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Tuesday, 29 November 2016

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

**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, Katia Malcaus Cooper, Joanne Potter,
Ian Sams and Valerie White

Dear Councillor,

A meeting of the **Performance and Finance Scrutiny Committee** will be held at Surrey
Heath House on **Wednesday, 7 December 2016 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 - 8
To confirm and sign the minutes of the meeting held on 29 September 2016.	
4 Declarations of Interest	

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

5	Exclusion of the Press and Public	9 - 10
	Part 2 (Exempt)	
6	Member Call-in	11 - 16
7	Review of Exempt Items	
	To review the Item or parts thereof which can be released as information available to the public.	
	Committee to move back into Part 1 (Open)	
8	Scrutiny of Finance and Transformation Portfolios	17 - 24
9	Complaints and the Local Government Ombudsman's Annual Report	25 - 34
10	Mid-Year Performance Report	35 - 44
11	1/2 Year Treasury Management Report	45 - 66
12	1/2 Year Finance Report	67 - 72
13	Task and Finish Groups	
	To consider the establishment of new task and finish groups and to receive updates from existing groups appointed by the Committee.	
14	Committee Work Programme	73 - 76
	To consider a work programme for the remainder of the Municipal year.	

**Minutes of a Meeting of the
Performance and Finance Scrutiny
Committee held at Surrey Heath House
on 28 September 2016**

- + Cllr Alan McClafferty (Chairman)
- + Cllr Jonathan Lytle (Vice Chairman)

+ Cllr Dan Adams	+ Cllr Max Nelson
- Cllr Bill Chapman	+ Cllr Robin Perry
+ Cllr Edward Hawkins	+ Cllr Chris Pitt
- Cllr Paul Ilnicki	+ Cllr Wynne Price
+ Cllr David Lewis	+ Cllr Darryl Ratiram
+ Cllr Oliver Lewis	+ Cllr Victoria Wheeler

- + Present
- Apologies for absence presented

In Attendance: Cllr Moira Gibson, Karen Whelan, Andrew Crawford, Sarah Groom, Julia Hutley-Savage, Louise Livingston, Kelvin Menon and Richard Payne.

10/PF Chairman's Announcements

The Chairman welcomed Members to the meeting and in particular, welcomed the Council Leader, Councillor Moira Gibson and the Chief Executive, Karen Whelan, who had agreed to attend for discussions on the Annual Performance Report and the Annual Plan.

11/PF Minutes

The minutes of the previous meeting, held on 6 July 2016, were agreed and signed by the Chairman.

12/PF End of Year Performance 2015/16

The Committee considered a report on the Council's performance for 2015/16. This report had previously been considered by the Executive in August 2016 and would be the final report in its current format, reflecting changes proposed to the Annual Plan and the introduction of a 5 year plan to replace the previous 10 year Strategy.

Members noted that inconsistencies in the Red/Amber/Green (RAG) report had been raised by the Executive and measures had been incorporated into future reporting to introduce a greater level of clarity.

The proposed changes to the report format and content were welcomed, particularly in respect of more clarity on whether or not an issue was fully within the Council's control and whether targets were to be achieved in that particular year or a more extended period.

The Chief Executive reported that, in an environment where councils were required to respond quickly to change, it had been considered prudent to introduce

changes to long, medium and short term measures which permitted the Council to maintain and improve services against a background of reduced funding and resources, whilst providing greater clarity for Borough residents on what had been achieved against targets set.

Within the report, there were a small number of targets which had not been met, notably in respect of the Museum/Heritage Centre. It had been recognised that whilst improvements were needed in some services, these were not as high a priority as some other more key issues and the Council had adjusted its focus accordingly.

Members sought clarification of the actual subsidy levels for the Camberley Theatre and how these compared to target reductions set. It was emphasised that the Council would need to take a broad view on all subsidies, including those to the Theatre.

The Committee welcomed a number of notable achievements from the report, including ongoing moves to regenerate Camberley Town Centre, investment in properties, achieving the 'Gold' level in Investors in People plus the 'Commitment' level of the Workplace Wellbeing Charter and achieving income returns at 20% above the Local Authorities average.

Frimley Lodge Park had been re-awarded a Green Flag and Members would be asked in the future to consider whether or not the Park should be upgraded to 'Sub-Regional Park' status.

In response to Members' queries, the Leader and Chief Executive noted that:

- (i) Ashwood House – Negotiations were proceeding with tendering organisations. Proposals would be considered by a Design Panel in October 2016 and a report would be submitted to the Planning Applications Committee shortly thereafter;
- (ii) Gyratory System – Funding was available for the Gyratory System, the majority of which would come from the EM3 Local Enterprise Partnership. However, funding for the remainder of the A30 was still to be secured;
- (iii) Arena Leisure Centre – A working group was actively considering options for the Centre and a report would be submitted to the Council by the end of 2016; and
- (iv) Complaints – Whilst the Council was in general very good at addressing complaints, there were areas where complaints at the different levels were considered to need further consideration. The majority of complaints related to planning and to a lesser degree, council tax. Complaint handling in these areas was the subject of a review.

Resolved, that the report be noted.

13/PF Annual Plan 2016/17

The Committee considered a report on an updated Annual Plan for 2016/17, including an overview of the vision and objectives from the Five Year Strategy and indicating the outputs and success measures that would be delivered in 2016/17 for each of the new priorities. The Annual Plan had been considered by the Executive in August 2016.

Members noted that the Annual Plan had been simplified and was more succinct, with a more definitive breakdown of what should be achieved and measured. Outcomes would be reviewed against success measures at the 6 month point and at the end of the year.

The Committee was informed that significant changes to the 5 Year Plan had impacted on the Annual Plan, building in an unavoidable delay in presenting to the Committee.

Councillor Moira Gibson noted that the new format, whilst being much improved on the previous model, would still require adjustment to get the right level of information, to allow a balance between informing members of the public and providing the type of data on key performance areas that Members would need to engage in proper scrutiny. Members would be encouraged to input to consideration on this.

A number of concerns were raised in respect of historic decisions and delays in areas such as highways improvements in the Yorktown Business Park. It was, however, noted that many of the concerns raised related to responsibilities that did not lie with this Council.

The Chairman thanked the Council Leader and Chief Executive for attending and discussing the Performance Report and Annual Plan with the Committee.

Resolved, that the Annual Plan for 2016/17, as set out in Annex A to the Officer report, be noted.

14/PF Review of Reserves and Provisions

The Committee considered a report which detailed the criteria for maintaining individual Reserves and Provisions, following the closure of the 2015/16 accounts. The Executive Head of Finance detailed the difference between reserves and provisions and noted that getting the right levels thereof would become more critical when the 100% localisation of Business Rates was introduced.

Members were asked to consider whether or not the criteria relating to specific reserves or provisions continued to be appropriate and to review the actual sums set aside for each.

When considering the individual reserves and provisions, the Committee noted the following responses:

- (i) Community Fund – Although £75,000 was available per annum, the level of funding used was dependent on the number of qualifying grant applications submitted;

- (ii) Blackwater Valley and Developer Contributions – This funding was for the maintenance of the park and facilities for the period of its useful life and had been generated through developer contributions;
- (iii) Surrey Family Support Programme – This had been front-funded for set up and operation and was now being used for day-to-day support. At such a point as the fund became depleted, Members would have to consider what service was needed and how to fund/resource that service; and
- (iv) Pot Hole Repairs – These related to potholes in property/land owned by this Council and therefore not a Highways responsibility.

Resolved, that the Committee proposes to the Executive that all Reserves and Provisions and the associated criteria, as detailed in the Officer's report, remain unchanged.

15/PF Working Groups

There were no proposals to establish any task and finish groups.

16/PF Work Programme

The Committee considered a report on a possible work programme for the remainder of the 2016/17.

The Chairman reported that he and the Vice-Chairman had met with officers and had proposed that in future:

- (i) Executive Summary - Reports should start with an Executive Summary;
- (ii) Presentations - Where possible, presentations should be limited to 10 minutes and copied to the Chairman in advance of the meeting;
- (iii) Portfolio Holders (PHs) –
 - Prior to meetings, PHs be asked to submit a short written brief for inclusion in the agenda.
 - PHs be asked to indicate how their portfolios impact on the community and if possible give an indication of their objectives and the strategies which will be used to achieve these;
 - Presentations to be kept to a minimum to maximise question opportunities.
 - Given that only 4 meetings were scheduled for each year and there were currently 6 portfolio holders, it had been suggested by the Leader that, rather than increase the number of meetings, the Committee should invite more than one portfolio holder to each meeting.

- Members be asked to, where possible, submit questions in advance to allow PHs to provide more detailed responses at the meeting;
- (iv) Reports to Note – A number of matters which the Committee was required to consider each year showed little if any change year on year, examples being air quality monitoring or Regulation of Investigatory Powers Act 2000 (RIPA), where the regulations have changed but no interventions have been made. It was suggested that an update report be presented once a year incorporating all such issues.
- (v) Priorities – It was recognised that scrutiny of 2 Portfolio Holders would limit the time available for other scrutiny. It was suggested that in order of importance, the Committee should consider scrutiny of portfolio holders, issues that the Committee was required to consider and other matters, as they were raised.

The Chairman noted that he was having discussions on the timing of reports, to seek more timely availability of key reports such as the Annual Plan. The availability of the Transformation and Regulatory Portfolio Holders had already been confirmed and the Finance and Corporate Portfolio Holders would now be invited.

Resolved, that the Committee Work Programme for the remainder of 2016/17, as indicated below, be agreed.

DATE	TOPIC	OFFICER
7 December 2016		
1	Scrutiny of Portfolio Holders – Transformation/ Finance	Louise Livingston/ Kelvin Menon
2	½ Year Treasury Management Report	Kelvin Menon
3	½ Year Finance Report	Kelvin Menon
4	Complaints and Ombudsman	Lyn Smith
5	Mid-Year Performance Report	Sarah Groom
6	Transformation linked reports	LL/KW
7	Working Groups	Andrew Crawford
8	Committee Work Programme	Andrew Crawford
22 March 2017		
1	Scrutiny of Portfolio Holders - Regulatory	Jenny Rickard
2	3 rd Quarter Finance Report	Kelvin Menon
3	Executive Summary Report	Andrew Crawford
4	Corporate Risk	Kelvin Menon
5	Regulatory linked reports	Jenny Rickard
6	Working Groups	Andrew Crawford
7	Committee Work Programme	Andrew Crawford

Chairman

EXCLUSION OF PRESS AND PUBLIC

RECOMMENDATION

The Committee 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)
6	3
7	3

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of the Local Government Act 1972.

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**Title: Scrutiny of Portfolio Holders -
Finance and Transformation**

Portfolio	Community
Ward(s) Affected:	All

Purpose

To provide a background for the scrutiny of the Finance and Transformation Portfolio Holders as part of the scrutiny of Portfolio Holders.

Background

1. The Committee has a regular slot for Scrutiny of Portfolios. At the meeting held on 6 July 2016, the Committee agreed to invite 2 Portfolio Holders per meeting. This is the first meeting at which the Committee decision has been implemented.
2. At the 6 July meeting, Committee requested that Portfolio Holders submit a report with the agenda, with a view to Members submitting questions through the Chairman, in advance of the meeting, so that fuller responses could be provided.
3. Councillors Richard Brooks (Finance Portfolio Holder) and Colin Dougan (Transformation Portfolio Holder) have been invited to attend this meeting for the portfolio holder scrutiny item. The Portfolio Holders have submitted reports which are attached at Annexes A and B.

Proposal

4. It is proposed that a period of 30 minutes is allocated to a question and answer session for each Portfolio Holder, with further time allocated for Committee deliberations.

Options

5. There are no options attached to this report.

Recommendation

6. The Committee is advised to allocate thirty minutes per Portfolio Holder to a question and answer session and to allow further time thereafter for deliberations.

Annexes

A – Finance Portfolio
B – Transformation Portfolio

Background Papers:

None

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Head of Service:

Richard Payne

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Note for Performance and Finance Scrutiny Committee – November 2016

The Portfolio Holder for Finance has responsibility for the following areas:

Counter Fraud and Corporate Enforcement

In this financial year internal; audit has completed around 10 audits. All have been satisfactory with no significant areas of weakness. Recommendations have been made to improve processes

Investigations have been working on putting in to place a corporate enforcement team to coordinate all types enforcement across the Council's services. In the last year the team has prosecuted 12 cases involving waste (fly tipping / household duty of car / no waste documentation) and 1 Council tax reduction fraud. We have issued 17 fixed penalty notices for a wide range of offences, ranging from dog fouling to fly tipping. CCTV cameras at notorious fly tipping hot spots which has resulted in approximately 70% reduction in tipping. The team has also dealt with five illegal traveller incursions across the Borough, issuing legal paperwork in a timely manner to ensure the travellers moved on with minimum disruption to residents. In addition the team has:

- Led the successful 'Clean for the Queen' campaign for the Borough.
- Participated in the 'Don't stop his family having a home' tenancy fraud campaign with Accent Group.
- Carried out the Cabinet Office National Fraud Initiative single person discount / electoral role exercise that has yielded £15,000 in savings (ongoing).
- Run "We're watching you" anti dog fouling campaign alongside Keep Britain Tidy

Finance

The Finance department published the accounts in time for the 30th June deadline and the audit was completed by the 30th September deadline. In addition the Council received a clean audit report and only a few recommendations – this was a complete change from the previous year. The service has continued to work on developing reporting using civica and is currently working on integrating the payroll and financial systems to take out a lot of the manual manipulation of data that is required at present.

Staff have worked hard to maximise treasury returns this year and the Council is now in the top quartile for treasury performance. In addition working closely with our advisors Arling Close a lot of work has been put in to getting the lowest borrowing costs on the Council's recent property acquisitions.

The finance department is going through a restructure at the moment which should equip it for the challenges ahead. The department will need to expand to not only take account of the accounting for the council's property purchases but also in respect of being the lead authority for joint waste. This will involve group accounts amongst other things for the first time.

The Council is overall on budget however the second half of the year will be challenging mainly due to issues around income. Next year's budget is being put together but it is being prepared against a back drop of the loss of the remaining £357k of Government grant hence the drive to raise more income through property.

Looking forward details are still awaited as to how the localisation of business rates will work the future of the new homes bonus and of course the autumn statement all of which will impact on the Council's finances in one way or another.

Legal Services

The team is involved in the major transactions such as the town centre acquisitions and the procurement of a developer for Ashwood House, as well as completing a number of leases for community centres/sports clubs across the borough. There have been a number of prosecutions for various offences, including fly tipping, supporting our colleagues in corporate enforcement. We have a court of Appeal case listed for December on an employment matter. We are also heavily involved in a number of licensing hearings and public inquiries such as the Hook Meadow case.

Other forthcoming projects include procurement advice for the Arena project and the new grounds maintenance contract. Other contracts range from new IT provision to pantomimes!

The team is also carrying some work for other councils, including a CPO of a listed building, which is bringing in a small amount of extra income, in addition to our normal fees charged for s106 agreements and undertakings.

Finally the legal service has taken on the Council's first legal apprentice. Luke Jones will be studying towards his legal executive qualifications in due course following day release to Kingston College.

Procurement

The Council has a clear set of procurement regulations and guidance. Our procurement advice function was until recently provided via a collaboration with Woking Borough Council. This agreement has come to an end and alternative options are being considered such as in-house provision.

The year has been dominated by the Joint Waste Contract award however a number of smaller contracts have been tendered and awarded such as the catering concession at Lightwater Country Park. Current re-tendering preparation is underway for the grounds maintenance contract and the future of the Arena Leisure Centre.

The impact of BREXIT on European public procurement regulations will be followed closely.

Revenues and Benefits

Council Tax and Business Rates provide the majority of the Councils funding. Business Rates collection rate was 99.7% last year, 3rd in UK, and Council Tax was in top quartile.

Department has worked hard on collecting arrears by taking more court action and using legal tools available to it such as winding up orders, seizing of goods and attachment to earnings. This shows that the Council is serious about collecting the money it is owed but has also lead to an increased number of complaints. Two recent success of this policy. Firstly the recovery of £107k dating back to 2010 from a Bahamas based company which was threatened with winding up. Secondly working with GIS a "missing" house was identified and £20,000 in back council tax recovered

Speed of benefits processing is now above national average and the service is working with residents affected by the benefits cap. The team has also received a number of compliments for good service which were particularly welcome.

Transformation Portfolio, Information for Scrutiny Committee – 7 Dec 2016

Business and Community Development

Business Development - Open for Business ethos continues

- Attract and support new and expanding businesses to invest in Surrey Heath
- Successfully submitted bids to EM3 Local Growth Fund
 - £6m for public realm improvements to Camberley town centre
 - £3m Joint bid with Yorktown and Watchmoor Business Association (YWBA) for public transport improvements to link Camberley Town Centre to Business Park
- Support for local business associations
 - YWBA and Frimley Business Association invited to External Partnerships Committee on 22 November.
 - Frimley is now a constituted group. Assisted funding bid to SCC for 'secondary town centres'. Successful - will receive £10k for hanging baskets
- New networking group established. The Frames meet ups. Run with fudge Animation and Mark Selby. Aim to gain a foothold for digital business in Camberley. Coordinating EM3 support.
- Business advice clinics in partnership with Surrey Chambers of Commerce and Project Five.

Partnership

Local Strategic Partnership and Community Safety Partnership (chaired by the Leader). Enables maintenance of strong relationships with key statutory and voluntary partners. Action Plans for joint work on

- health promotion
- community safety
 - October, annual Young Citizen event for 400+ Year 7 School pupils on safety
- armed forces covenant
- inter-faith events
- Voluntary groups – continue to fund with capital and revenue grants.

Performance

The Council's Performance Management Framework is based on the Council Priorities set out in the 5 Year Strategy. An Annual Plan work towards those priorities within the next year. Budgets set accordingly. Staff allocated specific tasks within appraisals. Mid-year and end of year reviews reported Executive and P&F Committee and made public.

Service Review Team manages internal re-organisations. Recently concluded for the Business and Finance Teams. This year the Transformation Department will be reviewed.

ICT

Split into 4 functions.

1. Helpdesk. First and second line support to staff at Surrey Heath House, Windle Valley Day Centre, Main Square Car Park, Frimley Lodge and Camberley Theatre. Carrying out annual repair and renewals, replacing equipment on an agreed cycle.
 - a. Helpdesk calls, 2014 – **3391**, 2015 – **2748**, 2016 so far – **2564**
2. Systems Support. Technical support for all network, system and telephony management. Current key projects: move to cloud solutions to support Agile working, Exchange online, Salesforce & Box integration, Single Sign on, active directory.
3. Applications Support. Project planning, scheduling, monitoring and reporting for all ICT Application related projects, assisting service users to prepare feasibility studies, prepare business requirements, project initiation documents and business cases to support their business objectives. Current projects for Planning, Land Charges, Tree Enforcement, Building Control, Licensing and Environmental Health.
4. Geographical Information System (GIS). Central development support of GIS for the Land and Property Gazetteer.

Project List - New systems

- Chipside – cloud system for parking notices
- Spektrix – cloud theatre booking system. Due to go live February 2017
- Upgrade of Civica Financials
- Upgrade of Chris21 and HR21 – HR and payroll system
- 40 office 365 cloud email accounts for members post May election
- Migration of staff email to exchange online – due to go live by March 2017
- Desupport of Acolaid – implementation of new cloud solution on Salesforce platform integrating with Box for document storage and easy accessibility. Supporting Planning, Trees, enforcement, land charges, building control, Environmental Health, Licencing,
- Implementation of Cadcorp GIS to replace Aston ishare GIS
- Migration of Modern Gov to be fully hosted to resolve integration issues.
- Migration of eforms from Lagan to Drupal to support future Lagan desupport

Information Governance (FOI)

FOI's		DPA's
Jan – Dec 2014	760	
Jan – Dec 2015	702	Jan – Dec 2015 13 (5 x SAR)
Jan – To Date 2016	770	Jan – To Date 2016 31 (6 x SAR)

Building Control

- On target with budget income.
- Market share, holding at around 70%, comparatively high within Surrey.
- Looking at Partnership working with 3 other authorities, within surrey, to achieve resilience not necessarily cost savings

- Decisions made with target time, 5 weeks generally, 100% and currently within 2 weeks
- Customer satisfaction survey 98%
- LABC award for best inclusive building, Portesbury School, in Deepcut.

Corporate Property

Success in last 12 months

- Town Centre Acquisition
- Acquired 179 London Road, interested party will go under offer on part of the property.
- Acquired 173/175 London Road, property under offer awaiting planning.
- Acquired Ashwood House.
- Exchanged on 6 Doman Road, completion due April 2017. Started plans for redevelopment.
- 2 lettings completed on 123 London Road, with a further 1 floor under offer.
- 6 Completed Lease renewals at St Georges Industrial Estate and 2 Lease renewals ongoing.
- Completed Leases: Camberley RFC, Frimley Cricket Club, Camberley Indoor Bowling Club
- SHH Police new lease with new rent agreed and completed.
- SHH NEW Letting to the DWP agreed and implemented.
- Laser Energy Contract renewed.
- SHBC property services continues to lead on the property aspects of the JWCC.
- SHBC property services providing Hart District Council with property consultancy on a possible listed building CPO / development.

SHH occupation

- SHCCG Rent – 2 leases (rent + service charge). Leases expire Oct 16 and Oct 17 (negotiations ongoing for Oct 16).
- SCC – Lease expires March 2017
- Police – Rent + Service charge.
- DWP Rent + Service charge.
- Total rent circa £150,000 per annum
- Savings in Rates for the whole building is about £27,000 per annum (new rating assessment out in 2017, so this will change).
- Total service charge income from tenants about £60K per annum.
- Threat to SHH occupation from other public sector estates. SHBC will need to refurbish to a higher standard to retain current tenants

Community Leases - SHBC leases 27 properties. Current activity for renewal:

- | | | |
|----------------------------|------------------------------|-------------------------|
| • Deepcut Village Centre | • Frimley Green FC Football | • West End Bowls |
| • Frimley Community centre | Pitches (Club complete) | • West End Parish Lease |
| • Mytchett Centre | • Camberley Lawn tennis club | • Watchetts Bowls Club |
| • Briars Centre | • Camberley Bowling Club | |
| | • Mytchett Bowls Club | |

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COMPLAINTS MONITORING 2015/16

Portfolio:	Corporate
Ward(s) Affected:	All

Purpose

To report on the Council’s corporate complaints monitoring arrangements, lessons learned from complaints and Local Government Ombudsman complaints received for the financial year 2015/2016.

Background

1. The Performance and Finance Scrutiny Committee receive a comprehensive annual report on the Council’s complaints monitoring arrangements, lessons learned from complaints received and complaints received by the Local Government Ombudsman (LGO).

Current Position

2. Most complaints received are dealt with informally under Stage 1 of the Council’s complaints policy.
3. Stage 2 complaints are formal complaints normally identified when the complainant is unhappy with the outcome of the informal complaint. These complaints are dealt with by the relevant (Executive) Head of Service. Should a complainant be dissatisfied with the outcome of a Stage 2 complaint, they can request the matter is considered by the Chief Executive under Stage 3 of the complaints policy.
4. In 2015/16, 32 formal complaints were made to the Council at Stages 2 and 3. This number should be viewed in the context that the Council provide services to over 86,000 residents and 4,200 businesses across the Borough. Although a small number of complaints related to service issues, a significant number are as a result of complainants disagreeing with the application of a policy.
5. The table below details the formal complaints made for the period 1st April 2015 – 31st March 2016, by quarter year and dealt with in accordance with the Council’s complaints policy. The figures for the same period in 2014/15 have also been included in the table as a comparison.

	2014/15	2015/16
Total for Quarter 1 (April – June)	7	7
Total for Quarter 2 (July – September)	4	8
Total for Quarter 3 (October to December)	3	5
Total for Quarter 4 (January – March)	7	12
Total for year	21	32

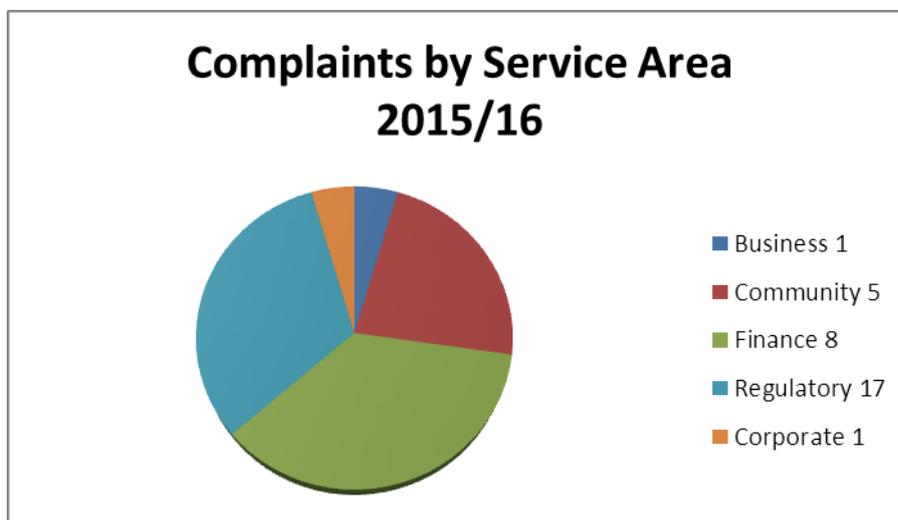
6. The complaints were recorded against the following Council service areas.

Service Area
Business

Number of complaints received 15/16

1

<u>Service Area</u>	<u>Number of complaints received 15/16</u>
Community	5
Finance	8
Regulatory	17
Corporate	1



7. The Service Area complaints relate to the following business areas:

	Stage 2	Stage 3
Leisure	1	
Licensing	1	
Environmental Health	3	1
Planning	12	3
Housing	1	1
Revenues and Benefits	6	2
Democratic Services	1	

8. Whilst complaints in Planning appear relatively high compared to other services this figure should be balanced against a total of 1134 planning applications being considered in 2015/16, which is a little over 1% of the total. Because of the nature of the area, Planning is always going to be a more contentious service. This situation is consistent in most Local Authorities.
9. Of the 32 complaints received, 7 were dealt with by the Chief Executive at Stage 3.
10. For comparison the table below details the Stage 3 complaints received in 2014/15 and 2015/16.

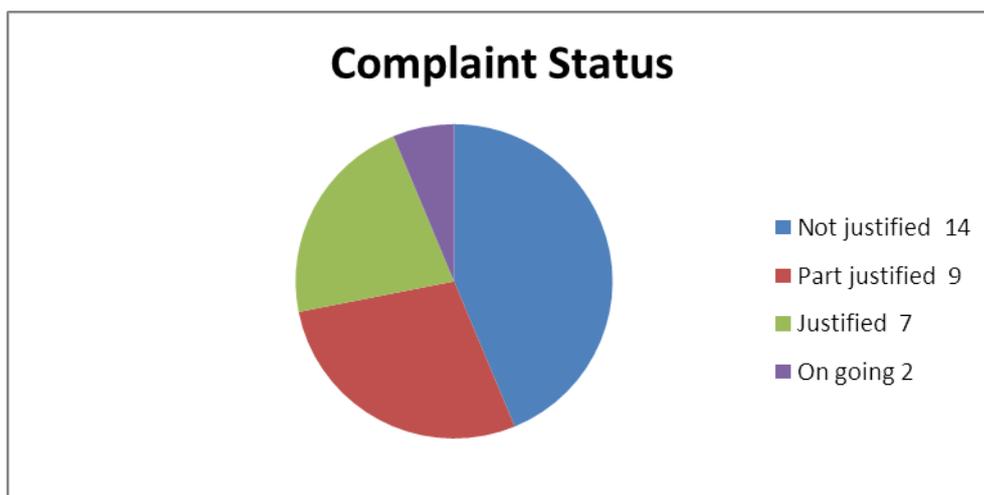
Service	2014/15	2015/16
Regulatory	2	4
Finance	1	2
Community		1

11. Of the 32 complaints received:

- All were acknowledged within 2 days.
- 23 were resolved within 10 days.
- 8 complaints took longer than 10 days to investigate, however the customers were made aware of the reason for delay.
- 1 complaint exceeded the 10 day target. This was a Revenues and Benefits complaint where there was an unacceptable delay in replying by the service. This has been recognised by the Executive Head and was due to resource constraints that existed at the time and for which an apology has been offered to the customer.

12. Status of the 32 complaints received:

- 14 not justified
- 9 part justified
- 7 justified.
- 2 ongoing



Lessons learned

13. For Regulatory the main issues relate to the Arboriculture and Enforcement services, both of which are staffed by one full time Officer. In respect of tree complaints the issues relate to slow speed of response which is being addressed by the Executive Head to ensure the situation is better managed. In respect of Enforcement, the service are currently putting in extra resources, including support from the corporate enforcement team to address a backlog and review the management of casework, and thereafter how the service is managed. A new software system is being introduced later this year which will help enable an improved monitoring of the situation.
14. For Community many of the issues occurring in respect of waste collection are down to communication failures i.e. crews not reporting to issues in the first instance or when a complaint has occurred, a failure to respond quickly. The administrative systems of the current contractor are largely manual and can be unreliable. In the new Joint Waste contract, this is being addressed. Cab technology will ensure crews have real time information and can report

back any issues immediately. This will ensure that Contact Centre staff dealing with customer enquiries will have access to live data.

Ombudsman complaints

15. Following the response to a Stage 3 complaint, if the complainant remains dissatisfied with the outcome then their recourse is via the Local Government Ombudsman.
16. The annual review letter for 2015/16 from the Local Government Ombudsman was received in July 2016 and a copy is included as Annex 1.
17. In 2015/16 the LGO received 12 complaints and enquiries in respect of Surrey Heath Borough Council services.
18. Of the 12 complaints:
 - 4 were closed after an initial enquiry
 - 5 were referred back to the Council for local resolution
 - 1 was upheld
 - 2 are on-going.

Comparison to 2014/15

	2014/15	2015/16
Total number of LGO complaints	6	12
Closed after initial enquiry	1	4
Referred back to Council for local resolution	3	5
Upheld	1	1
Not Upheld	1	
On going		2

19. Whilst more complaints and enquiries were received by the Ombudsman in 2015/16 only 1 was deemed necessary for investigation, with 2 complaints on-going.

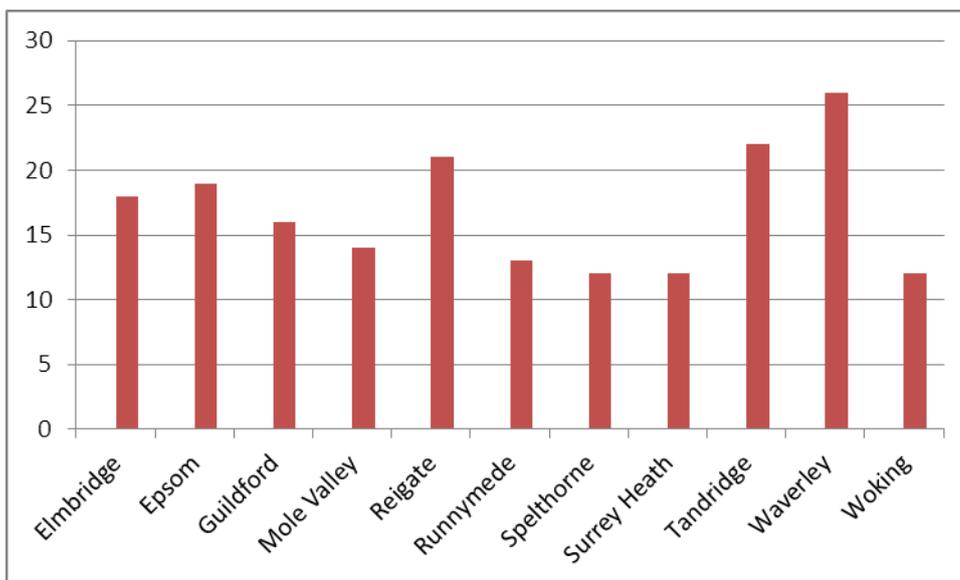
Complaint Upheld

20. The complaint related to an application for a Discretionary Housing Payment (DHP) where the customer disagreed with the Council's decision to pay the DHP to the claimant's landlord rather than the claimant. It was deemed that there was a lack of adherence to the complaints procedure, in terms of both timescales and failure to respond. This was acknowledged by the service and upheld by the Ombudsman. Following a review of the decision, the Ombudsman directed that the DHP payment be awarded directly to the claimant rather than to the claimant's landlord as had been initially agreed by the Council. The Executive Head of Finance has acknowledged on this occasion the application was not handled as efficiently as possible and has

apologised to the claimant. A review has taken place within the service to ensure that complaints are dealt with more quickly.

Comparison with other Local Authorities in 2015/2016

21. The chart below shows the number of complaints referred to the Ombudsman across all the Surrey Boroughs & Districts. It can be seen that Surrey Heath has the joint lowest number of complaints and enquiries referred to the Ombudsman.



22. Whilst every effort is made to resolve complaints at the earliest opportunity, it will always be the case that some customers will be dissatisfied with the outcome. The Council will always, where appropriate, learn lessons from complaints in order to improve services to residents in the future.

Recommendation

23. The Committee is advised to consider and comment on the complaints figures reported for 2015/16.

Background Papers None

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Head of Service: Richard Payne
Executive Head of Corporate

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21 July 2016

By email

Karen Whelan
Chief Executive
Surrey Heath Borough Council

Dear Karen Whelan,

Annual Review Letter 2016

I write to you with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2016.

The enclosed tables present the number of complaints and enquiries received and the decisions we made about your authority during the period. I hope that this information will prove helpful in assessing your authority's performance in handling complaints.

Last year we provided information on the number of complaints upheld and not upheld for the first time. In response to council feedback, this year we are providing additional information to focus the statistics more on the outcome from complaints rather than just the amounts received.

We provide a breakdown of the upheld investigations to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us. In addition, we provide a compliance rate for implementing our recommendations to remedy a fault.

I want to emphasise that these statistics comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website, alongside an annual review of local government complaints. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

Effective accountability for devolved authorities

Local government is going through perhaps some of the biggest changes since the LGO was set up more than 40 years ago. The creation of combined authorities and an increase in the number of elected mayors will hugely affect the way local services are held to account. We have already started working with the early combined authorities to help develop principles for effective and accessible complaints systems.

We have also reviewed how we structure our casework teams to provide insight across the emerging combined authority structures. Responding to council feedback, this included reconfirming the Assistant Ombudsman responsible for relationship management with each authority, which we recently communicated to Link Officers through distribution of our manual for working with the LGO.

Supporting local scrutiny

Our corporate strategy is based upon the twin pillars of remedying injustice and improving local public services. The numbers in our annual report demonstrate that we continue to improve the quality of our service in achieving swift redress.

To measure our progress against the objective to improve local services, in March we issued a survey to all councils. I was encouraged to find that 98% of respondents believed that our investigations have had an impact on improving local public services. I am confident that the continued publication of our decisions (alongside an improved facility to browse for them on our website), focus reports on key themes and the data in these annual review letters is helping the sector to learn from its mistakes and support better services for citizens.

The survey also demonstrated a significant proportion of councils are sharing the information we provide with elected members and scrutiny committees. I welcome this approach, and want to take this opportunity to encourage others to do so.

Complaint handling training

We recently refreshed our Effective Complaint Handling courses for local authorities and introduced a new course for independent care providers. We trained over 700 people last year and feedback shows a 96% increase in the number of participants who felt confident in dealing with complaints following the course. To find out more, visit www.lgo.org.uk/training.

Ombudsman reform

You will no doubt be aware that the government has announced the intention to produce draft legislation for the creation of a single ombudsman for public services in England. This is something we support, as it will provide the public with a clearer route to redress in an increasingly complex environment of public service delivery.

We will continue to support government in the realisation of the public service ombudsman, and are advising on the importance of maintaining our 40 years plus experience of working with local government and our understanding its unique accountability structures.

This will also be the last time I write with your annual review. My seven-year term of office as Local Government Ombudsman comes to an end in January 2017. The LGO has gone through extensive change since I took up post in 2010, becoming a much leaner and more focused organisation, and I am confident that it is well prepared for the challenges ahead.

Yours sincerely



Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

For further information on how to interpret our statistics, please visit our website:
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
0	3	2	0	0	2	1	4	0	12

Decisions made

				Detailed Investigations			
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate	Total
0	0	5	4	0	1	100%	10

Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

The compliance rate is the proportion of remedied complaints where our recommendations are believed to have been implemented.

Complaints Remedied

by LGO	Satisfactorily by Authority before LGO Involvement	Compliance Rate
1	0	100%

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Title: 2016/17 Mid-Year Review Report

Portfolio

Transformation

Ward(s) Affected: All

Purpose

To review and consider the 2016/17 Mid-Year Review Report.

1. Executive Summary

- 1.1 This report covers the Council’s performance report for the first six months of this financial year.**
- 1.2 The Council’s performance continues to be at a high level with all areas reporting progress against delivery of the objectives.**
- 1.3 Of the 17 successes measures, 8 are above target at the mid-year point and 9 are slightly below target. Sports pitch income will increase over the Winter due to the traditional football season.**

2. Background

- 2.1 The Mid-Year Review report demonstrates the Council’s commitment to improving the management of its performance to achieve the 5 Year Strategy objectives.
- 2.2 A number of different presentation styles have been tried over the last few years and this is the latest version which it is hoped will be adopted for the foreseeable future. The report’s new format is intended to be more succinct and easier to read and is based on the new Annual Plan design.
- 2.3 This Mid-Year Review for 1 April 2016 to 30 September 2016 (attached as Annex A) illustrates the on-going strength and continuously improving performance of the Council against corporate objectives and success measures.

3. Mid Year Review

- 3.1 There has been a request for more specific details to help illustrate progress against the objectives and where possible this will be included in future. Specific commercially sensitive information will not normally be described in these reports, whilst it is work in progress.
- 3.3 One success measure that was included in the Annual Plan has been removed during the course of the year. It relates to street cleansing standards however this data will not be collected until the start of the new joint waste contact in February 2018.

- 3.4 There is also potential for confusion over a number of the success measures in respect of whether figures given are cumulative or just the total for that quarter. This will be clarified in the End of Year Review which will be presentation to this Committee in the Summer of 2017.
4. Options
- 4.1 Members are asked to note the 2016/17 Mid-Year Review and make any comments or suggestions as appropriate.
5. Resource Implications
- 5.1 This report has no direct resource implications as it summarises the performance of the Council against corporate objectives and success measures. All services have contributed to the content which is collated and compiled by the Transformation Team.
6. Recommendation
- 6.1 Members are asked to note the 2016/17 Mid-Year Review Report.

Background Papers: Annual Plan 2016/17

Annex A – 2016/17 Mid-Year Review

<u>Report Author</u>	Sarah Groom, Transformation Team Manager e-mail: sarah.groom@surreyheath.gov.uk	01276 707263
<u>Service Head:</u>	Louise Livingston, Executive Head of Transformation e-mail: louise.livingston@surreyheath.gov.uk	01276 707403

ANNUAL PLAN

2016/17

MID-YEAR REVIEW



Foreword

Earlier in the year we published our Annual Plan for 2016/17 and our goal to make Surrey Heath an even better place to live, work and play. This mid-year report details our progress. We continue to work with commercial partners and community groups to make Surrey Heath a better place to live. We have acquired properties in Camberley to enable delivery of our regeneration ambitions for the town centre and are working to select a development partner for Ashwood House so that much needed housing can be delivered.

Our excellent partnership working with Runnymede Borough Council to deliver services to the more vulnerable members in our Community, enabling them to live independently in their own homes, goes from strength to strength, with the Wellbeing Centre at Windle Valley in Bagshot providing much needed support to people with dementia and their carers.

An innovative collaboration with other Boroughs and Districts for waste collection which will maintain the high standards of service in a more cost efficient way has been proposed. The results will be shared later in the year.

Our work to engage with businesses and provide a networking platform for local enterprise continued at our recent Business Breakfast. This event has always been popular and a new format has helped the event continue to be relevant and allows businesses to share their views on key topics.

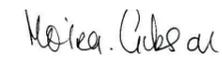
Surrey Heath has always provided a beautiful backdrop for outdoor events in the summer. This year's Frimley Lodge Live was the best yet with more visitors than ever, whilst Camberley International Festival brought together the best of national and international performers showcasing the arts in our borough.

The Council is committed to reducing the burden on the revenue budget whilst more effectively supporting communities and services to those who are most vulnerable. We recognise our duty to financially support community programmes and want to preserve them for the future.

There is more work to be done but it has been a successful first six months for the Council and these solid foundations give a platform for what we know will be an exciting but challenging second half of the year.



Karen Whelan
Chief Executive



Councillor Moira Gibson
Leader of the Council



Place

Objective

To make Surrey Heath an even better place to live

Priorities

- To deliver an improved Camberley town centre with better accessibility
- To improve waste and recycling
- To ensure the boroughs opens spaces are well maintained and sustainably managed



In 2016/17 we said we would:

- Work with partners to progress regeneration plans for the London Road frontage.
- Continue to buy property to regenerate the town centre.
- Deliver improved car parking - including a business plan for a proposed car park on the A30.
- Secure a partner to develop housing at Ashwood House.
- Support the Business Improvement District to promote the town centre.
- Implement a permanent night time closure of the High Street.
- Promote the town centre through a series of events, notably Christmas 2016 Festival On Ice.
- Provide higher quality services by taking on responsibility for maintaining verges and roundabouts across the Borough.
- Reduce household waste and maintaining recycling rates above 63%.

Our achievements half way through the year are:

- The Council is continuing to work with partners for delivery of regeneration plans for the London Road frontage. A further purchase of a London Road property has been completed in this half year in order to further its regeneration aspirations.
- Improvements to car parking include two new electric vehicle charging points installed in Main Square car park and the contract to resurface the top level has been issued. A business plan for a car park on the A30 will be developed as part of the London Road block.
- A formal procurement procedure has been commenced to select a developer partner for Ashwood House, which will be completed by December 2016.
- The September Business Breakfast focussed on the future of Camberley Town Centre.
- Close working continues with Collectively Camberley to market and promote Camberley. The Council supported the re-election of the BID for a further 5 years.
- Regular meetings take place with our Town Centre partners to promote Camberley. A joint brochure to celebrate Christmas 2016 has been produced with our partners and is being delivered across the Borough and surrounding areas in November which includes the December 2016 Camberley on Ice event.
- A funding bid has been submitted to Enterprise M3 for the town centre public realm works which include pedestrian enhancements to the High Street such as wider pavements and traffic calming measures.
- Responsibility for maintaining verges and roundabouts across the Borough was transferred to the Council in the spring and is now fully operational. We are currently replicating the service provided by the County but from April 2017 we will be adding additional cuts throughout the year.
- Household waste and recycling rates have continued to increase from 61% in quarter 1 to 62% in quarter 2. Two articles in the summer 2016 Heathscene magazine gave advice to households on the use of plastic liners or bags in their food waste caddy and on arranging for waste to be removed to ensure it is not fly-tipped.

Prosperity

Objective

To sustain and promote our local economy so that people can work and do business across Surrey Heath

Priorities

- To maximise returns on our investments and deliver construction led growth across the borough
- To support economic development through the delivery of the Economic Development Strategy Action Plans

In 2016/17 we said we would:

- Buy property for regeneration and investment.
- Review our investments; ensuring maximum return and minimal risk.
- Support housing and business property development.
- Work with the Government to identify publicly owned land for redevelopment.
- Host the Surrey Heath Business awards to showcase businesses in the borough.
- Promote Surrey Heath as a business relocation opportunity.
- Deliver applications to the Local Enterprise Partnership for funding to support the local economy.

Our achievements half way through the year are:

- The Council continues to purchase property in the borough to further its regeneration and investment plans which will also bring development opportunities.
- Advice has been received on the setting up of a development company in readiness for the right opportunities.
- On the advice of our treasury advisors the Council increased the limit that can be invested in money market funds to diversify the portfolio further and to increase returns.
- The Council is working with the government and other public bodies to identify suitable publicly owned land for redevelopment.
- The Council's Business Breakfast took place on 30 September and focussed on Camberley Town Centre. A new 'Question Time' panel style event was trialled as an alternative format to previous years and was a success. The third Surrey Heath Business Awards are scheduled for the Business Breakfast in March 2017.
- The Open for Business approach is proving successful in spreading the message amongst the business community across the region that the Council is a business friendly authority interested in attracting new companies and helping others to develop. There have been a number of complimentary comments from businesses that find the Surrey Heath approach 'refreshing' and 'welcome'.
- The Council is continuing to pursue opportunities for funding infrastructure and public realm projects to support the local economy. Current business cases for bids being supported include London Road A30 improvements, Camberley Town Centre public realm improvements and a new Blackwater Valley Bus Partnership.



Performance

Objective

To deliver effective and efficient services better and faster

Priorities

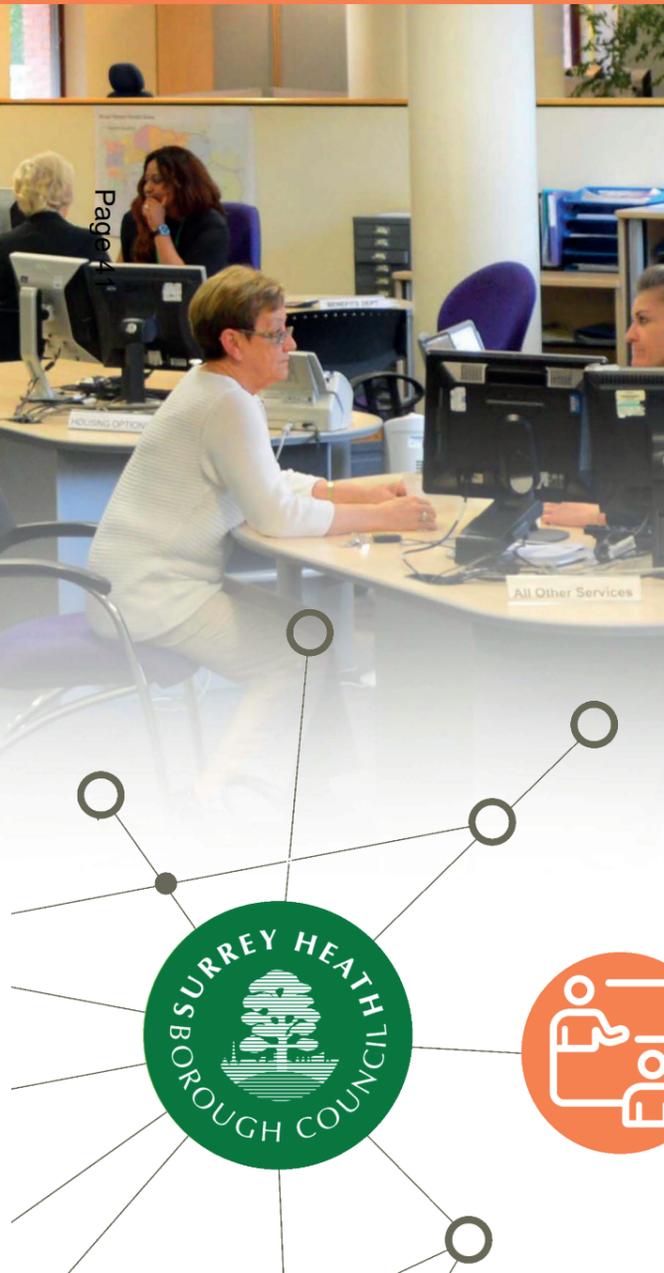
- To change the way we work
- To maximise use of the buildings we own
- To increase partnership working

In 2016/17 we said we would:

- Review services to deliver value for those living and working in Surrey Heath.
- Work in partnership with other authorities and the public and private sectors to deliver increased benefits to businesses and residents.
- Use space in Surrey Heath House more efficiently; promote agile working for staff to increase the number of tenants and provide residents with a one stop shop for public services.
- Appoint a contractor for joint waste collection service and shared contract management team.
- Deliver a plan for management of the Arena Leisure Centre.
- Work with other boroughs to reduce fraud.
- Identify commercial opportunities to increase income and support the Council's future sustainability.

Our achievements half way through the year are:

- A Transformation group has been established to look at the way services are delivered, to explore best practise across local government and look to utilise technology to its best effect. Service Reviews are currently being undertaken in both Business and Finance Service areas.
- A partnership with 3 other Surrey Authorities is being scoped for Building Control. The Joint Waste partnership continues to be developed with an agreement to be signed by November 2016.
- The new Digital Strategy being introduced means that the Council can be more agile with less office space being required which in turn can be rented out to new tenants. The ground floor of Surrey Heath House is now a multi-agency customer hub with the Council, Police and Job Centre all delivering face to face services. Greater collaboration between staff across the agencies means a better all-round service can be offered to customers.
- Final tenders for the joint waste and recycling collection service were evaluated over the summer and there is now a preferred bidder to be recommended to members. Combined savings for all the partner authorities are likely to be 15%.
- Options for the future of the Arena leisure centre are being explored with a view to the Council making a decision in early 2017.
- The Council has worked closely with other councils in the Surrey Fraud Network to reduce fraud. Local success includes recovering substantial amounts of outstanding business rates.
- Commercial, income generating opportunities have been explored including the purchase of properties which are generating rental income in excess of the cost of borrowing.



People

Objective

To build and encourage communities where people can live happily and healthily

Priorities

- To work with partners and the community to keep Surrey Heath a clean, green and safe place
- To work with Partners to deliver the Sustainable Community Strategy Action Plan
- To deliver the Surrey Heath Health and Wellbeing Action Plan with the Surrey Heath Clinical Commissioning Group and Surrey County Council



In 2016/17 we said we would:

- Maintain a range of services to help vulnerable people live independently in their homes and reduce the numbers living in isolation.
- Provide support to people with dementia and their carers.
- Develop a wider range of housing options to meet housing need.
- Increase success for homelessness prevention; maintain low levels of homelessness cases and B&B use.
- Open the visitor centre in Lightwater Country Park to provide space for school groups and a café.
- Expand the range of activities on offer in our parks.
- Develop a programme for the refurbishment of play areas across the borough.
- Continue to deliver high quality community events such as Frimley Lodge Live, Camberley International Festival and Outdoor Theatre.
- Support the Olympics with events around the borough.
- Work with sports clubs to increase sports participation.
- Extend the Workplace Wellbeing Charter to businesses across the borough.

Our achievements half way through the year are:

- The Windle Valley Centre, meals at home, community alarm and dial-a-ride services continue to support people to live independently in their homes. A partnership agreement with Runnymede Borough Council will look for future commercial opportunities to contribute to their sustainability.
- The Wellbeing Centre at the Windle Valley Centre and the Alzheimer's Café in St Mary's Church provide support to people with dementia and their carers. Twelve Dementia champions have been recruited and 35 Council staff and councillors are dementia friends.

- The housing service continues to investigate housing options and maintains low levels of B&B usage. Nationally homelessness is on the increase, locally whilst there has been a number of challenges we are managing this to ensure homelessness remains stable.
- The newly refurbished Lightwater Country Park visitors centre and café was opened in September to help generate extra income.
- "Walking football" for the over 50s and "doorstep sports" which will take activities into the heart of communities have been introduced this year.
- A play area improvement programme will be agreed by the Council by Spring 2017.
- Frimley Lodge Live was attended by 2300 people over two days which is the highest figure yet. Camberley International Festival was also a great success which will be repeated next year.
- The Council held a special "good luck" civic reception for two of the borough's Judo Olympians in July and delivered an activity packed "Olympic Market Day" on Park Street Camberley in August.
- The Council has continued to support local clubs to increase participation including Quays Wake and Water Ski club and Farnborough Fins based at Kings. As well as helping Camberley Town Youth FC develop "girls only football" and delivering the 'Festival of Sport' week, which encouraged beginners to take part. We also hosted the first ever 'Club Conversations' project, a best practice forum for clubs to exchange ideas with a view to increasing participation.
- In addition, Surrey Heath Sports Council supported a number of club members across a variety of sports through their small grant scheme.
- In addition to running education workshops in local schools and reminiscence sessions in elderly care homes, Surrey Heath Museum also staged the Somme Remembered Week, the Century of Sound Music Festival and initiated the highly publicised milestone campaign.
- The Workplace Wellbeing Charter was awarded to the Council in March and the Clinical Commissioning Group in August.

Additional Success Measures

In addition to the various projects outlined in the plan we said we would measure success by these indicators which focus on matters of particular interest to residents.

Place	Target	Apr - Jun	Jul - Sep
• Percentage of Household Waste sent for Recycling, Reuse and Composting	63%	61%	62%
• Occupancy of Camberley town centre car parks	55%	55%	57%
• Percentage of food premises achieving 3 stars or above	98%	96.88%	97.24%

Prosperity	Target	Apr - Jun	Jul - Sep
• Increase in Council Tax Base (No. of Properties)	35,787	35,851	35,906
• Increase in Business Rates base (No. of Properties)	2,589	2,584	2,556
• Percentage of minor planning applications determined within 8 weeks (National Target)	65%	68.80%	92.3%
• Percentage of major planning applications determined within 13 weeks (National Target)	60%	66.70%	55.6%

Performance	Target	Apr - Jun	Jul - Sep
• Time taken to process benefit claims (Days)	24	22	32
• Percentage of complaints responded to within target	90%	88%	100%
• Collection rate for Council Tax Per Quarter	25%	29.62%	67.23
• Collections rate for Business Rates Per Quarter	25%	29.76%	65.52
• Percentage of payment transactions where the customer has self served	47%	43.8%	44.5%
• Customer satisfaction rating of good/ excellent to exceed 90%	90%	93%	98%

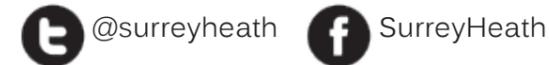
People	Target	Apr - Jun	Jul - Sep
• Number of users of the Arena Leisure centre	500,000	134,973	128,007
• Sports pitch income for the year	£110,000	£13,820	£23,770
• Number of journeys by community bus in a year	24,000	5,664	5,459
• Number of meals on wheels served in the year	28,500	6,448	7,266

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Comments and Feedback

We always welcome comments, suggestions and feedback (critical or otherwise) on our plans and the way we write our documents and communicate them.

- You can email our Customer Contact centre at enquiries@surreyheath.gov.uk
- You can drop written comments off at our main office
Surrey Heath House, Knoll Road, Camberley, Surrey GU15 3HD
- You can telephone our Customer Contact Centre on **01276 707100**
- You can speak to your local Councillor who will be able to pass your comments back if you wish. Contact details for your Councillor can be found on our website www.surreyheath.gov.uk
- Stay in touch with us via Twitter and Facebook



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Treasury Management Mid-year Report for 2016/17

SUMMARY

Report to advise members of the Treasury Management Service performance for 2016/17 as at 30th September 2016 and to illustrate the compliance to-date with the Prudential Indicators for 2016/17.

RECOMMENDATION

- (i) The Committee is advised to note the report and comment to the Executive as appropriate.**

1. Summary

- 1.1 This report sets out the performance of the Council's investments and borrowing for the first six months of the year. It is also intended to demonstrate that the Council is complying with the Prudential Indicators set by Full Council as part of the Treasury Strategy.
- 1.2 The Council is exceeding its budgeted treasury income by £32k or 20% and is complying with all the Prudential Indicators set for 2016/17 as at the 30th September 2016

2. Key Issues

Background

- 2.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 2.2 The Authority's Treasury Management Strategy for 2016/17 was approved by Executive on 13th January 2016.
- 2.3 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. This report covers treasury activity and the associated monitoring and control of risk.

Local Context

- 2.4 At 31/3/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £18.1m, while usable reserves and working capital which are the underlying resources available for investment were £20.4m on an accruals basis. The Authority had £17.9m of external borrowing and £27.7m of investments.

- 2.5 The Authority is predicted to have an increasing CFR over the next 3 years due to the capital programme however this could increase significantly if further investment in property is undertaken.

Changes since the 30th September 2016

- 2.6 The Council approved an increase in its borrowing limit of £35m to fund property purchases together with changes to its Prudential Indicators on the 9th November 2016. As this report covers the first 6 months of the year only those changes are not reflected within it.

3. Treasury Performance

Borrowing Activity to 30th September 2016

- 3.1 At 30/9/2016 the Authority held £17.3m of borrowing, (a decrease of £0.6m on 31/3/2016), as part of its strategy for funding previous years' capital programmes.
- 3.2 At the 30th September 2016 the Council expected to borrow up to £122m with an upper limit of £132m. However subsequent to this in order to fund further property investment the limit was raised in November 2016 to £167m with an expectation that £157m would be borrowed.
- 3.3 The Authority's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 3.4 Affordability remained an important influence on the Authority's borrowing strategy particularly as interest rates are currently low.
- 3.5 Post referendum, the fall in yields and PWLB rates was more pronounced as evidenced in Tables 2 and 3 in Appendix 2.

Borrowing Activity to the 30th September 2016

	Balance on 01/04/2016 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 30/09/2016 £m	Avg Rate % and Avg Life (yrs)
CFR	18.1				17.6	
Short Term Borrowing ¹						
Long Term Borrowing - PWLB - Local Authorities - Commercial Lenders		(0.5)			(0.5)	2.90% - 28 years
TOTAL BORROWING	18.1	(0.5)			17.6	
Other Long Term Liabilities						
TOTAL EXTERNAL DEBT	18.1	(0.5)			17.6	
Increase/ (Decrease) in Borrowing £m					(0.5)	

¹ Loans with maturities less than 1 year.

Investment Activity to 30th September 2016

- 3.6 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.
- 3.7 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.
- 3.8 The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits including certificates of deposit.
- 3.9 Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Authority's aim to diversify into more secure and/or higher yielding asset classes. This is especially the case for the estimated £8m that is available for longer-term investment. The majority

of the Authority's surplus cash is invested in short-term unsecured bank deposits, and money market funds.

Investment Activity in 2016/17

Investment Counterparty	Balance on 01/04/16	Investments Made	Maturities/ Investments Sold	Balance on 30/09/16	Average Rate at 30/09/16
	£000s	£000s	£000s	£000s	%
UK Central Government - Short Term - Long Term	0	19,500	-19,500	0	0.15
UK Local Authorities - Short Term - Long Term	5,500 2,000		-1,500	4,000 2,000	0.93 1.30
Banks, Building Societies & Other Organisations - Short Term - Long Term	5,259	38,703	-34,126	9,835	0.31
AAA-rated Money Market Funds - Short Term Cash Equivalents - Long Term	6,973 7,962	19,524 449	-16,500	9,996 8,411	0.48 8.79
Total Investments	27,694	78,176	-71,627	34,243	3.84

3.10 Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

3.11 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

3.12 The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating	Investments exposed to bail-in risk
31/03/2016	4.26	AA-	2.35	AA+	50%
31/06/2016	4.84	A+	3.35	AA	65%
30/09/2016	4.69	A+	3.12	AA	67%

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

- D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

3.13 The Council has sought to balance risk against return by diversifying across a wide range of banks, building societies, local authorities and money market funds. The poor returns offered by banks linked to the Bank of England base Rate being so low has meant that the Council has moved investments into property, corporate bond and equity managed funds. These provide better returns but are subject to the volatility of the underlying investments hence any investment needs to be made for the longer term. This policy of diversified investment should mean that the Council will exceed the budgeted interest earned for 2016/17 depending on financial markets .

Counterparty Update

3.14 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

3.15 Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

3.16 Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

3.17 There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

3.18 The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on

Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

- 3.19 In July Arlingclose completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.

Budgeted Income and Outturn

- 3.20 The average cash balances were £34m during the half year. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.
- 3.21 New investments on an unsecured basis with banks and building societies over the 6-month period were made at an average rate of 0.54%. Short-term money market rates have remained at relatively low levels.
- 3.22 The Authority's budgeted investment income for the year is estimated at £300k of which £182k has been received in the first six months..
- 3.23 The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As the majority of the Authority's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a fall in investment income over the year.

Update on Investments with Icelandic Banks

- 3.24 The Council originally had £4m at risk in Iceland due to the collapse of the Icelandic banks in 2008. Over the intervening years this money was repaid in instalments however at the 31st March 2016 a balance of ISK135bn, which

represented the remainder of the Council's claim against Glitnir Bank, remained due to Icelandic currency controls. In June 2016 the Icelandic Government announced that they would allow foreign deposits in ISK to be exchanged for one last time in a currency auction. If this opportunity was not taken then the money could remain trapped for several years and indeed be subject to a steep exit payment. On the advice of the Council's professional advisors the decision was taken to take advantage of this offer and the final balance held in Iceland was repaid as Euro712k. This is currently being held on deposit with the Council's bankers.

- 3.25 As a consequence of this there is no more money held in Iceland and the Council has received slightly more than the £4m originally deposited.

Compliance with Prudential Indicators

- 3.26 The Authority confirms compliance with its Prudential Indicators for 2016/17, which were set in January 2016 as part of the Authority's Treasury Management Strategy Statement. Details of treasury-related Prudential Indicators can be found in Appendix 1.

Economic Review and Outlook for the remainder of the year

- 3.27 The Council's advisors Arlingclose have provided an Economic Review of the year so far and an outlook for Qtrs 3 and 4. This is included in Annex D

4. Resource Implications

- 4.1 None directly as a result of this paper, but the investment income is used to support the current revenue expenditure.

5. Options

- 5.1 The Committee is asked to note and comment on the report as appropriate.

6. Proposals

- 6.1 It is proposed that the Committee notes the report and comments to the Executive where appropriate.

7. Corporate Objectives and Key Priorities

- 7.1 The Treasury Management processes support the Council's objective of 'Delivering services efficiently, effectively and economically'.

8. Policy Framework

- 8.1 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:

- 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.
- Investments to be 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 to be available to meet the Council's estimated outgoings for any day.
- Investment objectives are to maximise the return to the Council balanced against the risks to protect reserves.

9. Legal Issues

- 9.1 The report demonstrates that the Council is complying with the Prudential Framework.

10. Risk Management

- 10.1 Weak returns on investments could lead to a reduction in income required to support the revenue budget.
- 10.2 The limits 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 Head of Corporate 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.
- 10.3 The Council has taken and acted on advice from its advisors in relation to increasing returns albeit at increased risk. These investments may go up or down in value and the full capital sum is not protected
- 10.4 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.

11. Officer Comments

- 11.1 None other than within the report.
11.2

ANNEXES

Annex A – Investments as at 30th September 2014
Annex B – Treasury Management Performance

	Indicators
BACKGROUND PAPERS	CIPFA code on Treasury Management
AUTHOR/CONTACT DETAILS	Nahdiah Cuthbert Nahidah.cuthbert@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon – Executive Head of Finance

Consultations, Implications and Issues Addressed

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

INVESTMENTS as at 30th September 2016

	£	<u>Maturity Date</u>	
Lloyds Bank Call Account	3,001,510	Instant Access	A+
Goldman Sachs Bank	2,000,000		A
Total Banks	<u>5,001,510</u>		
National Counties Building Society	1,000,000	12-Jan-17	
Nationwide Building Society	2,000,000	07-Oct-16	A
Total Building Society	<u>3,000,000</u>		
Debt Management Office	0		
Total Banks, Building Societies and DMO	<u>8,001,510</u>		
Glasgow City Council	2,000,000	30-Oct-18	Unrated
Greater London Authority	2,000,000	28-Oct-16	AA+
The London Borough of Islington	2,000,000	28-Oct-16	Unrated
Total Local Authorities	<u>6,000,000</u>		
AAA Rated MM Fund - Aberdeen (SWIP)	2,983,927	N/A	AAA
AAA Rated MM Fund - Blackrock	2,000,431	N/A	AAA
AAA Rated MM Fund - CCLA	1,000,000	N/A	AAA
AAA Rated MM Fund - Insight	1,011,732	N/A	AAA
AAA Rated MM Fund - Standard Life (Ignis)	3,000,000	N/A	AAA
Total Money Market Funds	<u>9,996,090</u>		
CCLA Property Fund	2,042,540	N/A	None
M & G Investments - Global Dividend Fund	1,095,671	N/A	None
M & G Investments - Strategic Corp Bond Fund	2,097,168	N/A	None
Threadneedle - Global Equity Income Fund	1,170,465	N/A	None
Threadneedle - Strategic Bond Fund	2,005,317	N/A	None
Total Longer Term Investments	<u>8,411,160</u>		
Total Invested (excluding the NatWest SIBA)	<u>32,408,760</u>		
NatWest SIBA	1,216,980	Instant Access	BBB+
NatWest International Account	616,910		
Total Invested (including NatWest SIBA)	<u>£34,242,650</u>		

The Council's advisors Arlingclose have provided an Economic Review of the year so far and an outlook for Qtrs 3 and 4. This is included in Annex D

Treasury Management Indicators as at the 30th September 2016

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

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

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	£132m	£132m	£132m
Actual	£0.2m		
Upper limit on variable interest rate exposure	£132m	£132m	£132m
Actual	-£0.2m		

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

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

	Upper	Lower	Actual
Under 12 months	100%	0%	2%
12 months and within 24 months	100%	0%	2%
24 months and within 5 years	100%	0%	17%
5 years and within 10 years	100%	0%	4%
10 years and within 20 years	100%	0%	11%
20 years and within 30 years	100%	0%	15%
30 years and within 40 years	100%	0%	21%
Over 40 years	100%	0%	27%

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

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

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£15m	£15m	£15m
Actual	£2m	£8m	£0m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual 30/09/2016
Portfolio average credit rating	A	A+

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual 30/09/2016
Total cash available within 3 months	£5m	£14m

1) Outlook for the remainder of 2016/17

The economic outlook for the UK has immeasurably altered following the popular vote 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, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	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
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
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
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

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

Prudential Indicators as at the 30th September 2016

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

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

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Programme	18	107	4	1
Total Expenditure	18	107	4	1
Capital Receipts	1	0	0	0
Government Grants	0	1	0	0
Borrowing	17	106	4	0
Total Financing	18	107	4	1

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

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Total CFR	18	139	142	142

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

Debt	31.03.16 Actual	31.03.17	31.03.18 Estimate	31.03.19 Estimate
		7		

	£m	Estimate £m	£m	£m
Borrowing	18	124	127	127
Total Debt	18	124	127	127

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

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

Operational Boundary for External Debt: The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	122	122	122
Total Debt	122	122	122

The Authority confirms that during 2016/17, the Operational Boundary was not breached.

In November 2016, the Council increased the Operational Boundary to £157m and the Authorised Limit to £167m.

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	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	132	132	132
Total Debt	132	132	132

Total debt at 30/09/2016 was £17.2m. The Authority confirms that during 2016/17 the Authorised Limit was not breached at any time.

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

Ratio of Financing Costs to Net Revenue Stream	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-15	-36	-37

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

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual Band D Council Tax	-15.49	-34.58	-69.46

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 at its meeting on 26th February 2014*.

Economic Review provide by the Council's Treasury advisors Arlingclose

- 1) The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.
- 2) The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.
- 3) In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.
- 4) The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.
- 5) Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.
- 6) Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over

the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

- 7) The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.
- 8) Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 2.
- 9) On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.
- 10) The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%



Appendix 2

Money Market Data and PWLB Rates

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

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
Minimum	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
Average	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
Maximum	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
Spread	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

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

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	Low	1.03	1.17	1.64	2.00	2.20	2.28
	Average	1.30	1.57	2.15	2.58	2.82	2.89
	High	1.63	2.04	2.73	3.17	3.41	3.48

Table 4: PWLB Variable Rates (standard rate)

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre- CSR	Pre- CSR	Pre- CSR	Post- CSR	Post- CSR	Post- CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

Please note PWLB rates are standard rates

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Council Finances as at the 30th September 2016

Summary

To inform the Committee of the position of the Council Finances as at the 30th September 2016

Recommendation

The Committee is advised to note the Revenue, Treasury and Capital Position as at 30th September 2016 and to comment, as appropriate to the Executive.

1. Key Issues

- 1.1 This is the second quarter monitoring report against the 2016/17 approved budget, which provides an update on the Revenue, Treasury and Capital budget position as at 30th September 2016.
- 1.2 At the moment there are no particular issues within services to report.

2. Resource Implications

Revenue Budget

Services

- 2.1 Actuals against budget for the 2nd quarter are shown in the attached annex. There are no specific issues to report.

Wages and Salaries

- 2.2 At the end of the 2nd Quarter it is predicted wages will be under budget and services are achieving the vacancy margin.

Capital Budget

- 2.3 In the second quarter £1,929k has been spent on capital projects of which the largest share, £945k, was spent on the acquisition and development of Commercial Properties. Other significant expenditure was £464k on Disabled Facilities Grants which has attracted additional grant income from Surrey County Council.

Treasury Investments

- 2.4 The Council currently has £34m invested in a variety of banks, building societies and funds. From analysis done by our advisors the Council has managed to achieve a combined 8.79% return for the last quarter which puts it well above the LA average of 1.98%. This is because of the decision taken last year to diversify the portfolio.

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

3. Debtors

Sundry Debts

- 3.1 Sundry debts include all debts except those relating to benefits. At the 30th September 2016 these amounted to £884k compared with £610k for the same period last year. However of this £181k relates to new quarterly billing for industrial estate properties where the processing method is under review and this quarter SANGs payments are now being processed via the debtor's system and will continue to distort ongoing debt levels.

Housing Benefit Debts

- 3.2 These debts arise when an overpayment in housing benefit has been made and thus has to be recovered. At the 30th September 2016 the balance was £629k similar to the previous quarter. During the period £95k was collected but a similar amount of new were debts raised. The number of debts on a repayment plan has also increased for the quarter.

4. Options

- 4.1 The report is for noting only.

5. Proposals

- 5.1 It is proposed that the Committee notes the Revenue, Treasury and Capital Position for the period to 30st September 2016 and makes comments to the Executive where appropriate.

6. Supporting Information

- 6.1 None

7. Corporate Objectives And Key Priorities

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

8. Sustainability

- 8.1 Budget monitoring and financial control are important tools in monitoring the financial sustainability of the Council.
- 8.2 Key services are being maintained despite financial constraints

9. Risk Management

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

BACKGROUND PAPERS	None
AUTHOR/CONTACT DETAILS	Sheena Adrian - Acting Senior Accountant Financial Accounting and Systems Sheena.Adrian@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon - Executive Head of Finance

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

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

Review Date:

Version:

Annex A

Detail on the Revenue Budget Position at 30st September 2016

Predicted year-end impact as at the end of Quarter 2.

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

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

Corporate Service

Budget for period £736k, Actual for Period £719k. predicted Year end impact - £23.5k favourable.

Savings due to sale of Website software to another Authority and IER Grant.

Legal and Property Service

Budget for period £136k, actual for period £-76k. Predicted year end impact £Nil

The reported surplus is due to the phasing of the 2016/17 maintenance and repairs programme. This is now underway but does not yet reflect the transfer of responsibility of Community Centres from Business to Legal.

Regulatory

Budget for period £1,526k, actual for period £868k. Predicted year end impact £Nil

The actuals includes developers' contributions and grants that will be excluded from the reports to remove £400k of income. There are also a number of smaller under/overspends that will be cleared by the end of the financial year.

Transformation

Budget for period £1,025k, actual for period £1,105k, Predicted year end impact £Nil

Current spend figures only appear to be higher than budget due to central costs only being recharged at year end.

Business

Budget for period £536k, actual for period £772k. Predicted year end impact £200k adverse. Made up of ;-

Parking

Parking is currently showing a 6% increase in income compared to the same period last year however this falls short of the 11% target set within the budget leading to a £50k adverse prediction.

Theatre

The 2016/17 budget had been set at a level which had been expected to be achieved in 2019. Consequently it is currently showing an overspend. However, the position, when compared to the original business case, is positive.

Measures, such as the recent transformation of the staffing structure and changes to the programming policy, have been put in place which will see a marked reduction in running costs and an increase in income moving forward.

Community

Budget for period £2,278m, Actual for period £2,001m, predicted year end impact £95k favourable.

There are some timing issues affecting the current monitoring position however savings have been identified in Street Cleansing £50k and Refuse & Recycling £45k.

Finance

Budget for period £1,186m, actual for period £1,194m Predicted year end impact £80k favourable.

There are a number of small savings reported including Audit Fees, Insurance, Improved Council Tax arrears an additional NDR legal fee income.

Payroll

Salaries are now showing a favourable variance of £38k favourable. This includes the £192k vacancy factor and the £235k Star Chamber savings target. However this does not include any costs in relation to one off reorganisation salary costs.

Annex B

Investments as at 30th September 2016	Annex B
	£
Lloyds Bank Call Account	3,001,510
Goldman Sachs Bank	2,000,000
Total Banks	5,001,510
National Counties Building Society	1,000,000
Nationwide Building Society	2,000,000
Total Building Society	3,000,000
Debt Management Office	0
Total Banks, Building Societies and DMO	8,001,510
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)	2,983,927
AAA Rated MM Fund - Blackrock	2,000,431
AAA Rated MM Fund - CCLA	1,000,000
AAA Rated MM Fund - Insight	1,011,732
AAA Rated MM Fund - Standard Life (Ignis)	3,000,000
Total Money Market Funds	9,996,090
CCLA Property Fund	2,042,540
M & G Investments - Global Dividend Fund	1,095,671
M & G Investments - Strategic Corp Bond Fund	2,097,168
Threadneedle - Global Equity Income Fund	1,170,465
Threadneedle - Strategic Bond Fund	2,005,317
Total Longer Term Investments	8,411,160
Total Invested (excluding the NatWest SIBA)	32,408,760
NatWest SIBA	1,216,980
NatWest International Account	616,910
Total Invested (including NatWest SIBA)	34,242,650
Total Invested (Including SIBA & War Stock)	34,242,650

Committee Work Programme 2016/17

Portfolio	Corporate
Ward(s) Affected:	n/a

Purpose

To consider the Committee work programme for the remainder of the municipal year 2016/17.

Background

1. The Performance and Finance Scrutiny Committee was appointed by the Council at its Annual Meeting on 18 May 2016 and it is anticipated that it will be re-appointed for 2017/18.
2. The Constitution, at Part 4, Section C paragraph 6 requires the Committee to develop a work programme. This will normally be set at the last meeting of a municipal year, for the subsequent municipal year.
3. Members are asked to consider a work programme for the remaining meetings of 2016/17.
4. The work programme is developed 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.
5. One of the tasks given to the Committee is to carry out pieces of work requested by the Council and/or the Executive.
7. The following further meeting have been scheduled for the municipal year 2016/16:

22 March 2017
8. Provisional dates have been proposed for 2017/18. These are listed below, but are subject to confirmation and appointments will be sent out when finalised dates are agreed:

5 July 2017
13 September 2017
6 December 2017
21 March 2018

9. The Committee agreed on 6 July 2016 (minute 9/PF refers) that reports at each meeting would, where possible, be themed to the areas covered by the Portfolio Holder attending that meeting.

Proposal

10. It is proposed that Members consider a work programme for the remainder of the municipal year 2016/17.

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 2016/17.

Background Papers: None

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PERFORMANCE AND FINANCE SCRUTINY COMMITTEE –
DRAFT WORK PROGRAMME – 2016/17

DATE	TOPIC	OFFICER
22 March 2017		
1	Scrutiny of Portfolio Holders – Regulatory/ Corporate	Jenny Rickard/ Richard Payne
2	3 rd Quarter Finance Report	Kelvin Menon
3	3 rd Quarter Treasury Management Report	Kelvin Menon
4	Corporate Risk	Kelvin Menon
5	Review of Reserves and Provisions	Kelvin Menon
6	Regulatory linked reports (Housing?)	Jenny Rickard
7	Committee Task and Finish Groups	Andrew Crawford
8	Committee Work Programme	Andrew Crawford

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