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Friday, 26 August 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, 6 September 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 - 8**

To confirm and sign the minutes of the meeting held on 2 August 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.

5.	**Community Fund Grants** To consider grant applications to the Council's Community Fund Grant Scheme.	**9 - 16**
6.	**Council Finances as at 30 June 2016** To consider the position of the Council Finances as at the 30th June 2016.	**17 - 24**
7.	**Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2015/16** To consider the Treasury Management Service performance and compliance with the Prudential Indicators for 2015/16.	**25 - 48**
8.	**Business Rates Reform - Fair Funding Review** To consider a proposed response to the Government's consultation on Fair Funding review in respect of Business Rates.	**49 - 56**
9.	**Self-Sufficient Local Government: 100% Business Rates Retention** To consider a proposed response to the Government's consultation on 100% Business Rates Retention.	**57 - 68**

Minutes of a Meeting of the Executive held at Surrey Heath House on 2 August 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
\- Apologies for absence presented

Councillor Richard Brooks (Deputy Leader) in the Chair.

In Attendance: Councillors Rodney Bates, Alan McClafferty and Robin Perry.

16/E Minutes

The open minutes of the meeting held on 12 July 2016 were confirmed and signed by the Chairman, after an amendment to Minute 7/E to indicate that Councillor Rodney Bates declared an interest and left the Chamber for the Executive's deliberations thereon.

17/E Five Year Strategy 2016-2021

The Executive considered a report proposing the adoption of an updated Five Year Strategy, introducing an updated Corporate Strategy and putting forward a proposal that it become a five year rolling strategy. The Strategy would replace the previous 10 year strategy, but would continue with the direction of travel.

The Strategy had been refreshed, including four groups of Key Priorities, those being Place, Prosperity, Performance and People. It had been redesigned to be more helpful, succinct and readable.

Members noted a concern that, on Page 4 of the Strategy, under 'People', the 4th bullet point could be misinterpreted in respect of younger people.

The Transformation Portfolio Holder noted that the Strategy already allowed for minor adjustments and agreed that the bullet point should be amended.

> **Resolved, that the Five Year Strategy 2016 – 2021 as set out in Annex A to the Officer report, with a minor amendment to the People Column, Bullet Point 4, be approved.**

18/E Annual Plan 2016/17

The Executive received a report proposing the adoption of an updated Annual Plan for 2016/17, including an overview of the vision and objectives from the Five Year Strategy and indicating the outputs and success measures that would be delivered in 2016/17 for each of the new priorities.

Members noted that the Annual Plan demonstrated how it would link into and work towards achieving the aims of the new Five Year Strategy. It had been simplified and was more succinct, with a more definitive breakdown of what should be achieved and measured. Outcomes would be reviewed against success measures at the 6 month point and at the end of the year.

Resolved, that the Annual Plan for 1 April 2016 to 31 March 2017, as set out in Annex A to the Officer report, be approved.

19/E End of Year Performance Report 2015/16

The Transformation Portfolio Holder presented a report on the Council's performance for 2015/16. This would be the final report in the current format, with the new report reflecting changes agreed to the Annual Plan.

Members welcomed the proposed changes, referring to inconsistencies in interpretation and confusing messages from the Red – Amber – Green report. It was suggested that greater and earlier involvement in the vision and processes would assist Members and it was proposed that, where an issue or target was beyond the Council's control, such as when the action required sat with another Authority, this should be clearly indicated.

In respect of the delay in the report being considered, Members noted that this had partly driven the changes to the format proposed in this and the 5 year/annual plan proposals.

Successes included moves to regenerate Camberley Town Centre, Investment in properties, achieving the 'Gold' level in Investors in People plus the 'Commitment' level of the Workplace Wellbeing Charter and achieving income returns at 20% above the Local Authorities average.

Members queried the current status of the Land East of Knoll Road report, but noted that the target dates had been missed whilst a decision was awaited from Surrey County Council.

Resolved, that the Council's Performance for 2015/16 be noted.

20/E Medium Term Financial Strategy

The Finance Portfolio Holder presented a report setting out the implications and challenges of the Financial Strategy and forecast for the period from 2017/18 to 2020/21.

The financial forecast illustrated the need to make continued savings and increase income if the Council was to achieve financial sustainability going forward. Whilst the Government, in December 2015, had released a 4 year settlement to Councils to enable financial planning, uncertainty around the changes to business rates in 2019/20 and concerns about the percentage that the Council would get in the proposed 100% localisation of business rates created difficulties for financial projections/planning.

The Strategy proposed a number of measures aimed at addressing potential financial challenges and setting the direction of travel rather than authorising specific actions.

The Executive noted Member concerns on possible impacts from leaving the European Union, market fluctuations and the appointment of a new Government. The £100,000 projected saving from the proposed reduction in the number of Members was also queried.

Whilst agreeing on the need to re-assess the projected £100,000 saving, Members noted that the Medium Term Financial Strategy would be monitored, with the impact of the potential uncertainties kept under constant review.

Resolved, that

(i) the Financial Strategy be noted; and

(ii) the adoption of the Medium Term Financial Strategy be recommended to the Council.

21/E West End Village Design Statement

The Regulatory Portfolio Holder reminded Members that the Executive, in April 2016, had agreed that the Draft West End Village Design Statement Supplementary Planning Document (VDS) be subject to a statutory 6 weeks consultation. Following the completion of the consultation process and some minor adjustments, the report sought the adoption of the West End VDS as a Supplementary Planning Document.

The Executive noted that the VDS was guidance rather than policy. It could not stop development happening, but could provide additional information in respect of design and character and would support policies in the Council's Core Strategy.

Resolved, that the West End Village Design Statement be adopted as a Supplementary Planning Document (SPD).

22/E Response to Runnymede Borough's Issues and Options and Preferred Option Local Plan consultation

The Executive considered a report on the publication by Runnymede Borough Council of its Local Plan Issues and Options and Preferred Approaches Document and the consultation thereon which would run until 17 August 2016.

The document was the first stage of the production of the Runnymede Local Plan and set out the approach to allocating sites for housing in Runnymede borough to 2035. This includes the DERA north and south sites in Longcross and proposals for their removal from the Green Belt.

Although not objecting in principle to the proposed development of the DERA sites, this Council had previously submitted an objection to the proposed development due to concerns over the need to address both local and strategic transport implications.

Members noted a proposed response to the consultation document, including a requirement to address transport issues, improvements to the A320 and discussions with Highways England regarding the possible provision of a restricted access Junction (2a) from the M3 motorway, to allow separate entry and exit to local traffic to and from the West at the B386 Longcross Road over bridge. The response also referred to the requirements of the Duty to Cooperate.

Resolved, that the response set out in the letter at Annex 1 to the Officer report be submitted as Surrey Heath Borough Council's formal representations to the Runnymede Borough Council's Local Plan Issues and Options and Preferred Approaches document.

23/E Family Support Team Progress in 2015/16

The Regulatory Portfolio Holder presented a report setting out the tracked progress of families worked with in the previous year under the Troubled Families Initiative, to ascertain whether or not improvements achieved had been sustained in the 9 months following intensive support work with the Family Support Team.

The purpose of the troubled families' initiative was to change the repeating generational patterns of poor parenting, abuse, violence, drug use, anti-social behaviour and crime in the most troubled families in the UK.

Since its inception in 2013, the joint Runnymede/Surrey Heath project had worked with 230 families, providing intensive support and been awarded £654,815, in total funding for set up and payment by results. This represented an average cost of £2,847 per family worked with.

The scheme worked in two parts with families receiving intensive support for a period of around 12 weeks through the Team around the Family (TAF) and then support through a lead organisation for the following 9 months (post TAF).

27 Surrey Heath families had been assisted in 2015/16, out of 54 families supported by the Team. 8 of the 54 families had been found to have circumstances that warranted more serious interventions. Of the remaining 46, all had shown improvement in at least one of the criteria covered by the initiative.

One criterion, Domestic Violence/Abuse had proved more difficult to address, with 8 out of 11 families showing no improvement after intensive support. However, Members noted that, in this most challenging measure, an improvement with 3 out of 11 families was actually, in itself, a considerable achievement.

The report highlighted one weakness of the scheme, that being the lack of an agreed approach to monitoring progress of families in the post TAF period or resourcing for this. Partly in response to this concern, a restructuring of the Family Support team within Runnymede/Surrey Heath had introduced 2 senior posts with responsibility for post TAF tracking.

Surrey County Council was now introducing a 2nd phase of the initiative, in which a more refined approach would be adopted to assessing and tracking of families across the 12 months, to make claiming of Payment by Results easier, as well as monitoring of the improvements achieved to see whether these have been sustained.

Whilst the Team had sought to assess outcomes for the 54 families worked with over 2015/16, it had proved difficult to track families once they had left intensive support and to monitor progress against DCLG criteria. This would be the subject of further work with partners.

Resolved, that the report be noted

24/E Food Safety Service Plan 2016/17

The Community Portfolio Holder presented a report seeking approval of a Food Safety Service Plan for the period 2016 to 2017, which would ensure that the Council was compliant with the requirements of the Food Standards Agency and the Framework Agreement on Local Authority Food Law Enforcement.

Council Officers had carried out 380 food safety inspections in 2015/16, with 50 new businesses included in the inspections, and had established that 97% of food businesses in the Borough were ‘Broadly Compliant’ with food hygiene law.

In 2016/17, officers intended to build on the success of the Food Hygiene Rating System and to maintain the proportion of food businesses which were “Broadly Compliant” with food hygiene laws to at or above 95%.

Officers had done a significant amount of work with the non-broadly compliant businesses to achieve the necessary improvements. Over the next year, the focus would be on sustaining the improvements in the businesses and continuing to take action in noncompliant businesses.

Resolved, that the Food Safety Service Plan 2016/17 attached at Annex A to the Officer report, be approved.

25/E Exclusion of Press and Public

In accordance with Section 100(A)(4) of the Local Government Act 1972, the press and public were excluded from the meeting for the following items of business on the ground that they involved the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Act as set out below:

Minute	Paragraph(s)
26/E	3
27/E	3

Note: Minutes 26/E and 27/E are summaries of matters considered in Part II of the agenda, the minutes of which it is considered should remain confidential at the present time.

26/E Exempt Minutes

The exempt minutes of the meeting held on 12 July 2016 were confirmed and signed by the Chairman.

27/E Review of Exempt Items

The Executive reviewed the minutes which had been considered at the meeting following the exclusion of members of the press and public, as these involved the likely disclosure of exempt information.

Resolved, that the minutes remain exempt until the completion of the lease negotiations.

Chairman

Community Fund Grant Applications

Summary:

To consider grant applications to the Council's Community Fund Grant Scheme received by 30th June 2016.

Portfolio: Cllr Josephine Hawkins (Corporate)

Date Approved*:* 25 August 2016

Wards Affected: All

Recommendation

The Executive is asked to consider awarding a grant to the applicants from the Council's Community Fund Grant Scheme.

1. RESOURCE IMPLICATIONS

1.1 The Council has its own Community Fund from which it provides grants of up to £25,000 to assist local 'not for profit organisations' with the delivery of community projects. Total project costs of up to £2,000 can attract 75% funding and total project costs over £2,001 can attract up to 50% funding from the scheme.

1.2 There are two submission deadlines each year namely 30 June and the 31 December. This report includes the applications received by 30 June 2016.

1.3 Four applications have been made to the Community Fund Grant Scheme in this round. An analysis of each of the bids is included in Annex A.

1.4 The Member Panel met on 21st July 2016 and of the four bids that were submitted all were supported and the summary information is included in Annex B. One application relates to a Surrey Community Building Grant which is explained further in paragraph 3.1.

1.5 The total amount requested from all four applications total £82,440. However, Officers are recommending a total spend of £25,000 at this meeting. No payments are made until after evidence is submitted that the work is completed.

2. ADDITIONAL INFORMATION

2.1 To qualify for a grant from the Community Fund, applications must meet the Council's objectives from our 5 Year Strategy and must demonstrate a benefit to the local community. All awards are made at the discretion of the Executive. Each of the applicants is a not for profit organisation. Each project recommended for a grant must be well planned with a sound financial basis.

2.2 Information on the Community Fund Grant scheme is provided on the Council's website and articles are regularly published in the Council's Heathscene magazine promoting recent successful awards. The scheme is further promoted by Voluntary Support North Surrey to ensure greater involvement and wider representation from voluntary groups in the Borough.

2.3 All decisions on grant awards rest with the Executive. The Executive can also add conditions to the awarding of any grants as it sees fit.

3. SURREY COMMUNITY BUILDINGS GRANTS SCHEME

3.1 The Surrey Community Buildings Grant Scheme is managed by Surrey Community Action on behalf of Surrey County Council. Surrey Heath Borough Council has agreed to be part of the scheme whereby applicants can apply to both the Borough Council and County Council for three-way, equal match funding for the same project. The application from All Saints Church Hall included in this report is also an application to Surrey Community Action/Surrey County Council for an equal amount towards their project.

4. OPTIONS

4.1 The Executive has the option to;

i. Fund the organisations in line with the proposed amount in Annex B;

ii. Fund the organisations to a greater or lesser amount of their requested sum;

iii. Not fund the organisations.

5. PROPOSALS

5.1 It is proposed that the Executive agree the proposed awards set out in Annex B from the Community Fund Grant Scheme.

6. CORPORATE OBJECTIVES AND KEY PRIORITIES

6.1 The funding of voluntary organisations allows the Council to meet its objectives to:

- Work in partnership with local organisations to provide support to the community and diverse open space and recreation facilities.
- Understanding and supporting local voluntary groups.
- Significantly contribute to civic pride through the provision of events and green spaces.
- Work in partnership with the voluntary and third sector to extend opportunities in the Borough.
- Encouraging greater involvement from local clubs and organisations including volunteering.

7. EQUALITIES IMPACT

7.1 The Community Grant Fund has been equality impact assessed.

Annexes	**Annex A – Summary of Bids** **Annex B – Proposed Grant Awards**
Background Papers	**Application Forms**
Author/Contact Details	**Sarah Groom, Transformation Team Manager 01276 707263**
Service Manager	**Louise Livingston, Executive Head of Transformation, 01276 707403**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

Resources	**Required**	**Consulted**
Revenue	N/A	
Capital	✓	✓
Human Resources	N/A	
Asset Management	N/A	
IT	N/A	

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:

ANNEX A – Summary of Bids

Applicant: All Saints Church Hall, Lightwater

Project: To replace the kitchen and toilet facilities.

Grant requested*: £24,690* **Project cost*: £74,071***

All Saints Church Hall opened in 1966 and is a popular facility within Lightwater and its surrounding areas. This is run by a management committee who are responsible to the Parochial Church Council. The aim of the group is to provide excellent local facilities for both community and church.

The building was last renovated in 1996 and has not been subject to any further works or improvements since then. The kitchen and toilet facilities are in need of modernisation and compliance to bring them up to present health and safety standards. There is an average of 600 people per week who use the facilities and it is forecasted that this will increase by up to 33% with the enhanced facilities from the refurbishment.

Other improvements scheduled in a 2nd phase includes a stair lift, new doors, curtains, stage refurbishment, back rooms refurbishment, storage cupboard and tarmacking of the car park. The cost of the 2nd phase is estimated at approximately £38,000. This 2nd phase will be undertaken separately and does not form part of this bid.

Further applications for funding are being sought from other sources to contribute to the works, (this does not include the Diocese of Guildford, as funds are not available for capital expenditure from this source). The applicant has confirmed that £110,000 has been set-a-side from a total reserve of £126,477 to ensure the whole project can proceed.

This grant application forms part of the Surrey Community Building Grant Scheme whereby the Borough, County Council and applicant each contribute 33.3% of the funding sought. The works are scheduled to begin in August 2017.

Recommendation: To award a grant of £15,000 subject to the match funding by SCC and the applicant, under the Surrey Community Buildings Grant Scheme. From the financial information and the work estimates provided, the applicant will be able to complete the project with this grant award.

Applicant: Camberley Cricket Club

Project: To supply and fit a replacement disabled lift within the clubhouse.

Grant requested: £12,750 **Project cost: £25,550**

This cricket club was established in 1944 and has a 2 storey club house for both members and wider community use. The club offers cricket to a wide range of participants with 4 senior teams plus a junior section comprising of 8 boys and 2 girls teams which give a membership number of around 150.

Due to its central Camberley location, the clubhouse is a popular venue. It is used by the club members and is available for hire for private parties and by community groups such as Camberley Rotary Club, U3A Bridge and Flower arranging clubs, the Rock Choir, Weightwatchers and Hockey Club. The bookings hosts approximately 350 users per week and with150 cricket users this gives a total of 500 users per week.

The disabled lift has become unreliable and it requires regular repair and maintenance. The lift engineers have reported that the repairs are increasingly difficult to undertake and that the lift should be replaced. In recent months clients have become stranded on the top floor.

The Club estimate that their income will increase by £6,500 per annum after the new lift is in place; this is based upon one extra club meeting per week, eight additional party hires and increased bar sales.

The club was awarded a grant in April 2015 of £5,866 as a 50% contribution towards a new groundsman shed.

The club has not made any further external applications for funding of this project, nor undertaken any fundraising as yet.

The applicant has provided two quotations and has indicated a preference for the higher cost of the two, with the differential being £2,607. The club is VAT registered. Any grant award made will contribute to the net costs of the lifts quotes provided.

Recommendation: To award a grant of £5,000 as the club has sufficient reserves available to fund this project.

Applicant: Windlesham Bowls Club

Project: To extend the club house facilities by 4 metres.

Grant requested: £25,000 **Project cost: £61,903**

The Windlesham Bowls Club has existed since the 1980's and is located on the same site as Windlesham Club and Theatre. The organisation's tenure is open ended through a rental arrangement with the theatre at a cost of £548 per annum in 2015. The club cover all operating costs through their annual membership fees and this is at a level that is comparable to other bowls clubs operated within Surrey Heath.

The club welcomes new members of any age and experience and caters for all levels, from complete beginner through to experienced players. The club hosts many league matches as well as internal competitions, casual bowling and social activities. There are 65 members at present.

The club is seeking funding to extend the existing clubhouse by 4 metres and this will provide the space for a new disabled toilet, storage area, and an opportunity to modernise the kitchen area. It is estimated that after the completion of the works this will enable the membership to increase to 130.

Planning consent for the project was granted on the 9th June 2016.

Other funding applications have been made to Windlesham Parish Council, Surrey Playing Fields Association and the London Marathon. The applicant has advised that no funding application is sought from Bowls England as no grants are available, although the provision of interest free loans are available.

Recommendation: To award a grant of £5,000 on the basis of the club being able to raise the remaining funds required to complete the project.

Applicant: Deepcut Village Association

Project: To convert the existing changing rooms and showers into a small hall.

Grant requested: £20,000 **Project cost: £ 110,880**

The Deepcut Village Centre is owned by the council and is managed by the Deepcut Village Association. The remainder of the building comprises a large hall, small office, kitchen, toilets and two smaller meeting rooms. The Executive agreed the terms for a new 25 year lease on the 12th July 2016. Over this period the council will receive a rental income of £8,000 per annum, subject to any rent subsidy.

The changing rooms and showers have been unused since the building opened in 2003. The community demand for hall space is such that the Association seek to convert the space so that it can be used and the revenue can contribute towards the income of the centre.

The changing rooms and showers were originally designed for playing fields that remain in private ownership. The fields are not to a standard to play competitive football and local residents did not originally support the development of football pitches on the site, so the development company have left this as a green area of land. The fields are not owned by the MOD and are unaffected by the future development proposal.

The centre is used by 700-800 people per week this is expected to increase to 1000+ after the works are completed. Delivery of this project will ensure a fully utilised community facility.

The Council currently holds a commuted sum under the original Alma Dettingen S106 Agreement, of £382,000 for this building. Legal advice received suggests that this project fulfils the criteria for funding from this source rather than the Community Grant Fund. The Executive will consider the awards for S106 monies separately in autumn 2016.

The Council are supportive of this application and the benefits to be derived by the community from the conversion. However, it is suggested that this funding application is deferred until the outcome of the S.106 funding is agreed by the Executive, and then reconsidered at that time.

Recommendation: To defer the decision until the Executive has considered awarding community projects funding from the S106 fund.

ANNEX B – Proposed Grant Awards

Organisation	Project Details	Full Project Cost £	Amount Requested £	Amount Proposed £
All Saints Church Hall, Lightwater	To modernise the kitchen and toilet facilities.	74,071	£24,690	£15,000
Camberley Cricket Club	To replace the existing disabled lift in the clubhouse.	£25,500	£12,750	£5,000
Windlesham Bowls Club	To extend the club house facilities.	£61,903	£25,000	£5,000
Deepcut Village Association	To convert the existing changing room and showers in to a small hall.	£110,880	£20,000	Deferred
TOTAL		£272,354	**£82,440**	**£25,000**

Council Finances as at the 30th June 2016

Summary **To inform Executive of the position of the Council Finances as at the 30th June 2016**

Portfolio Finance – Cllr Richard Brooks Date signed off – 5 August 2016	
Wards Affected	All

Recommendation **The Executive is advised to NOTE the Revenue, Treasury and Capital Position as at 30th June 2016.**

1. Key Issues

1.1 This is the first quarter monitoring report against the 2016/17 approved budget, which provides an update on the Revenue, Treasury and Capital budget position as at 30th June 2016.

1.2 As it is still quite early in the year it is difficult to draw any firm conclusions as to the year end outturn however this report is intended to give an update as to where services currently are against profiled budget for the first quarter.

1.3 At the moment there are no particular issues within services to report. Wages are on budget but underachieving against the vacancy margin for the year which is being monitored.

2. Resource Implications

Revenue Budget

Services

2.1 Actuals against budget for the 1st quarter are shown in the attached annex. There are no specific issues to report.

Wages and Salaries

2.2 At the end of the 1st Quarter it is predicted wages will be under budget but services are continuing to work to achieve the vacancy margin however there are no concerns at the moment.

Capital Budget

2.3 In the first quarter £264k has been spent on capital projects of which the largest share, £162k, was spent on disabled Facilities Grants. Other significant expenditure was £34k on computer software and £50k on property development. All of these were within budget.

Treasury Investments

2.4 The Council currently has £26m invested in a variety of banks, building societies and funds. Due to low interest rates it is still very difficult to increase returns however the money market funds continue to do well. At the moment the Council is on track to achieve its budgeted investment income for the year.

2.5 A list of investments held at the 30th June 2016 is shown in Annex B

Debtors

Sundry Debts

2.6 Sundry debts include all debts except those relating to benefits. At the 30^{th} June 2016 these amounted to £664k compared with £622k for the same period last year. However of this £224k relates to community alarms and parking season tickets which are invoiced at the start of the year, and hence appear as debts, but paid by instalments throughout the year.

Housing Benefit Debts

2.7 These debts arise when an overpayment in housing benefit has been made and thus has to be recovered. At the 30th June 2016 the balance was £636k which is only £1k down against the figure last quarter. During the period £95k was collected but a similar amount of new were debts raised. The number of debts on a repayment plan has also increased for the quarter.

3. Options

3.1 The report is for noting only.

4. Proposals

4.1 It is proposed that the Executive is advised to NOTE the Revenue, Treasury and Capital Position for the period to 30^{st} June 2016.

5. Supporting Information

5.1 None

6. Corporate Objectives and Key Priorities

6.1 This item addresses the Council's Objective of delivering services efficiently, effectively and economically.

7. Sustainability

7.1 Budget monitoring and financial control are important tools in monitoring the financial sustainability of the Council.

7.2 Key services are being maintained despite financial constraints

8. Risk Management

8.1 Regular financial monitoring enables risks to be highlighted at an early stage so that mitigating actions can be taken.

9. Officers Comments

9.1 The report covers the first quarter of the year and hence it is too early to draw any firm conclusions as to what the outturn will look like. However there are no significant issues to cause concern at the moment.

BACKGROUND PAPERS	**none**
AUTHOR/CONTACT DETAILS	**Kelvin Menon - Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
HEAD OF SERVICE	**Kelvin Menon - Executive Head of Finance**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	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			

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Annex A

Detail on the Revenue Budget Position at 30st June 2016

Services are asked to explain significant variances between their profiled budget and actual expenditure to date and also what impact this could have at the year-end if any.

The statements below show the actual position against profiled budget as at the 30th June 2016 excluding pension and asset recharges. These have been excluded as they are not in the control of the services themselves.

Corporate Service

Budget for period £363k, Actual for Period £295k. Predicted Year end impact - £Nil

The total variance arises due to the fact that the accounting for the elections was not completed by the quarter end – this variance will then disappear. There are no other issues to report.

Legal and Property Service

Budget for period £282k, actual for period £142k. Predicted year end impact £Nil

Once the timing differences in respect of rent and repairs are taken in to account there are not expected to be any issues that will affect the year end outturn at the present time.

Regulatory

Budget for period £711k, actual for period £741k. Predicted year end impact £Nil

There are no particular issues to report except that spend on planning consultants is ahead of profile but is not considered to be an issue at the moment.

Transformation

Budget for period £729k, actual for period £743k, Predicted year end impact £Nil

There are no issues to report at this time.

Business

Budget for period £426k, actual for period £505k. Predicted year end impact £Nil.

Theatre income on budget but pressure on costs which is being managed. In addition the Arena June profit share is to be invoiced and some large repairs were undertaken early in year. No significant issues to report at the moment.

Community

Budget for period £401k, Actual for period £461k, Predicted year end impact £Nil

Timing issue in respect of invoicing but no impact on the year end and there are no other issues to report.

Finance

Budget for period £793m, actual for period £770m Predicted year end impact £nil

There are no issues to report at this time.

Payroll

Wages are under budget but have only achieved £114k of the £184k vacancy margin. This amounts to 0.7% of the payroll budget and is not considered an issue at the moment.

Annex B

INVESTMENTS as at 30th June 2016

	£
Lloyds Bank Call Account	1,000,033
Goldman Sachs Bank	2,000,000
Total Banks	**3,000,033**
Cumberland Building Society	1,000,000
National Counties Building Society	1,000,000
Nationwide Building Society	2,000,000
Total Building Society	**4,000,000**
Debt Management Office	**0**
Total Banks, Building Societies and DMO	**7,000,033**
Glasgow City Council	2,000,000
Greater London Authority	2,000,000
Lancashire County Council	1,500,000
The London Borough of Islington	2,000,000
Total Local Authorities	**7,500,000**
AAA Rated MM Fund - Aberdeen (SWIP)	973,250
AAA Rated MM Fund - Blackrock	0
AAA Rated MM Fund - CCLA	0
AAA Rated MM Fund - Insight	1,007,394
AAA Rated MM Fund - Standard Life (Ignis)	1,000,000
Total Money Market Funds	**2,980,645**
CCLA Property Fund	2,052,162
M & G Investments - Global Dividend Fund	988,013
M & G Investments - Strategic Corp Bond Fur	2,005,221
Threadneedle - Global Equity Income Fund	1,102,599
Threadneedle - Strategic Bond Fund	1,944,275
Total Longer Term Investments	**8,092,269**
Total Invested (excluding the NatWest SII	**25,572,947**
NatWest SIBA	969,384
Total Invested (including NatWest SIBA)	**26,542,331**
Total Invested (Including SIBA & War Stoc	**26,542,331**

Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2015/16

SUMMARY

Report to advise members of the Treasury Management Service performance and to illustrate the compliance with the Prudential Indicators for 2015/16

PORTFOLIO	**Finance** **Councillor Richard Brooks**	**Date signed off:** **24 August 2016**
WARDS AFFECTED	**All**	

RECOMMENDATION

The Executive is asked to:

(i) NOTE the report on Treasury Management including compliance with the 2015/16 Prudential Indicators;

(ii) RECOMMEND to Full Council to NOTE compliance with the Prudential Indicators for 2015/16;

(iii) RECOMMEND to Full Council the Investment Limits for "Any Group of Pooled Funds under the same Management" in the 2016/17 Treasury Strategy be changed from £3m to £5m

1. Resource Implications

1.1 None directly as a result of this paper, but the Council is heavily dependant on investment income to support its current revenue expenditure. Investment returns have fallen significantly over recent years. The table below shows investment income from treasury activities (excluding Iceland) from 2010/11 to 2015/16.

1.2

Year	Investment income from treasury activities	Increase/decrease compared to previous year	
	£'000	£'000	%
2010/11	264	-260	-49.60%
2011/12	215	-49	-18.60%
2012/13	300	85	39.50%
2013/14	208	-92	-42.80%
2014/15	273	35	17.00%
2015/16	515	242	88.80%

1.3 Treasury income returns improved in 2015/16 following a change in investment policy in 2014/15 which enabled investment in a more diversified portfolio.

2. Key Issues

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. This report informs members of the outcome of treasury activities in the last year and a further report later in the year will report on the first 6 months.

2.2 Treasury management is defined as: "The management of the local authority's investments and 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."

2.3 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. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.

2.4 This report is the annual report for the 2015/16 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2015/16 Prudential Indicators.

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 Department for Communities and Local Government (DCLG) Investment Guidance, and the CIPFA Prudential Code for Capital Finance in Local Authorities.

2.6 This is the first year that the Council borrowed externally to purchase property and the impact of this is included within this report.

3. Options

3.1 The Executive can endorse, amend or reject the recommendations made.

4. Proposals

4.1 It is PROPOSED that the Executive:

(i) NOTE the report on Treasury Management including compliance with the 2015/16 Prudential Indicators;

(ii) RECOMMEND to Full Council to NOTE compliance with the Prudential Indicators for 2015/16;

(iii) RECOMMEND to Full Council the Investment Limits for “Any Group of Pooled Funds under the same Management” in the 2016/17 Treasury Strategy be changed from £3m to £5m.

5. Supporting Information

Treasury Management Strategy 2015/16

5.1 The Council approved the 2015/16 Treasury Management Strategy, which includes the investment strategy, at its meeting on the 25th February 2015. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Investment Strategy 2015/16

5.2 The approved investment strategy for 2015/16 adopted a view to investment that sought to balance risk against return. It maintained a policy, on the advice of our treasury advisors Arlingclose, of diversifying investments including longer term investment funds which give a good return but can be more volatile.

5.3 The Council continued to use a limited range of UK banks and building societies with investments being placed generally for short periods only. This was not only because of the poor rates offered but also the risk of bail in due to changes in legislation in 2015.

5.4 In addition the Council lent money to other local authorities during the year in order to secure better returns.

Borrowing Strategy 2015/16

5.5 The Council’s capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2016 was £18.1m (£1.567m at 31 March 2015) and for the first time this year the Council borrowed externally.

5.6 The Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective. This has meant that the borrowing entered in to this year has been at a fixed rate and long term.

Treasury Advisors

5.7 The Council uses Arlingclose Limited as its treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. They have provided an Economic Review, counterparty update and market data by way of background information and this is included in Annex C.

<u>Borrowing and Investment Activity in 2015/16</u>

Borrowing Activity 2015/16

5.8 At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £18.1m, while usable reserves and working capital which are the underlying resources available for investment were £20.4m on an accruals basis.

5.9 At 31/03/2016, the Authority had £17.9m of borrowing and £27.7m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum short-term investment balance of £5m.

5.10 The Authority is predicted to have an increasing CFR over the next 3 years due to the capital programme of up to £1m however this could increase significantly if further investment in property is undertaken.

5.11 During the year the Council entered in to £17.9m of new borrowing. The details are given in the table below:

Lendor	Start	Length of	Int	Amount
	Date	Loan (Yrs)	Rate	Borrowed
EM3 LEP	21-Apr-15	5	0.00%	1,500,000
PWLB	23-Apr-15	50	3.16%	8,400,000
PWLB	26-Jun-15	50	3.44%	6,000,000
PWLB	26-Jun-15	5	2.11%	2,000,000

TOTAL DEBT £17,900,000

Investment Activity 2015/16

5.12 The Authority held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £22million and £39million. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

5.13 The table below shows a summary of the investment activity for 2015/16:

Investment Counterparty	Balance on 1/4/15	Investments Made	Maturities/Investments Sold	Balance on 31/3/16	Average Rate at 31st March
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	**0**	63,700	-63,700	**0**	0.25
- Long Term	**0**	0	0	**0**	-
UK Local Authorities					
- Short Term	**2,000**	5,500	-2,000	**5,500**	0.93
- Long Term	**3,500**	2,000	-3,500	**2,000**	1.30
Banks, Building Societies & Other Organisations					
- Short Term	**2,816**	74,657	-72,214	**5,259**	0.55
- Long Term	**0**	0	0	**0**	-
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	**6,447**	18,029	-17,504	6,973	0.51
- Long Term	**8,123**		-161	7,962	3.89
Total Investments	**22,886**	**163,886**	**-159,078**	**27,693**	

5.14 Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

5.15 Counterparty credit quality was assessed and monitored by our advisors with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's).

5.16 Investments during the year included:

- Deposits with the Debt Management Office
- Deposits with Other Local Authorities
- Investments in AAA-rated constant and variable net asset value Money Market Funds
- Call accounts and deposits with Banks and Building Societies in the UK
- Other Pooled funds

5.17 The Council's current accounts, together with a Special Interest Bearing Account are held with NatWest plc who do not currently meet the above credit rating criteria. The Council will treat NatWest plc as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day.

Credit Risk

5.18 Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	3.74	AA-	2.79	AA
30/06/2015	4.03	AA-	2.72	AA
30/09/2015	4.07	AA-	2.54	AA
31/12/2015	4.75	A+	2.92	AA
31/03/2016	4.26	AA-	2.35	AA+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Budgeted Income and Outturn

5.19 The average cash balances were £31m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels. New deposits were made at an average rate of 1.2%. Investments in Money Market Funds generated an average rate of 0.5%.

5.20 The Authority's budgeted investment income for the year was £0.3m. The Authority's investment outturn for the year was £0.5m.

Externally Managed Funds

5.21 The Authority also has investments in strategic bond, equity and property funds which allow the Authority to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Authority's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

5.22 Although money can be redeemed from the pooled funds at short notice, the Authority's intention is to hold them for the medium-term. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

Update on Investments with Icelandic Banks

5.23 On the 31st March 2016 the council held ISK135,575,101 which represented the remainder of the council's claim against Glitnir Bank. This was subject to exchange controls imposed by the Icelandic government. However in June 2016 the Icelandic Government announced that they would allow foreign deposits to be exchanged for one last time. If this opportunity was not taken then the money would be frozen for several more years and earn no interest. As a result of this the Council took advantage of the offer and hence no money is now held in Iceland.

Compliance with Prudential indicators

5.24 The Council can confirm that it has complied with its Prudential Indicators for 2015/16, which were approved on 25th February 2015 by Full Council as part of the Council's Treasury Management Strategy Statement. Full details are included in Annex C.

5.25 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2015/16. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

5.26 There was only one breach of the Treasury Strategy during the year as follows:

On 2nd November 2015 £1m was invested with Cumberland Building Society. The limit on Building society investments was assumed 10% of total investments rather than £5m so this limit was exceeded. The money was repaid on the 10th February 2016 and the Council suffered no loss. Procedures have been changed to prevent this happening again in the future.

6. Change to 2016/17 Treasury Strategy

6.1 Following discussions with our Treasury advisors Arlingclose they have recommended that the Council makes a change to its Treasury Strategy to enable it to place more of its funds with a single fund manager. At the moment there is a limit of £3m per manager in "Any group of pooled funds under the same management". It is recommended that this be increased to £5m. This will enable the council to take advantage of funds that perform well.

7. Corporate Objectives And Key Priorities

7.1 This report demonstrates how treasury management supports Key priority 2.

8. Policy Framework

8.1 The 2015/16 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on the 25th February 2015. These set out the parameters under which Treasury Management operates including the Prudential Indicators.

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

- New borrowing is 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.

- Investments are made in accordance with the CLG guidance on Local Authority Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings and as detailed in the Treasury Management Policy statement and approved schedules and practices.

- Sufficient funds are available to meet the Council's estimated outgoings for any day.

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

9. Legal Issues

9.1 The Council is required to comply with the Prudential code as laid down by Government.

10. Risk Management

10.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The key treasury risks being managed are:

- credit risk,
- liquidity risk,
- interest rate risk,
- refinancing risk, and
- operational risk.

The techniques employed to manage these risks are covered in detail in the Council's Treasury Management Practices, and include:

- robust counterparty monitoring and selection criteria,
- prudent cash flow forecasting,
- a range of exposure limits and indicators, and
- procedures designed to prevent fraud and error.

10.2 The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.

10.3 The limits applied in respect of counterparties and investments are the overall limits approved by Council in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Executive Head of Finance in consultation with the Portfolio Holder for Finance 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.

10.4 It should be noted that 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

10.5 The Council measures its exposures to treasury management risks using a range of indicators as recommended by the CIPFA Code of Practice on Treasury Management.

11. Officer Comments

Annexes	Annex A – Investments as at 31st March 2016 Annex B - Compliance with Prudential Indicators Annex C – Economic and other background information from Arlingclose Limited.
Background Papers	Prudential Code for Capital Finance in Local Authorities
Author/Contact Details	**Kelvin Menon – Executive Head of Finance**
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:

Treasury Related Investment Balances as at 31st March 2016

Investments	Notes	Maturity Date	Interest Rate %	Principal
				£
Cash Equivalents				
NatWest Special Interest Bearing Account	On call		0.25	1,456,672
Available for Sale				
AAA Rated Fund - Standard Life	Instant Access		variable	3,000,000
Fixed Term Investments under three months				
National Counties Building Society		04-Apr-16	0.75	1,000,000
Nationwide Building Society		08-Apr-16	0.66	2,000,000
Total Cash Equivalents				**7,456,672**
Short Term Investments				
Available for Sale				
AAA Rated MM Fund - Aberdeen (SWIP)	3 Day Notice		variable	2,966,626
AAA Rated MM Fund - Insight	4 Day Notice		variable	1,005,923
Loans and Receivables				
Icelandic Banks	Updated annually as at 31st March		4.20	801,901
Greater London Authority		28-Oct-16	0.55	2,000,000
Lancashire County Council		30-Sep-16	1.10	1,500,000
The London Borough of Islington		28-Oct-16	1.15	2,000,000
Total Short Term Investmetns				**10,274,450**
Long Term Investments				
Available for Sale				
CCLA Property Fund			4.77	2,086,238
M & G Investments - Global Dividend Fund			3.23	931,883
M & G Investments - Strategic Corp Bond Fund			3.29	1,976,256
Threadneedle - Global Equity Income Fund			3.71	1,041,965
Threadneedle - Strategic Bond Fund			4.44	1,925,765
Loans and Receivables				
Glasgow City Council		30-Oct-18	1.30	2,000,000
Total Long Term Investments				**9,962,107**
Total Investments				**27,693,228**

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set in February 2015.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

	2015/16	**2016/17**	**2017/18**
Upper limit on fixed interest rate exposure	£20m	£20m	£20m
Actual	£0.3m		
Upper limit on variable interest rate exposure	£0	£0	£0
Actual	-£0.4m		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

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

	Upper	**Lower**	**Actual**
Under 12 months	100%	0%	3%
12 months and within 24 months	100%	0%	2%
24 months and within 5 years	100%	0%	18%
5 years and within 10 years	100%	0%	4%
10 years and within 20 years	100%	0%	11%
20 years and within 30 years	100%	0%	15%
30 years and within 40 years	100%	0%	20%
Over 40 years	100%	0%	27%

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.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£15m	£15m	£15m
Actual	£2m		

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. 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.

	Target	Actual
Portfolio average credit rating	A	AA-

Liquidity: The Authority 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, without additional borrowing. The Authority also has the option to borrow on a daily basis on the open market.

	Target	Actual
Total cash available within 3 months	£5m	£8m

Prudential Indicators 2015/16

The Local Government Act 2003 requires the Authority to have regard to CIPFA'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:

Capital Expenditure and Financing	2015/16 Actual	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m
Capital Program	**18**	**1**	**1**
Funded by:			
Capital Receipts	1	0	0
Government Grants	0	0	0
Reserves	0	0	0
Revenue	0	0	0
Borrowing	17	1	0
Leasing and PFI	0	0	0

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

	31.03.16 Actual £m	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Capital Financing Requirement	**18**	**19**	**20**

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 Actual £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Borrowing	17.9	17.9	17.9
Finance leases	0	0	0
PFI liabilities	0	0	0
Total Debt	18	17.9	17.9

The figures above could increase significantly if the councils decides to invest in more property.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

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.

Operational Boundary	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	22	22	22
Other long-term liabilities	2	2	2
Total Debt	**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 £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	24	24	24
Other long-term liabilities	2	2	2

Total Debt	**26**	**26**	**26**

Should the Council decide to borrow to invest in property members would be asked to increase the limits above at that time.

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 Actual %**	**2016/17 Estimate %**	**2017/18 Estimate %**
General Fund	**-0.12**	**4.29**	**7.20**

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	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
General Fund - increase in annual Band D Council Tax	**8.16**	11.46	6.63

Adoption of the CIPFA Treasury Management Code:
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 26th February 2014.

ECONOMIC REVIEW, COUTERPARTY UPDATE AND MARKET DATA PROVIDED BY ARLINGCLOSE LIMITED

Economic Review

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from $67 a barrel in May 2015 to just under $28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as non-bank investments and pooled funds over unsecured bank and building society deposits.

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51

31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015		0.50		0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015		0.50		0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015		0.50		0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016		0.50		0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016		0.50		0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016		0.50		0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average		**0.50**		**0.38**	**0.45**	**0.43**	**0.54**	**0.76**	**0.99**	**0.96**	**1.14**	**1.43**
Maximum		**0.50**		**0.48**	**0.58**	**0.57**	**0.66**	**0.92**	**1.02**	**1.17**	**1.44**	**1.81**
Minimum		**0.50**		**0.17**	**0.35**	**0.43**	**0.51**	**0.55**	**0.84**	**0.68**	**0.73**	**0.85**
Spread		**--**		**0.31**	**0.23**	**0.14**	**0.15**	**0.37**	**0.18**	**0.49**	**0.71**	**0.96**

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

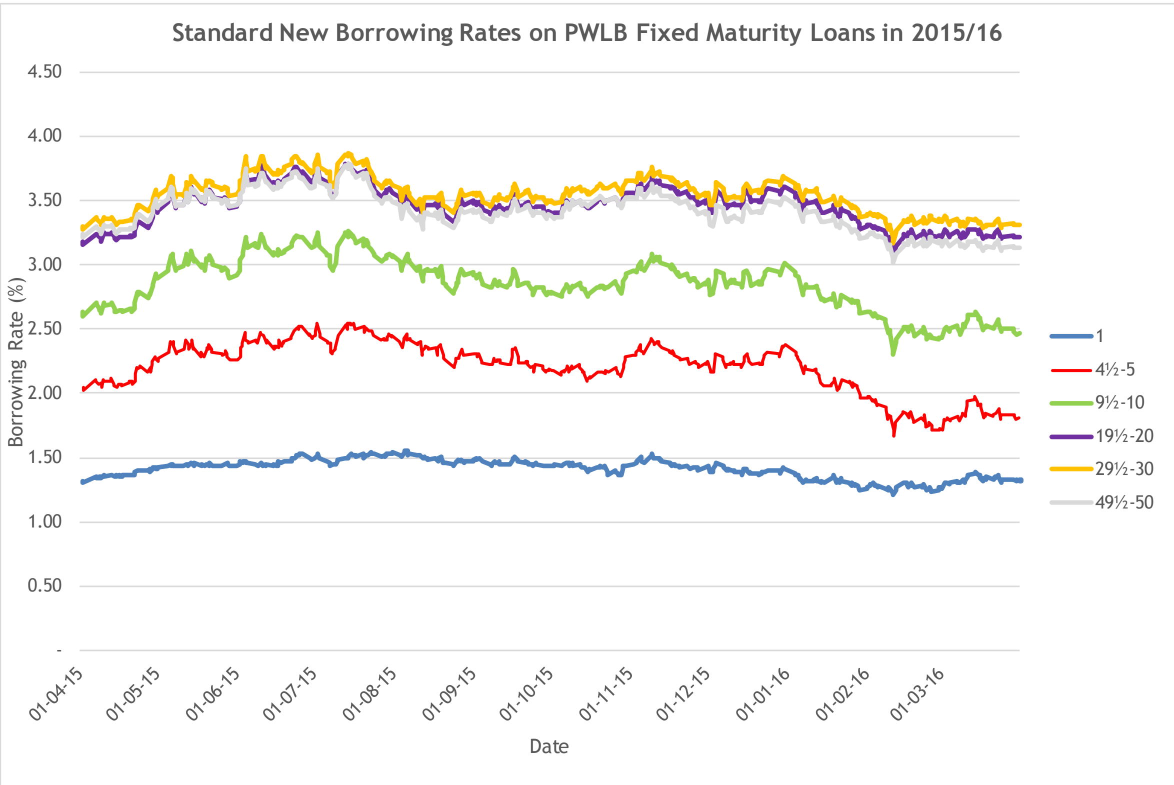

Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

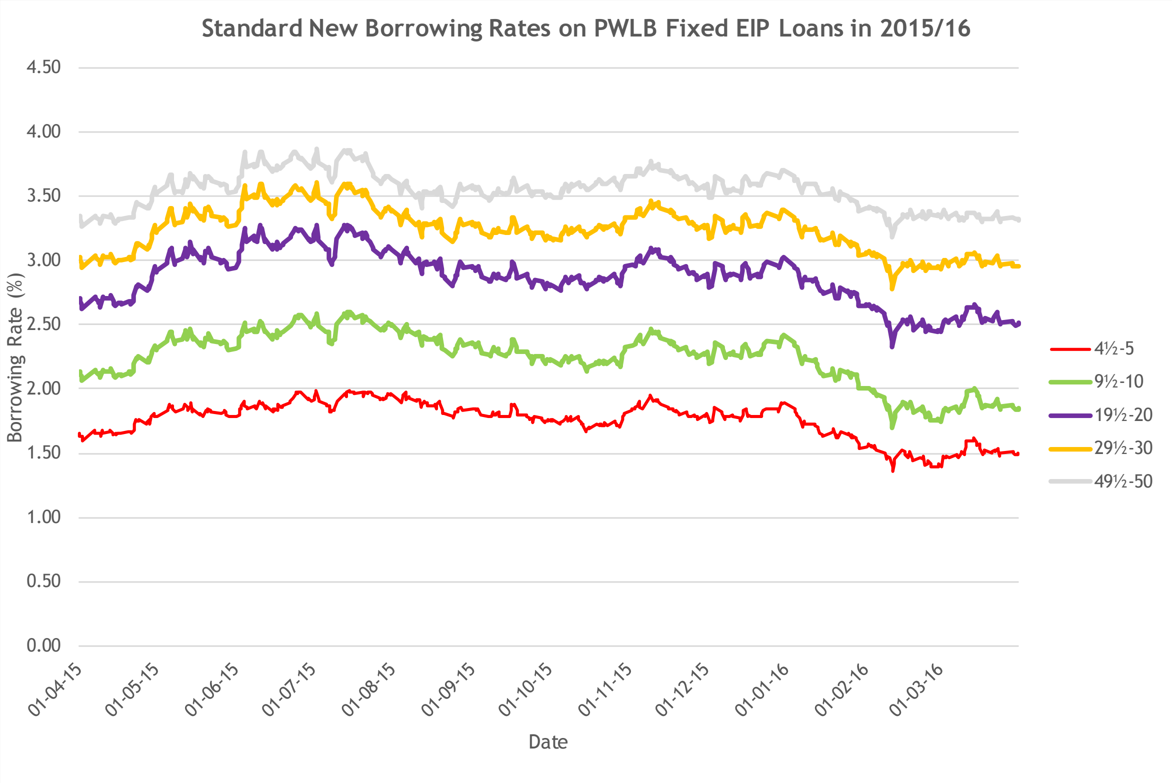

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68

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Business Rates Reform – Fair funding review

Summary **To respond to the Government's consultation on Fair Funding review in respect of Business Rates**

PORTFOLIO - Finance – Cllr Richard Brooks Date Signed Off: 24 August 2016	
Wards Affected	All

Recommendation **The Executive is asked to:** **a) ENDORSE and COMMENT on the response as attached; and** **b) DELEGATE to the Portfolio Holder for Finance the completion and submission of the final response to Government**

1. Key Issues

1.1 Local Government has asked for many years to be allowed to keep 100% of Business rates income. This request was partially granted a number of years ago when 50% of business rates were transferred to Local Government and this proposal seeks views on how 100% retention can be achieved.

1.2 100% retention does not mean that each council will keep whatever it collects in business rates. There will still need to be a system of redistribution around the country to take account of varying needs and resources. How this is done could have a major impact on individual councils.

1.3 The Government has asked for comments on proposals to make changes to the way needs are assessed and the mechanism for redistribution.

1.4 The consultation is due to close on the 26^{th} September and it is intended that the new scheme will be implemented before the next election.

2. Resource Implications

2.1 Business Rates will become the only funding, apart from Council tax, that the Council receives from tax payers in the future. How relative needs are calculated and its impact on setting the base line could make a significant difference to the level of funding the Council receives and hence its ability to deliver services.

2.2 It is the Government's intention that Business rates and council tax will be the only sources of public/Government funding for District Councils and it is likely that all other grants will be abolished.

3. Options

3.1 Members can accept, reject and/or make changes to the response.

4. Proposals

4.1 It is proposed that the Executive:

a) ENDORSE and COMMENT on the response as attached;

b) DELEGATE to the Portfolio Holder for Finance the completion and submission of the final response to Government

5. Supporting Information

5.1 None

6. Corporate Objectives and Key Priorities

6.1 This item addresses the Council's Objective of delivering services efficiently, effectively and economically

7. Sustainability

7.1 The final business rates retention scheme could have a significant impact on the financial sustainability of the Council.

8. Risk Management

8.1 None from the consultation itself

9. Officers Comments

9.1 None

Background papers	**The consultation document**
Author/contact details	**Kelvin Menon - Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Head of service	**Kelvin Menon** **Executive Head of Finance**

Consultations, Implications and Issues Addressed

	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			

Review Date:
Version:

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Local government Finance Reform (Fair funding review)
Department for Communities and Local Government
2 floor SE, Fry Building,
2 Marsham Street,
London
SW1P 4DF

8th September 2016

Dear Sir

Response to Consultation on 100% Business Rates Retention

As a Council we understand that demand for services will be driven by local need and that this should be reflected within the redistribution mechanism used by Government to reallocate Business Rates. However we believe that it is important that this redistribution is fair and transparent. Taxpayers expect that the taxation they are paying is being used wisely, more so if it is not being retained in their local area. Any mechanism should reflect need but also encourage ways of reducing need and supporting growth. It also needs to take account of not only the needs of an area but also the cost of meeting that need.

With these points in mind our responses to your questions are as follows:

Question 1: What is your view on the balance between simple and complex funding formulae?

Our preference would be for a simpler formula as it gives some transparency to the calculation and reduces the cost of producing it.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

No comment

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

No as this is not representative of changing needs

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Key demographic statistics should be used such as population, deprivation etc..

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

No comment

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

There needs to be a factor included in the calculation that takes account of the relative costs of providing services. For example one area may have low needs but the costs of providing the service is high.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

This growth should not be included. The calculation should be driven purely on absolute need. Growth in the tax base means more residents and businesses will require services – it does not always mean additional income.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Councils need to adapt to the new funding mechanism but they also require time to make the required changes. Hence a step change from one level of funding to another would not be desirable.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

Any changes in funding need to be phased in over a period of time to allow councils to adapt their services and budgets to the changes

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

This would enable pooling to be done at a more local level than the national scheme at the moment and allow taxes raised to be spent (relatively) locally. However it should be for local authorities to decide on the members of the pool and it should not be linked to a Combined Authority.

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

This should be left for local Councils to determine. This would ensure that solutions fitted local economic and demographic areas.

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

There would need to be a minimum time period for authorities signing up to such an arrangement to minimise fluctuations in the system

Question 13: What behaviours should the reformed local government finance system incentivise?

Economic Growth should be incentivised. This not only generates more income for services but also reduces need by increasing employment and opportunities.

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

Needs should be based on statistical analysis. Councils that manage to reduce their needs could be rewarded in some way by having their reduction in funding protected for a period of time.

This letter was tabled and approved by the Executive of Surrey Heath Borough council on the 6th September 2016

Yours faithfully,

Councillor Richard Brooks
Portfolio Member for Finance
Surrey Heath Borough Council

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Self-Sufficient Local Government: 100% Business Rates retention

Summary
To respond to the Government's consultation on 100% Business Rates Retention

Portfolio Finance – Cllr Richard Brooks Date Signed Off: 24 August 2016	
Wards Affected	All

Recommendation

The Executive is asked to:

a) ENDORSE and COMMENT on the response as attached;

b) DELEGATE to the Portfolio Holder for Finance the completion and submission of the final response to Government

1. Key Issues

1.1 Local Government has asked for many years to be allowed to keep 100% of Business rates income. This request was partially granted a number of years ago when 50% of business rates were transferred to Local Government and this proposal seeks views on how 100% retention can be achieved.

1.2 100% retention does not mean that each council will keep whatever it collects in business rates. There will still need to be a system of redistribution around the country to take account of varying needs and resources. How this is done could have a major impact on individual councils.

1.3 The Government has indicated that because the value of all business rates collected exceeds the current total of local government funding a number of grants which are currently paid separately will be abolished. In addition Local councils can expect to have further powers and with it obligations devolved to them to take account of the additional funding the sector as a whole will be receiving through 100% retention

1.4 The government is also asking for views on what safeguards if any should be built in to the new system to protect councils from fluctuations in income while also incentivising councils to deliver growth.

1.5 The consultation is due to close on the 26th September and it is intended that the new scheme will be implemented before the next election.

2. Resource Implications

2.1 Business Rates are made up of two elements – the rateable value set by the valuation office – and the rate per £ set by Government. Businesses across Surrey Heath currently pay over £35m annually in business rates of which £1.4m is returned to the borough for services. This is due to reduce to £622k from 2019/20 if the funding in the autumn statement 2015 is implemented.

2.2 Although in theory of the £35m collected 50% is for government, 10% for Surrey CC and 40% for SHBC in reality we are required to pay a significant fixed Tariff to SCC out of our 40% share which in affect leaves us with only 4.2% or £1.4m.

2.3 Under the current system any growth generated over the £35m is shared 70% to Government, 10% to Surrey CC and 20% to Surrey Heath. Any losses are shard 50% Government, 10% Government and 40% Surrey heath although there is a safety net in place to protect councils from large losses.

2.4 It is the Government's intention that Business rates and council tax will be the only sources of public/Government funding for District Councils and it is likely that all other grants will be abolished.

3. Options

3.1 Members can accept, reject and/or make changes to the response.

4. Proposals

4.1 It is proposed that the Executive:

a) ENDORSE and COMMENT on the response as attached;

b) DELEGATE to the Portfolio Holder for Finance the completion and submission of the final response to Government

5. Supporting Information

5.1 None

6. Corporate Objectives and Key Priorities

6.1 This item addresses the Council's Objective of delivering services efficiently, effectively and economically

7. Sustainability

7.1 The final business rates retention scheme could have a significant impact on the financial sustainability of the Council.

8. Risk Management

8.1 None from the consultation itself.

9. Officers Comments

9.1 None

Background papers	**The consultation document**
Author/contact details	**Kelvin Menon - Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Head of service	**Kelvin Menon - Executive Head of Finance**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	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			

Review Date:
Version:

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Business Rates Retention Consultation
Local government Finance
Department for Communities and Local Government
2 floor, Fry Building,
2 Marsham Street,
London
SW1P 4DF

7 September 2016

Dear Sir

Response to Consultation on 100% Business Rates Retention

As a Council that supports economic growth we welcome the principle that local services are funded from local taxes. We have worked hard in this Borough to attract inward investment and grow our Business Rates base and collect annually over £35m. However in 2016/17 only 4% of this is retained by us to fund local services and indeed this will reduce to just over 1.5% in 2019/20 if the autumn statement proposals remain in place. This is a long way short of the 100% localisation promised.

Whilst we accept that there does need to be some redistribution to take account of differing levels of need and ability to raise income this does need to be balanced against the fact that we cannot continue to deliver the economic growth that generates the business rates that the country needs without greater investment within the borough and more money being provided for local services. Even if we could retain just 5% of the Business Rates we collect this would enable us to provide certainty in terms of services and investment in our communities.

Surrey Heath is prepared to borrow to deliver growth and hence deliver increases in taxation generated but we need to be confident that any benefits this delivers in terms of increased business rates will be retained locally to fund that investment. Any new scheme must take account of the fact that unless there are sufficient incentives for growth to be retained locally Councils will be less likely to invest as the risks will simply be too high.

With these points in mind our responses to your questions are as follows:

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

At the moment Surrey Heath do not receive any of these grants with the exception of Revenue Support Grant, which disappears in 2017/18, and Local Council Tax Support/ Benefits Admin Grant. We also receive money from the Better Care Fund to pay for Community Services via Surrey County Council.

We have no specific objection to these grants being funded from retained business rates. However we are concerned as to how future growth in demand for these services would be funded through business rates. Many, such as attendance allowance, are demand lead, and hence we would want to see a mechanism in place where the government would top up funding where the increase is greater than the percentage increase in business rates.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

We would prefer that the responsibilities devolved were those for which Local Government could make a real difference and has the ability to manage demand. Transferring responsibilities upon which we can have no impact as they are dictated by Government Policy only transfers financial risk.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Whilst the principle of a Combined Authority works in some areas we do not agree that this as a “one size fits all” approach. Our concern is what would happen to these funds in non-devolved areas? How would it be ensured that, for example, access to the Local Growth Fund was retained in non-devolved areas?

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

These could be funded through retained business rates provided that this did not lead to a reduction in the financial resources available to Councils.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

The “New Burdens” doctrine should be retained. However greater clarity is needed as to what constitutes a “new burden” how it is assessed and how any growth is paid for. For example the Council received a grant for the Localisation of Council tax however this has been reduced each year and in fact disappears next year even though the “new burden” still remains in place.

Question 6: Do you agree that we should fix reset periods for the system?

Given the variation in needs and resources across the country we believe that there should be a reset of Business rates periodically. In our view though 5 years is far too short – it can take that time just to get a scheme off the ground. A more reasonable period would be 10 years. However there does need to be a mechanism where gains can be ring-fenced for a longer period of time, say 20 years, where the growth has been funded by local authority borrowing. This would then give certainty to Councils to invest in their communities in the knowledge that the funding can be repaid out of future business rates generated.

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Growth needs to be retained for long enough so that communities can see the benefits of economic growth. There also needs to be a protection for growth generated as a result of local authority investment. Redistribution should be based on a regional rather than national basis so that at least money is retained relatively locally.

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

A Partial reset could work by allowing only a percentage of growth generated to be redistributed, say 50%, or by permitting growth generated from local authority investment funded through borrowing to be ring fenced.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

As a District our ability to managed large financial shocks is limited. The current system of fixed tariff and top ups effectively transfers 40% of the risk in movements in Business Rates to Districts, although there is a safety net in place to mitigate this. Were this system to remain in place for the 100% Localisation then Districts could carry 80% of the risk and there would be no safety net. We would therefore prefer that the tariffs and top ups were based on percentages so that the risks (and rewards) are more evenly spread.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Yes this should be done. However this will only work if the reset and rebalancing is done on a national basis. In addition whilst the national take on business rates would remain the same, as is the case now, it could result in some areas paying more for being successful and therefore losing an even greater proportion of their business rates to pass to those that had not been successful. Hence growth generated would effectively be lost locally.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Yes but it should not be a condition to have an elected Mayor in place. Where an elected Mayor is in place the decision as to how growth is shared out should sit with local elected councils as it is they in effect which will be delivering the growth and are more closely answerable to local communities than the elected mayor – unless of course they decide otherwise. It should be allowed for Councils to group together if they so wish to pool growth for wide strategic issues

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

The tier splits should be more closely aligned to the proportionate costs of delivering services in each tier and the tariff/top up reduced. This would ensure that risk is more evenly spread across all tiers of Local Government.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

No comment

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

The ability to ring fence growth should be extended to all schemes, subject to approval and conditions, which are funded by local authority borrowing. This would truly mean that Tax Incremental Financing could be really transformational and deliver economic growth that communities need.

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

This could be helpful but there would need to be a clear definition of "riskier". How would authorities be compensated for the loss of income for assets transferred to this list? More detail is also required as to how income from the current national list would be shared out and whether it forms part of the 100% localisation

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

This should be for individual groups of authorities to determine amongst themselves if they so wish.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Given that the overall local authority funding risk is managed at a national level through resetting there would appear to be an argument for some sort of national safety net to remain in place for variation in valuations

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Local authorities should have the ability to challenge appeals – at the moment they are not even part of the process – and the valuation office needs to be more robust in its defence of appeals. The risks should be managed at a national level through a safety net to which all councils contribute through top slice

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Yes. We would also be interested in the ability to manage risk regionally

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

It should be based on a %age of you baseline funding

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

In two tier areas both Councils should agree to the reduction and bear the cost. If only one agrees then it should indemnify the other. This power should not sit with the Combined Authority since in the current system it would not actually suffer any financial loss whereas the other Councils would and this could then adversely impact on core services. However it could be possible for the Elected Mayor to make a proposal for consideration by Councils in their area

All Council should be given flexibility to grant and vary all types of discounts and reliefs both for business rates and council tax i.e. single persons discount. This would enable them to tailor local taxation to local requirements.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

The local discount power should remain

Question 23: What are your views on increasing the multiplier after a reduction?

Councils should be able to reinstate the multipler provided that ratepayers have been given notice that this is going to happen.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

The decision to reduce a multiplier should sit with local Councils and not with an Elected Mayor since the combined authority would not be impacted by the loss in funding. The elected mayor could be given the power to make a proposal which would have to be considered by the individual Councils. There also needs to be safeguards in place to prevent a “race to the bottom” where successful councils reduce their business rates to draw in businesses from neighbouring areas thereby enabling them to reduce their rates even further. Hence there should be parameters set as to the level of reduction than can be offered and the length of time.

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

The levy should apply equally to all properties and be subject to reliefs already in place such as small business relief.

The ability to raise a levy should not just sit with elected mayors. It should be available to all Councils. Councils may decide to join together to pool levy income for larger projects but that would be for local agreement.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

This should remain. There is however a democratic mismatch in that in non-mayoral areas businesses that pay the levy must approve it and yet in mayoral areas no individual business approval (apart from the LEP board) is required?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

In Mayoral areas the combined authority should take on the responsibilities of the LEP. This would remove that conflict. In non-mayoral areas there should be a local ballot of businesses similar to that used for a BRS scheme.

Question 28: What are your views on arrangements for the duration and review of levies?

Councils should have the flexibility to decide on this

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

The existing definition used for CIL should be used.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Councils should have flexibility to decide on this

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

The power should be available to any groups of Councils that wish to fund infrastructure not just an elected mayor. There should be an exemption from the levy for BID and BRS areas.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

Maintaining local services is a priority for most Councils. This will become increasing difficult due to the inherent risks in income from business rates. This risk will need to be managed through larger reserves, as Councils cannot borrow for revenue shortfalls, and greater cuts to services. It is difficult to see how local accountability can be strengthened unless Councils have complete discretion in setting all aspects of Business Rates and Council Tax and are able to influence the amount of income raised that is retained locally.

We would also want the flexibility to be able to set up mechanisms where in exchange for a fixed income guarantee we all pool our risks and share in the gains/losses that arise.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The Government needs to continue its program of guaranteed multiyear settlements and to ensure that the system for redistribution is not reset too frequently

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Yes

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Unable to comment without seeing the proposals. However the requirement to deliver a balanced budget should remain in place

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely, efficient and transparent manner?

Anything to reduce the burden on local authorities in respect of statutory reporting is to be welcomed

As was mentioned at the start of this letter Surrey Heath is keen to see local services funded from local taxes. We want to continue deliver economic growth through investment in our community which not only benefits our residents locally but also the national economy but we do need support from Government to do this. Councils have shown repeatedly that they can deliver but they must be trusted by Government and given the tools to do it. Only then will the vision of a “Self Sufficient Local Government” driven by economic growth become a reality.

This letter was tabled and approved by the Executive of Surrey Heath Borough Council on the 6th September 2016

Yours faithfully,

Councillor Richard Brooks
Portfolio Member for Finance
Surrey Heath Borough Council