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Tuesday, 22 September 2015

To: The Members of the **Performance and Finance Scrutiny Committee**
(Councillors: David Allen (Chairman), Wynne Price (Vice Chairman), Dan Adams, Bill Chapman, Edward Hawkins, Paul Ilnicki, Oliver Lewis, Jonathan Lytle, Alan McClafferty, Max Nelson, Robin Perry, Chris Pitt, Darryl Ratiram, Victoria Wheeler and John Winterton)

In accordance with the Substitute Protocol at Part 4 of the Constitution, Members who are unable to attend this meeting should give their apologies and arrange for one of the appointed substitutes, as listed below, to attend. Members should also inform their group leader of the arrangements made.

Substitutes: Councillors Rodney Bates, Rebecca Jennings-Evans and Katia Malcaus Cooper

Dear Councillor,

A meeting of the **Performance and Finance Scrutiny Committee** will be held at Surrey Heath House on **Wednesday, 30 September 2015 at 7.00 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
1 Apologies for Absence	
2 Chairman's Announcements	
3 Minutes	3 - 10
To confirm and sign the minutes of the Performance and Finance Scrutiny Committee held on 29 July 2015 (copy attached).	
4 Update on Joint Waste Collection Contract	11 - 12

5	Update on Emergency Planning and Business Continuity	13 - 16
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7	Air Quality Monitoring	21 - 34
8	Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2014/15	35 - 52
9	Working Groups	
	To consider the establishment of any task and finish working groups.	
10	Work Programme	53 - 56

**Minutes of a Meeting of the
Performance and Finance Scrutiny
Committee held at Surrey Heath House
on 29 July 2015**

+ Cllr David Allen (Chairman)
+ Cllr Wynne Price (Vice Chairman)

+ Cllr Dan Adams	+ Cllr Max Nelson
+ Cllr Bill Chapman	+ Cllr Robin Perry
+ Cllr Edward Hawkins	- Cllr Chris Pitt
+ Cllr Paul Ilnicki	+ Cllr Darryl Ratiram
+ Cllr Oliver Lewis	+ Cllr Victoria Wheeler
+ Cllr Jonathan Lytle	+ Cllr John Winterton
+ Cllr Alan McClafferty	

+ Present

- Apologies for absence presented

Substitutes:

In Attendance: Andrew Crawford, Cllr Josephine Hawkins, Cllr Ruth Hutchinson, Sarah Parmenter, Julia Hutley-Savage, Jenny Rickard and Cllr Charlotte Morley

8/PF Chairman's Announcements

The Chairman welcomed Members and Officers to the meeting and in particular, welcomed Councillor Charlotte Morley, the Regulatory Portfolio Holder, who would brief Members and answer questions on her Portfolio.

9/PF Minutes

The minutes of the previous meeting, held on 17 June 2015, were agreed and signed by the Chairman.

10/PF Scrutiny of Portfolio Holders

Councillor Charlotte Morley outlined the areas covered by her portfolio, focussing in particular on development control, drainage, land charges/technical support, planning & conservation, housing, private sector housing enforcement and Family Support.

Planning - Members welcomed the push within the Department to go paperless. It was noted that, in the future, it was intended that the majority of planning applications would be submitted electronically and speedily available on the Council's web site.

In 2014/15, 115 planning applications had been refused. Of those, 23 had been appealed. The Council had been successful on 12 appeals, 6 were still to be determined and 5 appeals had been upheld, 3 of which had resulted from Member overturns of officer recommendations.

Planning Policy, the Arboricultural Officer and the Drainage Engineer had contributed to significant improvements/developments over the previous year. The drainage Engineer had been particularly successful in finding external grants to fund major and minor drainage projects across the Borough, as well as working with partner organisations to achieve notable reductions in incidences of flooding in the Borough.

In response to a Member's concerns on block tree preservation orders over large geographical areas, dating from the time of the Urban District of Frimley and Camberley, Councillor Morley confirmed that there would be a focus on tree issues over the forthcoming municipal year

Housing – Councillor Morley reminded Members that the Council no longer held housing stock, this having been handed to the Accent Housing Group. There were also other housing associations operating within the Borough. However, the Council maintained the Housing Register and applied the criteria by which social housing would be offered/allocated.

Housing Officers had focussed heavily on working with people to prevent homelessness and encourage downsizing. This had resulted in significant savings to the Council. The need for bed and breakfast accommodation had also been severely curtailed. There was limited bed and breakfast stock available in the Borough and accommodation was typically sourced in Aldershot, Ash Vale and Slough. However, only 2 individuals were currently so housed and both had made themselves intentionally homeless.

The Council's Housing Enforcement Officer worked to ensure safety and standards in rental accommodation and in particular in houses in multiple occupation.

The Committee noted, in response to a Member's question, that a television report in respect of a homeless family in the Borough was inaccurate, but that it had not been possible for the Council to discuss some of the very complex difficulties faced by both the Council and the family in question. The family had been offered accommodation, despite not meeting certain key criteria, but had refused the offer.

Family Support – As part of the Government's Troubled Families Scheme, Surrey County Council had sought District/Borough support to operate family support services, to make the service closer to, quicker and more responsive to the community. Surrey Heath and Runnymede Councils had jointly established a Family Support Team which dealt with families experiencing multiple problems/issues which involved multiple agency work.

A team is formed around the family where all relevant agencies will work together as one team to work with the whole family. Intensive support is offered with a family coordinator allocated to a family, working with each member of that family, to better understand the family dynamics and the hopes, aspirations and needs of each.

A key project aim was to reduce anti-social and criminal behaviour which, it was expected, would deliver indirect savings to other public bodies as a result.

Knowledge gained so far suggested that young people and adults engaged in anti-social behaviour and criminal activity typically had issues around self-esteem, anger and authority, but often did not meet the thresholds for either adult mental health or children's mental health services.

Members welcomed the improvements and new developments in services, highlighting in particular the much reduced use of bed and breakfast for homeless individuals/families, improvements in drainage/flooding incidences and the ground breaking work of the Family Support Team. In consideration of housing enforcement, the Committee noted that, whilst there was only one enforcement officer, significant increases in cases would be required to justify further resources.

Resolved, that the report be noted.

11/PF Review of Reserves and Provisions

The Senior Accountant presented a report explaining the criteria for maintaining individual Reserves and Provisions, following the closure of the 2014/15 accounts and therefore as at 31 March 2015. She explained that Provisions were required for any liability of uncertain timing or amount that had been incurred. They were recognised when:

- The local authority has a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefit will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation

Reserves were amounts set aside for specific policy purposes and balances which represented resources set aside for purposes such as general contingencies and cash flow management. Generally they were:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.

The report included an estimate for each reserve/provision for 2016. A drop in reserves was shown in the region of £2 million. However, whilst this position could improve, the Committee would be updated after the issue of the External Auditor's annual report. It was noted that reserves were not used to meet any revenue shortfalls.

In the course of discussion, the following was highlighted in relation to individual reserves and provisions:

- (i) Atrium S106/Atrium Art – The Atrium S106 reserve was generated when the Atrium was built and had been used, mainly, for CCTV. The Atrium Reserve would be used to maintain the artwork in place.
- (ii) Blackwater Valley & Developer Contributions – Members requested details of specific expenditures going forward.
- (iii) Chobham and Town Team Partnership – Members noted that whilst some reserves attracted interest, other did not. The Senior Accountant indicated that funds generated by community groups tended to have interest added, whilst reserves generated by Government or Council funds did not, with interest going to the General Fund Working Balance.
- (iv) Community Fund – Although £75,000 was budgeted for, expenditure was rarely above £30,000 and this was reflected in the reserve. Councillor Josephine Hawkins reported that Community Fund Grants came within her Portfolio and that the deadlines for applications were the end of June and end of September each year. No monies were paid until works were completed.
- (v) Commuted Sums – These sums were allocated for maintenance on specific projects and could not be used for other purposes.
- (vi) Insurance Reserve – Members queried the level of this reserve. It was confirmed that the funds were being held against potential costs in connection with the rundown of Municipal Mutual Insurance. It was expected that the actual costs would become clearer shortly, with a supreme court judgement expected in the near future.
- (vii) Land Drainage – In response to a Member query on funding for the Frimley Fuel Allotments land, the Executive Head of Regulatory noted that the Council could only expend drainage funds on Council owned land.
- (viii) Remediation Fund – Although it had not been used since 2002, this fund had been established to cover the remediation costs of land damaged by traveller incursions. Members recommended that the purpose be changed to include preventative work. Clarification was also sought on the cost of incursions in Heatherside and how the remediation thereof would be funded.
- (ix) Repairs and Maintenance – The level of this reserve was based on the value of all the Council's assets and the likely cost if all repairs/maintenance had to be done in this financial year. This gave an anticipated annualised cost of work. Members requested a breakdown of expected costs in 2015/16.
- (x) Suitable Alternative Natural Green Space (SANGS) – An Interest free loan had been secured from the Enterprise M3 Local Enterprise Partnership to purchase SANGs. This would be recouped by a charge against developers offsetting new developments. The SANGs had to be maintained in

perpetuity. Councillor McClafferty agreed to review projected SANGS maintenance costs with the Executive Head of Regulatory.

- (xi) Bagshot Library – Members sought details on what works were planned for this Council owned building.
- (xii) General Fund Working Balance – Members sought clarification on the significant reduction in this fund projected from 2015 to 2016.

Resolved, that

- (i) **the report be noted; and**
- (ii) **the Executive be advised to consider changing the purpose of the Remediation Fund, to include preventative work.**

12/PF Work Programme

The Democratic Services Officer updated Members on the proposed work programme for the remainder of the municipal year. He noted in particular that meetings were planned for:

30 September 2015;
2 December 2015;
27 January 2016; and
23 March 2016.

The Committee agreed to the work programme attached at Annex A.

Resolved, that the Work Programme, as attached at Annex A, be agreed.

Chairman

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**PERFORMANCE AND FINANCE SCRUTINY COMMITTEE
WORK PROGRAMME 2015/16**

DATE	TOPIC	OFFICER
30 September 2015		
1	Scrutiny of Portfolio Holders - Community	Andrew Crawford
2	Update on Emergency Planning and Business Continuity	Tim Pashen
3	Update on the Joint Waste contract	Tim Pashen
4	Update on Independent Living	Tim Pashen
5	Air Quality Monitoring	James Robinson
6	Annual Report on the Treasury Management	Katie Jobling
7	Committee Work Programme	Andrew Crawford
2 December 2015		
1	Scrutiny of Portfolio Holders - Corporate	Andrew Crawford
2	Half Year Treasury Management Report	Katie Jobling
3	Half Year Finance Report	Katie Jobling
4	Report on Equalities	Belinda Tam/Sarah Groom
5	Report on Complaints and Report of the local Government Ombudsman	Lyn Smith
6	Committee Work Programme	Andrew Crawford
27 January 2016		
1	Scrutiny of Portfolio Holders – Business	Andrew Crawford
2	Update on the Car Parks Strategy	Leigh Thornton
3	Update on the Theatre Performance to end December	Leigh Thornton
4	Regulation of Investigatory Powers Act 2000	Jessica Hooton-Harris
5	Committee Work Programme	Andrew Crawford

DATE	TOPIC	OFFICER
23 March 2016		
1	Scrutiny of Portfolio Holders - Leader and Finance	Andrew Crawford
2	Third Quarter Finance Report	Katie Jobling
3	Corporate Risk	Kelvin Menon
4	Committee Work Programme 2014/15	Andrew Crawford

Update on Joint Waste Collection Contract

Portfolio	Community
Ward(s) Affected:	n/a

Purpose

To provide an update on the joint waste collection contract

Background

1. At the meeting of the Executive on 3rd December 2013 it was resolved that the Council agrees to jointly procure a new waste collection and street cleansing contract with a number of other local authorities.
2. The initial partners are Elmbridge Borough Council, Mole Valley District Council, Surrey Heath Borough Council and Woking Borough Council. Other authorities may join at a later date if advantageous to the original four partners.
3. An Inter Authority Agreement (IAA) was entered into by the four partners and Surrey County Council as the Waste Disposal Authority. Governance is through a Joint Waste Contract Committee (JWCC) made up from relevant Portfolio Holders of the partner authorities with day to day management of the project delegated to an officer Joint Waste Project Group.
4. The IAA requires major decisions such as approval of the specification and award of the contract to be taken by individual Executives following detailed review and recommendation by the Joint Waste Contract Committee.
5. The draft specification which is based on Surrey Heath's current specification was approved by the Executive on 17th March 2015.
6. The partners are expecting that a joint waste contract will result in substantial financial savings; efficient use of resources (vehicles, depots, cross boundary working); a high quality services with excellent customer care; efficient and innovative use of ITC; and a seamless transition from the existing service.

Current Position

7. The pre-procurement work has been completed and the project has now entered the procurement stage. The JWCC has determined that procurement will be by way of competitive dialogue. Five contractors have passed through the pre-qualification stage and have been invited to participate in dialogue. This commenced on 9 September 2015 and will continue through September and October.

8. Once the competitive dialogue process has completed contractors will be invited to submit detailed solutions. There may be the need for further clarification at this stage. Final bids will be invited in early 2016.
9. The bids will be evaluated by an officer evaluation panel based on 50% Price and 50% Quality. Separate evaluation panels will be convened to consider these elements.
10. The evaluation panel will make a recommendation to the JWCC which in turn will recommend award of the contract to individual Council. It is anticipated that this will take place in September 2016.
11. The contract will be rolled out into partner authorities in phases from April 2017 to 2019. In Surrey Heath it will be rolled out in February 2018.

Resource Implications

12. The costs of procuring a contract of this size with procurement, legal and specialist advice are substantial. The Surrey Waste Partnership has contributed to over half of these costs leaving Individual authorities to each contribute £44,000. The approximate costs for procuring a single contract are estimated at £100,000

Recommendation

13. It is recommended that the scrutiny committee notes the update on the joint waste collection contract.

Report Author and Service Head

Tim Pashen 01276 70751

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Update on Emergency Planning and Business Continuity

Portfolio	Community
Ward(s) Affected:	n/a

Purpose

To receive a report on the Council’s preparedness and resilience to respond to emergencies and fulfil its responsibilities under the Civil Contingencies Act 2004.

Background

1. The Civil Contingencies Act 2004 places a duty on the Council to ensure critical services are resilient in order to respond to disruptive events. This involves ensuring both Emergency and Business Continuity Plans are in place.
2. A Corporate Resilience Policy has been drafted to ensure that the following objectives are met:
 - a. A planning process in place that encompasses anticipation, assessment, prevention and preparation, so that we are ready to deal with rapid increased demands for services caused by emergencies.
 - b. Surrey Heath Borough Council responds to these increased demands for service efficiently and effectively,
 - c. Surrey Heath Borough Council will have a business continuity process in place to enable critical services to be maintained in the face of a serious and / or widespread disruptive incident, including disruption to services during an emergency,
 - d. Surrey Heath Borough Council will have in place business continuity plans to ensure that critical service provision can be maintained during an incident or disruption,
 - e. Surrey Heath Borough Council maintains training and exercising programme for staff to ensure effective implementation of this policy.
3. In Surrey, a planning, training and response framework exists under which, the emergency services, county council, local authorities, government agencies, health services and other statutory, commercial and voluntary organisations work together, to deliver good practice when responding to emergencies. The Surrey Local Resilience Forum (SLRF) was formed to co-ordinate the response of Surrey’s emergency

services, local authorities and other Category 1 Responders (as defined by the Civil Contingencies Act (2004) to major incidents.

Current Position

4. The main focus of work for the past 6-months has been on:
 - a. Business Continuity.
 - b. The Surrey Heath multi agency flood plan

Business Continuity

5. All Services have appointed Business Continuity Champions. Business Impact Assessments have been completed and these have been developed into Service Business Continuity Plans. All Service Business Continuity Plans have been validated and tested.
6. From the service business continuity plans the Corporate Management Team (CMT) has agreed on the critical activities which need to be maintained and these will be incorporated in the Corporate Incident Plan. This will be validated and tested later in the year.

The Surrey Heath Multi – Agency Flood Plan

7. All Borough and District flood plans have been reviewed and updated following the widespread flooding in Surrey in 2013/2014. A common template has been used which enables partner agencies to share intelligence on flooding incidents and risks.
8. The Surrey Heath multi-agency flood plan has been signed off by the Chief Executive and placed on a secure data base for use by the Surrey Local Resilience Forum in any future incident. It will be regularly reviewed and tested.

Resource Implications

9. The Council directly employs an Environmental Health administrator for 12-hours a week to maintain and update the Council's emergency plans and policies. This is an essential area of work, without which the Council would find it difficult to respond to emergencies in an efficient manner.
10. In addition, an Emergency Planning Officer from Surrey County Council works with Surrey Heath for one day a week under a Service level Agreement (SLA). Each year the Executive Head of Community agrees the tasks to be completed under the SLA. In 2014/2015 this mainly involved updating the flood plan following the floods last year and to ensure all service areas had robust business continuity plans.

Recommendation

11. It is recommended that the Performance and Finance Scrutiny Committee notes that:
 - a. All Services have produced, validated and tested service business continuity plans and that the agreed Critical Activities have been incorporated onto a Corporate Incident Plan.
 - b. The Surrey Heath Multi-Agency Flood Plan has been completed and approved.

Annexes: Nil

Background Papers: Nil

Report Author and
Service Head

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Update on Independent Living

Portfolio	Community
Ward(s) Affected:	n/a

Purpose

To provide a progress report on independent living in the borough.

Background

1. The Council provides a range of Community Services (Day Care, Community Alarm / Tele care, Meals at Home, Community Transport and Home adaptations) to older and vulnerable people living within the Borough; with the overall aim of being to enable individuals to remain at home independently and safely for as long as possible.

Current Position

2. Windle Valley Centre
 - a. A Saturday Club has been running as a pilot in the Windle Valley Centre since 20th February 2014. The club offers stimulating activities; advice; friendship; and light refreshments for older people and their carers. The club is self-financing with approximately 20 people attending every Saturday between 2 p.m. and 5 p.m.
 - b. A well-being centre has been built as an extension to the Windle Valley Centre, with funding from Surrey County Council. The centre was formally opened by the RT Hon Michael Gove MP on 17th July 2015. It provides an information and advice service to carers and the cared for. The organisations which currently hold sessions in the centre include the Alzheimer’s Society; Citizens Advice Bureau; Sight for Surrey; Surrey Heath Veterans; Surrey County Council – Drop in for carers; Surrey County Council - Personal Budget Information & Advice; Carers Support; Age UK; and Smart Care.
 - c. A dementia garden has been constructed in the grounds of the Windle Valley Centre. Funding for the garden was secured last year from a public voting competition run by keysafe company, Supra. The garden was formally opened by the Mayor of Surrey Heath on 17th September 2015.
 - d. The Windle Valley centre continues to provide its core 5-days a week day care services. The centre provides up to 50 day care places per day with 25 places funded by Surrey County Council for which the Council receives income of £94,000 per year.

3. Community Transport

- a. The Community Transport fleet consists of seven minibus of between 9 and 16 seats. All vehicles are fully accessible via a passenger lift and are able to accommodate passengers wishing to travel seated in their wheelchair.
- b. The planning of community transport services and scheduling of community transport vehicles is undertaken by Runnymede Borough Council on behalf of Surrey Heath, for which there is a Service Level Agreement. Bookings are now taken from 9am until 5pm Monday to Friday. The arrangement with Runnymede has also meant SHBC has benefited by the sharing of staff with Runnymede drivers supporting service delivery in Surrey Heath Borough in times of staff sickness, additional commitments etc.
- c. Though improved scheduling we are reducing the amount of “down time” for vehicles and increasing the numbers of passenger journeys. In Q1 of 2015/2016 we had 8,232 booked passenger journeys compared with 7,542 for the previous year. An increase of 9.16%.
- d. There are a number of potential opportunities being investigated to develop the Community Transport service further, to increase the range of services on offer and to increase patronage and income.

4. Community Alarms and Tele care

- a. The Community Alarm and Tele care Services provides a range of equipment designed to help an individual feel safe and secure at home.
- b. As of 31st March 2015 there were 850 community alarm customers compared to 669 customers the previous year. This represents an increase of 25%.

5. Meals at Home

- a. The Meals at Home service operates 365 days a year and provides around 800 meals per week, supporting around 236 customers. In addition hot meals are delivered to third party organisations, including a daily delivery to Disability Initiative and Accent Peerless' once monthly lunch club.
- b. The team continued delivering meals throughout the Christmas period with a free meal delivered on Christmas day to 36 customers in the Borough.
- c. The numbers of customers have increased from 200 last year to 236 this year which represents an increase of 18%.

6. Home Improvement Agency

- a. The Council operates a Home Improvement Agency which assists disabled and frail individual maintain their independence in their home. The agency comprises of a case worker; technical; and administration officer. The case worker works with the client and adult social care to determine how the client's needs can be met and how this can be funded. The technical officer writes the schedules of work; obtains tenders for the work; and instructs, supervises and pays the builder.
- b. As at 31st March 2015 the agency dealt with 176 grant enquiries and approved 109 grants at a total value of £633,000. In addition it supervised the completion of work totalling £585,000. The Surrey Heath Clinical Commissioning Group has this year contributed £300,000 from the Better Care Fund towards the Council's Capital Programme for the deliver Disabled Facilities Grants. The average cost of work is £6,000 and generally relates to bathroom adaptations; stairlifts and through floor lifts.
- c. It is mandatory for the Council to approve Disabled Facility Grants provided certain criteria are met.

Resource Implications

7. The council subsidises the services for Independent Living by £804,000. The aim is to increase the numbers receiving the services while at the same reducing the Council's subsidy. This can be done by increasing efficiency, reducing expenditure and increasing income.

Recommendation

8. It is recommended that the Performance and Finance Scrutiny Committee notes:
 - a. the wide range of services provided by the council to promote independent living;
 - b. the opening of the wellbeing centre at the Windle Valley centre;
 - c. the increased number of customers receiving the Community Alarm and Meals at Home services;
 - d. the number of properties which have been adapted to meet the needs of disabled and frail residents;
 - e. the aim to increase the numbers of people receiving these valuable services while at the same time decreasing the Council's subsidy.

Annexes: Nil

Background Papers: Nil

Report Author and
Service Head Tim Pashen – Executive Head – Community
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Air Quality Monitoring

Portfolio – Community	
Ward(s) Affected:	All

Purpose

To enable members to be aware of air quality results and to make recommendations to the Executive as appropriate.

Background

1. The Council is statutorily required to submit an annual report to central government on air quality throughout the Borough. The latest Progress Report was submitted in July 2014. It concluded full compliance at long term publicly accessible areas of the Borough with all of the seven pollutants identified in the Air Quality Objectives (Annex A).
2. In 2002, the Council designated an area of land adjacent to the motorway an Air Quality Management Area. (AQMA). The AQMA is comprised of a 20 metre wide strip both sides of the edge of the M3 from J4 at the Frimley Road flyover to just north of the Ravenswood Roundabout. An Air Quality Action Plan was required to seek compliance within this area.
3. The Air Quality Action Plan was implemented in 2005 and detailed measures that would help bring down the pollution levels in this area adjacent to the motorway.

Current Position

4. Thirty Five nitrogen dioxide diffusion tubes are used across the Borough for ambient air monitoring. The single continuous analyser provides real time measurements of both nitrogen dioxide and dust within the AQMA.
5. A summary of the air quality monitoring results over the past fifteen to twenty years for our diffusion tubes and five for our continuous analyser is contained within this report (Annex B Charts 1 and 2).
6. Since 2008 the council has undertaken continuous monitoring in the AQMA at the Camberley Castle Road site for nitrogen dioxide (NO2). The site is 17 metres closer to the motorway than the nearest relevant residential receptor. Monitored NO2 concentrations here are therefore worst-case and higher than those at the locations of relevant residential exposure in the vicinity.
7. The measured annual mean NO2 concentration for this site in 2014 was 50.0µg/m3, which is above the annual mean NO2 objective of

40µg/m³. Further analysis, with the appropriate façade and distance calculations applied, identified that the annual mean and one hour air quality objectives for nitrogen dioxide were exceeded at the nearest locations of relevant exposure (42.5µg/m³). A trend chart of NO₂ annual mean concentrations at the Camberley Castle Road site over the past five years (2010-2014) is shown within Annex B as Chart 2, and show an upward trend in measured concentrations.

8. Preliminary results up to the end of July 2015 reveal that this figure has fallen from 50µg/m³ to 45µg/m³.
9. Monitoring results determine that there were just two monitored exceedances of the hourly NO₂ objective (200µg/m³) in 2014, which is within the allowed 18 occurrences per year.
10. The Council has also been monitoring PM₁₀ (Dust) since October 2006 at the Castle Road site. In 2014 the measured annual mean PM₁₀ concentration was 19.1µg/m³. Since 2010 there have been no exceedances of the annual mean PM₁₀ objective of 40µg/m³.
11. Results of the latest daily exceedances indicate that PM₁₀ concentrations are well below the corresponding PM₁₀ objectives of no more than 35 daily incidences of levels above 50ug/m³.
12. Assessment of the passive monitoring results showed there to be nine sites in 2013 where the annual mean objective for nitrogen dioxide (NO₂) was exceeded. The majority of these sites are located in the current Air Quality Management Area. The locations of all the tubes throughout the Borough are shown at Annex A Table 1.
13. None of these nine sites were at locations of relevant residential exposure. At such locations, the calculated concentrations were well below the annual mean NO₂ objective.
14. Up to the end of July 2015, results indicate that now only two are above 40µg/m³. Both are next to the M3 in the AQMA, and when adjusted for distance to residential, no exceedence is anticipated.
15. The monitoring results showed that exceedances of the relevant PM₁₀ and N₀2 objectives are unlikely at any relevant receptors in the Borough.

Proposals

16. Our proposal, due to an upward trend in annual mean NO₂ concentrations, and in the knowledge of ongoing widening work on the M3, is to continue with the current monitoring programme, retain the existing AQMA, and review the situation in the future 2016 Air Quality Updating and Screening Assessment/Progress Reports.

Options

17. The Committee may accept, reject or amend the proposal.

Recommendations

18. It is recommended that the Committee advises the Executive to maintain the current air quality monitoring programme and that this be reviewed following the conclusions of future statutory Air Quality reports submitted to DEFRA.

Annexes

Annex A -National Air Quality Objectives
Table 1. Diffusion tube locations.

Annex B
Chart 1. Graph of 21 Year Pollution Level Trends
Chart 2. No2 trends from automatic site
Table 2. Diffusion Tube Results 2010-14

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Executive Head

Tim Pashen – Executive Head of Community

Objectives included in the Air Quality Regulations 2000 and (Amendment) Regulations 2002 for the purpose of Local Air Quality Management. This table shows the objectives in units of microgrammes per cubic metre $\mu\text{g}/\text{m}^3$ with the number of exceedences in each year that are permitted (where applicable).

Pollutant	Air Quality Objective Concentration	Measured as
Benzene		
All authorities	16.25 $\mu\text{g m}^{-3}$	running annual mean
Authorities in England and Wales only	5.00 $\mu\text{g m}^{-3}$	annual mean
1,3-Butadiene	2.25 $\mu\text{g m}^{-3}$	running annual mean
Carbon monoxide		maximum daily running 8-hour mean
Authorities in England, Wales and Northern Ireland only	10.0 mg m^{-3}	
Lead	0.5 $\mu\text{g m}^{-3}$	annual mean
	0.25 $\mu\text{g m}^{-3}$	annual mean
Nitrogen dioxide	200 $\mu\text{g m}^{-3}$ not to be exceeded more than 18 times a year	1 hour mean
	40 $\mu\text{g m}^{-3}$	annual mean
Particles (PM₁₀) (gravimetric)^b	50 $\mu\text{g m}^{-3}$ not to be exceeded more than 35 times a year	24 hour mean
All authorities	40 $\mu\text{g m}^{-3}$	annual mean
Sulphur dioxide	350 $\mu\text{g m}^{-3}$ not to be exceeded more than 24 times a year	1 hour mean
	125 $\mu\text{g m}^{-3}$ not to be exceeded more than 3 times a year	24 hour mean
	266 $\mu\text{g m}^{-3}$ not to be exceeded more than 35 times a year	15 minute mean

Table 1

REFERENCE	LOCATION OF TUBE
SH1	A30 Bagshot
SH2	Windle Valley Daycare Centre
SH3	Snows Ride School Windlesham
SH4	Shaftesbury Road Bisley
SH5	Chestnut Avenue
SH6	Church Lane Bisley
SH7	M3 Brickhill roadside
SH8	M3 Brickhill 150m back
SH9	A30 Jolly Farmer
SH10	A30 Homebase
SH11	Watchetts School Camberley
SH12	High Street Camberley
SH13	Le Marchant Road
SH14	Badgers Copse
SH15	Castle Road AQM
SH16	Wood Road
SH17	Guildford Road, Bisley
SH20	Deepcut Bridge Road
SH21	Benner Lane
SH22	Castle Road AQM
SH23	Red Road/Maultway
SH24	High Street, Chobham
SH25	Castle Road AQM
SH26	College Ride, Camberley
SH27	361 Guildford Road, Bisley
SH28	Queens Road, Bisley
SH29	Classic Joinery, Bisley
SH30	Focus, Frimley Road
SH31	Old Pond Close
SH32	Two Hoots, Old Pond Close
SH33	Wood Road Garages
SH34	Brackendale Road
SH35	Prior End
SH36	Youlden Drive
SH37	Crawley Drive
SH38	Swift Lane

ANNEX B

Pollution Levels in Surrey Heath over Time

Chart 1.

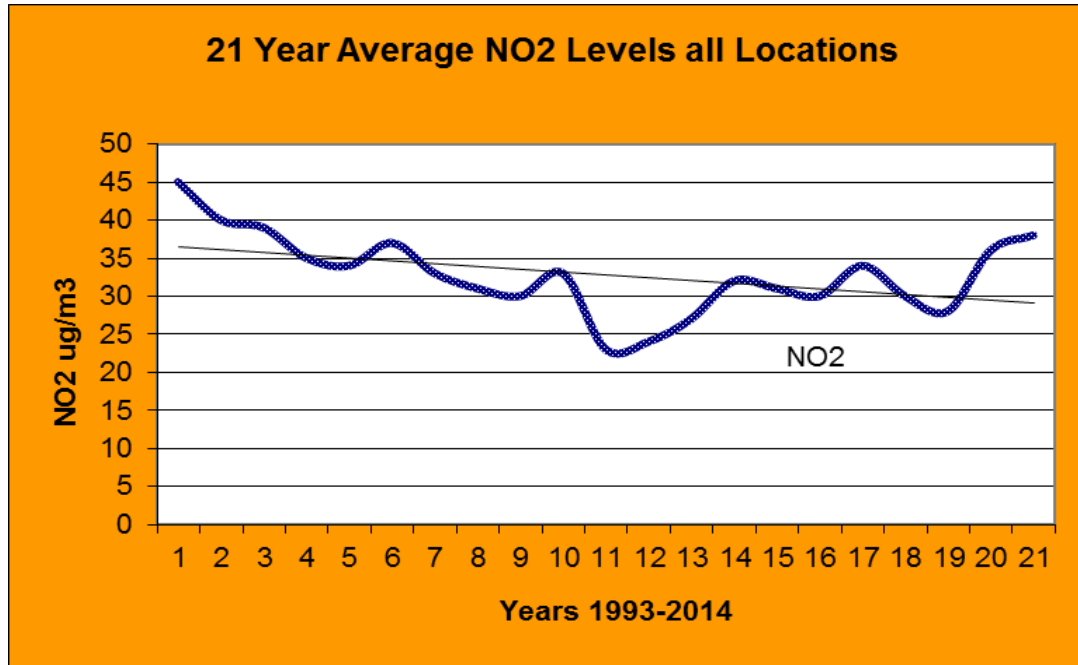


Chart 2. Trends in Annual Mean NO₂ Concentrations Measured at Automatic Monitoring Site

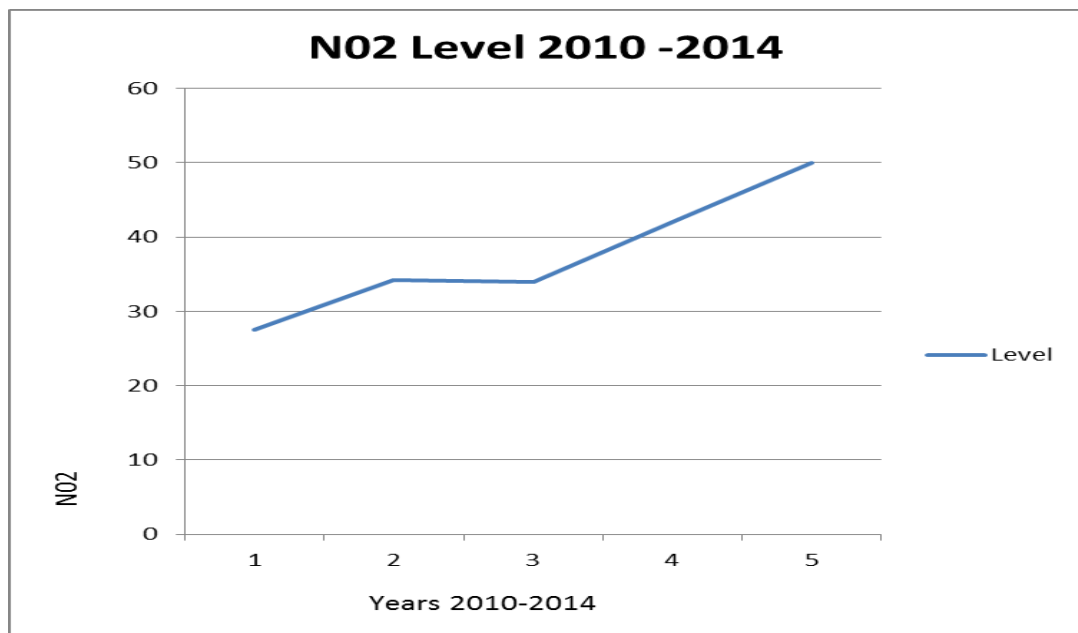


Table 2 NO2 Diffusion Tube Results 2010-2014 (Jan-Aug 2015 Results)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH1	A30 Bagshot	Roadside	N	28.5	29.6	23.4	31.1	33.0 (25)
SH2	Windle Valley Daycare Centre	Roadside	N	27.2	23.3	22.5	30.5	30.8 (27)
SH3	Snows Ride School Windlesham	Urban Background	N	22.3	19.1	17.6	23.9	24.0 (21)
SH4	Shaftesbury Road Bisley	Urban Background	N	27.0	16.3	15.3	19.4	23.3 (17)
SH5	Chestnut Avenue	Roadside	N	27.1	32.4	28.1	37.8	45.2 (29)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH6	Church Lane Bisley	Roadside	N	30.3	25.7	23.5	37.5 ^a	34.0 (29)
SH7	M3 Brickhill roadside	Roadside	N	71.8	71.4	59.7	41.1^a	71.6^a (48)
SH8	M3 Brickhill 60m back	Roadside	N	31.0	32.2	28.0 ^b	31.7 ^b	39.1 ^b (26)
SH9	A30 Jolly Farmer	Roadside	N	34.9	25.3	35.5	47.3	42.2 (27)
SH10	A30 Homebase	Roadside	N	41.7	32.9	32.2	46.1	46.5 (33)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH11	Watchetts School Camberley	Roadside	N	34.9	30.3	28.9	35.5	38.8 (31)
SH12	High Street Camberley	Roadside	N	32.9	31.0	25.5	34.0	35.9 (33)
SH13	Le Marchant Road	Kerbside	N	47.8	23.7	26.2	32.7	33.6 (30)
SH14	Badgers Copse	Kerbside	Y	34.3	30.2	29.9	39.5	40.7 (36)
SH16	Wood Road	Roadside	N	37.1	37.7	32.2	40.8	48.0 (39)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH17	Guildford Road, Bisley	Roadside	N	45.1	23.3	20.1	26.4	27.3 (21)
SH20	Deepcut Bridge Road	Roadside	N	26.7	24.7	23.1	29.8	31.7 (27)
SH21	Benner Lane	Urban Background	N	24.1	19.7	18.2	26.8	24.2 (22)
SH23	Red Road/Maultway	Kerbside	N	37.9	35.2	34.0	44.0	38.1 (38)
SH24	High Street, Chobham	Roadside	N	34.4	27.6	24.2	34.2	43.1 (38)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH26	College Ride	Urban Background	N	29.7	28.6	26.2	29.8	39.0 (29)
SH27	361 Guildford Road, Bisley	Roadside	N	34.9	21.6	20.5	28.4	29.6 (30)
SH28	Queens Road, Bisley	Roadside	N	30.9	25.4	27.6	31.9	33.5 (30)
SH29	Classic Joinery, Bisley	Roadside	N	25.8	17.2	16.8	22.3	21.6 ^a (29)
SH30	Focus, Frimley Road	Roadside	N	40.6	37.1	38.7	44.0	43.5 (39)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH31	Old Pond Close	Roadside	N	35.0	33.3	27.4	37.6	44.2 (36)
SH32	Two Hoots, Old Pond Close	Roadside	N	27.7	27.8	29.7	34.7	39.3 (33)
SH33	Wood Road Garages	Roadside	N	23.2	33.5	31.6	47.3	50.3 (42)
SH34	Brackendale Road	Roadside	Y	32.3	29.6	26.4	46.4^a	33.9 ^a (35)
SH35	Prior End	Roadside	Y	33.7	26.6	26.2	32.9	33.8 (31)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH36	Youlden Drive	Roadside	Y	32.1	29.2	26.8	33.7	35.2 (30)
SH37	Crawley Drive	Roadside	Y	35.7	33.0	31.4	34.5	42.9 (38)
SH38	Swift Lane	Urban	N	36.5	29.3	26.8	36.4	39.9 (35)
SH15	Castle Road, Camberley	Roadside	Y	35.2	32.3	36.6	42.0	49.0 (36)
SH22	Castle Road, Camberley	Roadside	Y	35.6	42.2	33.5	40.9	47.6 (38)

Site ID	Location	Site Type	Within AQMA?	Annual Mean Concentration ($\mu\text{g}/\text{m}^3$) - Adjusted for Bias				
				2010 (Bias Adjustment Factor = 1.06)	2011 (Bias Adjustment Factor = 1.06)	2012 (Bias Adjustment Factor = 0.91)	2013 (Bias Adjustment Factor = 1.06)	2014 (Bias Adjustment Factor = 1.38)
SH25	Castle Road, Camberley	Roadside	Y	34.6	38.6	34.7	42.6	48.9 (36)

Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2014/15

Summary

Report to advise members of the Treasury Management Service performance and to illustrate the compliance with the Prudential Indicators for 2014/15

Portfolio – Finance (Councillor Richard Brooks)

Wards Affected

All

Recommendation

The Performance and Finance Committee is asked to:

- (i) NOTE the report on Treasury Management including compliance with the 2014/15 Prudential Indicators;**
- (ii) ADVISE the Executive to RECOMMEND to full Council to NOTE the report on Treasury Performance for 2014/15 including compliance with the Prudential Indicators.**

1. Resource Implications

1.1 None directly as a result of this paper, but the Council is heavily dependant on investment income to support its current revenue expenditure. Investment returns have fallen significantly over recent years. The table below shows investment income from treasury activities (excluding Iceland) from 2006/07 to 2014/15.

1.2

Year	Investment income from treasury activities	Increase/decrease compared to previous year	
		£000	%
2006/07	1504	-	-
2007/08	1819	315	20.9%
2008/09	1780	-39	-2.1%
2009/10	524	-1256	-70.6%
2010/11	264	-260	-49.6%
2011/12	215	-49	-18.6%
2012/13	300	85	39.5%

2013/14	208	-92	-42.8%
2014/15	273	35	17.0%

- 1.3 Treasury income has fallen sharply since 2007/08 mainly due to a sharp drop in interest rates after the financial crash. However a change in the investment policy in 2014/15 to enable investment in a more diversified portfolio has increased returns compared to the previous years. The main driver for returns continues to be the underlying bank base rate which has remained at 0.50% throughout the year although there are signs that this may increase in the near future

2. Key Issues

- 2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council's investments are reported quarterly to the Executive as part of the financial report whilst scrutiny of treasury policy, strategy and activity is delegated to the Performance and Finance committee which then makes recommendations to Executive and Council.
- 2.2 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.3 The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds, and the revenue effect of changing interest rates. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy.
- 2.4 This report is the annual report for the 2014/15 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2014/15 Prudential Indicators.
- 2.5 This report fulfils the Council's legal obligation under the [Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government (DGLG) Investment Guidance, and the CIPFA Prudential Code for Capital Finance in Local Authorities.

3. Options

- 3.1 The Committee can receive, amend or reject this report, or ask for further information.

3.2 The Committee can amend or reject the proposed recommendations to Executive.

4. Proposals

4.1 The Performance and Audit Committee is asked to NOTE the report on 2014/15 treasury management performance including compliance with the 2014/15 prudential indicators.

4.2 The Performance and Audit Committee is asked to ADVISE the Executive to RECOMMEND to full Council to NOTE the report on Treasury Performance for 2014/15 including compliance with the Prudential Indicators.

5. Treasury Management Strategy 2014/15

5.1 The Council approved the 2014/15 Treasury Management Strategy, which includes the investment strategy, at its meeting on 26th February 2014. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Investment Strategy 2014/15

5.2 The approved investment strategy for 2014/15 adopted a view to investment that sought to balance risk against return. On the advice of our treasury advisors Arling Close investments were diversified in to a number of longer term investment funds. These funds give a good return but can be more volatile in the short term hence the need to keep funds invested for the longer term so as to smooth out these variations.

5.3 The Council continued to use a limited range of UK banks and building societies with investments being placed generally for short periods only. This was not only because of the poor rates offered but also the risk of bail in due to changes in legislation (see paragraphs 7.7 to 7.13 of this report for more information on these changes). The Council also lent money to other authorities during the year. The change in investment strategy has increased returns and looks as though it will continue to increase returns in to 2015/16. Arling Close have recently stated that they see no reason to make any changes to our current strategy based on the current economic climate.

Borrowing Strategy 2014/15

5.4 No external borrowing was undertaken during 2014/15 and the Council remained debt free for the whole year.

5.5 The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2015 was £1.567m.

- 5.6 It should be noted that £17.9m of external borrowing has been undertaken in the first quarter of 2015/16 in order to finance a number of property acquisitions.

Treasury Advisors

- 5.7 The Council uses treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. This Council's current advisors, Arling Close Limited, were appointed in 2014.

6. Economic Review Provided by Arlingclose Limited

- 6.1 **Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.
- 6.2 Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.
- 6.3 **Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.
- 6.4 **UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.
- 6.5 Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the

Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

- 6.6 On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.
- 6.7 The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.
- 6.8 **Market reaction:** From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

7. Investment Activity

- 7.1 Both the CIPFA and DCLG's Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.
- 7.2 The table below shows a summary of the investment activity for 2014/15:

Investment Counterparty	Balance on 1/4/14	Investments Made	Maturities/Investments Sold	Balance on 31/3/15	Average Rate at 31st March
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	0	63,700	-63,700	0	0.25
- Long Term	0	0	0	0	-
UK Local Authorities					
- Short Term	0	2,000	0	2,000	0.95
- Long Term	2,000	1,500	0	3,500	1.01
Banks, Building Societies & Other Organisations					
- Short Term	12,104	61,431	-70,720	2,815	0.70
- Long Term	0	0	0	0	-
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	6,988	26,889	-27,430	6,447	0.69
- Long Term	0	8,123	0	8,123	4.14
Total Investments	21,092	163,644	-161,851	22,885	

7.3 A summary of the Council's investments as at 31st March 2015 is shown at Annex A.

7.4 The ability to make reasonable returns without incurring high risks remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2014/15 which defined "high credit quality" organisations as those having a term credit rating of A- or higher that are domiciled in the UK or a sovereign rating of AA+ or higher.

7.5 Investments during the year included:-

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Investments in AAA-rated Constant & Variable Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies in the UK.

7.6 The Council's current accounts, together with a "Special Interest Bearing Account" are held with Natwest plc who do not currently meet the above credit

rating criteria. The Council will treat Natwest plc as “high credit quality” for the purpose of making investments that can be withdrawn on the next working day.

Counterparty Update

- 7.7 The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.
- 7.8 The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.
- 7.9 The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to protect deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.
- 7.10 In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.
- 7.11 The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Authority's lending list.
- 7.12 In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and

building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously reduced. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

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

Credit risk

- 7.14 Counterparty credit quality was assessed and monitored with reference to primarily to credit ratings, credit default swaps and other economic information such as government support available, share price etc. The minimum long-term counterparty credit rating determined for the 2014/15 treasury strategy was A- across the rating agencies Fitch, S&P and Moody's.
- 7.15 The Council's counterparty credit quality has been maintained as demonstrated by the Credit Score Analysis summarised in the table below. Table 1 of Annex B explains the credit score.

Date	SHBC Value Weighted Average Credit Risk Score	SHBC Value Weighted Average Credit Rating	Average Number of Days to Maturity
31/03/2014	6.67	A-	171
31/03/2015	3.74	AA-	262

- 7.16 It should be noted that a high credit score is no guarantee as to the security of a particular investment. No investment, other than those placed with the UK Government, can be expected to be 100% secure.

Liquidity

- 7.17 In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

Update on Investments with Icelandic Banks

- 7.18 In December 2011, the Courts determined that local authority deposits with Glitnir qualified for priority status under Icelandic bankruptcy legislation. The Council's claim were settled in March 2012, when approximately 82p/£ was

recovered from a mixture of GBP, EURO and USD payments. The EUR and USD amounts were converted via a spot rate into GBP. The remaining 18% remains held in Icelandic Krona (ISK), and is still subject to exchange rate restrictions imposed by the Icelandic Government. The amount is held in an Escrow account earning interest over the year at 4.2%.

8. Compliance With Prudential Indicators

- 8.1 The Council can confirm that it has complied with its Prudential Indicators for 2014/15, which were approved on 26th February 2014 by Full Council as part of the Council's Treasury Management Strategy Statement. Full details are included in Annex C.
- 8.2 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2014/15. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 8.3 The Council can confirm that during 2014/15 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

9. Risk Management for 2014/15

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

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

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

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

- 9.2 The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.
- 9.3 The limits applied in respect of counterparties and investments are the overall limits approved by Council in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Head of

Corporate Finance in consultation with the portfolio holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

- 9.4 It should be noted that the investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating
- 9.5 The Council measures its exposures to treasury management risks using a range of indicators as recommended by the CIPFA Code of Practice on Treasury Management.

10. Corporate Objectives and Key Priorities

- 10.1 The Treasury Management processes support the Council's objective of 'Delivering services better, faster and cheaper'.

11. Policy Framework

- 11.1 The 2014/15 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on the 26th February 2014.
- 11.2 These set out the parameters under which Treasury Management operates including the Prudential Indicators.
- 11.3 The Council took the decision that it will not use prudential borrowing to fund capital programme, but will use the available capital receipts. Borrowing activity is thus limited to managing our daily cash flow needs and the strategy is therefore simply to borrow at the lowest available rates for the minimum period required.
- 11.4 The Council fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:
- New borrowing is contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.
 - Investments are made in accordance with the CLG guidance on Local Authority Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings and as detailed in the Treasury Management Policy statement and approved schedules and practices.
 - Sufficient funds are available to meet the Council's estimated outgoings for any day.

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

ANNEXES	Annex A – Investments as at 31 st March 2015 Annex B - Credit Score Analysis, Bank & Money Market Rates Annex C – Compliance with Prudential Indicators
BACKGROUND PAPERS	Prudential Code for Capital Finance in Local Authorities
AUTHOR/CONTACT DETAILS	Katie Jobling 01276 707181 Katherine.Jobling@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon 01276 707257 kelvin.menon@surreyheath.gov.uk

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

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

Treasury Related Investments Balances as at 31-Mar-15				
Investments	Notes	Maturity Date	Interest Rate %	Principal £
Cash Equivalents				
Special Interest Bearing Account	On call		0.250	133,813
Close Brothers	On call		0.400	0
Lloyds	On call		0.400	0
War Stock	Updated annually as at 31st March		0.625	4,993
Available for Sale				
Black Rock 'AAA' Fund	Instant Access			
CCLA - 'AAA' Fund	Instant Access			
Ignis 'AAA' Fund	Instant Access		0.500	2,000,000
Insight 'AAA' Fund	4 Day Notice		0.820	2,998,210
Payden & Rygel 'AAA' Fund	-			0
Scottish Widows 'AAA' Fund	2 Day Notice		0.680	1,448,752
Fixed Term Investments under three months:				
Lloyds Bank		14-May-15	0.950	1,000,000
Coventry Building Society		09-Jun-15	0.690	1,000,000
Total Cash Equivalents				8,585,767
Loans and Receivables - Short Term				
Fixed Term Investments over three months				
Greater London Authority		30-Oct-15	0.950	2,000,000
Icelandic Banks - ISK Escrow - Glitnir	Updated annually as at 31st March		4.2	676,779
Total Loans and Receivables - Short Term				2,676,779
Total Short Term Investments				11,262,547
Loans and Receivables - Long Term				
Fixed Term Investments over twelve months				
Lancashire County County		30-Sep-16	1.100	1,500,000
LB of Islington		28-Oct-16	1.150	2,000,000
Available For Sale				
CCLA Property Fund			4.250	1,999,059
M&G Investments - Global Dividend Fund			3.310	1,008,806
M&G Investments - Strategic Corporate Bond Fund			2.491	2,036,508
Threadneedle - Corporate Bond Fund			5.590	2,016,343
Threadneedle - Global Equity Fund			5.540	1,062,400
Total Loans and Receivables - Long Term				11,623,116
Total Investments				22,885,662

Table 1 - Credit Score Analysis

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

Table 2: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.50	0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014	0.50	0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014	0.50	0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014	0.50	0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015	0.50	0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015	0.50	0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015	0.50	0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
Average	0.50	0.39	0.44	0.43	0.50	0.67	0.95	1.09	1.38	1.79
Maximum	0.50	0.50	0.62	0.43	0.51	0.81	1.00	1.38	1.77	2.26
Minimum	0.50	0.24	0.36	0.42	0.46	0.56	0.84	0.80	0.96	1.18
Spread	--	0.26	0.26	0.01	0.05	0.25	0.16	0.58	0.81	1.08

The average, low and high rates correspond to the rates during the financial year rather than only those in the tables below

Capital Financing Requirement (CFR)

Estimates of the Council's cumulative maximum external borrowing requirement for 2014/15 to 2016/17 are shown in the table below:

	31/03/2015 Approved £000s	31/03/2015 Actual £000s
Capital Financing Requirement	10,815	1,567

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2015 Approved £000s	31/03/2015 Actual £000s
CFR	10,815	1,567
Gross Debt		
Difference	0	0
Borrowed in excess of CFR? (Y/N)	N	N

Prudential Indicator Compliance**(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- No borrowing was required during 2013/14, and there were no breaches to the Authorised Limit and the Operational Boundary during the year.

	Operational Boundary (Approved) as at 31/03/2015 £000's	Authorised Limit (Approved) as at 31/03/2015 £000's	Actual External Debt as at 31/03/2015 £000's
Borrowing	10,000	12,000	0
Other Long-term Liabilities	1,000	2,000	0
Total	11,000	14,000	0

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2014/15
Upper Limit for Fixed Rate Exposure	£2m
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	£0m
Compliance with Limits:	Yes

(c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/03/2015 £m	% Fixed Rate Borrowing as at 31/03/2015	Compliance with Set Limits?
under 12 months	100%	0%	0	0%	Yes
12 months and within 24 months	100%	0%	0	0%	Yes
24 months and within 5 years	100%	0%	0	0%	Yes
5 years and within 10 years	100%	0%	0	0%	Yes
10 years and above	100%	0%	0	0%	Yes

(d) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2014/15 Approved £000's	2014/15 Actual £000's
Total	14,428	3,366

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2014/15 Approved £m	2014/15 Actual £m
Capital receipts	2,063	1,254
Government Grants and Other Contributions	550	283
Sums Set Aside From Revenue		262
Borrowing	11,815	1,567
Total Available Financing	14,428	3,366

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than borrowing. As at 31st March 2015, £1.567m of borrowing was required to finance the approved capital programme.

(e) **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.
- The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Actual %
Total	-1.63	-2.43

Note: The ratio can be negative for councils in a net investment position and the wording of the above paragraph would need to be amended.

(f) **Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Authority adopted the principles of best practice.

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

(g) **Upper Limit for Total Principal Sums Invested Over 364 Days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2014/15 Approved £000's	2014/15 Actual £000's
	15,000	11,623

(h) **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	Actual as at 31 st March 2015
Portfolio average credit rating	A	AA-

For the purpose of this indicator, unrated building societies are assigned an indicative rating of BBB, and unrated local authorities are assumed to hold an AA+ rating.

(i) **Liquidity: Cash Available Within Three Months**

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

	Target	Actual as at 31 st March 2015
Total cash available without borrowing	£8m	£9.0m
Total cash available including external borrowing	£8m	£9.0m

Committee Work Programme 2015/16

Portfolio	Corporate
Ward(s) Affected:	n/a

Purpose

To consider the Committee work programme for the municipal year 2015/16.

Background

1. The Performance and Finance Scrutiny Committee was appointed by the Council at its Annual Meeting on 20 May 2015.
2. The Committee considered and set a work programme for 2015/16 at its 11 June 2015 meeting.
3. The work programme will develop through the year, to meet new demands and changing circumstances and the Committee will be expected to review its work programme from time to time and make minor amendments as required.
4. One of the tasks given to the Committee is to carry out pieces of work requested by the Council and/or the Executive.
5. The following further meeting have been scheduled for the remainder of the municipal year 2015/16:

2 December 2015
 27 January 2016
 23 March 2016

Proposal

7. It is proposed that Members consider a work programme for the remainder of the municipal year 2015/16.

Resource Implications

11. Subject to any decisions relating the work programme, there are no resource implications which have not already been factored in, with those mainly involving officer time.

Recommendation

12. The Scrutiny Committee is advised to consider a work programme for the remainder of the 2015/16 municipal year.

Background Papers: None

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**PERFORMANCE AND FINANCE SCRUTINY COMMITTEE
WORK PROGRAMME 2015/16**

DATE	TOPIC	OFFICER
2 December 2015		
1	Scrutiny of Portfolio Holders - Corporate	Andrew Crawford
2	Half Year Treasury Management Report	Katie Jobling
3	Half Year Finance Report	Katie Jobling
4	Report on Equalities	Belinda Tam/Sarah Groom
5	Report on Complaints and Report of the local Government Ombudsman	Lyn Smith
6	Committee Work Programme	Andrew Crawford
27 January 2016		
1	Scrutiny of Portfolio Holders – Business	Andrew Crawford
2	Update on the Car Parks Strategy	Leigh Thornton
3	Update on the Theatre Performance to end December	Leigh Thornton
4	Regulation of Investigatory Powers Act 2000	Jessica Hooton-Harris
5	Committee Work Programme	Andrew Crawford
23 March 2016		
1	Scrutiny of Portfolio Holders - Leader and Finance	Andrew Crawford
2	Third Quarter Finance Report	Katie Jobling
3	Corporate Risk	Kelvin Menon
4	Committee Work Programme 2014/15	Andrew Crawford

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