Surrey Heath Borough Council
Surrey Heath House
Knoll Road
Camberley
Surrey GU15 3HD
Telephone: (01276) 707100
Facsimile: (01276) 707177
DX: 32722 Camberley
Web Site: www.surreyheath.gov.uk

Division: Corporate
Please ask for: Rachel Whillis
Direct Tel: 01276 707319
E-Mail: democratic.services@surreyheath.gov.uk

Friday, 27 January 2017

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, 7 February 2017 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 - 6**

To confirm and sign the open minutes of the meeting held on 10 January 2017 (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

Minutes of a Meeting of the Executive held at Surrey Heath House on 10 January 2017

+ 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

In Attendance: Cllr Alan McClafferty, Cllr David Allen, Cllr Chris Pitt and Cllr Victoria Wheeler, plus Simon Hope of Montagu Evans.

64/E Minutes

The open and exempt minutes of the meeting held on 6 December 2016 were confirmed and signed by the Chairman.

65/E Revenue Grants 2017/18

The Council funded a number of voluntary organisations which either worked in partnership with the Council or performed functions on the Council's behalf. The allocation of these grants in 2016/17 had been £140,000 for community organisations and £24,900 for leisure organisations, totalling £162,900.

The Executive considered a table providing a breakdown of these organisations' funding requests, together with supporting information. The table compared the funding requested against the grant awarded for 2016/17, the percentage of requested funding against annual running costs and, where appropriate, the in-kind financial support given to the organisations.

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

It was reported that, during the course of the previous year, the External Partnerships Select Committee had invited a number of the revenue grant funded organisations to its meetings to explore their fundraising strategies and future financial sustainability.

Whilst most organisations were working hard to safeguard their future financial sustainability, a number of positive recommendations had been made and had been implemented, including Tringhams Lunch Club teaming up with Surrey Heath Age Concern to cross reference clients and enhance transport opportunities.

With regard to Tringhams Lunch Club, the organisation had already been consulted on the proposed grant reduction.

It was noted that, within the Blackwater Valley Countryside Partnership annual report for 2016, there had been few references to core works undertaken in Surrey Heath for public benefit, which the grant awarded by SHBC was meant to support. The Partnership would also now benefit from SANGS (Suitable Alternative Green Space) funding. It had been proposed that its grant be reduced from £10,000 to £5,000.

Resolved that, subject to the delivery of the service level agreements, revenue grants be allocated for the period 1 April 2017 to 31 March 2018 as follows:

Organisation	**Grant for 2017/18**
Surrey Heath Citizens Advice	**£80,000**
Voluntary Support North Surrey	**£30,000**
Surrey Heath Age Concern	**£10,000**
Tringhams, West End	**£13,000**
Camberley Central Job Club	**£7,000**
Basingstoke Canal Authority	**£10,000**
Blackwater Valley Countryside Partnership	**£5,000**
Surrey Heath Sports Council	**£3,500**
Surrey Heath Arts Council	**£1,400**

(Note: In accordance with the Council's Members Code of Conduct, Councillor Charlotte Morley declared a non-pecuniary interest as the Secretary and the Council's representative on the Surrey Heath Sports Council.)

66/E Camberley Crown Post Office Consultation

The Executive considered a draft response to the Post Office's consultation on proposals to relocate Camberley Post Office to within the curtilage of WH Smith, High Street, Camberley.

Members expressed concern at the proposal to vacate the Crown Post Office, particularly given the Council's aspirations for and investment in the Town Centre. It was noted that residents very much valued the existing outlet and concerns were expressed on accessibility in WH Smith, as well as the suitability of the building for an external ATM (automated teller machine).

The Executive agreed to amend the response at Annex A to the Officer report to emphasise the disappointment and concerns expressed at the meeting and the Chief Executive was asked to consider an appropriate revised response in consultation with the Leader of the Council.

RESOLVED, that

(i) the response attached as Annex A to the Executive report be amended to reflect the Council's concerns at the loss of the Crown Post Office and potential access issues in WH Smith; and

(ii) **The wording of the letter to be submitted to the Post Office be delegated to the Chief Executive in consultation with the Council Leader.**

67/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)
68/E	3
69/E	3

Note: Minutes 69/E and 70/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.

68/E Procurement of Developer for Ashwood House and Pembroke House

The Executive considered a report seeking approval to the award of the contract to redevelop Ashwood House and Pembroke House and authorised the actions proposed.

69/E Reference from the Performance and Finance Scrutiny Committee - Member Call-in

The Executive considered a reference from the Performance and Finance Scrutiny Committee following its consideration of a Member Call-in on procurement.

The Executive considered the recommendations of the Performance and Finance Scrutiny Committee and

Resolved, that

(i) **Wherever possible or practicable, for future purchases, the due diligence and red book data/reports considered by the Executive, be made available to the Performance and Finance Scrutiny Committee under exempt arrangements; and**

(ii) **An annual report be made to the Committee providing a review of purchase and yields achieved across all the Council's properties.**

70/E Review of Exempt Items

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

RESOLVED that

(i) Minutes 68/E and the associated agenda report remain exempt during the 'Stand Still Period', but that the decision be made public when the preferred bidder is announced; and

(ii) Minute 69/E and the associated agenda report remain exempt, but that the decision be made public.

Chairman

General Fund Estimates 2017/18

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the financial year 2017/18.

Portfolio - Finance Date Signed Off: 18 January 2017 (by the Leader)	
Wards affected	All

Recommendation

(i) The Executive is advised to RECOMMEND to Council that the 2017/18 General Fund Revenue Budget of £10,507,079 as set out in Annex A be approved;

(ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme be unchanged for 2017/18 compared to 2016/17;

(iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of a £5 increase in Council Tax for a Band D Property for 2017/18 as recommended by the Sec 151 Officer.

(iv) The Executive is asked to NOTE

1. that the budget contains £645,000 per paragraph 11 chargeable to reserves set aside for this purpose;

2. that a minimum revenue payment of £1.389m has been allowed for to repay debt;

3. that the Council no longer receives Revenue Support grant which has reduced Government funding by £357,000;

4. the provisional NNDR baseline of £1,464,663 and the final settlement on will be reported to Council at its meeting on 22nd February 2017;

5. that a full report, setting out Council Tax proposals for 2017/18 will be presented to Council on 22nd February 2017.

6. that although investments have been made further savings and income generation through investment will be required as a result of anticipated reductions in Government funding in the future.

7. the increase in the Council tax base generated from the development of new housing which delivers an extra £85,000 a year in Council Tax

1. **Resource Implications**

<u>2017/18 Budget</u>

1.1 The budget has been prepared on the assumption that Council Tax will be increased by £5 per band D property, being the maximum permitted without requiring a referendum. Should this not be the case then other options can be presented at the meeting.

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

1.3 From 2017/18 the Council will receive no Revenue Support Grant from Central Government to pay for its services. This includes funding for services transferred by Central Government to the Council such as the Local Council Tax Support Scheme which replaced Council Tax benefit.

1.4 The net cost of Services for 2017/18 is £736k lower than last year. This is due to the significant investments the Council made in property during the year. More details on the effect of this is explained later in this paper. As a result of this investment there is no longer a need for a general savings target nor does the Council have to use any of its New Homes Bonus this year to support the revenue budget.

1.5 Wages and salaries budgets have increased this year following many years of real terms reductions. This reflects the creation of new posts to manage the new investment property function of the Council but also to take account of pressures the Council is facing in respect of pensions and competitive wage costs. The budget has therefore risen to cover these associated costs.

1.6 The summary budget is shown in Annex A. A full set of budget pages detailing each service are available on the “Escene” and in the Member’s room.

1.7 In line with the Council’s strategy to increase income a number of fees and charges have been increased and have been approved in accordance with financial regulations. These changes are reflected within the budget. A list of these can be found on the internet under finance

1.8 The previous Chancellor George Osbourne announced a four year local Government settlement in his 2015 Autumn Statement. Authorities could agree to the settlement if they submitted an efficiency plan. Over 97% of Councils across the country agreed to the settlement since it was thought that a guarantee of sorts was better than no guarantee at all and that without a guarantee, Government funding was more likely to go down rather than up. Surrey Heath reluctantly agreed to the settlement however the Council did object in the strongest terms to the “negative Tariff” in 2019/20 which is effectively a “tax” on the residents of the borough by Government. It is likely that this will be reviewed as part of the work in connection with the 100% localisation of business rates due to come in in the same year but we are assuming no change to this position in the financial forecast.

1.9 The figures announced last year for 2017/18 were confirmed in the provisional settlement announced on the 15th December 2016 and have been used in calculation of this budget.

1.10 The Government consulted during the year on the future of the New Homes Bonus (NHB). Although it was confirmed that the scheme would continue the Government wanted to “sharpen” the incentive. Details of the changes are outlined later in this paper however the provisional settlement indicated that Surrey Heath would receive £1.226m in 2017/18 compared to £1.421m in the previous year. It is worth stating again that NHB is not new money but rather top sliced business rates which are then redistributed to those Councils which build the most houses.

1.11 Expenses totalling £645k are being charged directly to reserves set aside for this purpose and this is explained in more detail later in this paper. The General fund is estimated to be at least £2m at the end of 2017/18 if the savings and budget are delivered as shown.

Future Resource Implications

1.12 The Department for Communities and Local Government (DCLG) as part of the autumn settlement in 2016 published a “multi-year settlement” so that Councils would know the amount of funding they can expect to 2019/20. Surrey Heath loses its general revenue support grant this year and furthermore has a negative tariff amounting to almost £1m imposed on it in 2019/20. Like a number of Councils Surrey Heath has been pursuing a policy of increasing income through property investment to maintain services and this will need to continue in to the future.

1.13 The Government published the results of its consultation on New Homes bonus as part of the settlement announced on the 14th December 2016. These impact of these changes are explained later in this paper however Surrey Heath will loss over £4m over the next 3 years with a loss of £500k in 2017/18 alone rising to £1.3m by 2021/22 when compared to the original NHB scheme.

1.14 The Government announced in the late 2015 that by 2019/20 Councils nationally would retain 100% business rates. This does not mean that each Council will retain what it collects individually – there will still be a reallocation of SHBC Business Rates to other parts of the country – but rather all of the money collected will be passed to Local Government in some way or another. The Council took part in a consultation on the principles of the new scheme in 2016 however no further information as to how the localisation will actually operate has been released. It is highly likely that Surrey Heath will not see any increase in its funding as a result of the change – in fact if the negative tariff proposal is adopted then Surrey Heath could eventually keep no business rates at all - and there are likely to be a number of new responsibilities passed down as well. The Council will also carry a significant portion of the risk from revaluations, business closures etc which could lead to increased volatility in income.

1.15 What this does all mean is that economic development, and in particular hard development such as new housing and business construction, will remain key to the Council's ability to fund services in the future. The Council will need to maintain its focus on projects and investments which deliver financial rather than non-financial benefits if is to address the challenges these changes present and thus protect services. It will also need to be able to act more commercially and react quickly to opportunities for investment as they arise.

1.16 The Council has over the years made significant internal efficiency savings however is recognised that the scope for major reductions is severely limited. Hence the Council has concentrated on generating income in line with Key Priority 2 and its investment in property is an example of this however this does require the infrastructure in terms of staffing to support it. Investments made in 2016/17 should add £1.5m to income in 2017/18 and further purchases are being sought. The Council's objective has always been to generate enough income to be able to be free of Government funding. Whilst the possibility of the Council being "taxed" by the Government, through a negative grant, has made the task harder this does not make it any less worthy and this strategy will continue in the coming financial year. Services will still look for further efficiencies particular through collaboration and joint working – a recent example of which is the Joint Waste contract which should save £400k per year, but the scope to deliver significant savings through this route is limited.

1.17 Looking further ahead a number of Councils in the country have joined together to submit devolution bids to the Government. These deals usually consist of the government providing extra money for infrastructure in order to deliver development. Surrey, together with East and West Sussex, are collectively the 3SC area and are putting together a bid to Government for additional infrastructure investment in the area. Broadly speaking in exchange for Councils delivering development as per their local plans Government is being asked to fund infrastructure to support this development. As the proposal rests on match funding current proposals indicate that 10% of growth in council tax and business rates beyond 2020 will be earmarked to support this Bid. It is also possible to support the bid by levying an additional precept but at the moment this can only be done by an elected mayor. The 3SC bid is unlikely to impact in the next financial year but it could have implications beyond that.

1.18 Finally it is reasonable to assume that the Government will continue to pursue a strategy where limited public funds in two tier areas are diverted from the lower to the upper tier to support social care and education. This means that Districts must raise substantial levels of funding themselves if they are to maintain services and this could lead to a review of local government in two tier areas.

Key Issues

2. Introduction

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

- reviews the current year's budget position
- recommends to Executive for recommendation to Council the Budget for 2017/18
- gives details of the Government grant settlement for 2017/18
- includes a financial projection going forward

2.2 2017/18 marks the first year that the council will receive no Revenue Support Grant from Government for its services. All the council's services will now be paid by local taxation (Council Tax and business rates) as well as any income the Council can generate itself.

3. General Fund Estimates 2017/18

3.1 This year services were asked to prepare their budget for 2017/18 using the following parameters:

- No growth unless contractual and even then to be absorbed by compensatory savings
- No inflationary uplift
- Base Wages and salaries to keep at least to the 2016/17 cash limited total. i.e. increases in NI, pensions and increments to be absorbed by each service. An exception to this was where in order to generate additional income extra staffing was required

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

3.3 A summary of the budgetary position is as follows:

	Note	£000	£000
2016/17 Net Cost of Services			11,523
Grant treated as revenue	a		296
Supplementary Estimates			95
Budget Carry Forwards			304
Prior Year one off items removed			-360
			11,858
Variations to Original Estimate:			
Savings and income		-6,343	
Increased Expenditure		3,616	
Change in portfolios			-2,727
			9,131
Employment and pensions	b	340	
Internal asset charges	c	129	
Minimum Revenue payment	d	1,187	
Non portfolio changes			1,656
2017/18 Net Cost of Services			**10,787**

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

3.5 The notes for the table above are as follows. It should be noted that a minus "-"indicates a decrease in the budget and a plus "+" an increase and the numbers represent movements rather than actuals.

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

b. This relates to changes in employment costs, such as the vacancy margin, and pensions

c. The asset charge depends on the number of assets held, their valuation and the depreciation policy. Under local Government accounting rules we are not allowed to charge this to Council Tax and it is therefore reversed out as an accounting entry.

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

3.6 Provided the actual expenditure, including savings, meets the budget the General Fund will be unchanged at the end of 2017/18 at about £2.0m. This is considered to be a prudent level.

4. Funding from Business Rates

4.1 The Government announced last year that Councils would receive 100% of business rates rather than the 50% at present. Although the Local Government as a whole keeps all of the business rates this is not the case on an individual Council by council basis. A high level consultation was carried out by Government in March 2016 on the new scheme but as yet no details have been published. What is clear is that LBR gives local authorities a direct financial incentive to increase economic growth activity, as measured by an increase in business rates driven by development, in their local area. Under the current scheme for every additional £1 collected above the initial baseline 50p goes to Government to be redistributed as grants such as New Homes Bonus etc, 10p goes to Surrey CC, 20p levy goes to fund a safety net for areas suffering large reductions in rateable income and 20p remains in Surrey Heath. Conversely a fall in income of £1 will result in a loss of income of 50p to the government, 10p to the county and 40p to Surrey Heath – however this loss is capped at 7.5% of our overall baseline meaning the most Surrey Heath can lose is £110k.

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

Total Business Rates and Council Share 2017/18 to 2019/20

	2016/17 Final £000	2017/18 Provisional £000	2018/19 Assumed £000	2019/20 Assumed £000
Baseline - assumed minimum collected	34,310	33,475	34,553	35,783
Less: 50% to Government	-17,155	-16,738	-17,276	-17,891
Less: 10% to SCC	-3,431	-3,348	-3,455	-3,578
Share for SHBC	13,724	13,390	13,821	14,313
Less Fixed Tariff	-12,289	-11,925	-12,309	-12,747
Business Rates for SHBC	1,435	1,465	1,512	1,566
Less Tariff Adjustment	0	0	0	-933
Remining share of Business Rates	1,435	1,465	1,512	633
%age share	4.2%	4.4%	4.4%	1.8%
Safety Net	1,328	1,355	1,398	1,448

4.3 The above table reflects the figures released in the provisional settlement on the 14th December 2016. It is difficult to predict with any accuracy what will happen beyond 2019/20 as details are awaited as to how the 100% localisation of business rates will work. The application of a negative tariff in 2019/20 reduces the level of business rates received substantially. It is likely that this will increase in future years meaning that it Surrey Heath could well receive no business rates at all in the future. Representations have been made to government by Surrey districts that Councils should receive at least 5% of any business rates collected under the new scheme. Whether this has had an impact remains to be seen.

4.4 Under the current scheme 40% of the lost income from any revaluations, irrespective as to which year they relate, falls on the borough together with any interest due. Although the total losses are capped in that a minimum safety net level of business rates it guaranteed it is possible for any gains to be wiped out by the cost of appeals well before the safety net level is reached. The Government has introduced a time limit on claims and a whole new process of check and challenge is being used for appeals related to the 2017 revaluation. The 2017 revaluation is likely to lead to a significant number of appeals thus making income levels difficult to predict. Whilst some sectors in the borough such as retail have seen values fall other areas such as offices have seen steep increases.

4.5 Councils can “pool” together for Business Rates which means that they are treated as one combined unit for the application of the levy and safety net for that particular year. The levy, equivalent to 50% of gains the borough gets from growth, can be reduced through pooling. The Surrey treasurers engaged consultants to advise on the best combination of authorities in Surrey for a pool and it was found that a pool consisting of Surrey Heath, 4 other districts, the county and LB Croydon delivered the best financial outcome for 2017/18. This was because of the growth that Surrey Heath has achieved in its Business Rates base and which is therefore subject to the levy.

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

Table showing effect of changes in Business Rates		
Actual NDR achieved in 2015/16 (relative to NDR Baseline)	**Change in Business Rates Required (£000)**	**Difference in Funding (£000)**
Baseline NDR +3%	1,005	201
Baseline NDR +2%	670	134
Baseline NDR +1%	335	67
Baseline NDR	0	0
Baseline NDR - 1%	-340	-110
Baseline NDR - 2%	-670	-110
Baseline NDR - 3%	-1,005	-110

4.7 The Council has worked hard to increase economic growth in the borough and to ensure that all properties that attract business rates are placed on the register and billed and hence it is likely that this year there will be a surplus on business rates. To reflect this an additional £200k has been included in the budget in addition to the base line set by Government.

5. Local Government Settlement 2017/18

5.1 As part of the multiyear settlement announced last year the Council was informed that it would receive no grant in 2017/18. This was confirmed in the provisional settlement published in December 2016. In 2019/20 the settlement shows that the grant may become negative but this may be changed in the light of the introduction of the localisation of business rates. The table below includes the settlement as it has been announced so far.

	Final Allocation 2012/13	Final Allocation 2013/14	Final Allocation 2014/15	Final Allocation 2015/16	Final Allocation 2016/17	Provisional Allocation 2017/18	Anticipated Allocation 2018/19	Anticipated Allocation 2019/20
Core Funding	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
Revenue Support Grant	63	1,415	1,441	965	357	0	0	0
Share of Business Rates	3,080	1,370	1,304	1,330	1,435	1,465	1,512	1,586
Transitional Grant					133	84	0	
Tariff adjustment								-933
	3,143	2,785	2,745	2,295	1,925	1,549	1,512	653
Other Grants rolled in:								
Council Tax Freeze Grant	176	176	176	174				
Homelessness Grant		50	50	49				
Returned funding			3	0				
Council Tax Support Funding		419						
	3,319	3,430	2,974	2,518	1,925	1,549	1,512	653

5.2 Members should note that not only has there been a steep reduction in funding over the last 5 years but that this is set to continue going forward. In addition the grant that was given in compensation for the transfer of Council tax benefit to Councils in 2013/14 and which was then rolled in to the Revenue Support Grant has now disappeared completely. The funding allocated for parishes for the same reason has now also gone.

6. <u>Council Tax</u>

6.1 Council Tax will be set by the Full Council at its meeting on the 22nd February 2017.

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

- 5% - For those Councils with Adult Social Care responsibilities
- £5 or 2% for Shire Districts – whichever is the higher
- Parishes are not included with in the capping legislation

6.3 Any Council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase in Council tax. These can cost a substantial amount of money.

6.4 The budget has been prepared on the assumption that Council Tax will be increased by £5, the maximum allowed, however members can chose any amount up to this level. Any change in the increase would need to be covered by additional income and savings

6.5 The current Surrey Heath band D Council Tax is £201.30. The table below shows the effect on an increase of £5. This would be equivalent to an increase of 2.48%. For information a £1 increase raises approximately £37,300.

6.6 **<u>The Council is at liberty to set whatever level of Council Tax it wishes.</u>** Increases deemed to be “excessive” i.e. over £5 will trigger a local referendum (at the Council’s expense) on the increase requested.

6.7 Surrey County Council has indicated that it may set a precept above the capping limit which will probably lead to a referendum. Were SCC to do this then Council tax bills would be issues at the higher precept level and only reissued were the referendum result reject the increase.

7. <u>Tax Base, Parish Support and Collection Fund</u>

7.1 The tax base has risen during the year due to new houses being built as can be seen in the table below:

Council Tax Base

	2017/18	**2016/17**	**Change**
Bisley	1,566.16	1,513.05	53.11
Chobham	1,960.49	1,928.94	31.55
Frimley and Camberley	23,664.75	23,382.72	282.03
West End	2,027.92	2,013.81	14.11
Windlesham	8,098.72	8,051.68	47.04
Total	37,318.03	36,890.20	427.83

7.2 This increase in the tax base will create additional council tax income of £85,000 and shows the value in financial terms of delivering new housing.

7.3 The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2016/17 despite the fact that it is no longer funded by central government. This is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	**Support given in 2016/17 & 2017/18**
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
TOTAL	**19,943.44**

7.4 Due to better than predicted collections and additional properties it is predicted that the collection fund will be in surplus at the end of 2016/17. The Sec 151 officer has therefore determined that a surplus of £2,000,000 can be declared for the year. Of this £1,501,127 will be paid to Surrey County Council, £260,615 to the police and the remaining £238,258 to the borough. This will be used to support the budget for 2017/18

8. Investment income

8.1 The 2017/18 estimates include a provision of £300k for investment income.

9. Pensions

9.1 Surrey Heath along with all the other boroughs and districts, the county, police, a number of parishes and other organisations are members of the Surrey Local Government Pension Scheme. This is managed by Surrey CC and in accordance with regulations a triennial actuarial review was carried out as at the 31st March 2016. As a result of this review no increase in contributions is being proposed for 2017/18.

10. Items funded from reserves

10.1 As in previous years £645,000 of expenditure is funded directly from reserves as follows:

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

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

- £20,000 for community safety using Crime and Disorder Partnership funding

- £150,000 for property maintenance from reserves

- £100,000 from reserves to support survey work in the Town Centre.

- £50,000 from reserves for Family support

11. Funding transferred to Reserves

11.1 Unused new homes bonus of £1.2m is budgeted to be transferred to reserves

12. Minimum Revenue Payment (MRP)

12.1 MRP is an amount required under the Prudential Regulations to be charged to revenue to pay back debt. In the budget £1,389,000 has been allowed to meet this requirement in accordance with the Council's MRP policy.

13. New Homes Bonus (NHB)

13.1 In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. The payment was calculated each year using the tax base growth and was originally paid in the 6 years following the increase in the base. i.e. if a house was completed in year 1 then the council would receive payments in years 2 to 7.

13.2 The Government announced in the spring that New Homes Bonus would be continued indefinitely but that they were looking at ways of "sharpening" the incentive. This was backed up by a consultation which suggested ways of reducing the cost of NHB.

13.3 In December the Government announced a number of changes to the NHB going forward. These are as follows:

- In 2017/18 the incentive will be paid for 5 years rather than 6;
- In 2018/19 and onwards the incentive will be paid for 4 years rather than 5;
- There will be an assumed housing delivery of 0.4% of the tax base each year (0.25% in the original consultation – this change costing £0.8m over 4 years). For Surrey Heath this is equal to 149 units which will not qualify for NHB
- From 2018/19 NHB will not be allowed on homes granted on appeal. This means that councils will be financially penalised for not approving housing;
- From 2018/19 NHB will probably not be granted if no local plan is in place.
- The additional payment of £350 New Homes Bonus per year for each affordable Band D housing unit delivered is unchanged

13.4 The levels of grant anticipated over the next few years as a result of these changes provided houses are built at the same rate as currently is shown in the table below:

Year	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Original scheme	1.275	1.421	1.735	1.696	1.777	1.771
Revised scheme	1.275	1.421	1.226	0.724	0.486	0.449
Difference	0	0	0.509	0.972	1.291	1.322

13.5 The purpose of these changes is to save £250m from NHB which can then be diverted to the Better care fund for adult social care. Surrey Councils in total have lost £6.241m of NHB but Surrey CC has only received back £4m as additional grant for Adult Social care meaning there has actually been a net outflow of funds form Surrey.

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

13.7 The Government has assumed that New Homes Bonus is there to support on-going services and indeed include it in their calculation of “Core Spending Power” which lists the resources councils have to deliver services. However due to the investment the Council has made in property none of the NHB is required this year to fund the revenue budget and so it has all been put in to reserves.

14. Impact of Property Purchase in 2016/17

14.1 The Council made substantial investments in property in 2016/17 which have had a positive impact on the budget as shown in the table below:

New Property Investment contribution to General fund				
	Albany	Mall	Hof	Total
	£000	£000	£000	£000
Rent	1,101	3,710	1,079	5,890
Property costs	50	160		210
Professional costs	8	220		228
	58	380	0	438
Profit before interest	1,043	3,330	1,079	5,452
Interest costs	-320	-1,872	-370	-2,562
Profit after interest	723	1,458	709	2,890
Minimum Revenue Payment				-1,389
Contribution to general fund				**1,501**

This has meant that the Council has been able to cover reductions in grant, wages, pension pressures and general savings targets and balance the budget without resorting to the use of New Homes Bonus.

14.2 It is worth stating that although there are risks around property investment and the income it generates without it a number of services would need to be cut to reflect the reductions in Government Funding set out earlier in this paper

15. Overall Budget

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

16. Financial Risks

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

Income Projections

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

Inflation

16.3 There is no general allowance for inflation in this budget. Cost inflation has either been absorbed or budgeted for. Inflation is an increasing risk going forward as rates creep up.

Salaries

16.4 Whilst the Council has tried to limit the growth in wages it finds itself under increasing pressure from what the private sector is prepared to pay. This is particularly the case in professions such as planners, surveyors etc. This is causing upward pressure on wages which is becoming difficult to contain. In previous years services were told to operate within a cash limited envelope for wages and this meant that there was a savings target in wages for each services to achieve. This has now become unsustainable in the current climate and so these savings targets have now been removed in exchange for a 4% vacancy margin across the board with the difference being funded. Historically the Council has exceeded its vacancy margin of 3% so it is believed that this target should be achievable.

Business Rates Funding

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

17. Financial Forecast

17.1 Each year as part of the budget process a 5 year financial forecast is prepared which attempts to model the Council's finances over this period. The

Government has announced the funding allocations for 2020/21. Whilst we do not have details beyond that it has been assumed that the reductions in that period will carry on beyond 2020/21.

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

17.3 The introduction of 100% localisation of Business Rates in possibly 2019/20 will lead to increased volatility in income for Councils however for the purposes of the forecast it has been assumed that there will be no major changes. The potential impact of changes in business rates is highlighted elsewhere in this paper.

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

17.5 The Council has invested significantly in property 2016/17 which is reflected in the forecast. It is likely that further investments will be made but these are not included as they cannot be quantified at this time, however this will be one of the ways in which any future funding gap could be addressed

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

Revenue fund projection

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

Capital Expenditure forecast

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

Capital and revenue balances

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

Assumptions

17.10 The assumptions used in the forecast are set out below. It should be noted that these are only assumptions for the purposes of the financial model and should not be seen as an indication of policy for future years:

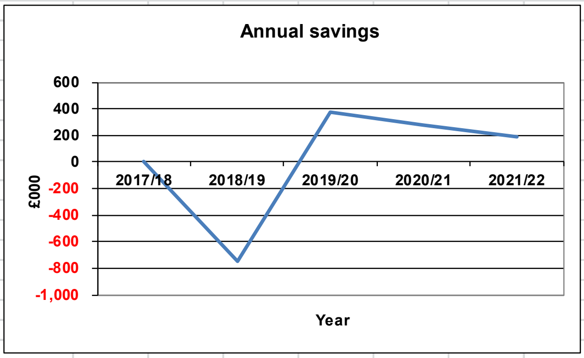
Forecast Assumptions

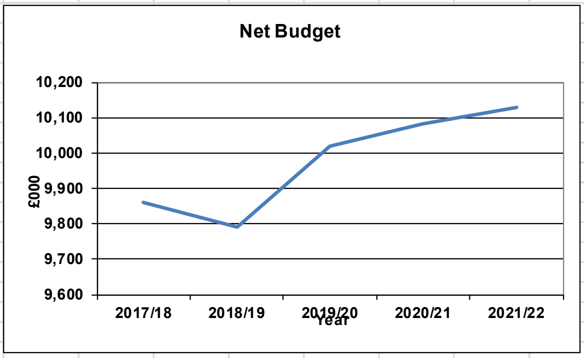
Category	Assumption
Inflation - wages	1.5%

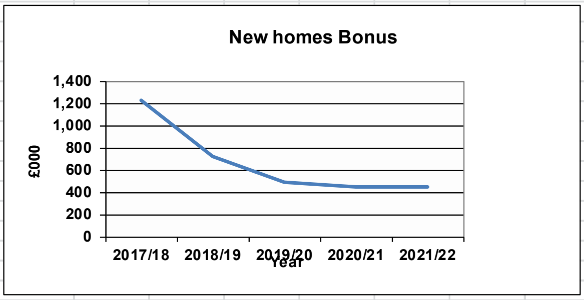
Inflation - Expenses	1.5%
Investment Returns	1.5% to 2.0%
Government Funding	As per SR2015
Council Tax	£5 pa increase
Fees and Charges	2.0%

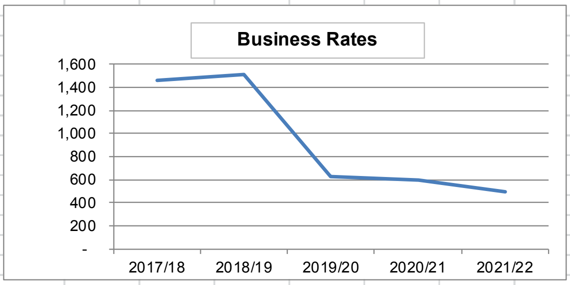
18. Financial Projection based on a Council Tax increase in 2017/18

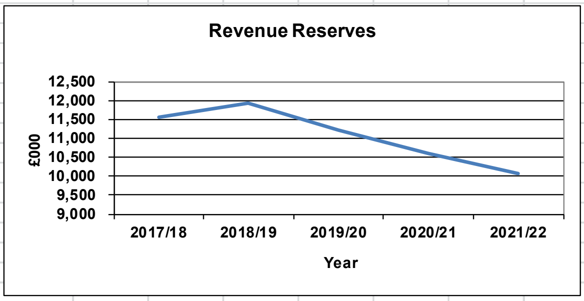
18.1 The graphs show the projected outcomes for 2017/18 to 2021/22. The detailed schedules are in Annexe B

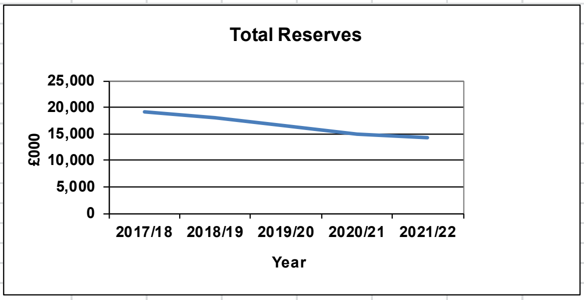












Explanation of Graphs

18.2 The meaning of the graphs is as follows:

- Annual Savings – It can be seen that there is a surplus in 2018/19 but that this changes to a deficit in 2019/20 as the negative grant comes in. This deficit falls as Council Tax and income rises

- Net Budget – The net budget falls slightly and then increases as inflation begins to add to costs

- New Homes Bonus – this reduces steeply as the changes to the incentive introduced by Government take effect

- Business Rates – These fall as the Government takes a greater and gerater share of Business Rates generated within the borough

- Revenue reserves – These fall as they are used on the activities which they have been set aside for as well as capital expenditure

- Total reserves – These fall as reserves are spent

Conclusion

18.3 The outcome of the forecast is that savings of about £186k will be required by 2021/22 on the assumption that the reduced New Homes Bonus is used to support the budget. This will need to be covered by a combination of increases in the Council tax base and Business rates through new construction as well as income generation from commercial activities and savings in the delivery of services.

18.4 If the Council is unable to bridge the gap then services may have to be reduced or stopped to ensure that the budget remains in balance

19. Risks to be considered in relation to financial forecast

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

19.2 Income Projections
The Council is heavily dependent upon income, in particular from property, to fund its budget..

19.3 Local Government Funding
It has been assumed that funding will continue to fall in line with spending review 2015 and continue to fall at the same rate after that.

19.4 Council Tax increases
These forecasts assume that Council Tax will be increased by £5 or 2% whichever is the higher in the future. The Government could reduce the level at which a referendum is triggered thereby limiting the ability of Councils to increase Council Tax.

19.5 Pension Deficit payments
It is assumed that these payments increase over the period.

19.6 New Homes Bonus
The forecast assumes that this will be retained but reduced over the period in line with the settlement this year.

19.7 Interest Rates
Interest rates continue to be low reducing investment returns.

19.8 Inflation
Inflation of 1.5% pa has been built in the forecast. It has been assumed that any increase over this will be absorbed

19.9 Surrey County Council funding
There is a risk that funding received from Surrey CC for discretionary services and recycling may be cut or indeed removed. This would put an additional pressure on the Council unless these services were stopped

19.10 Legislative changes
Legislative changes, such devolution, could have an impact on the council's future finances either in a positive of negative way. This has been ignored in the forecast but is a risk

19.11 Changes
It has been assumed in the forecast that there will be no changes to services. Transformation of services may be one of the ways that the funding gap is addressed.

20. <u>Conclusions to be drawn from the Financial Forecast</u>

20.1 This year marks the first year with no Government funding. It has been assumed that in future years the Council will become a net contributor to Government funds thereby adding a further cost pressure to the Council's finances. The Council will be more and more reliant on generating its own income to support services and the purchase of property in 2016/17 is a major step down this path. The way the Council operates will need to change in the future if core services are to be maintained.

20.2 The financial situation has changed completely when compared to the same time last year. The investment in property has contributed significantly to closing the financial gap. Although the forecast assumes that the whole of the New Homes Bonus will be used to support the budget on the whole the scale of the funding challenge has reduced significantly – this is despite further reductions in funding over the next few years. Surrey Heath has taken an approach of income generation rather than reduction in services to meet its financial challenges. This is not without risk but there seems to be little alternative if services are to be maintained. It will be important that further investments are made, as well as greater efficiencies realised, if the funding gap is to be eliminated completely.

20.3 Funding of capital continues to be a real issue. Capital receipts are very low and funding is being done through borrowing or from revenue reserves.

Services are being required to fund capital out of future savings to ensure that reserves are not run down.

21. **The Next stage**

21.1 At this stage, the following information is required before details of the level of Council Tax for 2017/18 can be proposed:

- The Revenue Support Grant Settlement and Redistributed Business Rates as detailed at paragraph 6, is still provisional. It is anticipated that the final settlement will be announced in Parliament towards the end of January.

- The County Council needs to determine its precept for the year

- The Police and Crime Commissioner needs to determine his precept for the year.

- Details of all the Parish Precepts.

- Confirmation of the referendum limit of £5

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

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

- The major reductions in Government funding as a result of the 2015 Spending review and its implications for the maintenance of services
- Items financed from reserves
- The use of property income to fund services
- The underlying assumptions in the budget
- The financial forecast and its implications in respect of the need for further savings if financial stability is to be achieved and the underlying assumptions in its preparation

22. **Options**

22.1 The Executive is asked to consider and recommend to Council the 2017/18 Revenue Estimates as set out in this paper including the savings target and amounts chargeable to reserves. It can of course amend or reject any part of the budget as set out as it sees fit.

23. **Officer Comments**

23.1 The investment in property has transformed the Councils finances for 2017/18 and more of this will be required if future financial challenges are to be met. Despite the risks attached to this this is the only credible way that services can be maintained in the face of reductions in government funding. In anticipation of future reductions in funding from business rates members are urged to increase Council Tax by £5 this year the maximum permitted.

23.2 Any change relating to 2017/18 budget agreed by Executive will be adjusted for in the budget presented to Full Council on the 22nd February 2017. It should be noted that the income generated from even a £5 increase in Council tax just about covers half of the loss of Revenue Support Grant in this year. Hence without any income generation from other sources the Council would be forced to cut services to maintain a balanced budget.

24. **Proposals**

24.1 It is proposed that:

(i) The Executive is advised to RECOMMEND to Council that the 2017/18 General Fund Revenue Budget of £10,507,079 as set out in Annex A be approved;

(ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme be unchanged for 2017/18 compared to 2016/17;

(iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of a £5 increase in Band D Council Tax for 2017/18 as recommended by the Sec 151 Officer.

(iv) The Executive is asked to NOTE

1. that the budget contains £645,000 per paragraph 11 chargeable to reserves set aside for this purpose;

2. that a minimum revenue payment of £1.389m has been allowed for to repay debt;

3. that the Council no longer receives Revenue Support grant which has reduced Government funding by £357,000;

4. the provisional NNDR baseline of £1,464,663 and the final settlement on will be reported to Council at its meeting on 22nd February 2017;

5. that a full report, setting out Council Tax proposals for 2017/18 will be presented to Council on 22nd February 2017.

6. that although investments have been made further savings and income generation through investment will be required as a result of anticipated reductions in Government funding in the future.

7. the increase in the Council tax base generated from the development of new housing which delivers an extra £85,000 a year in Council Tax

25. **Supporting Information**

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

26. **Corporate Objective and Key Priorities**

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

27. **Legal Issues**

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

28. **Sustainability**

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

29. **Risk Management**

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

30. **PR and Marketing**

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

31. **Equalities**

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

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

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

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

Annexes	**Annex A – 2017/18 Summary Budget** **Annex B – Financial Forecast**
Background Papers	**Revenue Estimates for 2017/18**
Author/contact details	**Kelvin Menon – Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Head of service	**Kelvin Menon – Executive Head of Finance**

	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			

ANNEX A

GENERAL FUND REVENUE ACCOUNT

2017/18 SUMMARY BUDGET

	2016/17	2017/18	Variance
		£5 Inc	
	Budget	Budget	
	£	£	
Business	1,878,820	1,644,978	-233,842
Community	5,041,616	5,106,533	64,917
Corporate	1,520,080	1,501,660	-18,420
Finance	1,907,470	1,807,400	-100,070
Legal and Property	21,280	-719,390	-740,670
Town Centre and Regeneration		-1,784,860	-1,784,860
Regulatory	2,438,507	3,140,899	702,392
Transformation	865,680	583,420	-282,260
	13,673,453	11,280,640	-2,392,813
Less: Staff cost amendments	-92,676	192,906	285,582
Portfolio changes			0
Pension adjustment	-561,965	0	561,965
Add: Additional pension contribution	507,000	0	-507,000
Add: Minimum Revenue Payment	202,000	1,389,000	1,187,000
Internal asset charges reversed	-2,204,180	-2,075,410	128,770
NET COST OF SERVICES	11,523,632	10,787,136	-736,496
Less: Investment Interest earned	-300,000	-300,000	
Less: Savings Target	-197,344	0	
Add: Contribution to Parishes	19,943	19,943	
BUDGET REQUIREMENT	11,046,231	10,507,079	
Less: Collection Fund Surplus	-72,170	-238,258	
Less: Business Rates baseline	-1,435,359	-1,464,663	
Less: Additional Business Rates		-200,000	
Less: Rate Support Grant	-356,817	0	
Less: New Homes Bonus	-1,418,000	-1,226,266	
Less: Other Grants in settlement	-132,988	-84,448	
Add: Tfr to Reserves	718,000	1,226,266	
Less: Funding from Reserves	-746,900	-645,000	
Add: Parish Precepts	537,437	537,437	
COUNCIL TAX REQUIREMENT	**8,139,434**	**8,412,147**	
Less: Special Expenses	-176,000	-176,000	
Less: Parish Precepts	-537,437	-537,437	
OWN COUNCIL TAX REQUIREMENT	**7,425,997**	**7,698,710**	
Band D equivalent Properties	*36,890.20*	*37,318.03*	
Base Council Tax per Band D property	***£201.30***	***£206.30***	

ANNEX B1

REVENUE FUND PROJECTION 2017/18 to 2021/22

2017/18		2018/19	2019/20	2020/21	2021/22
£000		£000	£000	£000	£000
Budget	**Portfolio**				
1,645	Business	1,645	1,645	1,645	1,645
5,107	Regulatory	5,107	5,107	5,107	5,107
1,502	Corporate	1,502	1,502	1,502	1,502
1,807	Community	1,807	1,807	1,807	1,807
-1,785	Town centre and Regeneration	-1,785	-1,785	-1,785	-1,785
-720	Legal and Property	-720	-720	-720	-720
3,141	Finance	3,141	3,141	3,141	3,141
583	Transformation	583	583	583	583
11,280		11,280	11,280	11,280	11,280
	Other items				
(2,075)	Internal Asset charges	(2,075)	(2,075)	(2,075)	(2,075)
20	Contribution to Parishes	20	20	20	20
1389	MRP funding	1389	1382	1419	1449
(645)	Reserves funding	(645)	(645)	(645)	(645)
0	Non recurrent costs		35		
9,969		9,969	9,997	9,999	10,029
	Base budget changes				
192	Wages Inflation	150	302	411	552
	Pension funding	100	200	200	200
	contract Inflation	135	272	411	552
	Fees and charges inflation	(140)	(283)	(428)	(577)
(300)	Investment returns	(275)	(270)	(259)	(329)
	Property Income increase	(50)	(100)	(150)	(200)
	SCC Grant reduction	100	100	100	100
	Joint waste savings	(200)	(200)	(200)	(200)
(108)	**Total**	(180)	22	85	99
9,861	**Total Budget to be funded**	**9,789**	**10,019**	**10,084**	**10,128**
	Financed By				
84	Transitional Grant	0	0	0	0
1,465	Business Rates	1,512	633	600	500
200	Business Rates Pooling				
7,698	Council Tax	7,925	8,153	8,383	8,615
	New Homes bonus	724	486	451	450
238	Colllection Fund Surplus	200	200	200	200
176	Special Expenses	176	176	176	176
9,861	**Total Finance**	**10,537**	**9,648**	**9,810**	**9,941**
0	**Funding Gap/Savings**	**-748**	**371**	**274**	**186**

ANNEX B2

CAPITAL EXPENDITURE FORECAST 2016 TO 2022

	Estimated 2017/18 £'000	Estimated 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000	Estimated 2021/22 £'000
Disabled Facilities Grants	600	600	600	600	600
London road Rec	25				
Refuse trucks	3,200				
dog Van	10				
community Bus	40				
GRAND TOTAL OF ALL SCHEMES	3,875	600	600	600	600
CAPITAL RECEIPTS RESERVE B/F	480	425	445	465	485
Add: Funding from Capital Revenue Reserve	0	0	0	0	0
Add: Funding from Loans	3,200				
Add: Government Grant	600	600	600	600	600
Add: Capital Receipts	20	20	20	20	20
Less: Capital Expenditure	(3,875)	(600)	(600)	(600)	(600)
CAPITAL RECEIPTS RESERVE C/F	425	445	465	485	505
CAPITAL REVENUE RESERVE B/F	9,672	9,322	8,972	8,622	8,272
Less: Reserves funding applied	(350)	(350)	(350)	(350)	(350)
Less Funding Required for Capital	0	0	0	0	0
CAPITAL REVENUE RESERVE C/F	9,322	8,972	8,622	8,272	7,922

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

ANNEX B3

GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2017 TO 2022 WITH £5 COUNCIL TAX INCREASE

Estimated Balance 31-Mar-17 £000	Capital Reserves	Estimated Balance 31-Mar-18 £'000	Estimated Balance 31-Mar-19 £000	Estimated Balance 31-Mar-20 £000	Estimated Balance 31-Mar-21 £000	Estimated Balance 31-Mar-22 £000
480	Capital Receipts	425	445	465	485	505
480	**Sub Total Capital Reserves**	425	445	465	485	505
	Earmarked Revenue Reserves					
13	Atrium Public Art	11	11	10	10	9
850	Affordable housing	850	0	0	0	0
320	Atrium s106	280	250	200	150	100
90	Blackwater Valley & Developer Conts	80	70	50	30	0
9	Gum Machine	8	6	4	2	0
4	Chobham Partnership	0	0	0	0	0
288	CIL	200	200	200	200	200
600	Commuted Sums	500	400	300	250	250
250	Community Fund	200	150	100	50	0
100	Crime and Disorder Partnership	80	60	0	0	0
300	Deepcut Commuted Sums	280	270	250	230	220
50	Frimley 3G	75	100	0	25	50
35	Heathside Muga	0	0	0	0	0
180	Insurance	150	100	90	80	80
300	Land Drainage	250	200	150	100	50
0	Land Charges	0	0	0	0	0
80	new burdens	0	0	0	0	0
	New Homes Bonus	1,200	1,200	1,200	1,000	1,000
19	Old Dean Toddlers Playground	15	12	12	10	8
50	Personalisation	0				
150	Sec 106	100	70	50	30	10
550	Planning Tariffs	400	500	600	300	350
1,600	Reapirs and Property Fund	1,450	1,300	1,150	1,000	850
150	Recycling Fund	100	0	0	0	0
45	Remediation Fund	0	0	0	0	0
150	Surrey Family Support	0	0	0	0	0
1,300	SANGS	1,000	700	400	400	500
7,483	**Total Earmarked Revenue Reserves**	7,229	5,599	4,766	3,867	3,677
	Other Revenue Reserves					
9,672	Capital Revenue Reserve	9,322	8,972	8,622	8,272	7,922
2,220	General Fund Working Balance	2,220	2,968	2,597	2,323	2,137
11,892	**Total Other Revenue Reserves**	11,542	11,940	11,219	10,595	10,059
19,855	**TOTAL RESERVES**	19,196	17,984	16,450	14,947	14,241

Treasury Management Strategy Report 2017/18

Summary
Report for Executive to consider and recommend to Council the treasury strategy for 2017/18

Portfolio - Finance
Date Portfolio Holder signed off report: 18 January 2017 (by the Leader)

Wards Affected All

Recommendation
The Executive is advised to approve and recommend to Council the adoption of the following:

(i) The Treasury Management Strategy for 2017/18.

(ii) The Treasury Management Indicators for 2017/18 at Annex A.

(iii) The Minimum Revenue Provision policy statement and estimated minimum revenue provision payment table at Annex F.

1. Resource Implications

1.1. The budget for investment income in 2017/18 is £300,000 based on an average investment portfolio of £25 million at an interest rate of 1.2%. The budget for external debt interest paid in 2017/18 is £2.8m, based on an average debt portfolio of £124 million at an average interest rate of 2%. If actual levels of investments, borrowing and interest rates differ from those forecast, this will affect actual performance against budget.

1.2. Funding for the proposed corporate capital programme for 2017/18 – 2019/20 will need to be funded by borrowing or out of revenue due as the Council does not hold any capital receipts.

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

2. Key Issues

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

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

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

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

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

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

2.7. In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority’s capital programme or in the level of its investment balance.

3. Options

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

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

4. Proposals

4.1. The Executive is asked to approve and recommend to Council the adoption of:
a) The Treasury Management Strategy for 2017/18 at Annex B.
b) The Treasury Management Indicators for 2017/18 at Annex C.
c) The minimum revenue provision policy statement at Annex F which is unchanged from that approved by the Executive on 9th February 2016.

5. Supporting Information

5.1. External Context

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

5.2. Economic background**:**

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

5.3. The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

5.4. Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

5.5. Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

5.6. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

5.7. <u>Credit outlook:</u>
Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

5.8. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

5.9. <u>Interest rate forecast</u>**:**
The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

5.10. Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

5.11. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

5.12. For the purpose of setting the budget, it has been assumed that no new investments will be made and that new long-term loans will be borrowed at an average rate of 2%.

Local Context

5.13. The budget for investment income for 2017/18 is £300k based on the current investment strategy and the one proposed. However this level of income is not guaranteed as it depends on the performance of the markets and the world economy.

5.14. The Council currently has £131m of external borrowing and £35 million of investments (as at 31st December 2016) as set out in Annex E.

Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
Borrowing CFR	18	138	135	133	132
Less: External borrowing	-18	-131	-130	-128	-126
Internal borrowing	**0**	**7**	**5**	**5**	**6**
Less: Usable reserves	20	20	19	18	17
Less: Working Capital	6	6	6	6	6
Investments	**26**	**19**	**16**	**19**	**17**

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

5.16. The Authority has a falling CFR due to repayments of debt however this could increase significantly if further investment in property is undertaken.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2017/18.

Borrowing Strategy

5.17. The Authority currently holds £131 million of loans, an increase of £114 million on the previous year, as part of its strategy for funding and acquiring property. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £4m in 2017/18. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £167 million.

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

5.19. Strategy:
Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The Council has fixed some of its borrowing for the longer term to give certainty of cost. On the advice of its treasury advisors, the Council will continue to borrow in the short term. The policy will be kept under review during the year.

5.20. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

5.21. Alternatively, the Authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.22. In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources:

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

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Surrey Pension Fund)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Local Enterprise Partnership

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

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

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. As at 31st December 2016, the Council has borrowed £16.2m from the PWLB, £1.1m from the M3 LEP and £114m from local authorities.

5.23. Municipal Bond Agency:
UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

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

5.25. Debt Rescheduling:
The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature

redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.26. Annual Minimum Revenue Provision (MRP) Statement

When a Council borrows, it is required to indicate how it intends to fulfil its duty to make prudent provision for the repayment of the capital borrowed from revenue. This provision is called the Minimum Revenue Payment or MRP. Best practice guidance recommends that Councils prepare a statement of policy on making MRP in respect of the forthcoming financial year. The Council's MRP statement was approved by the Executive on 9th February 2016.

The recommended policy is attached in Annex F.

The forecast MRP is shown in the table below:

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	£m	£m	£m
Forecast MRP	0.2	1.4	1.7	1.7

Investment Strategy

5.27. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £26million and £40million, but these levels are expected to decrease based on the expected low returns in 2017/18.

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

5.29. Negative Interest Rates**:**
If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.30. Strategy:

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to remain diversified into higher yielding asset classes during 2017/18. This is especially the case for the estimated £8m that is available that is available for longer-term investment which has been invested in to Corporate Bond, Equity and Property Funds. The remainder of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, Loans to other Councils and money market funds. No changes are proposed to the 2016/17 investment strategy for 2017/18.

5.31. Approved Counterparties**:**

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

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Building Societies	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£3m 10 years	£2m 3 years	n/a	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£3m 10 years	£2m 3 years	n/a	£2m 10 years	£2m 10 years
AA	£2m 4 years	£3m 5 years	£2m 3 years	n/a	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£3m 4 years	£2m 3 years	n/a	£2m 4 years	£2m 10 years
A+	£2m 2 years	£3m 3 years	£2m 2 years	n/a	£2m 3 years	£2m 5 years
A	£2m 13 months	£3m 2 years	£2m 12 months	n/a	£1m 2 years	£2m 5 years
A-	£2m 6 months	£3m 13 months	£1m 6 months	n/a	£1m 13 months	£2m 5 years
BBB+	£3m next day only	£3m 6 months	£1m 100 days	n/a	n/a	£1m 2 years
None	£1m 6 months	n/a	£1m 6 months	n/a	n/a	n/a
Pooled funds	£2m per fund					
Challenger Banks	£1m for 6 months					
Supranational Banks	£3m for up to 5 years where rated A or above					
UK Local Councils	£2m per authority for up to 5 years					

This table must be read in conjunction with the notes below

5.32. Credit Rating:
Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

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

5.34. Banks Secured:
Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks. These investments are secured on the bank's assets,

which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.35. Building Societies

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

5.36. Government:

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

5.37. Corporates:

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

5.38. Registered Providers:

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

5.39. Pooled Funds:

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

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

5.40. Challenger Banks

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

5.41. Supranational Banks

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

5.42. UK Local Authorities

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

5.43. Risk Assessment and Credit Ratings:

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

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

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

5.44. Other Information on the Security of Investments:

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.45. Specified Investments:

The CLG Guidance defines specified investments as those:

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

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

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

Non-Specified Investment Limits

	Cash limit
Total long-term investments	£15m
Total investments without credit ratings or rated below A-	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated	£10m
Total non-specified investments	£35m

5.48. Investment Limits:

The Authority’s revenue reserves available to cover investment losses are forecast to be £15 million on 31st March 2017. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited

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

5.49. Liquidity Management:
The Authority uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed.

6. Other Items

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

7. Treasury Management Indicators

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

8. Corporate Objectives and Key Priorities

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

9. Policy Framework

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

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

b. Investments to be made in accordance with the CLG guidance on Local Council Investments, on the basis of Fitch, Moody's and Standard &

Poors credit ratings for rated institutions and as detailed in the Treasury Management Policy statement and approved schedules and practices.

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

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

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

10. **Legal Issues**

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

11. **Governance Issues**

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

12. **Sustainability**

12.1. None

13. Risk Management

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

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

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

14. **Consultation**

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

15. **Officer Comments**

15.1. Included within the paper.

Annexes	Annex A – Arlingclose Economic and Interest Rate Forecast November 2016 Annex B – 2017/18 Other Items - Treasury Management Strategy Annex C – 2017/18 Treasury Management Indicators Annex D – Investments as at 31 December 2016 Annex E – Existing Investment and Debt Portfolio Annex F – Minimum Revenue Policy (MRP) Statement
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2011 Edition
Author/Contact Details	Nahidah Cuthbert 01276 707260 nahidah.cuthbert@surreyheath.gov.uk
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		

Annex A

Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														

Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**

Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Annex B

Other Items

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

1. **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
   The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
   Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
2. **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
   Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.
3. **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues
4. **Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £167 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

5. **Other Options Considered**

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

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

Treasury Management Indicators for 2017/18

1. The Council measures its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:
2. Security: average credit rating
   The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A

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

3. Liquidity: cash available within three months
   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.

	Target
Total cash available within 3 months	£5m

4. 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 an amount of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	£167m	£167m	£167m
Upper limit on variable interest rate exposure	£167m	£167m	£167m

   Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.
5. 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
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

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

6. Principal Sums Invested for Periods Longer than 364 days**:**
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 long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£15m	£15m	£15m

Annex D

INVESTMENTS as at 31st December 2016

	£
Lloyds Bank Call Account	600,000
Goldman Sachs Bank	2,000,000
National Counties Building Society	2,000,000
Nationwide Building Society	2,000,000
Total Building Society	**6,600,000**
Debt Management Office	3,000,000
Total Banks, Building Societies and DMO	**9,600,000**
Glasgow City Council	2,000,000
Greater London Authority	2,000,000
The London Borough of Islington	2,000,000
Total Local Authorities	**6,000,000**
AAA Rated MM Fund - Aberdeen (SWIP)	2,987,703
AAA Rated MM Fund - Insight	1,013,090
AAA Rated MM Fund - Standard Life (Ignis)	3,000,000
AAA Rated MM Fund - Blackrock	2,900,000
Total Money Market Funds	**9,900,793**
CCLA Property Fund	2,050,498
M & G Investments - Global Dividend Fund	1,140,155
M & G Investments - Strategic Corp Bond Fund	2,032,011
Threadneedle - Global Equity Income Fund	1,183,752
Threadneedle - Strategic Bond Fund	1,974,796
Total Longer Term Investments	**8,381,212**
Total Invested (excluding the NatWest SIBA)	**33,882,006**
NatWest SIBA	996,109
NatWest International Account	616,910
Total Invested (including NatWest SIBA)	**£35,495,025**

Annex E

Existing Investment & Debt Portfolio Position

	31-Dec-16 Actual Portfolio £m	31-Dec-16 Average Rate %
External Borrowing:		
Public Works Loan Board - Long Term	16	2.9%
Local authorities - Short Term	115	0.3%
Total Gross External Debt	**131**	**0.6%**
Investments:		
Banks & Building societies	8	0.2%
Government (incl. local authorities)	9	0.6%
Money Market Funds	10	0.5%
Other Pooled Funds	8	3.8%
Total Investments	**35**	**1.2%**
Net Debt	**95**	**0.4%**

Annex F

Minimum Revenue Policy (MRP) Statement

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

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

Estimated economic lives of assets Asset Class	**Estimated economic life**
Land and heritage assets	50 years
Buildings for services	40 years
Vehicles and Plant	10 years
IT equipment and software	5 years
Investment property	50 years
Property for regeneration	0% until development complete

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

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

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

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

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	£m	£m	£m
Forecast MRP	0.2	1.4	1.7	1.7

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Corporate Capital Programme 2017/18 – 2019/20

Summary

To consider the Corporate Capital Programme for 2017/18, the Prudential Indicators for 2017/18 to 2019/20, and the provisional capital programme for 2018/19 to 2019/20.

Portfolio - Finance
Date signed off: 18 January 2017 (by the Leader)

Wards Affected	All

Recommendation

The Executive is advised to recommend to the Council that:

(i) the new capital bids for £3,871k in Annex A for 2017/18 be approved, and that the be incorporated into the Capital Programme;

(ii) the Prudential Indicators summarised below and explained in Annex D, including the MRP statement, for 2017/18 to 2019/20 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 be approved.

Prudential Indicator	**2017/18 Estimated £000**	**2018/19 Estimated £000**	**2019/20 Estimated £000**
Capital Expenditure	3,871	600	600
Capital Financing Requirement	140,653	138.901	137,112
Ratio of financing costs to net revenue stream	35.17%	38.52%	41.36%
Incremental impact of investment decisions on Band D council Tax	-£15.29	£8.27	£0.97
Operational Boundary	157,000	157,000	157,000
Authorised Limit	167,000	167,000	167,000

The Executive is also advised to note that:

(i) the Capital Financing Requirement for this Council as at 31 March 2018 is estimated to be £140.653m and as such a Minimum Revenue Payment of £1,392k is required;

(ii) the provisional Capital Programme for 2018/19 and 2019/20; and

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

1. Resource Implications

1.1 Executive Heads of Service were required to present capital bids for 2017/18, these were considered by the Chief Executive and Section 151 Officer on 22nd November 2016 prior to submission to Executive. Bids were only considered if they met a statutory obligation or it could be demonstrated that they would be self-funding.

1.2 The 2017/18 Capital Programme as proposed is shown in Annex A. The Council no longer holds a capital receipts reserve therefore only in year receipts can be offset against the proposed spend. Annex C. This indicates that it will not be possible to fund the current Capital Programme from capital receipts and existing revenue and/or borrowing will have to be used.

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

1.4 The Revenue Capital Fund is estimated to be about £9.0m at 31 March 2017 and will be used to support the Capital Programme if required. However this reduces the amount of reserve available to support revenue expenditure and hence the General Fund in the future. The Council did undertake borrowing during 2016/17 to fund significant property acquisitions and is prepared to do this again should the need arise.

1.5 The estimated loss of investment income as a result of the proposed capital programme is shown in the table below based on the estimated average rate of poorest performing investments 0.6% for 2016/17.

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**
Annual	54	24	24
Cumulative Total	54	78	102

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

2. Key Issues

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

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

3. Options

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

4. Proposals

4.1 The Executive is advised to RECOMMEND to Council: that

(i) the new capital bids for £3,871k in Annex A be approved for 2017/18 and that they be incorporated into the Capital Programme.

(ii) the Prudential Indicators summarised below, including the MRP statement, and explained in Annex D for 2017/18 to 2019/20 be approved in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

Prudential Indicator	**2017/18 Estimated £000**	**2018/19 Estimated £000**	**2019/20 Estimated £000**
Capital Expenditure	3,871	600	600
Capital Financing Requirement	140,653	138,901	137,112
Ratio of financing costs to net revenue stream	35.17%	38.52%	41.36%
Incremental impact of investment decisions on Band D council Tax	-£15.29	£8.27	£0.97
Operational Boundary	157,000	157,000	157,000
Authorised Limit	167,000	167,000	167,000

4.2 The Executive is also advised to NOTE:

(i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2018 is estimated to be £140,653m and as such a Minimum Revenue Payment (MRP) of £1,392k is required.

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

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

5. Supporting Information

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

5.2 Annex B provides brief background information for schemes.

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

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

6. Corporate Objectives and Key Priorities

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

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

7. Legal Implications

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

8. Risk Management

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

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

Consultations, Implications and Issues Addressed

	Required	Consulted	
Resources			
Revenue	✓	✓	
Capital	✓	✓	

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

Version:

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

TABLE 1 – ACTUAL AND ANTICPATED CAPITAL SCHEMES FROM 2017/18 to 2019/20

3 YEAR CAPITAL PROGRAMME	**2017/18**	**2018/19**	**2019/20**	**3 Year Funding Requirement**
	Estimated Total	**Estimated Total**	**Estimated Total**	
	£ 000's	**£ 000's**	**£ 000's**	**£ 000's**
Disabled Facilities Grants	600	600	600	1,800
London Rd Disabled Access	21			21
Refuse Vehicles	3,200			3,200
Replacement Dog Warden Van	10			10
Community Bus	40			40
GRAND TOTAL OF ALL SCHEMES	**3,871**	**600**	**600**	**5,071**

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2017/18 which total £3.871m

Executive and Council will be asked to approve any carry forwards from 2016/17 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2016/17 CAPITAL PROGRAMME

FUNDING FOR 2016/17 CAPITAL PROGAM	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£ 000's	£ 000's	£ 000's	£ 000's
Disabled Facilities Grants	600	600		**-**
London Rd Disabled Access	21			**21**
Refuse Vechicles	3,200			**3,200**
Replacement Dog Warden Van	10			**10**
Community Bus	40			**40**
GRAND TOTAL OF ALL SCHEMES	**3,871**	**600**	**-**	**3,271**

Of the £3,871k schemes recommended for 2017/18, grant funding of £600k is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and borrowing.

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

Background Notes on New Schemes

Disabled Facilities Grants
Central Government Grant to the Better Care Fund includes an element for Disabled Facilities Grant (DFG) allocated to Surrey Heath. While Government's expectation is that this money is passported to the local housing authority it is not ring-fenced. In 2016/17 the full amount was passed to the Council but it is expected that each year will involve a negotiation and the Council will have to demonstrate how delivery of the service meets health and social care priorities.

London Road Recreation Ground Disabled Access Improvements
This project will provide a fully accessible park facility close to the Town Centre, supporting objectives for improving the Town Centre for all the community.

Community Bus
The average life of a community bus is about 8 to 10 years. As buses get older they require more maintenance and consume more fuel. One of the buses in the fleet is over 11-years which will need replacement with the next 12-months.The community transport service generates income of £200,000 per year of which £150,000 is from Service Level Agreements. A reduction in the number of vehicles in the fleet will negatively impact on the delivery of the SLA's. The payback period for replacement of the bus is 10-years.

Dog Warden Van
The Environmental Health Technician/ Dog warden caries out 60% of her time carrying out general environmental health duties across the Borough and 40% dealing with dog related issues. The nature of her duties is that she would either be entitled to the provision of a lease car or a car allowance of £2,000 per annum plus motor mileage at 0.45 per mile. She currently drives 7,778 miles a year. This is total cost of £5,500 per year. As an alternative she has previously been provided with a van as this enables her collect stray dogs if the contractor is not available and to carry bulky environmental sampling equipment for the team. The van is now getting old and needs to be replaced before any major mechanical repairs are necessary.

Refuse Vehicles
It is proposed that the Council agrees that funding of £3.2m to be included in the capital programme for 2017/18 and 2018/19 to provide capital funding for vehicle purchase as required for inclusion for the Surrey Heath transfer to the new refuse contract. The payback period is 10-years from Feb 2017 to be paid from savings in the joint contract.

Movement in Available Capital Receipts

	2017/18 Estimate £'000's	2018/19 Estimate £'000's	2019/20 Estimate £'000's
Forecast Capital Receipts 1st April	0	0	0
Capital Receipts during year	50	50	50
Capital Grants (Disabled Facilities Grant)	600	600	600
TOTAL AVAILABLE FUNDS	**650**	**650**	**650**
Proposed Capital Programme	(3,871)	(600)	(600)
TOTAL SCHEMES REQUIRING FUNDING	**(3,221)**	**0**	**0**
FUNDING REQUIREMENT	**(3,221)**	**0**	**0**

This will be funded by internal borrowing from revenue reserves

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2017/18

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

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

Capital Expenditure and Financing	2016/17 Revised £k	2017/18 Estimate £k	2018/19 Estimate £k	2019/2020 Estimate £k
Capital Programme	122,300	3,871	600	600
Total Expenditure	**122,300**	**3,871**	**600**	**600**
Capital Receipts	494	50		
Government Grants	601	600	600	600
Reserves	253			
Revenue	37			
Borrowing	120,915			
Total Financing	**122,300**	**3,221**	**600**	**600**

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

Capital Financing Requirement	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total CFR	**138.824**	**140.653**	**138.901**	**137.112**

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

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

Debt	**31.03.17 Revised £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**
Borrowing	135.937	134.597	133.269	131.903
Finance leases	0	0	0	0
Total Debt	**135.937**	**134.597**	**133.269**	**131.903**

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

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

Operational Boundary	**2016/17 Revised £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Borrowing	157	157	157	157
Other long-term liabilities	0	0	0	0
Total Debt	**157**	**157**	**157**	**157**

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

Authorised Limit	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	167	167	167	167
Other long-term liabilities	0	0	0	0

Total Debt	**167**	**167**	**167**	**167**

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	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	10.43	35.17	38.52	41.36

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	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
General Fund - increase in annual band D Council Tax	**-15.29**	**8.27**	**0.97**

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

Annual Minimum Revenue Provision Statement 2017/18

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

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

Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

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

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

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

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

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2018, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £m	**2017/18 Estimated MRP £000**
Capital expenditure before 01.04.2008	**0**	0
Supported capital expenditure after 31.03.2008	**136.140**	1.339
Unsupported capital expenditure after 31.03.2008	**4.513**	.053
Total	**140.653**	**1.392**

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Surrey Pension Fund

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

Portfolio - Finance
Date Signed Off: 18 January 2017 (by the Leader)
Wards Affected
All

Recommendation

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

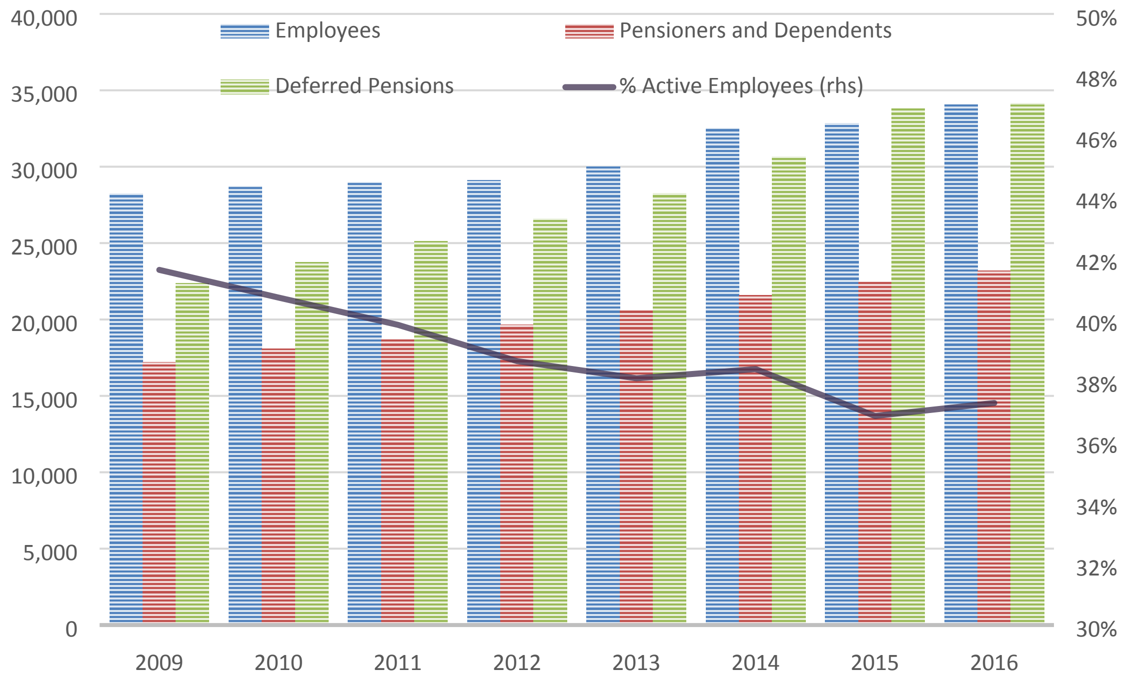
1. Key Issues

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

Membership

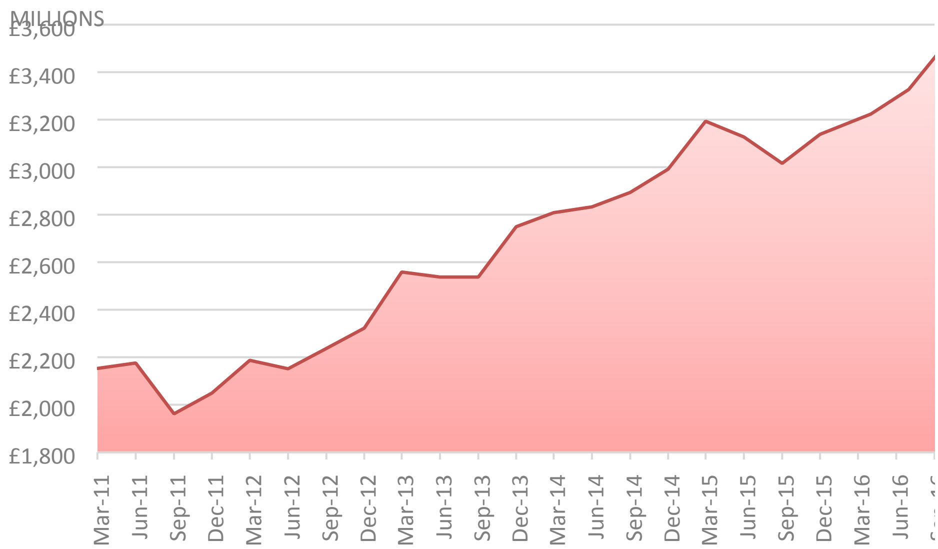
1.2 At the end of March 2016 there were 91,427 members in the fund of which 34,072 were active, 23,197 pensioners and 34,158 deferred. This is an increase of 2,300 on the previous year as more part time staff are bought in to the fund through the Government's auto enrolment program. The graph below sets out the changes in membership

Number of Pension fund Members



Market Value of the Fund

1.3 The fund was valued at £3.629bn on the 16th November 2016 a significant increase on the £3.122bn valuation as at the 31st March 2016. The graph below illustrates how the fund valuation has changed over the course of the last 5 years.



Investment Strategy

1.4 The investment strategy is set by the Pension fund committee which includes representatives of the county and districts. Investments are placed with a number of fund managers as in the table below:

Fund Manager	Asset Class	Market Value as at 30/09/16 £m	Percentage of Total Fund as at 30/09/16
LGIM	Multi-asset	896.1	25.4%
Western	Investment and Multi Asset Grade Credit	311.3	8.8%
Franklin Templeton	Unconstrained Bonds	64.5	1.8%
Majedie	UK Equity	329.9	9.4%
UBS	UK Equity	264.7	7.5%
Marathon	Global Equity	517.3	14.7%
Newton	Global Equity	288.2	8.2%
Baillie Gifford	Diversified Growth	136.3	3.9%
Ruffer	Diversified Growth	121.4	3.4%
Aviva	Diversified Growth	121.4	3.4%
CBRE	Property	227.7	6.5%

1.5 The fund is managed so as to generate longer term growth to meet the future liabilities of the scheme. The table below shows the split of investments

	Target Allocation 30 September 2016 %	Actual Allocation 30 September 2016 %
Multi Asset Credit	4.4	3.8
Investment Grade Credit	5.3	5
Index-Linked Gilts	5.5	5.5
Unconstrained	2.4	2
Total Bonds	**17.6**	**16.3**
UK Equity	27.5	24.5
Overseas Equity	32.3	35
Total Equity	**59.8**	**59.5**
Property	6.2	6
Diversified Growth	11.4	11.2
Total Alternatives	**17.6**	**17.2**
Private Equity	**5**	**4.8**
Cash and Other	**0**	**2.2**
TOTAL	**100**	**100**

1.6 Investment performance is shown in the table below:

	Surrey Pension Fund %	Surrey Benchmark %
2015/2016	-0.8	-0.9
2014/2015	12.3	11.9
2013/2014	8.6	7.1
2012/2013	14.7	11.6
2011/2012	1.9	3.3
2010/2011	8.9	8.2
2009/2010	42.9	39.1
3-Year (annualised)	6.7	5.7
5-Year (annualised)	7.2	6.3
10-Year (annualised)	5.5	5.0

Funding Update

1.7 Due to growth in investments and additional payments the fund is now managing to keep pace with liabilities. This has resulted in the deficit falling and so the funding level increasing. At the current time the scheme is well over 90% funded. Details are shown in the table below:

	Full Actuarial Valuation 31/03/2010	**Full Actuarial Valuation 31/03/2013**	**Quarterly Valuation 31/03/2014**	**Quarterly Valuation 31/03/2015**	**Full Actuarial Valuation 31/03/2016**	**Quarterly Valuation 30/09/2016**
Liabilities	£2,699m	£3,538m	£3,523m	£4,245m	£3,892m	£3,946m
Assets	£1,944m	£2,559m	£2,808m	£3,194m	£3,213m	£3,524m
Deficit	£755m	£979m	£715m	£1,051m	£680m	£422m
Funding Level	72.0%	72.3%	79.7%	75.2%	82.6%	89.3%

National Asset Pooling

1.8 The Government passed legislation to force Local Government Pension Schemes to pool their assets. This was done for 2 reasons. Firstly by pooling the costs of investment management can be reduced thereby giving savings in costs. Secondly the new fund could provide a national fund to invest in infrastructure. Surrey has joined the “Borders to Coast Fund” which has a total value of £35.9bn. The Councils in this pool are shown below:

Bedfordshire Pension Fund	£1.7bn	South Yorkshire Pensions Authority	£6.3bn
Cumbria County Council	£2.0bn	Sheffield City Region Combined Authority	£0.2bn
Durham County Council	£2.3bn	Surrey Pension Fund	£3.2bn
ERPF East Riding Pension Fund	£3.7bn	Teesside Pension Fund	£3.2bn
Lincolnshire County Council Working for a better future	£1.8bn	Tyne and Wear Pension Fund Administered by South Tyneside Council	£6.4bn
North Yorkshire County Council	£2.4bn	Warwickshire pension fund	£1.7bn
Northumberland Northumberland County Council	£1.1bn	BCPP	£35.9bn

1.9 Borders to Coast, which will be based in Leeds, is now working hard to put the legal and Governance infrastructure in place to manage the pool.

1.10 In addition on the member side Surrey Pensions now manages the pensions for City of Westminster, the Tri borough Partnership and East Sussex as well as Surrey.

2. Resource Implications

2.1 Pension contributions are a significant financial commitment for the Council. In 2016/17 employer contributions are expected to exceed £2m of which £800k are to fund pension deficits – this has increased by £500k in the last 3 years.

2.2 The fund is required to have an actuarial review every 3 years and this was last done as at the 31st March 2016. This indicated that 82.6% funded compared with 72.3% in March 2013. This means that the actuaries are recommending no increase in current contributions or deficit recovery payments for the next 3 years. This is not the case for all members of the scheme and reflects the increased contributions Surrey Heath have recently made and the age profile of the workforce and pensioners.

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

3. Options

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

4. Proposals

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

5. Supporting Information

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

6. Corporate Objectives And Key Priorities

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

7. Policy Framework

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

8. Legal Issues

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

9. Governance Issues

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

10. Risk Management

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

11. Officer Comments

11.1 None

Annexes	**None**
Background Papers	**Surrey Pension fund Annual report 2016 available on the Surrey County Council website**
Author/Contact Details	**Kelvin Menon – Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Executive Head of Service	**Kelvin Menon – Executive Head of Finance**

Consultations, Implications and Issues Addressed

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

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

Review Date:
Version:

Unmanned Aerial Vehicles Policy

Summary
Due to an increase of the use of Unmanned Aerial Vehicles in our parks and open spaces there is a need to establish the council's stance on the operation of these devices.

Portfolio - Business
Date Signed off – 30 January 2017

Wards Affected
All

Recommendation

The Executive is advised to resolve to adopt the Unmanned Aerial Vehicle Policy attached as Annex 1 prior to a review and amendment of the current Byelaws.

1. Key Issues

1.1 Neighbouring authorities have recently adopted a zero-tolerance approach to the operating of Unmanned Aerial Vehicles within their parks and open spaces. Consequentially, this is pushing more operators to move across boundaries, increasing the use of our parks and open spaces.

1.2 A number of these UAV's can be flown to capture or observe the images beneath which have privacy implications of the subsequent use of the material captured.

1.3 There is currently no set standard which must be met prior to flying or operating a UAV. Learning to use this type of equipment is usually done through trial and error and so naturally results in a number of collision and accidents all of which have the potential to be a health and safety risk within our Parks and Open Spaces.

1.4 We have seen a significant increase in the number of complaints from not only residents neighbouring our facilities but also from other users of the Parks and Open Spaces.

1.5 As these devices have become more affordable, the number of in-experienced operators is also increasing.

1.6 One of our parks, in particular, is on the flight path into Farnborough Airport which has further implications and restrictions imposed from the Civil Aviation Authority.

2. Resource Implications

2.1 The number of visitors to our parks and open spaces who are operating Unmanned Aerial Vehicles (UAV's) is increasing significantly. Currently the Council have not adopted any policy with regards to Surrey Heath Borough Council owned land.

2.2 A review of the Open Space Byelaws is in its early stages; however this is a large project and is due to be completed before the end of 2017. In the interim, it is requested that a Policy is adopted allowing the Council to regulate these activities within our open spaces.

3. Options

3.1 The Council has the option to:

- i) Adopt the proposed Unmanned Aerial Vehicle Policy
- ii) Not adopt the policy and await the amended Byelaws
- iii) Amend and adopt the Unmanned Aerial Vehicle Policy

4. Proposals

4.1 It is proposed that the Council adopt the Unmanned Aerial Vehicle Policy and include suitable amendments within the Byelaws when they are reviewed.

5. Supporting Information

5.1 Having researched a number of neighbouring authorities, it the majority are either adopting a policy or have amended their Byelaws to reflect a zero-tolerance position.

5.2 Exemptions will only be considered, where users are part of a formalised model aircraft flying club that can demonstrate all health and safety and insurance measures are in place. A license agreement must be made with Surrey Heath Borough Council and the formalised club before site usage can be established.

6. Corporate Objectives And Key Priorities

6.1 This proposal support corporate objectives to keep the Borough Clean Green and Healthy.

7. Governance Issues

7.1 The policy will be observed and enforced by Council Officers and any contractor appointed by the authority to act on their behalf.

7.2 Once the Byelaws are in place, they will again be enforced by Officers of the Council prior to any legal proceedings.

8. Risk Management

8.1 This is considered medium risk as inexperienced operators are likely to mis-handle the equipment which could result in damage to people, equipment, surrounding areas and or personal equipment or injury.

Annexes	**Annex 1 - Policy**
Background Papers	**None**
Author/Contact Details	**Sue.McCubbin@surreyheath.gov.uk** **Nicola.Sherlow@surreyheath.gov.uk**
Executive Head	**Daniel Harrison – Executive Head of Business**

Consultations, Implications And Issues Addressed

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

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

Review Date:
Version:

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SURREY HEATH BOROUGH COUNCIL

UNMANNED AERIAL VEHICLE POLICY

Great Place • Great Community • Great Future

Background

Whilst unmanned aerial vehicles (UAV) have traditionally only been used by model aircraft enthusiasts for recreational purposes, they are increasingly being used for surveillance and data-gathering. Such UAV's may be operated in a way that poses a greater risk to the general public. Unlike manned aircraft or those UAV's which would be classed as model aircraft, used for recreational purposes, there are no established operating guidelines, Operators may not be aware of the potential dangers and risks to public safety that can occur from misuse.

Currently larger UAV's are being developed These UAV's often require a great deal more space when being operated and are required by National and European law to be designed and manufactured to an approved standard. Therefore it is becoming necessary to take additional steps to ensure that the UVA's can be safely integrated with other airspace users - both in the air and on the ground.

In January 2010, the **Civil Aviation Authority** (CAA) introduced new regulations that require operators of small UAV's used for aerial work purposes and those equipped for data acquisition and/or surveillance to obtain permission from the CAA before commencing a flight within a congested area or in proximity to people or property.

The CAA Policy CAP 3939 Air Navigation regulations are intended to protect people and / or properties that are not involved in the activity. They are also aimed at being as 'light touch' and proportionate as possible, so there is a great deal that can be done without the need to approach the CAA at all.
Individuals wishing to use UAV's would need to ensure they are familiar with the current requirements and seek permission if necessary.

For a full copy of the CAA policy CAP 3939 Air Navigation: The Order and Regulations please visit www.caa.co.uk, alongside further information and guidance.

Current Position

Permission will not be granted by Surrey Heath Borough Council to any request to use Unmanned Aerial Vehicles on land owned by Surrey Heath Borough Council whether for recreational or commercial purposes. This decision has been taken for the following reasons:

- If Surrey Heath Borough Council grants permission, it could be liable for subsequent actions brought about by UAV activity when operated from land under our ownership.
- The close proximity of many of our sites to neighbouring residential and business properties and the potential risk of causing alarm, distress or harassment to occupants.
- Potential risk of accident, injury to other site users or property as a result of operator or operating error.

Exemptions will only be considered, where users are part of a formalised model aircraft flying club that can demonstrate all health and safety and insurance measures are in place. A license agreement must be made with Surrey Heath Borough Council and the formalised club before site usage can be established.

Enforcement & Byelaws

If a person/ persons are found to be operating a UAV on land owned by Surrey Heath Borough Council without permission, they will be requested to stop immediately. If the user refuses to stop, the Police will be called.

The Surrey Heath Borough Council Byelaws for Pleasure Grounds, Public Walks and Open Spaces states under Paragraphs 23 and 25;

- No person in the pleasure ground:

a. Intentionally obstruct any officer of the Council in the proper execution of his duties:
b. Intentionally obstruct any person carrying out an act which is necessary to the proper execution of any contract with the Council, or
c. Intentionally obstruct any other person in the proper use of the pleasure ground, or behave so as to give reasonable grounds for annoyance to other persons in the pleasure ground

- Any person offending against any of these byelaws may be removed from the pleasure ground by any officer of the Council, or any contractor employed by the Council and acting on behalf of the Council, or a constable.

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Pay Policy Statement 2017/18

Summary

To recommend the agreement of Surrey Heath Borough Council's Pay Policy Statement 2017/18**.**

Portfolio - Corporate (Cllr Josephine Hawkins)

Date Portfolio Holder signed off report – 19 January 2017

Wards Affected
N/A

RECOMMENDATION

The Executive is advised to RECOMMEND to Full Council that the Surrey Heath Borough Council Pay Policy Statement 2017/18, as attached at Annex A to this report, be approved.

1. Key Issues

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

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

1.3 The Policy Pay Statement 2017/18 is attached at Annex A.

2. Resource Implications

2.1 There are no resource issues arising from this report.

3. Options

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

4. Equalities Impact

4.1 Completed

Annexes	**Annex A – Pay Policy Statement 2017/18**
Background Papers	**None**
Author/Contact Details	**Belinda Tam – Interim HR Manager** **belinda.tam@surreyheath.gov.uk**
Executive Head	**Louise Livingston – Executive Head of Transformation**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

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

Annex A

Surrey Heath Borough Council Pay Policy Statement – Financial year 2017-18

Purpose

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

This pay policy statement sets out Surrey Heath Borough Council's policies relating to the pay of its workforce for the financial year 2017-18.

Background

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

Responsibility for decisions on remuneration

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

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

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

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

Salary grades and grading framework

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

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

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

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

There was no annual pay award to any group of staff for the period 1st April 2010 – 31st March 2012, however, for the period 1st April 2012 – 31st March 2013 an unconsolidated payment of £500 was paid to all staff (pro rata'd for those working less than 37 hours per week). A cost of living increase of 1.5% was awarded to staff on grades SH1 to SH9 for 2014/15. An award of 2% was made for 15/16. An increase of 1% was awarded for 16/17 (see Appendix 1). If an award is made for 17/18 this document will be updated to reflect this.

Chief Officers Remuneration

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

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

Head of Legal
Head of Investment and Development

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

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

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

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

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

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

Exceptional increases and additions to remuneration for Chief Officers

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

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

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

New starters joining the Council

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

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

Relationship between remuneration of Chief Officers and all other employees

The difference between the highest paid salary and the average full time equivalent salary of the workforce (as at 30th November 2016):

Salary	Amount per annum	Ratio with highest salary
Highest Basic Salary (Chief Executive)	£116,001	n/a
Mean (average) Basic Salary	£32,234.73	3.59:1
Lowest point on standard payscales to which an employee is appointed	£12,902	8.99:1

Appendix 1

SURREY HEATH BOROUGH COUNCIL

SALARY SCALES

WITH EFFECT FROM 01 APRIL 2016
(increase of 1% from last award)

SH1		SH2		SH3		SH4	
SCP	£	SCP	£	SCP	£	SCP	£
1.2	12128	2.7	15519	3.11	19215	4.15	22662
1.3	12902	2.8	16424	3.12	19989	4.16	23830
1.4	13674	2.9	17360	3.13	20750	4.17	24985
1.5	14452	2.10	18426	3.14	21509	4.18	26097
1.6	14975	2.11	18950	3.15	22031	4.19	26621

SH5		SH6		SH7		SH8	
SCP	£	SCP	£	SCP	£	SCP	£
5.19	27265	6.23	31883	7.28	37391	8.33	43017
5.20	28422	6.24	33037	7.29	38707	8.34	44539
5.21	29560	6.25	34162	7.30	40020	8.35	46071
5.22	30714	6.26	35332	7.31	41308	8.36	47619
5.23	31236	6.27	35854	7.32	41830	8.37	48144

SH9	
SCP	£
9.37	49297
9.38	50898
9.39	52500
9.40	54099
9.41	54622

SH20 HEAD of SERVICE	
SCP	£
20.101	57008
20.102	59168
20.103	62031
20.104	64898
20.105	67777

SH21 EXECUTIVE HEAD	
SCP	£
21.106	70662
21.107	73546
21.108	76431
21.109	79521
21.110	82612

SH22 CHIEF EXECUTIVE	
SCP	£
22.201	104731
22.202	108487
22.203	112245
22.204	116001

Human Resources - April 2016

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Exclusion of Press and Public

Recommendation

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

Item	Paragraph(s)
13	3
14	3
15	3

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

Agenda Item 13.

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

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

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