Policy and Anti-Social Hours Allowance.

Exceptional increases and additions to remuneration for Chief Officers

One or more Chief Officers will be eligible for payments for election duties (e.g. as Returning Officer or Deputy Returning Officer/s). Some of these payments will be made direct by Government or other Authorities e.g. Surrey County Council.

The approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the Authority

Chief Officers who leave the Council's employment, where appropriate, will receive compensation in line with the Council's Employment Stability Policy or through a negotiated settlement.

New starters joining the Council

Employees new to the Council will normally be appointed to the first point of the salary range for their grade. Where the candidate's current employment package would make the first point of the salary range unattractive (and this can be demonstrated by the applicant in relation to current earnings) or where the employee already operates at a level commensurate with a higher salary, a higher salary may be considered by the recruiting manager subject to negotiation. This will be within the salary range for the grade. The candidate's level of skill and experience should be consistent with that of other employees in a similar position on the salary range.

As with the recruitment of employees across the Council, Chief Officers are generally appointed at the minimum point on their payscale or at a market level of pay negotiated on appointment, account will be taken of other relevant available information, including the salaries of Chief Officers in other similar sized organisations. Decisions to approve these negotiations are made by the Head of Paid Service or in the case of the Head of Paid Service, by the Council.

Relationship between remuneration of Chief Officers and all other employees

The difference between the highest paid salary and the average full time equivalent salary of the workforce (as at January 2015):

Salary	Amount per annum	Ratio with highest salary
Highest Basic Salary (Chief Executive)	£114,852	n/a
Mean (average) Basic Salary	£32,022.35	3.59:1
Lowest point on standard payscales to which an employee is appointed	£15,365 *	7.47:1

*National Living Wage will be implemented on 1st April 2016

Appendix 1

SURREY HEATH BOROUGH COUNCIL

SALARY SCALES

WITH EFFECT FROM 01 APRIL 2015

(increase of 2% from last award)

SH1 *		SH2		SH3		SH4	
SCP	£	SCP	£	SCP	£	SCP	£
1.2	12008	2.7	15365	3.11	19025	4.15	22438
1.3	12774	2.8	16261	3.12	19791	4.16	23594
1.4	13539	2.9	17188	3.13	20545	4.17	24738
1.5	14309	2.10	18244	3.14	21296	4.18	25839
1.6	14827	2.11	18762	3.15	21813	4.19	26357

SH5		SH6		SH7		SH8	
SCP	£	SCP	£	SCP	£	SCP	£
5.19	26995	6.23	31567	7.28	37021	8.33	42591
5.20	28141	6.24	32710	7.29	38324	8.34	44098
5.21	29267	6.25	33824	7.30	39624	8.35	45615
5.22	30410	6.26	34982	7.31	40899	8.36	47148
5.23	30927	6.27	35499	7.32	41416	8.37	47667

SH9	
SCP	£
9.37	48809
9.38	50394
9.39	51980
9.40	53563
9.41	54081

SH20 HEAD of SERVICE	
SCP	£
20.101	56444
20.102	58582
20.103	61417
20.104	64255
20.105	67106

SH21 EXECUTIVE HEAD	
SCP	£
21.106	69962
21.107	72818
21.108	75674
21.109	78734
21.110	81794

SH22 CHIEF EXECUTIVE	
SCP	£
22.201	103694
22.202	107413
22.203	111134
22.204	114852

*** The salary scales will be updated to reflect the National Living Wage**

EXCLUSION OF PRESS AND PUBLIC

RECOMMENDATION

The Executive is advised to RESOLVE that, under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the ground that they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Act, as set out below:

Item	Paragraph(s)
13	3
14	3

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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