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Tuesday, 28 November 2017

To: The Members of the **Performance and Finance Scrutiny Committee**
(Councillors: Jonathan Lytle (Chairman), Katia Malcaus Cooper (Vice Chairman),
David Allen, Nick Chambers, Bill Chapman, Edward Hawkins, Paul Ilnicki,
David Lewis, Oliver Lewis, Robin Perry, Chris Pitt, Joanne Potter, Wynne Price,
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 Dan Adams, Rodney Bates, Ruth Hutchinson, Max Nelson,
Ian Sams and Valerie White

Dear Councillor,

A meeting of the **Performance and Finance Scrutiny Committee** will be held at Council
Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on **Wednesday, 6
December 2017 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 18 October 2017.	
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	Scrutiny of Portfolio Holder - Transformation	9 - 14
6	Scrutiny of Portfolio Holder - Finance	15 - 18
7	Review of Reserves and Provisions	19 - 42
8	Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2016/17	43 - 62
9	Treasury Management Mid-year Report for 2017/18	63 - 80
10	The Council's Finances as at 30 September 2017	81 - 86
11	2017/18 Mid Year Performance Report	87 - 102
12	Task and Finish Groups	

The Committee is asked to

- (i) receive an update report from the Task and Finish Group looking at the impact of benefits reforms on Surrey Heath Borough Council and borough residents; and
- (ii) the establishment of any other task and finish working groups.

13	Committee Work Programme 2017/18	103 - 106
14	Exclusion of the Press and Public	107 - 108

Part 2 Exempt

15	Performance of the Major Property Acquisitions	109 - 112
16	Review of Exempt Items	113 - 114

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

**Minutes of a Meeting of the
Performance and Finance Scrutiny
Committee held at Council Chamber,
Surrey Heath House, Knoll Road,
Camberley, GU15 3HD on 18 October
2017**

+ Cllr Jonathan Lytle (Chairman)
+ Cllr Katia Malcaus Cooper (Vice Chairman)

- | | |
|-----------------------|-------------------------|
| + Cllr David Allen | + Cllr Robin Perry |
| Cllr Nick Chambers | + Cllr Chris Pitt |
| + Cllr Bill Chapman | - Cllr Joanne Potter |
| + Cllr Edward Hawkins | + Cllr Wynne Price |
| + Cllr Paul Ilnicki | + Cllr Darryl Ratiram |
| + Cllr David Lewis | - Cllr Victoria Wheeler |
| - Cllr Oliver Lewis | |

+ Present
- Apologies for absence presented

Substitutes: Cllr Ruth Hutchinson (In place of Cllr Victoria Wheeler) and Cllr Valerie White (In place of Cllr Oliver Lewis)

In Attendance: Cllr Mrs Vivienne Chapman, Cllr Paul Deach, Cllr Craig Fennell and Cllr Josephine Hawkins

13/PF Minutes

The minutes of the meeting held on 12 July 2017 were confirmed and signed by the Chairman.

14/PF Scrutiny of Portfolio Holder - Corporate

Councillor Josephine Hawkins, the Corporate Portfolio Holder reminded the Committee of the areas covered by her Portfolio and gave a brief description of each of the following services and functions:

Children's Champion
Communications and Marketing
Community and Revenue Grants
Contact Centre and Post Room services
Corporate complaints and Ombudsman matters
Equalities
Town Twinning

A large number of questions had been received from Members in advance. As a result, the Chairman had agreed that councillors would be restricted to no more than 3 questions each. Responses for any of the submitted questions which were not answered at the meeting would be dealt with at briefing meetings with officers or by written responses.

Councillor Josephine Hawkins responded to questions including:

1. Communications and Marketing
 - a) the number of social media posts made in support of consultations at the current URL of “consultations” and the list of these posts;
 - b) how brand and reputation was measured;
 - c) how the effectiveness of press releases was measured.
2. Child Protection, forced marriages and Female Genital Mutilation - the progress the Council was making to deal with these issues.
3. Contact Centre - recent customer service satisfaction levels.
4. Camberley International Festival and the Camberley Carnival.
 - a) numbers of footfall in the Camberley Town Centre both before and after the event;
 - b) the increase in revenue for the retailers because of this event;
 - c) the level of resident participation and how it was measured.
5. Surrey Heath Young Citizen Event – the extent of parental responsibility for their children’s safety.

15/PF Scrutiny of Portfolio Holder - Business

Councillor Craig Fennell, the Business Portfolio Holder reminded the Committee of the areas covered by his Portfolio. It was now divided into 4 main service areas delivering a wide range of functions as set out below:

Recreation & Business

- Green Space (parks and countryside)
- Play area maintenance and development
- Heritage Service
- Contract Management (Grounds Maintenance/Arena Leisure Centre)
- Pitch bookings

Parking Services

- Borough wide on street parking enforcement
- Multi-story and surface car park management/development

Commercial & Community Development

- Borough wide sports, leisure and community development
- Surrey Youth Games
- Special commercial events
- Volunteer development
- Leisure Lease management

Camberley Theatre

- Annual programme of theatre events
- Pantomime
- Youth Theatre
- Corporate and Community Events
- Frimley Lodge Live

As referred to in the previous minute, the Chairman had agreed that because of the large number of questions received, Councillors would be restricted to no more than 3 questions each. Responses for any of the submitted questions which were not answered at the meeting would be dealt with at briefing meetings with officers or by written responses.

Councillor Craig Fennell responded to questions including:

1. Camberley's Multi-Story Car Parks
 - (a) the Council's plans to increase occupancy rates to match neighbouring authorities;
 - (b) proposals to enable multiple apps to use the Go app;
 - (c) evidence of whether the Council's payment app Glide had increased or decreased the footfall in the Camberley town centre.
2. Surrey Youth Games – Team Surrey Heath's performance and the number of events entered.
3. Camberley Theatre
 - (a) the level of the Council's subsidy over the last 2 years;
 - (b) the measures to be taken to reduce the subsidy;
 - (c) when would the subsidy be eliminated.
4. Playground Renewals – the timing of the works for the playground at Watchetts Recreation Ground.

16/PF Green Space Update

Members received a detailed update report on the Council's Greenspace Service. The Service, split between directly employed staff and contracted out services, was responsible for a wide range of activities which maintained the Borough's green spaces.

The Service was responsible for the following operational areas:

Grass cutting
Hedge cutting & Vegetation maintenance
Sports pitches
Children's Play Areas
Dog Waste & Rubbish Collections
Municipal Planting
Park Pavilions & Public Toilet
Tree Inspections and resulting works
Weed Spraying

Members asked questions and received responses in connection with the following issues:

A cutting regime to encourage wild flowers on roundabouts
Responsibility for hedges which over hung footpaths
The Wild Surrey Heath Project

Conservation works for SANGS
Birch mulch in Lightwater Country Park
Bee keeping and the sale of honey

17/PF Air Quality Management Update

The Committee received a report on the latest air quality results for the Borough. It was noted that results showed that pollution from nitrogen dioxide, dust and other particulates showed levels within air quality objectives.

Members were informed that, in 2017 DEFRA, computer modelling had predicted that, until 2021, the A331 was likely to exceed legal limits for concentrations of nitrogen dioxide. As a result the Council had been directed by the Secretary of State to produce a feasibility study by March 2018 on options for ensuring compliance with the air quality objectives on the A331 in the shortest period possible. Work would continue to be carried out in conjunction with neighbouring local authorities, Highways England and the County Council.

The Committee discussed ways residents could help to reduce pollution levels in the Borough, particularly by avoiding short journeys in slow moving traffic and travelling at high speeds. In addition it was considered that it was important to convey a strong message to residents that air pollution in the Borough was reducing and to publish the air quality measures.

Furthermore, Officers agreed to look into whether it was possible to monitor air pollution levels in Frimley Green when the experimental traffic lights were installed.

The Committee was advised that pollution from aircraft was not currently a problem in the Borough as most of it dispersed in the atmosphere.

Resolved that Executive be advised to maintain the current air quality monitoring programme and to review it following the conclusions of future statutory Air Quality Status reports submitted annually to DEFRA.

18/PF Review of the Impact of Benefits Reforms on the Council and Borough Residents - Reference to the Executive

Members were reminded that the Committee, at its meeting on 12 July 2017, had considered a report from the Task and Finish Group which had looked at the impact of welfare/benefits reforms on the Council and Borough residents. The Committee had made a number of recommendations to the Executive.

A report had been prepared which provided further information and context on the original recommendations to enable Members to consider them further prior to submission to the Executive. However it was considered that the Task and Finish Group should be asked to review the recommendations in the light of the further information.

Resolved that consideration be deferred to enable the Task and Finish Group to review its recommendations in the light of the

further information and to report back to the Committee at a future meeting.

19/PF Committee Work Programme

The Committee considered the work programme for the remainder of the municipal year.

Members noted that further meetings were scheduled for:

6 December 2017

21 March 2018

Resolved that the Work Programme, attached as Annex A to the agenda report be agreed.

Chairman

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Transformation Portfolio

Portfolio	Transformation
Ward(s) Affected:	All

Purpose

To provide a progress report on the Transformation Services Portfolio.

Background

1. The Transformation Portfolio covers a wide range of services and functions as set out below:

- ICT/Information Governance/Reprographics
- Economic Development
- Community Safety & Community Partnerships
- Performance
- Building Control
- Corporate Property

ICT/Information Governance/Reprographics

2. ICT have been working on moving to cloud technology to support the agile aspirations of the authority and enable staff to work more efficiently.
3. Email has moved to office 365 and gcsx email has been removed as a separate mailbox, enabling staff to send and receive encrypted email directly from their surrey heath o365 account.
4. Okta is software that enables single sign-on for cloud technology. This has been configured to enable staff to open a dashboard and sign into to various web applications including MyDetails for HR and Payroll, Box, SiteHelpdesk, Intranet and o365, without the necessity to remember lots of different logins. It is also more secure as it enables ICT to instantly remove individual users from all cloud access through one portal.
5. Box is being rolled out to different departments as an alternative document and file storage facility. Box is cloud based and enables document collaboration, file sharing and access to documents from any device. It is a highly secure environment whilst enabling staff to work more efficiently.
6. A new corporate wifi facility has been installed within Surrey Heath House to enable a split between corporate access and guest access

ensuring the corporate access has a ring fenced bandwidth and the wifi network is more secure.

7. Information Governance has been concentrating on the requirements to meet the new General Data Protection Regulations (GDPR) which come into force 25th May 2018. There will be full training for staff from November to January, and training for councillors in February.
8. The information asset register is capturing details relevant for information held including retention requirements to meet the new GDPR regulation
9. During 2016 we processed 847 Freedom of Information requests. During 2017 we have processed 1010 as at 10/11/17 which is a significant increase in both volume and complexity.

Economic Development

10. The Council's Open for Business scheme continues to be a successful collaboration between the Council and business. The Business breakfast, Business awards and the Camberley Expo held in 2017 have been successful in continuing the Council's approach to Open for Business.
11. This year we introduced our first Camberley Expo presented by the Council organised by The Best of Camberley and Webster Consultancy, this new event celebrated all that is great in Camberley and Surrey Heath and was supported by The Camberley Society and Surrey Chambers of Commerce.
12. Economic Development took a lead role promoting both the Square and the London Road Block at both REVO & MIPIM speaking to both potential investors and new retailers.
13. In May 2017, the Council introduced The Kevin Cantlon Fund, which offers grants funded by Surrey Heath Borough Council to owners or occupiers of commercial buildings within the borough to improve and enhance shop fronts, windows, doors and signage in a traditional and sympathetic manner, through repair of existing traditional features or reinstatement of historic architectural details.
14. The scheme aims to encourage the creation of attractive frontages, to enhance the character of the region, which could have significant economic benefits. High quality, well maintained frontages are more inviting for local residents and visitors, contribute towards a stronger sense of identity and enhance commercial values.
15. The Council continue to fund the free business advice clinics offered locally at no charge, for the year ending 31/03/17, a minimum of 36 referrals were assisted through this scheme.

Community Safety & Community Partnerships

16. Surrey Heath has a strong legacy of good partnership working, and achieving creative solutions to local issues, an example of this is our successful Faith Forum which has built a core membership of 10-12 people representing a good diversity of local faith organisations. In September the Faith Forum hosted the first Faith Safari Supper in Surrey Heath which welcomed over 30 guests, in three locations, held in the members room at Surrey Heath House, The Camberley Mosque, and St Michael's Church hall, this was a great community evening, which provided an opportunity for a short presentation at each location which related to Hate Crime, Syrian Refugees and the achievements of the group over the past year.
17. Another example of good partnership working is that from the 14th October 2017, Surrey Heath introduced new Public Space Protection Orders (as part of the ASB Crime and Policing Act 2014) which was the culmination of over 12 months of collaborative work with many teams with this Council and Surrey Police.
18. In November, we are proud to support our annual Young Citizen event which will see over 400 young people participate in a variety of activities throughout the day that will provide a wide range of safety messages which are delivered at Collingwood and Kings College, by St John Ambulance, Surrey Police, Crime stoppers and Solomon Theatre Group.

Partnership

19. The Surrey Heath Partnership (SHP) which combines the Local Strategic and Community Safety Partnership meets three times a year and is chaired by the leader of the Council. The meeting enables the council to retain good working relationships with our voluntary and business colleagues, and fulfils our statutory responsibilities.
20. The SHP undertook a mini review in 2016, this identified that members valued the partnership work and drew real benefits from the opportunities and shared outcomes that it provides. In continuing to strive for improvement at its meeting on the 1st November, it was agreed to host a workshop for all partners in February to explore this further.

Performance

21. The Council's Performance Management Framework is based on the Council Priorities set out in the 5 Year Strategy. An Annual Plan is then produced (and approved by the Executive) to set out how those priorities will be achieved within the next year, budgets are discussed and set accordingly and staff are then allocated tasks within their appraisals. There are mid-year and end of year reviews that are

reported to the Executive (and P&F Committee) and made public to ensure residents can hold us to account.

22. Internally, there are a number of other mechanisms that we use to closely monitor progress against our projects including the Organisational Development Team and Project Management Framework.
23. The Transformations that have recently concluded are:
 - Democratic Services
 - Fraud and Investigations
 - Environmental Health
 - Joint Waste Solutions
24. We are currently reviewing a number of other Transformations across the organisation. All this work ensures our residents are receiving the best value for money from our services and that we are delivering faster and better services.

Building Control

25. Building Control is unique in being the only local authority regulatory service which operates in competition with private sector providers. They continue to proactively work with builders and residents to ensure building are constructed in accordance with the Building Regulations and currently control 70% of the construction work in the Borough. This is higher than the national average of 65% for other local authorities in England and Wales.
26. During this financial year, to date, the team has processed 411 applications and the Surveyors have undertaken 2966 inspections.
27. In addition they have investigated 60 sites where unauthorised work was identified. The Building Control Services has now received valid applications and continues to undertake inspections to ensure compliance is being achieved.
28. This year there has been 18 sites where possible dangerous structures were identified. These have been inspected and the team is working with the owners to ensure these structures are not dangerous to the residents and visitors to Surrey Heath.
29. Building Control lost a full time Surveyor in August this year and the remaining team has pulled together and strived to maintain its services to the residents.

Corporate Property

30. Works of refurbishment and maintenance have been carried out to a number of properties. These include Windle Valley Day Care Centre. Mytchett Bowls Club and the Briars Centre have also had works done

in readiness for lettings to take place. One of the units at St George's Industrial Estate has also had repairs to enable a reletting.

31. For Surrey Heath House, a programme of updating the fire doors and the access control systems has been commenced. The Staff Room and kitchen have been also been refurbished.
32. With the letting of the new waste contract, there has also been a focus on the offices facilities at the depot to facilitate the handover to Amey in February. This has required a lot of input from the Corporate Property team, with a particular focus on compliance with numerous issues such as health and safety to enable the transition from the current contractor to the new contractor.
33. The last major acquisition was Albany Park, Frimley Road. The management of this estate, in addition to the St Georges Estate, is overseen by corporate property.
34. A lot of work has been done in relation to potential acquisitions, and the evaluation of these opportunities, which of necessity needs to be done within a very short timescale. As already reported, the Council has been discerning in pursuing these opportunities.
35. A number of community leases have been completed this year: these include Camberley Bowls Club, Mytchett Bowls Club, West End Bowls Club, West End Parish Council play area and the Briars Community Centre is awaiting completion. A new lease for the St Mary's Nursery at Watchetts has been completed allowing them to put in place a new modular building.
36. The Corporate Property Team is also looking at the refurbishment/ redevelopment of 63 High Street, Bagshot and proposals will come forward in due course.
37. The Corporate Property Team has been heavily involved with the supporting Joint Waste Contract on the depot issues across the contract and particularly in relation to the Council's own depot.

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Finance Portfolio

Portfolio	Corporate
Ward(s) Affected:	All

Purpose

To provide a progress report on the Finance Services Portfolio.

Background

1. The Finance Portfolio covers the following areas as set out below:

- Audit
- Corporate Enforcement
- Finance
- Legal Services
- Procurement
- Revenues and Benefits

Audit

2. In the last 12 months 21 audited have been completed. Of the total number of audits 20 were given “satisfactory assurance” and 1 was given “limited assurance”. Action points arising out of this audit are being implemented and as at the 31st October 2017 there were no essential audit recommendations overdue.

Corporate Enforcement

3. During the last 12 months the service has been very active in a number of different areas. Highlights included:

- Successfully prosecuted 10 cases of waste related offences (Fly tipping & Duty of Care).
- Investigated 2 cases of housing fraud in conjunction with Accent group (both waiting to go to court).
- Trialled the Tikspac dog waste bag dispensers at 6 locations across the borough.
- Providing ongoing resilience to Planning Enforcement.
- Assisted the Community Partnership Officer with the consultation and implementation of Public Space Protection Orders (PSPO) borough wide.
- Successfully facilitated the removal of 4 traveller incursions.
- Played a leading and proactive role in the ongoing Council wide enforcement issues at Swift Lane.

4. Corporate enforcement is a growing area that touches many areas of the Council's activities and the demands on it are likely to only increase in the future.

Finance

5. The Finance department completed the 2017/18 budget in time for Council Tax setting in February 2017. 2017/18 was the first year in which the Council received no Central Government grant to provide services. The unaudited financial statements for 2017/18 were published on the Council's website in time for the 30th June deadline. The Council has received a clean audit report and value for money statement and there was only one recommendation made relating to preparation for faster closure next year.
6. Treasury management formed a big part of finance's activities last year with the need to borrow funds to purchase "The Square" and other properties. On the advice of Council's treasury advisors borrowings have been kept short, typically no longer than 6 months, and are spread round a number of public bodies. This has significantly reduced the Council's cost of borrowing although it has increased the workload for finance in placing, monitoring and renewing these loans.
7. The Finance restructure was completed in the summer with the appointment of some new staff. In particular Adrian Flynn's appointment as Chief Accountant has brought some urgently needed additional skilled resource to the service. He has been working with services to understand what they are looking for from him to support the team.
8. At the half way mark for 2017/18 the Council was ahead of budget and work has commenced on the budget for 2018/19. Whilst the investment in property has addressed some of the Council's financial challenges there is still the issue of negative grant, changes to new homes bonus and reductions in funding from Surrey which may present challenges – income generation will remain key and indeed this is an area that CMT have been working on. The Chancellors autumn statement in November could also include some surprises but also hopefully agreement that Surrey has been accepted in to a business rates pool thereby retaining more business rates within the county.

Legal Services

9. The team is involved in the major transactions such as the town centre and industrial estate 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.
10. Contracts have now been exchanged with Berkeley Homes and Legal Services are leading on the delivery of the first phase of works before Berkeley's start on site. This project has involved an enormous amount of work by the Legal Team, as well as the Corporate Property and I&D

teams. Sorting out the red tape around moving the bus stops has also been very challenging but at least planning permission for the overall scheme has now been granted.

11. The acquisitions have also required intense periods of activity when there are strict deadlines for exchange and completion as is so often the case with commercial property. However doing the legal work in-house not only provides a good variety of work for the Legal Team but also saves a considerable amount in fees!
12. The Ice Rink project has also required input within very tight timescales. The team has been involved in agreeing licences to occupy and procurement issues.
13. There have been a number of prosecutions for various offences, including fly tipping, supporting our colleagues in corporate enforcement. In particular there has been a lot of involvement in the enforcement action in relation to Swift Lane, together with a number of licensing hearings and public inquiries such as the Heath Park Woods application.
14. The team is also carrying out 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.
15. The team also provides advice and guidance in relation to the many FOI's that the Council now receives, and that number is growing fast.
16. Finally as mentioned last year the Legal Service has taken on the Council's first apprentice, Luke Jones who has passed his first exams towards his CILEX qualification, and is now studying for his second year.

Procurement

17. The Council has recently recruited a dedicated procurement officer, Mehefin Bell who sits in the Investment and Development area. She has assisted on a number of different procurements for professional advisors, builders and construction amongst other things.
18. The Executive agreed earlier in the year on a tender to determine the future of the Arena Leisure centre and this is on track to report back to Executive in the New Year.

Revenues and Benefits

19. Council tax and business rates together collect over £100m from residents and businesses annually. The Council tax collection rate for 2016/17 was 99.49% making us no 2 in the country and for Business Rates 98.81% putting us in the top quartile. The department continue to pursue arrears vigorously through attachment of earnings, liability orders, collection agents and winding up orders. This has resulted in the

almost 70% of the money outstanding in March 2017 from previous tax years being recovered. This recovery action sadly does lead to more complaints however given there are almost 39,000 individual tax payers accounts the number is very small. On a positive side the service does also receive a number of compliments for the service and assistance staff provide in both revenues and benefits.

20. The Revenues Department also ensure that the levy for the BID is billed; the money collected and passed on. This was done both in October 2016, when the bid was renewed, and then again for the new financial year.
21. In terms of benefits the caseload has remained reasonable steady with 1,272 new claims and 8,704 changes processed in the last 12 months. The introduction of "WURTI" which updates claimant's records automatically from the tax system has meant that there have been more changes and more overpayments generated as records are brought up to date. In the future the updating from live information should reduce overpayments and make benefits payments more accurate for claimants. Processing times have also been very good at 8 days for Housing Benefit and 7.85 days for Council Tax Reduction.
22. The introduction of Universal Credit has slipped from its original timetable and at the moment only a handful of residents are in receipt of this benefit. (Currently they have to be new claimants with no dependents and no claims history to go on to UC) The Government has given Surrey Heath a target date of August 2018 for all working claimants to be on Universal Credit and 2021 for pensioners to be transferred – we are waiting to see whether this will actually happen and are working with DWP on this.

Review of Reserves and Provisions

Summary

To enable Members to review the criteria for maintaining individual Reserves and Provisions, following the closure of the 2016/17 accounts and to make recommendations as appropriate.

Wards Affected

All

Recommendation

The Committee is asked to note the report and make recommendations as appropriate

1. Resource Implications

- 1.1 As at 31st March 2017 the Council had £21.35m in usable reserves which were backed by cash. The report makes an estimate as to the level of reserves as at the 31st March 2018 based on current knowledge together with schedules showing what each reserve is for and the rules regarding expenditure.
- 1.2 The cash that the reserves represent has been used to offset the Council's borrowings thereby reducing borrowing costs. Were these reserves required as cash for expenditure then this would increase borrowings.

2. Key Issues

- 2.1 The Council's reserves fall in to two categories. These are:
 - Usable reserves, which represent sum's put aside to cover future liabilities and/or capital purchases: Examples include the Interest Equalisation and Community fund 2002 reserves.
 - Unusable reserves are created as a result of rules on local government accounting. Examples include the Revaluation reserve and Pension reserve.
- 2.2 This paper only considers usable reserves.
- 2.3 Reserves are amounts set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. Generally they are:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves;

- A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves; or
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements
- An amount ring-fenced for specific purpose such as housing contributions from developers.

An example of this could be a reserve for future repairs.

- 2.4 The Council's Reserves are reviewed by officers whilst preparing the annual financial statements and are also subject to external audit.
- 2.5 Members are asked to consider whether the criteria for maintaining a specific reserve is appropriate and if it is, whether the amount put aside is adequate or not.

3. Proposals

- 3.1 It is proposed that the Committee note the report and make recommendations to the Executive as appropriate.

4. Supporting Information

- 4.1 A detailed schedules of reserves and accompanying information is attached to this paper.

5. Corporate Objectives And Key Priorities

- 5.1 Financial sustainability is a key aim of the Council and the use of reserves contributes to this.

6. Risk Management

- 6.1 Reserves and provisions are ways of managing future financial risk.

7. Officer Comments

- 7.1 Changes to the reserves and provisions can only be made if they do not breach any legal undertaking given by the Council and are financially prudent.

Annexes	A – List of Reserves and provisions B – Detailed schedules on each reserve and provision
Background Papers	None
Author/Contact Details	Sarah Parmenter – Senior Accountant Sarah.parmenter@surreyheath.gov.uk
Head Of Service	Kelvin Menon – Executive Head of Finance

ANNEX A

CASH BACKED CAPITAL AND REVENUE RESERVES 2016 TO 2018				
		Actual Balance	Actual Balance	Estimated Balance
		31/03/2016	31/03/2017	31/03/2018
		£000	£000	£000
Capital Reserves				
Capital Receipts		483	151	0
Earmarked Revenue purposes				
Affordable Housing		777	1,051	1,051
Atrium Public art		13	13	13
Atrium S106 Agreement		334	326	276
Blackwater Valley developers contributions		101	95	85
Chewing gum machine		10	8	6
Chobham and Town Team Partnership		5	5	5
Community fund 2002		300	253	178
C.I.L		288	500	500
C.I.L Admin and Monitoring		0	44	44
Commuted sums		628	598	550
Crime and disorder partnership		109	102	82
Custom Build		0	15	15
Deepcut Village Centre: Alma Dettingen		377	358	308
Frimley Lodge Park 3G Pitch		25	46	67
Heatherside: multi-use games area		33	33	27
Insurance reserve fund		203	203	203
Interest Equalisation		0	675	675
Land drainage		384	384	384
LLC Personal Search Revocation		34	23	0
New Burdens Fund		103	103	80
Old Dean toddlers playground		20	18	10
One Public Estate		0	119	119
Personalisation and Prevention Partnership Fund		57	87	87
Planning S106 Agreements		190	216	216
Planning Tariff Contributions		613	635	635
Property Maintenance		1,784	1,904	1,754
Recycling/Refuse Equalisation		206	180	150
Remediation fund		45	45	0
SANGS		997	1,245	500
Surrey Family Support Programme		201	242	192
Total Earmarked Reserves				
		7,837	9,526	8,212
Other Revenue reserves				
Capital Fund		9,672	9,445	9,145
General Fund		2,398	2,236	2,200
		12,070	11,681	11,345
TOTAL USABLE RESERVES				
		20,390	21,358	19,557

ANNEX B

ANNEX B

Fund	AFFORDABLE HOUSING
Purpose of Fund	Fund set up from Developers contributions where they are unable to provide Affordable Housing at their site to enable SHBC to provide Affordable Housing elsewhere or support the inclusion of affordable housing in developments where viability could be an issue.
Movement within year	Developer Contributions received and credited to the reserve
Restrictions of Use	The fund can only be used for the purpose stated above
Balance at 31st March 2017	£ 1.051m
Projected Balance at 31st March 2018	£ 1.051m
Approval of Spending	The Executive
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None
Criteria for calculating fund requirement	There is a formula for the calculation of affordable housing contributions made by developers in to the fund. Contributions are agreed on a scheme by scheme basis with the Regulatory Officers
Criteria for calculating annual contribution	N/A – from external contribution
Proposal	N/A – from external contribution
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	ATRIUM PUBLIC ART
Purpose of Fund	Fund for the construction and installation of the Atrium Public Art together with on-going maintenance and insurance costs. This fund receives interest on an annual basis
Movement within year	No maintenance was been required on the art. Interest has been credited to this account for 2016/17.
Restrictions of Use	The fund can only be used for the purpose agreed under the S106 Agreement
Balance at 31st March 2017	£ 13,000
Projected Balance at 31st March 2018	£ 13,000
Approval of Spending	The Executive
Monitoring	Executive Head of Finance
Proposed changes to policy	None
Criteria for calculating fund	The fund was created to ensure that it could meet on-going maintenance and costs and hence these would not fall on

requirement	the Council Tax Payer.
Criteria for calculating annual contribution	N/A – from external contribution
Proposal	N/A – from external contribution
Impact on Revenue Budget	Use of fund supports revenue expenditure but reduces investment income.

Fund	ATRIUM S106 AGREEMENT
Purpose of Fund	Fund set up from the Developer Contributions for Town Centre Management Improvements. This fund receives interest on an annual basis. During 17/18 part of the balance will be used to fund the Kevin Cantlon Shop Front Improvement Scheme
Movement within year	Expenditure incurred for CCTV scheduled maintenance during 2016/17. Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund can only be used in accordance with the S106 Agreement
Balance at 31st March 2017	£ 326,000
Projected Balance at 31st March 2018	£ 276,000
Approval of Spending	Delegated to Chief Executive – Executive 26 January 2010
Monitoring	Chief Executive
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A - from external contributions
Criteria for calculating annual Contribution	N/A – from external contributions
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	BLACKWATER VALLEY & DEVELOPER CONTRIBUTIONS
Purpose of Fund	Committed sum held to meet the annual maintenance costs and refurbishment of the recreational facilities at Crabtree Park, Watchmoor Reserve and Mytchett Recreation Ground.
Movement within year	Expenditure on improvements to, and the maintenance of, Crabtree Park, Watchmoor Reserve and Mytchett Recreation Ground.
Restrictions of Use	This fund can only be used for the purpose noted above
Balance at 31st March 2017	£ 95,000
Projected Balance	£ 85,000

at 31st March 2018	
Approval of Spending	The Executive
Monitoring	Executive Head of Business
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A
Criteria for calculating annual Contribution	N/A
Proposal	None
Impact on Revenue Budget	Eliminates impact on revenue budget of maintenance costs but use of fund reduces investment income

Fund	CHEWING GUM MACHINE (S106)
Purpose of Fund	Fund set up from S106 contribution from the Atrium Development, (Executive 6 May 2009 184/E refers), for the replacement of the chewing gum machine after 4 years and parts and consumables over the 8 year life of the extended street cleansing contract. This fund receives interest on an annual basis
Movement within year	Expenditure on maintenance of the machine and cleaning of designated areas. Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund is set aside for the purpose above and is therefore restricted in accordance with the S106 Agreement
Bal at 31st March 2017	£ 8,000
Projected Balance at 31st March 2018	£ 6,000
Approval of Spending	Executive
Monitoring	Executive Head of Community
Proposed changes to policy	None.
Criteria for calculating fund requirement	N/A.
Criteria for calculating annual contribution	N/A
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income

Fund	CHOBHAM AND TOWN TEAM PARTNERSHIP
Purpose of Fund	A ring fenced fund set up in 2012/13 to hold grant funds from the DCLG for the use of Chobham BEE to support the economic vitality of the village. These funds do not belong to Surrey Heath. The Council is a custodian and approved the expenditure.
Movement within year	No expenditure incurred for 2016/17
Restrictions of Use	This fund can only be in accordance with the DCLG conditions
Bal at 31st March 2017	£ 5,000
Projected Balance at 31st March 2018	£ 5,000
Approval of Spending	Executive Head of Finance on request from the Chobham BEE committee.
Monitoring	Executive Head of Finance
Proposed changes to policy	None can be made as the fund is ring fenced
Criteria for calculating fund requirement	A one off contribution made by the DCLG in 2012/13
Criteria for calculating annual contribution	A one off contribution made by the DCLG in 2012/13
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	COMMUNITY INFRASTRUCTURE LEVY
Purpose of Fund	This reserve holds balances relating to the timing differences between collection of the levy and the allocation of spending.
Movement within year	Transfer into the reserve of net income received during 2016/17. Interest was also credited for 2016/17
Restrictions of Use	This fund can only be used in accordance with the CIL Conditions
Balance at 31st March 2017	£ 500,000
Projected Balance at 31st March 2018	£ 0
Approval of Spending	Executive Head of Regulatory
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None – this fund is being built up to support the Town centre regeneration. It is assumed it will be used to support a LEP project
Criteria for calculating fund requirement	N/A – from external contributions.
Criteria for	N/A – from external contributions.

calculating annual contribution	
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	COMMUNITY INFRASTRUCTURE LEVY – Admin and Monitoring
Purpose of Fund	Fund set up 2016/17, to cover the officer costs of monitoring the Community Infrastructure Levy Administration and Monitoring (for the collection of the levy and allocation of the spending).
Movement within year	Transfer into the reserve of net income received during 2016/17.
Restrictions of Use	This fund can only be for the purpose noted above
Balance at 31st March 2017	£ 44,000
Projected Balance at 31st March 2018	£ 44,000
Approval of Spending	Executive Head of Regulatory
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – from external contributions.
Criteria for calculating annual contribution	N/A – from external contributions.
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	COMMUNITY FUND (2002)
Purpose of Fund	Fund set up in 2002/03 to make grants to community based organisations. Although it is estimated that £75,000 of this will be spent each year all grants are made are subject to Executive approval.
Movement within year	Expenditure for community grants, as approved by the Executive.
Restrictions of Use	The Executive can amend or remove any restrictions as it sees fit.
Balance at 31st March 2016	£ 253,000
Projected Balance at 31st March 2017	£ 178,000
Approval of Spending	The Executive

Monitoring	Fund commitments updated with each report to the Executive.
Proposed changes to policy	None.
Criteria for calculating fund requirement	A one off contribution made from General fund in 2002/03
Criteria for calculating annual Contribution	A one off contribution made from General fund in 2002/03.
Impact on Revenue Budget	None – grants should not have any direct revenue implications for the Council however use of fund reduces investment income.

Fund	COMMUTED SUMS
Purpose of Fund	Funds contributed by developers for the maintenance of open spaces and recreational amenities e.g. playground equipment to cover their annual maintenance and eventual refurbishment. Interest has been credited to this account for 2016/17.
Movement within year	Expenditure on Deanside, Camberley Park, Wellington Park and Upland Road Play Area.
Restrictions of Use	This fund can only be used for the purpose noted above
Bal at 31st March 2017	£ 598,000
Projected Balance at 31st March 2018	£ 550,000
Approval of Spending	Executive
Monitoring	Executive Head of Business
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – from external contributions.
Criteria for calculating annual Contribution	N/A – from external contributions.
Proposal	None.
Impact on Revenue Budget	Reduces the cost of maintenance in the revenue budget but use of fund reduces investment income

Fund	CRIME AND DISORDER PARTNERSHIP
Purpose of Fund	Fund set up in 2000/01 to finance Community Safety activities of mutual benefit to the whole partnership set up under the Crime and Disorder Act 1999 e.g. Safety Campaigns and Your Sanctuary (Domestic Abuse Support) February 2017 Executive agreed a transfer of £20,000 from this fund during 2017/18
Movement within	The net expenditure for 2016/17 totalled £7.5K

year	
Restrictions of Use	This fund can only be used for the purpose noted above
Bal at 31st March 2017	£ 102,000
Projected Balance at 31st March 2018	£ 82,000
Approval of Spending	The partners in the Responsible Authorities Group of Surrey County Council, North West Surrey Police and this Council who approve all spend on schemes.
Monitoring	Chief Executive / Transformation Team Manager
Proposed changes to policy	None.
Criteria for calculating fund requirement	None.
Criteria for calculating annual contribution	None.
Proposal	None.
Impact on Revenue Budget	None - grants should not have any direct revenue implications for the Council however use of fund reduces investment income

Fund	CUSTOM BUILD
Purpose of Fund	Fund set up at year end 2016/17 from money received from Central Government so that Planning Departments can produce and maintain the Brownfield Register and Self Build Registers required under legislation
Movement within year	Transfer into the reserve of net income received during 2016/17.
Restrictions of Use	This fund can only be used for the purpose noted above
Bal at 31st March 2017	£ 15,000
Projected Balance at 31st March 2018	£ 15,000
Approval of Spending	Executive Head of Regulatory
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None.
Criteria for calculating fund requirement	N/A – from external contributions.
Criteria for calculating annual contribution	N/A – from external contributions.
Proposal	None.
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	DEEPCUT VLLAGE CENTRE (COMMUTED SUMS - LEISURE SERVICES)
Purpose of Fund	Sum set aside to provide for maintenance of Deepcut Village Centre. This fund receives interest on an annual basis
Movement within year	Expenditure on works to remodel the centre. Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund can only be used for the purpose noted above
Balance at 31st March 2017	£ 358,000
Projected Balance at 31st March 2018	£ 308,000
Approval of Spending	Executive Head of Business
Monitoring	Executive Head of Business
Proposed changes to policy	None.
Criteria for calculating fund requirement	None
Criteria for calculating annual contribution	None
Impact on Revenue Budget	Prevents future maintenance costs being charged to revenue but use of fund reduces investment income

Fund	FRIMLEY LODGE PARK 3G PITCH
Purpose of Fund	Sum set aside, via an annual transfer of £21K per annum from the revenue budget to provide for maintenance/replacement of the 3G Pitch Surface. Executive 16 July 2014, minute ref 27/E refers
Movement within year	Transfer from the revenue budget as per the above
Restrictions of Use	This fund can only be used for the purpose noted above
Balance at 31st March 2017	£ 46,000
Projected Balance at 31st March 2018	£ 67,000
Approval of Spending	Executive Head of Business
Monitoring	Executive Head of Business
Proposed changes to policy	None.
Criteria for calculating fund requirement	None
Criteria for calculating annual contribution	None
Impact on Revenue	Prevents future maintenance/replacement costs being

Budget	charged to revenue but use of fund reduces investment income
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Fund	HEATHERSIDE MULTI-USE GAMES
Purpose of Fund	To provide a fund to cover future maintenance of this facility This fund receives interest on an annual basis
Movement within year	Expenditure on repairs and new equipment for the area. Interest has been credited to this account for 2016/17. Planned Health and Safety works are to be carried out during 2017/18.
Restrictions of Use	This fund can only be used for the purpose noted above.
Balance at 31st March 2017	£ 33,000
Projected Balance at 31st March 2018	£ 27,000
Approval of Spending	The Executive
Monitoring	Executive Head of Business
Proposed changes to policy	None.
Criteria for calculating fund requirement	None.
Criteria for calculating annual contribution	None.
Proposal	None.
Impact on Revenue Budget	None directly but use of fund reduces investment income,

Fund	INSURANCE RESERVE
Purpose of Fund	Comprises a sum set aside in connection with the run-down of Municipal Mutual Insurance (MMI) and the contribution towards costs. It also available for risk management and to cover uninsured losses.
Movement within year	None
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 203,000
Projected Balance at 31st March 2018	£ 203,000
Approval of Spending	Executive Head of Finance
Monitoring	Executive Head of Finance
Proposed changes to policy	None
Criteria for calculating fund	Municipal Mutual (MM) provides a twice yearly statement of Payments/Recoveries and estimated Outstanding Claims.

requirement	MM's Finance Director advised the Council's liability may last until 2024.
Criteria for calculating annual contribution	No budgeted contributions to be budgeted.
Proposal	None
Impact on Revenue Budget	The fund means any claims made should not fall on revenue but use of fund reduces investment income

Fund	INTEREST EQUALISATION
Purpose of Fund	To provide a fund to deal offset the interest rate risk associated with the Council's borrowings.
Movement within year	Transfer to the reserve of additional investment income received not budgeted for
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 675,000
Projected Balance at 31st March 2018	£ 1,200,000
Approval of Spending	Executive Head of Finance
Monitoring	Executive Head of Finance
Proposed changes to policy	None
Criteria for calculating fund requirement	Review of the total annual interest received against budget.
Criteria for calculating annual contribution	None
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income

Fund	LAND DRAINAGE
Purpose of Fund	To finance land drainage schemes. This fund can only be used for expenditure on Council owned land
Movement within year	None
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 384,000
Projected Balance at 31st March 2018	£ 384,000
Approval of Spending	Executive
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None.

Criteria for calculating fund requirement	None.
Criteria for calculating annual contribution	None.
Proposal	None
Impact on Revenue Budget	None but without the fund any significant drainage costs would fall on revenue and use of fund reduces investment income.

Fund	LOCAL LAND CHARGES REVOCATION FUND
Purpose of Fund	Grant from a DCLG Grant following a legal judgement to finance claims for refunds of Personal Search fees from August 2005 – August 2010
Movement within year	Grant income as litigation continues and we are hopeful of a resolution during 2017/18 resulting in this fund being fully utilised.
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 23,000
Projected Balance at 31st March 2018	£ NIL
Approval of Spending	Executive
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None
Criteria for calculating fund requirement	The potential cost of claims may exceed this figure
Criteria for calculating annual contribution	N/A
Proposal	None
Impact on Revenue Budget	The fund reduces the impact of the cost of any potential refunds but use of fund reduces investment income.

Fund	NEW BURDENS
Purpose of Fund	DCLG Funding set aside to allow for additional resources required for Central Government legislation and regulations that have come into force under the Localism Act. We have also received funding for Community Rights to Challenge and Assets of Community Value.
Movement within year	No income or expenditure throughout the year
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st	£ 103,000

March 2017	
Projected Balance at 31st March 2018	£ 80,000
Approval of Spending	Executive Head of Finance
Monitoring	Executive Head of Finance
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – external contributions
Criteria for calculating annual contribution	N/A – external contributions
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income

Fund	OLD DEAN TODDLERS PLAYGROUND
Purpose of Fund	Fund set up to finance the revenue costs of future maintenance so that these do not fall on the Council. During 2017/18 additional funding will be spent out of the reserve to replace the equipment that is no longer fit for use. This fund receives interest on an annual basis
Movement within year	Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund can only be used for the above
Balance at 31st March 2017	£ 18,000
Projected Balance at 31st March 2018	£ 10,000
Approval of Spending	Executive Head of Business
Monitoring	Executive Head of Business
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – external contributions
Criteria for calculating annual contribution	N/A – external contributions
Proposal	None
Impact on Revenue Budget	Prevents costs of maintenance falling on revenue but use of fund reduces investment income.

Fund	ONE PUBLIC ESTATE
	Fund set up at year end 2016/17 from money awarded to SHBC from the Governments One Public Estate Programme

	to explore the possibilities around release of publicly owned land for residential development
Movement within year	Transfer into the reserve of net income received during 2016/17.
Restrictions of Use	This fund can only be used for the above
Balance at 31st March 2017	£ 119,000
Projected Balance at 31st March 2018	£ 0
Approval of Spending	Executive Head of Regulatory
Monitoring	Executive Head of Regulatory
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – external contributions
Criteria for calculating annual contribution	N/A – external contributions
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income

Fund	PERSONALISATION AND PREVENTION PARTNERSHIP FUND
Purpose of Fund	Funded by Surrey County Council to enable Surrey Heath BC to invest in projects which, through improved efficiency and increased income will benefit the older community. It is assumed that this will be used in the year on works at Windle Valley
Movement within year	£30,000 transferred into this reserve to fund the underspend in revenue expenditure during 2016/17 as this income is ring-fenced
Restrictions of Use	This fund can only be used for the purpose noted above.
Balance at 31st March 2017	£ 87,000
Projected Balance at 31st March 2018	£ 0
Approval of Spending	The Executive
Monitoring	Executive Head of Community
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – external contributions
Criteria for calculating annual contribution	N/A – external contributions

Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	PLANNING S106 AGREEMENTS
Purpose of Fund	Fund set up from Developer contributions collected to fulfil specific financial obligations contained in S106 Agreements and are to be used for specific projects and purposes as detailed in the Section 106 Agreements. This fund receives interest on an annual basis
Movement within year	No expenditure during 2016/17, transfer of income into the reserve. Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund can only be used for the purpose noted above.
Balance at 31st March 2017	£ 216,000
Projected Balance at 31st March 2018	£ 150,000
Approval of Spending	Executive Head of Regulatory
Monitoring	Development Control Manager / S106 Officer
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – external contributions
Criteria for calculating annual contribution	N/A – external contributions
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	PLANNING TARIFF CONTRIBUTIONS
Purpose of Fund	Fund set up from Developer Contributions collected via the Surrey Heath Developer Tariff Scheme for the provision of additional infrastructure projects in the borough in order to mitigate the impact of new development on local infrastructure. It has been assumed that this will be used to support LEP bids. This fund receives interest on an annual basis
Movement within year	Revenue net expenditure transferred into the reserve for 2016/17. Interest has been credited to this account for 2016/17.
Restrictions of Use	This fund can only be used for the purpose noted above.
Balance at 31st March 2017	£ 635,000
Projected Balance at 31st March 2018	£ 135,000
Approval of	Executive

Spending	
Monitoring	Development Manager / S106 Officer
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – set by tariff
Criteria for calculating annual contribution	N/A – set by level of tariff
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	RECYCLING EQUALISATION FUND
Purpose of Fund	To mitigate the effect of volatility in prices for recycled materials, to provide a maintenance fund for the depot and to support the role out of the new waste contract.
Movement within year	No expenditure incurred within the year. £30,000 expenditure has been built into the 2017/18 budget.
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 180,000
Projected Balance at 31st March 2018	£ 150,000
Approval of Spending	Executive
Monitoring	Executive Head of Community
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A
Criteria for calculating annual contribution	N/A
Proposal	None
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	REMEDIATION FUND
Purpose of Fund	Fund set up to cover the prevention/ remediation costs of land damaged by traveller incursions. This fund is expected to be fully utilised in 2017/18 for Swift Lane
Movement within year	No expenditure incurred within the year
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 45,000

Projected Balance at 31st March 2018	£ NIL
Approval of Spending	The Executive
Monitoring	Executive Head of Regulatory.
Proposed changes to policy	None.
Criteria for calculating fund requirement	Further funding may be required to cover various issues at traveller sites subject to Executive approval.
Criteria for calculating annual contribution	N/A.
Proposal	None.
Impact on Revenue Budget	Prevents costs of remediation being charged to revenue but use of fund reduces investment income

Fund	REPAIRS AND MAINTENANCE FUND
Purpose of Fund	Fund to cover on going repairs and renewals and property maintenance costs. February 2017 Executive agreed a transfer of £150,000 from this reserve for 2017/18
Movement within year	The PPM revenue budget was under spent by £119,000 so a transfer was made to the reserve to the GFWB.
Restrictions of Use	The Executive can amend or close the fund
Balance at 31st March 2017	£ 1.904m
Projected Balance at 31st March 2018	£ 1.754m
Approval of Spending	Executive Head of Finance
Monitoring	Estates and Asset Manager
Proposed changes to policy	None.
Criteria for calculating fund requirement	The anticipated annualised cost of all of the works on the council's assets should they need to be completed at the same time.
Criteria for calculating annual contribution	There is an annual budget of £130,000 for property maintenance. Any underspend is then transferred to this fund.
Proposal	None.
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	SANGS (SUITABLE ALTERNATIVE NATURAL GREEN SPACE)
Purpose of Fund	Planning tariff contributions to finance the provision and maintenance of SANGS for SPA mitigation for perpetuity. It also is used to fund the purchase and maintenance of land to

	be used as SANGS. This fund receives interest on an annual basis
Movement within year	Revenue net expenditure transferred into the reserve for 2016/17.
Restrictions of Use	This fund is restricted to the purpose above.
Balance at 31st March 2017	£ 1.245m
Projected Balance at 31st March 2018	£ 0.500m
Approval of Spending	Executive Head of Regulatory and Executive Head of Business
Monitoring	Planning Policy and Support Manager / Recreation and Business Manager
Proposed changes to policy	None
Criteria for calculating fund requirement	N/A – set by Tariff
Criteria for calculating annual Contribution	N/A – set by tariff
Proposal	None
Impact on Revenue Budget	The council has agreed to maintain the SANGS in perpetuity so the reserve is required to fund this obligation. Use of fund reduces investment income.

Fund	SURREY FAMILY SUPPORT PROGRAMME
Purpose of Fund	Funding is received from SCC to deliver the Troubled Families Project locally and SHBC are working jointly with Runnymede BC February 2017 Executive agreed £50,000 would be transferred from this reserve during 2017/18
Movement within year	DCLG grant underspend transferred into the reserve for 16/17 as the income is ring fenced for this project. This will be used in the coming year.
Restrictions of Use	This reserve can only be used for the above purpose.
Balance at 31st March 2017	£ 242,000
Projected Balance at 31st March 2018	£ 192,000
Approval of Spending	Executive Head Regulatory Services
Monitoring	Family Support Officer
Proposed changes to policy	None
Criteria for calculating fund requirement	None
Criteria for calculating annual contribution	None

Proposal	None.
Impact on Revenue Budget	None directly but use of fund reduces investment income.

Fund	CAPITAL FUND
Purpose of Fund	Revenue funds put aside to fund future capital expenditure in line with council policy. As approved by Executive £250,000 of this fund will be used to fund the Transformation Budget 2017/18 along with £100,000 for survey work in the Town Centre. This fund also includes unspent new homes bonus payments
Movement within year	£28,000 transferred in from ICT to be ring-fenced for ICT, £250,000 transferred into the GFWB Executive Feb 2016 Minute 59/E refers and £4,975 transferred to the GFWB for revenue over-spend Executive September 2013 Minute 40/E refers
Restrictions of Use	The fund can be amended or closed by Executive
Balance at 31st March 2017	£ 9.445m
Projected Balance at 31st March 2018	£ 9.145m
Review	The Council will be unable to fund its capital expenditure from Capital receipts within the next year and this fund will be needed to maintain that programme.
Approval of Spending	Executive / Executive Head of Finance
Monitoring	Chief Executive / Executive Head of Finance
Proposed changes to policy	None.
Criteria for calculating fund requirement	None.
Criteria for calculating annual contribution	A transfer can be made each year from the Repairs & Renewals Fund equal to expenditure incurred but charged to capital. This is to compensate for the additional unplanned use of capital reserves and thus maintain the capital balances.
Proposal	None
Impact on Revenue Budget	None.

Fund	GENERAL FUND WORKING BALANCE
Purpose of Fund	To meet day-to-day cash flow requirements and to provide a general contingency which is used to fund non-budgeted service expenditure requirements, and other unforeseen risks, which were not identified in the budget setting process

Restrictions of Use	Expenditure is subject to Executive/Full Council Approval.
Balance at 31st March 2017	£ 2.236m
Projected Balance at 31st March 2018	£ 2.200m
Review	The GFWB generates interest to support revenue expenditure and also provides a contingency for unexpected fluctuations in income and expenditure.
Approval of Spending	The Executive and full council through the setting of the budget
Monitoring	The Executive Head of Finance, Section 151 Officer, reports to the Performance and Finance Scrutiny Committee and The Executive.
Criteria for calculating fund requirement	The General Fund must be sufficient to cover unforeseen events.
Criteria for calculating annual contribution	The level of annual contribution or withdrawal is determined annually as part of the budget strategy, taking into account finances available to support General Fund services and the financial target of the working balance.
Proposal	None.
Impact on Revenue Budget	An increase or decrease in this fund has a direct impact on the Council's revenue expenditure.

Fund	CAPITAL RECEIPTS RESERVE
Purpose of Fund	Receipts from sales of council assets used to finance the approved capital programme
Movement within year	Expenditure in line with the approved Capital Programme for 2016/17
Restrictions of Use	This fund can only be used to purchase new capital assets.
Balance at 31st March 2017	£ 151,000
Projected Balance at 31st March 2018	£ NIL
Review	The projected balance anticipates the delivery of the approved capital programme in 2017/18. No major capital receipts have been budgeted for in 2017/18 .
Approval of Spending	Full Council on the recommendation of Executive
Monitoring	Executive Head of Finance
Proposed changes to policy	None.
Criteria for calculating fund requirement	This fund can only be increased from the sale of assets.
Criteria for calculating annual	None.

contribution	
Impact on Balances	Any sum available for new capital initiatives will be considered when the corporate capital programme is being prepared.
Impact on Revenue Budget	None but the reduction in the balance will have an effect on investment income. This may be offset by sales of assets in the year

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Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2016/17

Summary

Report to advise members of the Treasury Management Service performance and to illustrate the compliance with the Prudential Indicators for 2016/17.

Wards Affected

All

Recommendation

The Committee is asked to RESOLVE to note the report on Treasury Management including compliance with the 2016/17 Prudential Indicators.

1. Resource Implications

- 1.1 None directly as a result of this paper, but the Council is heavily dependant on investment income to support its current revenue expenditure. The table below shows investment income from treasury activities (excluding Iceland) from 2011/12 to 2016/17.

1.2

Year	Investment income from treasury activities	Increase/decrease compared to previous year	
	£'000	£0	%
2011/12	215	-49	-18.60%
2012/13	300	85	39.50%
2013/14	208	-92	-42.80%
2014/15	273	35	17.00%
2015/16	515	242	88.80%
2016/17	488	-27	-9.90%

- 1.3 Although treasury income returns decreased slightly in 2016/17 this was against a backdrop of a continuing low interest rate environment nationally coupled with the redemption of investments to repay borrowing. .

2. Key Issues

- 2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at

least twice a year. This report informs members of the outcome of treasury activities in the last year and a further report later in the year will report on the first 6 months.

- 2.2 Treasury management is defined as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2.3 The Council’s treasury activity, in common with all other investors, is subject to risks arising from the strength of financial markets and changing interest rates. Although overall responsibility for Treasury Management does rest with the Council, the Council has engaged professional advisors to advise them and therefore to manage and minimise these risks. That said no treasury management activity is without risk and it is the balancing of these risks against returns that forms a key part of the treasury strategy.
- 2.4 This report is the annual report for the 2016/17 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2016/17 Prudential Indicators.
- 2.5 This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government (DCLG) Investment Guidance, and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 2.6 This is the second year that the Council borrowed externally to purchase property and the impact of this is included within this report.

3. Proposals

- 3.1 It is proposed that the Committee NOTE the report on Treasury Management including compliance with the 2016/17 Prudential Indicators.

4. Supporting Information

Treasury Management Strategy 2016/17

- 4.1 The Council approved the 2016/17 Treasury Management Strategy, which includes the investment strategy, at its meeting on the 9th February 2016. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions. Further amendments to the strategy to increase the Council’s borrowing limit were approved on 24th August 2016 and 9th November 2016.

Investment Strategy 2016/17

- 4.2 The approved investment strategy for 2016/17 adopted a view to investment that sought to balance risk against return. It maintained a policy, on the advice of our treasury advisors Arlingclose, of diversifying investments including longer term investment funds which give a good return but can be more volatile.
- 4.3 The Council continued to use a limited range of UK banks and building societies with investments being placed generally for short periods only. This was not only because of the poor rates offered but also the risk of bail in due to changes in legislation in 2016. A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A bail-in is the opposite of a bail-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayers' money.

Borrowing Strategy 2016/17

- 4.4 The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2017 was £140.2m (£18.1m at 31 March 2016).
- 4.5 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. However, new borrowing entered in to this year has been at variable rates and for short term.

Treasury Advisors

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

Borrowing and Investment Activity in 2016/17

Borrowing Activity 2016/17

- 4.7 At 31/03/2017 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £140.2m, while usable reserves and working capital which are the underlying resources available for investment were £21.4m on an accruals basis.
- 4.8 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

- 4.9 At 31/03/2017, the Authority had £119m (£17.9m at 31 March 2016) of borrowing and £11.5m (£27.7m at 31 March 2016) of treasury investments. The reason for the sharp change in borrowing and investments over the year was twofold. Firstly the Council borrowed significantly to acquire investment property, in particular the Camberley shopping centre, and secondly treasury investments were sold in order to repay borrowing thereby reducing risk. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum short-term investment balance of £5m.
- 4.10 The Authority is predicted to have an increasing CFR over the next 3 years due to the capital programme of up to £45m due to future property acquisitions.
- 4.11 During the year the Council entered in to £101.5m of new short term borrowing. The details are given in the table below:

	31.03.16 Balance £m	2016/17 Movement £m	31.03.17 Balance £m	31.03.17 Rate %
Public Works Loan Board	-16.5	0.1	-16.4	2.9
Local authorities (long term)	-1.5	0.4	-1.1	0.0
Local authorities (short term)	-	-101.5	-101.5	0.3
Total Borrowing	-18.0	-101.0	-119.0	1.1

Investment Activity 2016/17

- 4.12 The Authority held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Authority's investment balances have ranged between £10million and £34million. Investment balances decreased to £10million at 31st March 2017 as funds were used to repay short term borrowing. 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.
- 4.13 The table below shows a summary of the investment activity for 2016/17:

Investment Counterparty	Balance on 1/4/16	Investments Made	Maturities/Investments Sold	Balance on 31/3/17	Average Rate at 31st March
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	0	438	-438	0	0.15
- Long Term	0	0	0	0	-
UK Local Authorities					
- Short Term	5,500	2,000	-5,500	2,000	0.79
- Long Term	2,000	0	0	2,000	1.30
Banks, Building Societies & Other Organisations					
- Short Term	5,259	74,280	-74,105	5,434	0.55
- Long Term	0	0	0	0	-
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	6,973	36,934	-43,906	0	0.49
- Long Term	7,962	0	-5,908	2,054	3.64
Total Investments	27,693	113,652	-129,857	11,488	

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

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

4.16 Investments during the year included:

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

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

Credit Risk

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

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	3.74	AA-	2.79	AA
30/06/2015	4.03	AA-	2.72	AA
30/09/2015	4.07	AA-	2.54	AA
31/12/2015	4.75	A+	2.92	AA
31/03/2016	4.26	AA-	2.35	AA
31/03/2017	4.99	A+	3.06	AA

Scoring:

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

Budgeted Income and Outturn

- 4.19 The average cash balances were £27m during the year. The Authority's best performing investments in 2016/17 were its £7m of externally managed pooled (bond, equity and property) funds. These generated an average total return of 3.64%, comprising £0.3m income return used to support services in year. Because these funds have no defined maturity date, but are available for withdrawal after notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. In light of their strong performance and the Authority's latest cash flow forecasts, investment in the property fund has been maintained for the 2017/18 financial year.
- 4.20 The Authority's budgeted investment income for the year was £0.3m. The Authority's investment outturn for the year was £0.5m.

Externally Managed Funds

- 4.21 The Authority disposed of its investments in strategic bond and equity funds but maintained its investment in property funds. The property fund is operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; it also offers enhanced returns over the longer term but are more volatile in the short-term.

All of the Authority's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

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

Update on Investments with Icelandic Banks

- 4.23 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.
- 4.24 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

- 4.25 The Council can confirm that it has complied with its Prudential Indicators for 2016/17, which were approved on 9th February 2016 by Full Council as part of the Council's Treasury Management Strategy Statement. Further amendments to the strategy to increase the Council's borrowing limit were approved on 24th August 2016 and 9th November 2016. Full details are included in Annex C.
- 4.26 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2016/17. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

Borrowing Strategy for 2017/18

- 4.27 On the advice of the Council's Treasury advisors the Council has continued to borrow short term from other public bodies rather than longer term from the Public Works Loans Board (PWLB) in order to take advantage of low interest rates. It is our advisors view that rates are unlikely to increase significantly within the next 2 years but that the Council should seek to fix for the longer term so to minimise interest rate risk.
- 4.28 Although the PWLB offers easy access to funds it does not necessarily offer the lowest rates for longer term borrowing and rates can only be fixed on the day

they are borrowed. Arling Close have advised us that potentially the market is able to offer better rates as Councils are viewed favourably and that they are in the market to offer a fixed rate borrowing option for a time in the future. This would mean that the Council would be able to continue to take advantage of low short term rates but be able to minimise the risk of rate rises in the future. Although going to market will have an initial cost this will be more than recovered in interest savings over the life of the loan. It is therefore proposed that consultants be engaged to go to market with the cost of the exercise coming out of interest savings

5. Corporate Objectives And Key Priorities

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

6. Policy Framework

6.1 The 2016/17 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on the 9th February 2016. These set out the parameters under which Treasury Management operates including the Prudential Indicators.

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

- New borrowing is contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.
- Investments are made in accordance with the CLG guidance on Local Authority Investments, on the basis of Fitch, Moody's and Standard & Poors credit ratings and as detailed in the Treasury Management Policy statement and approved schedules and practices.
- Sufficient funds are available to meet the Council's estimated outgoings for any day.
- Investment objectives are to maximise the return to the Council, subject to the overriding need to protect the capital sum.

7. Legal Issues

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

8. Risk Management

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

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

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

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

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

8.3 The limits applied in respect of counterparties and investments are the overall limits approved by Council in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Executive Head of Finance in consultation with the Portfolio Holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

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

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

Annexes	Annex A – Investments as at 31 st March 2017 Annex B - Compliance with Prudential Indicators Annex C – Economic and other background information from Arlingclose Limited.
Background Papers	Prudential Code for Capital Finance in Local Authorities
Author/Contact Details	Nahidah Cuthbert Nahidah.cuthbert@surreyheath.gov.uk
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Treasury Related Investment Balances as at 31st March 2017				
Investments	Notes	Maturity Date	Interest Rate %	Principal
				£
<u>Cash and Cash Equivalents</u>				
NatWest Business Reserve Account	On call		0.01	2,295,134
NatWest Central Account			0.01	1,092,010
Coventry Building Society		28-Apr-17	0.37	2,046,968
Lancashire County Council		28-Apr-17	0.35	2,000,000
Total Cash and Cash Equivalents				7,434,112
<u>Long Term Investments</u>				
<u>Loans and Receivables</u>				
Glasgow City Council		30-Oct-18	1.30	2,000,000
<u>Available for Sale</u>				
CCLA Property Fund		Long term	3.40	2,053,609
Total Long Term Investments				4,053,609
Total Investments				11,487,721

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2016/17, which were set in February 2016 then subsequently amended in August 2016 and November 2016.

Treasury Management Indicators

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

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

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	£167m	£190m	£190m
Actual	£0.5m		
Upper limit on variable interest rate exposure	£0	£0	£0
Actual	£0.04m		

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%	86%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	2%
5 years and within 10 years	100%	0%	1%
10 years and within 20 years	100%	0%	2%
20 years and within 30 years	100%	0%	2%
30 years and within 40 years	100%	0%	3%
Over 40 years	100%	0%	4%

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

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by

seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

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

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

	Target	Actual
Portfolio average credit rating	A	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. The Authority also has the option to borrow on a daily basis on the open market.

	Target	Actual
Total cash available within 3 months	£5m	£7m

Prudential Indicators 2016/17

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

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2016/17 Actual	2016/17 Estimate	2017/18 Estimate
	£m	£m	£m
Capital Program	123.0	122.3	3.9
Total Expenditure	123.0	122.3	3.9
Capital Receipts	0.2	0.5	0.1
Government Grants	0.5	0.6	0.6
Reserves	0.1	0.3	
Revenue	-	0.0	
Borrowing	122.1	120.9	
Total Financing	0.0	-	3.2

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

	31.03.17 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Capital Financing Requirement	140	139	141

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

Debt	31.03.17 Actual	31.03.17 Estimate	31.03.18 Estimate
	£m	£m	£m
Borrowing	119	121	135
Capital Financing Requirement	140	139	141
Headroom	21	18	6

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	157	157	157
Total Debt	157	157	157

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

Authorised Limit	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	167	167	167
Total Debt	167	167	167

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

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

Ratio of Financing Costs to Net Revenue Stream	2016/17 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	0.1	-16	-39

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

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual Band D Council Tax	8.16	11.46	6.63

Adoption of the CIPFA Treasury Management Code:

The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 9th February 2016.

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

Economic Review

As we entered 2016, there was a significant uncertainty about the outlook for global growth. The slowdown in the Chinese economy and the knock-on effects for both trading partners and commodity prices, the uncertainty over the outcome of the US presidential election (no clear party or candidate being identified as an outright winner) and the impending referendum on the UK's future relationship with the EU, all resulted in nervousness and a shaky start for markets.

Data released in the April-June quarter showed UK GDP at 2% year/year to March 2016 and annual inflation at 0.3% in May. Core inflation remained subdued as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. Internationally, a modest pace of growth in the UK's main trading partners remained the most likely prospect.

Fluctuations in the opinion polls on the EU referendum prompted pronounced volatility in exchange rates, gilts, corporate bonds and equities as the result became increasingly uncertain. Immediately prior to the result, financial market sentiment shifted significantly in favour of a Remain outcome, a shift swiftly reversed as the results came in. The vote to leave the EU sent shockwaves through the domestic, European and global political spectrum, the most immediate impact being the resignation of Prime Minister David Cameron.

Between 23rd June and 1st July the sterling exchange rate index fell by 9% and short-term volatility of sterling against the dollar increased significantly. Worldwide, markets reacted very negatively with a big initial fall in equity prices. Government bond yields also fell sharply by 20-30 bp across all maturities (i.e. prices rose) as investors sought safe haven from riskier assets. The 10-year benchmark gilt yield fell from 1.37% to 0.86%.

Yet, a week on from the result the overall market reaction, although significant, was less severe than some had feared. The 5-year CDS for the UK (the cost of insuring against a sovereign default) rose from 33.5 basis points to 38.4 basis points. The FTSE All Share index, having fallen sharply by 7% from 3,481 points on 23rd June to 3,237 after the result, had subsequently risen to 3,515 by the end of the month.

The Bank of England sought to reassure markets and investors. Governor Mark Carney's speeches on 24th and 30th June in response to the referendum result stressed that the Bank was ready to support money market liquidity and raised the likelihood of a cut in policy rates 'in the summer'. The door was also left open for an increase in the Bank's asset purchase facility (QE). The Governor noted that the Bank would weigh the downside risks to growth against the upside risks to inflation from fall in the value of sterling.

Counterparty Update

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.

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.

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

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. In the coming weeks and months Arlingclose will therefore review all UK based institutions, and it is likely that, over time, will advise shortening durations on those institutions considered to be most affected.

Following the UK's vote to leave the European Union, the economic outlook for the UK has immeasurably altered. It will to a large extent be dependent on the nature of the future relationship negotiated with the EU, particularly in relationship to trade. The negotiations crucially hinge on domestic politics which, at the end of the June quarter, were unsettled themselves.

The domestic outlook is uncertain, but likely to be substantially weaker in the short term than previously forecast. 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. The likely path for Bank Rate is downwards and the central case is 0.25%, but there is a 40% possibility of that the rate is cut to zero.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate 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.

Money Market Data and PWLB Rates

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

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	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
Average	0.50	0.36	0.36	0.38	0.46	0.60	0.86	0.77	0.83	0.98
Maximum	0.50	0.36	0.37	0.39	0.47	0.62	0.90	0.88	0.99	1.20
Minimum	0.50	0.35	0.36	0.37	0.40	0.50	0.73	0.49	0.49	0.58
Spread	--	0.01	0.01	0.02	0.07	0.12	0.17	0.39	0.50	0.62

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
	Low	1.09	1.41	2.05	2.76	2.79	2.59	2.56
	Average	1.31	1.79	2.46	3.17	3.23	3.07	3.03
	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
	Low	1.24	1.51	2.11	2.55	2.79	2.86
	Average	1.48	1.83	2.48	2.91	3.15	3.23

	High	1.59	1.99	2.68	3.11	3.34	3.42
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Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre- CSR	Pre- CSR	Pre- CSR	Post- CSR	Post- CSR	Post- CSR
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
Low	1.51	1.52	1.52	0.61	0.62	0.62
Average	1.53	1.55	1.57	0.63	0.65	0.67
High	1.55	1.56	1.60	0.65	0.66	0.70

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Treasury Management Mid-year Report for 2017/18

Summary

This Report advises members of the Treasury Management Service performance for 2017/18 as at 30th September 2017 and illustrates the compliance to-date with the Prudential Indicators for 2017/18.

WARDS AFFECTED

All

RECOMMENDATION

The Committee is advised to NOTE and COMMENT on the report.

1. EXECUTIVE 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 Management Strategy.
- 1.2 The Council is complying with all the Prudential Indicators set for 2017/18 as at 30th September 2017.

2. RESOURCE IMPLICATIONS

- 2.1 None directly as a result of this paper, but the investment income and borrowing costs do impact the revenue budget.

3. KEY ISSUES

Background

- 3.1 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).
- 3.2 The Council's Treasury Management Strategy for 2017/18 was approved by Executive on 7th February 2017.

- 3.3 Through investment, the Council is potentially exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Council seeks to moderate this impact by following the advice of its treasury advisers. This report covers treasury activity and the associated monitoring and control of risk.

Local Context

- 3.4 At 31 March 2017, the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £140.2m.
- 3.5 The Council is predicted to have an increasing CFR over the next 3 years due to the capital programme as currently known. Any further capital investment, for example in investment in property, would increase the CFR further still.

4. TREASURY PERFORMANCE

Borrowing Activity to 30th September 2017

- 4.1 At 30 September 2017 the Council held £111.4m of borrowing, (a decrease of £7.6m on 31/3/2017), which was used to fund the previous years' capital programmes – principally property investment.
- 4.2 At 30th September 2017, the Council had an upper authorised operational limit of borrowing £185m.
- 4.3 The Council'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 Council's long-term plans change being a secondary objective. On the advice of its treasury advisers, the Council has continued to borrow on a short term basis in order to take advantage of low interest rates and hence borrowing costs.

Overall borrowing has decreased for two reasons. Firstly, loan repayments were made on the period on the longer fixed term loans and secondly, the Council has used its cashflow movements to manage borrowing.

Borrowing Position 2017/18

	31.3.17	Movement	30.9.17	30.9.17	30.9.17
	Balance		Balance	Weighted average rate	Weighted average maturity
	£m	£m	£m	%	years
Public Works Loan Board	16.22	(0.06)	16.16	2.90%	35.0
Local authorities (long-term)	1.00	(0.27)	0.74	0.00%	5.0
Local authorities (short-term)	101.50	(7.00)	94.50	0.32%	0.3
Total Borrowing	118.73	(7.33)	111.40	1.07%	1.2

Investment Activity to 30th September 2017

- 4.4 The Council held invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2017/18 the Council's investment balance ranged between £6m and £11 million due to timing differences between income and expenditure. The investment position during the half year is shown in the table below.

Investment Activity Summary at 30 September 2017

Investment Counterparty	Balance on 01/04/17	Investments Made	Maturities/ Investments Sold	Balance on 30/09/17	Average Rate at 30th September
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	0	6,500	-6,500	0	0.10
UK Local Authorities					
- Short Term	2,000	0	-2,000	0	0.35%
- Long Term	2,000	0	0	2,000	1.30%
Banks, Building Societies & Other Organisations					
- Short Term	5,434	43,575	-48,323	686	0.13%
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	0	33,901	-27,701	6,199	0.07%
- Long Term	2,054	0	0	2,054	3.52%
Total Investments	11,488	83,976	-84,525	10,940	

- 4.5 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
- 4.6 Of the Council's investments £2m has been placed in a longer-term Property fund investment with the remainder invested in short-term unsecured deposits and money market funds. The £2m longer term investment generated an average total return of £120k (3.52%), comprising £75k

income return which is used to support services in year, and £45k of capital growth. As this fund has no defined maturity date, but is available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives are regularly reviewed. In light of its recent performance the investment in this fund has been maintained.

- 4.7 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.
- 4.8 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council'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.
- 4.9 Annex A lists the Council's investments as at 30th September 2017.

Credit Risk

- 4.10 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
31/03/2017	4.32	AA-	4.00	AA-	61%
30/06/2017	4.33	AA-	3.98	AA-	66%
30/09/2017	4.44	AA-	4.31	AA-	64%

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

Counterparty Update provided in association with Arlingclose Treasury Advisers

- 4.11 UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank shares have not moved in any particular pattern.
- 4.12 There were a few credit ratings changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. The agency downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.
- 4.13 S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+. Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.
- 4.14 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Council reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.
- 4.15 The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external

fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

MiFID II:

- 4.16 Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the Council must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year’s relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.
- 4.17 The main additional protection for retail clients is a duty on the firm to ensure that the investment is “suitable” for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.
- 4.18 The Council meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes

- 4.19 In February 2017, CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.
- 4.20 The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Full Council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be

included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

- 4.21 Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of Full Council. There are also plans to drop or alter some of the current treasury management indicators.
- 4.22 CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) will also be revising its Investment Guidance (and its MRP guidance) for local authorities in England and a consultation on potential changes was announced recently.

Budgeted Income and Outturn

- 4.23 The average cash balances were £8m during the half year. The Council’s best performing investment was its £2m of externally managed pooled (property fund) which generated an average return of 3.52%.
- 4.24 The majority of the Council’s investments were kept in short-term money market rates and have remained at relatively low levels.
- 4.25 The Council’s investment income for the first six months was £45k compared to a budgeted figure of £150k. This reduction is because investments were sold to repay borrowing and the income loss has been more than being offset by savings in interest paid.

Compliance with Treasury Management and Prudential Indicators

- 4.26 The Council confirms compliance with its Treasury Management and Prudential Indicators in the period to 30th September 2017. These were set in February 2017 and revised in June 2017 as part of the Council’s Treasury Management Strategy Statement as at the 30th September 2017. Details of these indicators are shown in Annexes B and C.

Economic Review and Outlook for the remainder of the year

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

5. PROPOSALS

- 5.1 It is proposed that the Committee NOTE and COMMENT on the report;

6. CORPORATE OBJECTIVES AND KEY PRIORITIES

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

7. POLICY FRAMEWORK

- 7.1 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.

8. LEGAL ISSUES

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

RISK MANAGEMENT

- 8.2 Weak returns on investments could lead to a reduction in income generated to support the revenue budget.

- 8.3 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 Executive Head of Finance in consultation with the Portfolio Holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.
- 8.4 The Council has taken and acted on advice from its advisers in relation to increasing returns albeit at increased risk and its borrowing strategy. There are risks that interest rates can change and that any investment is not guaranteed
- 8.5 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. However this can be mitigated by spreading investments amongst a number of institutions.

ANNEXES	Annex A – Investments as at 30th September 2017 Annex B – Treasury Management Performance Indicators
BACKGROUND PAPERS	CIPFA code on Treasury Management
AUTHOR/CONTACT DETAILS	Nahidah Cuthbert – Accountant Nahidah.cuthbert@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon - 01276 707257 Executive Head of Finance

INVESTMENTS as at 30th September 2017

	£	<u>Maturity Date</u>
Glasgow City Council	2,000,000	30-Oct-18
Total Local Authorities	<u>2,000,000</u>	
AAA Rated MM Fund - Blackrock	2,200,434	N/A
AAA Rated MM Fund - CCLA	1,000,000	N/A
AAA Rated MM Fund - Standard Life (Ignis)	3,000,000	N/A
Total Money Market Funds	<u>6,200,434</u>	
CCLA Property Fund	2,131,384	N/A
Total Longer Term Investments	<u>2,131,384</u>	
NatWest SIBA	677,194	Instant Access
Total Invested (including NatWest SIBA)	<u>11,009,012</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 2017

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:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	£190m	£190m	£190m
Actual	£0.5m		
Upper limit on variable interest rate exposure	£190m	£190m	£190m
Actual	£0.1m		

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
Not over 1 year	100%	0%	86%
Over 1 but not over 2 years	100%	0%	0%
Over 2 but not over 5 years	100%	0%	2%
Over 5 but not over 10 years	100%	0%	1%
Over 10 but not over 15 years	100%	0%	1%
Over 15 but not over 20 years	100%	0%	1%
Over 20 but not over 30 years	100%	0%	1%
Over 25 but not over 30	100%	0%	1%
Over 30 but not over 40 years	100%	0%	3%
Over 40 years	100%	0%	4%

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:

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£15m	£15m	£15m
Actual	£2m		

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

	Target	Actual 30/09/2017
Portfolio average credit rating	A	AA

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

	Target	Actual 30/09/2017
Total cash available within 3 months	£5m	£6m

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced

the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
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	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

Prudential Indicators as at the 30th September 2017

The Local Government Act 2003 requires the Council 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 Council 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 Council'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	7.5
Total Expenditure	18	107	4	7.5
Capital Receipts	1	0	0	0
Government Grants	0	1	0	3.1
Borrowing	17	106	4	4.4
Total Financing	18	107	4	7.5

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

Capital Financing Requirement	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Total CFR	140	148	153	156

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

key indicator of prudence.

Debt	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	119	179	153	156
Total Debt	119	179	153	156

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	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	185	185	185
Total Debt	185	185	185

The Authority confirms that during the first six months the Operational Boundary was not breached. In June 2017, the Council increased the Operational Boundary to £185m and the Authorised Limit to £190m.

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	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	190	190	190
Total Debt	190	190	190

Total debt at 30/09/2017 was £111.4m. The Authority confirms that during 2017/18 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	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	-45	-58	-63

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

Incremental Impact of Capital Investment Decisions	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
General Fund - increase in annual Band D Council Tax	-28.24	12.50	3.50

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 advisers Arlingclose

- 1) Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.
- 2) The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.
- 3) The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.
- 4) In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.
- 5) Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high,

with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

- 6) Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.
- 7) In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening; any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

8) **Financial markets:**

Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

- 9) The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

The Council's Finances as at 30th September 2017

SUMMARY

To inform the Committee of the position of the Council Finances as at the 30th September 2017.

WARDS AFFECTED

All

RECOMMENDATION

The Committee is advised to **NOTE** the Revenue, Treasury and Capital Position as at 30th September 2017.

1. KEY ISSUES

- 1.1 This is the second quarter monitoring report against the 2017/18 approved budget, which provides an update on the Revenue, Treasury and Capital budget position as at 30th September 2017.
- 1.2 At this halfway stage in the year, it is difficult to draw any firm conclusions as to the year-end outturn. At present a small underspend is forecast and this report is intended to give an update as to where services currently are against budget for the second quarter.

2. RESOURCE IMPLICATIONS

Revenue Budget

- 2.1 Actuals against budget for half year are included in the attached Annex A. Corporately it is forecasted that there will be a small underspend of £44k at the end of the financial year. Individual service variances that make this up are included in Annex A.

Capital Budget

- 2.2 At the 30th September £3.319m has been spent on capital projects. The largest proportion of this sum has been the expenditure of £2.3m on renovation works at the Square and £512k on the purchase of a property in Doman road. A payment of £154k was made as final settlement on the Square plus £58k carrying out works at the Main Square Car Park. The remainder has been spent on renovation grants and smaller projects.

Treasury Investments

- 2.3 The Council currently has £6m in cash investments and £111m in borrowings. On the advice of the Council's Treasury Consultants, the sum of £95m was borrowed from other public bodies on a short term basis with the remainder from the Public Works Loans Board over the longer term. Cash investments were sold during the year to repay debt and, although this has

reduced interest income, this has been more than offset by savings in interest payments.

Debtors

Sundry Debts

- 2.4 At the 30th September 2017 sundry debts amounted to £1,393k. Of this £470k was invoiced at the end of September for rent and grants which have now been paid. In addition a further £202k relating to car park season tickets and helpline debts is being paid in monthly instalments leaving £721k to actually be collected. The level of debt is not a major concern and will be kept under observation.

Housing Benefit Debts

- 2.5 These debts arise when an overpayment in housing benefit has been made and thus has to be recovered. The Table below shows the movement in the balance over the last 12 months

		Dec-16	Mar-17	Jun-17	Sep-17	Total
Debtors b/f		668,743	648,412	657,250	648,073	668,743
Cash repayments		-36,731	-36,749	-36,353	-47,331	-157,164
Deductions from Benefits		-50,949	-50,004	-81,136	-37,734	-219,823
New overpayment debts		67,349	95,591	108,312	85,611	356,863
Debtors c/f		648,412	657,250	648,073	648,619	648,619

Although the level of debt is virtually unchanged from the previous quarter over £85k has been collected from debtors but this has been matched by an equal number of new overpayment debt created. Overpayments are appearing more quickly now that data is shared between the national tax and benefits systems.

Of the £648k outstanding 70% are on a payment plan with the remainder being chased. It is worth noting that the out of the total 297 individual debts the 14 largest, which amounts to over 43% of the total balance, are on payments plans which can last for many years.

3. PROPOSALS

- 3.1 It is proposed that the Committee is advised to NOTE the Revenue, Treasury and Capital Position for the period to 30st September 2017.

4. CORPORATE OBJECTIVES AND KEY PRIORITIES

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

5. SUSTAINABILITY

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

6. RISK MANAGEMENT

- 6.1 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	Adrian Flynn Chief Accountant Adrian.Flynn@surreyheath.gov.uk
EXECUTIVE HEAD OF SERVICE	Kelvin Menon Executive Head of Finance Kelvin.menon@surreyheath.gov.uk

Detail on the Revenue Budget Position at 30st September 2017

Services are asked to explain significant variances between their profiled budget and actual expenditure to date and comment on areas of concern

The statements below show the actual position against profiled budget as at the 30th September 2017 excluding pensions, redundancy and asset recharges. These have been excluded as they are not in the control of the services themselves.

Corporate Service

Budget for period £760k, Actual for Period £765k. Outturn Forecast £18.5k favourable variance.

There are no issues to report at the present time.

Legal and Property Service

Budget for period £-3k, actual for period £-626k. Outturn Forecast £239k adverse

As previously stated the adverse variance is caused by the vacancy of the former BHS store on the ground floor of Ashwood House. However this enables the development of the upper floors giving a better overall financial return for the Council. Prior to the completion of these works a new letting will be sought.

Regulatory

Budget for period £1.332m, actual for period £999k. Outturn Forecast £ 200k favourable

Planning applications Income is up on budget but this is offset by an overspent on consultants & agency staff to cover vacant posts. Planning appeals is £23k underspent due to a supplementary estimate being awarded to cover exceptional enforcement and appeal costs concerning Swift Lane. The appeal will now scheduled to be heard in March 2018 and some of these costs may be incurred in the next financial year. There is an overspend of £95k on One Public estate which is covered by funds held in reserve from 2016/17. Finally Homelessness is £125k underspent due to a late grant from Government – this will be the subject of a report to Executive.

Transformation

Budget for period £875k, actual for period £848k. Outturn Forecast £229k adverse
Software licences will be overspent by £139k due to the budget not being increased for several years to take account of inflation and there is an issue with payments made in advance both for the current financial year and for 2018/19. Work in progress to ID payments relating to 2018/19 and move the expenditure. Indirect employee expenses will be overspent by £90k due to severance payments, which are not budgeted for, however this needs to be offset against the saving of £320k in the salaries budget.

Business

Budget for period £671k, actual for period £671k. Outturn Forecast £327k adverse

There are only two areas with a variance greater than £25k. The first is the Theatre which has seen improved overall performance resulting in increased income from shows, hiring of rooms etc which has been offset by an overspend on Artist fees. The second is parking where due to a revaluation, the rateable values have increased which have resulted in the business rates payable been higher than budget. The new rateable values are being appealed against. Parking income is also down on budget.

Community

Budget for period £2.388m, Actual for period £2.253m. Outturn Forecast £150k favourable variance.

Recycling credits for garden waste will show a £70k increase over the year due to increased garden waste tonnage plus a higher recycling credit per tonne due to changes in the financial payment transfers since the budget was set. Refuse will be £58k underspent at year end due to lower contractor costs which has been offset by a fall in income from commercial collections due to some care home closures and an increased gate fee for disposal. Street cleaning will see savings of £22k as a result of savings in road closures and specialist cleaning.

Finance

Budget for period £1.154m, actual for period £1.309m. Outturn Forecast on Budget

There are no issues to report at this time.

Strategic Property

Budget for period -£1,267M, actual for period -£1.689M. Outturn Forecast £150k favourable.

Dividend income received from Main Square Camberley unit trust is up on budget after the second quarter and will continue till year end.

Salaries Monitoring

The forecast outturn at the end of period six, shows a underspend of £320k at the year end after taking into account vacant posts, changes in structure, vacancy margin and more efficient use of resources throughout the organisation.

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2017/2018 Mid-Year Performance Report

Summary:

This 2017/2018 Mid-Year Report summarises the performance of the Council for the first 6 months of the year against the corporate objectives, priorities and success measures laid out in the Annual Plan for 2017/2018.

Wards Affected: All

Recommendation

The Committee is asked to RESOLVE to note the 2017/2018 Mid-Year Report and make any comments or suggestions as appropriate.

1. Resource Implications

1.1 There are no financial implications arising from this report.

2. Key Issues

2.1 The attached report summarises the Council's mid-year performance and progress against the Annual Plan, which was agreed by the Executive on 7 March 2017.

2.2 This Mid-Year report demonstrates the Council's continued commitment to improving the management of its performance to achieve the Council's Five Year Strategy.

2.3 All objectives are on track. All success measures are above target or are within 2% of their target.

2.4 Monthly meetings are in place with all Executive Heads of Service to monitor performance. Any areas of concern can be addressed promptly and reported, by exception, to the Corporate Management Team.

3. Proposals

3.1 It is proposed that the Committee note the Mid-Year report and make any comments or suggestions as appropriate.

Annexes	Annex A – 2017/2018 Mid-Year report
Background Papers	Annual Plan 2017/2018 Five Year Strategy
Author/Contact Details	Jacinta Stevens, Senior Organisational Development Officer Jacinta.stevens@surreyheath.gov.uk
Service Manager	Louise Livingston - Executive Head of Transformation

ANNUAL PLAN

2017/18

MID-YEAR REVIEW



Foreword

In March we published our Annual Plan for 2017/18 and our vision for making Surrey Heath an even better place to live, work and enjoy. This report details our achievements and performance to date.

Under our **Place** objective you will see that we are making excellent progress in bringing forward our regeneration plans for Camberley Town Centre. The Square Shopping Centre (formerly The Mall) was re-named in September. Refurbishment work started in July and you can now see the new Shopping Centre taking shape, which will give Camberley a fresh and modern look, supporting economic growth across Surrey Heath.

Our work to help deliver improvements to the High Street is making significant progress with the launch of the Shopfront Improvement Grant Scheme as part of our **Prosperity** objective. Work has started in setting up High Street forums and engaging with businesses, not only on the Shopfront Improvement Grant Scheme but also the High Street public realm improvements.

Surrey Heath has been appointed as the administering authority for Joint Waste Solutions. This partnership, under our **Performance** objective, will realise savings in the region of £300,000 to the Council, whilst keeping our place clean, green and safe as we strive to continue to be one of the highest recycling authorities in the Country.

Since April we have delivered some excellent events for the whole community, our **People**, to enjoy. These include the Camberley International Festival, Camberley Carnival, Go-Tri, Surrey Heath Show, participation in Surrey Youth Games, Outdoor Theatre in Frimley Lodge Park, Watchetts Festival of Sport and Frimley Lodge Live Music Festival, as well as numerous nature and heritage walks and workshops.

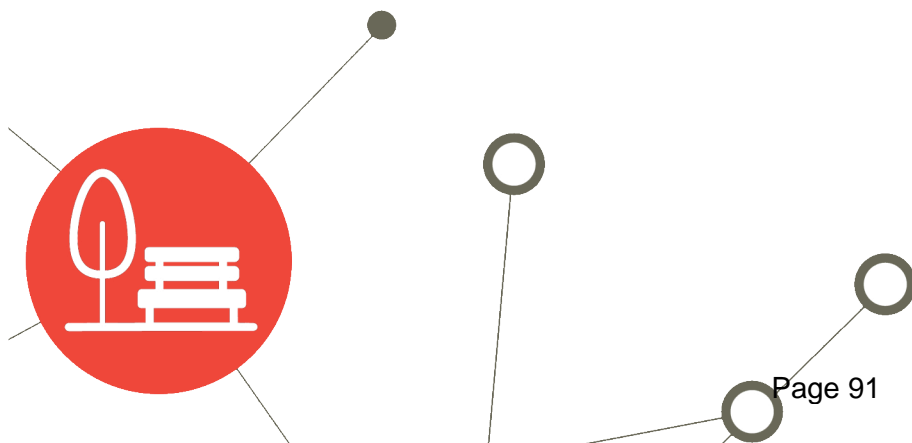
This report provides more detail on our performance as well as our success measures against the objectives we set ourselves for the year. There is more work to be done but we have built solid foundations for what we know will be a challenging but exciting second half of the year.



Karen Whelan
Chief Executive



Councillor Moira Gibson
Leader of the Council



Place

Objective

To make Surrey Heath an even better place where people are happy to live

Priorities

- To deliver an improved Camberley Town Centre
- To promote high quality building and design standards across the Borough
- To reduce waste and increase the proportion of waste recycled and recovered.
- To provide quality leisure facilities

In 2017/18 we said we would:

- Take forward the refurbishment and rebranding of the Mall shopping centre in Camberley.

The Mall Shopping Centre was rebranded on the 5th September at a launch event and is now called The Square. The new logo has been incorporated into all marketing material. The Square refurbishment works have commenced in Grace Reynolds Walk and are proceeding on time and within budget.

- Commence redevelopment of Ashwood House in Camberley into high quality development and aim to maximise the uses on the ground floor and redevelopment of Pembroke House on the Frimley Road to provide affordable housing.

Contracts have now been exchanged with the developer Berkeley Homes. Planning applications for the redevelopment of Ashwood House (116 homes) and Pembroke House (25 affordable homes) have been submitted and are due to be considered in November 2017. Whilst the Ashwood House development continues we will work with new retailers to occupy the ground floor.

- Bring forward proposals for the redevelopment of Camberley's 'London Road Block' including an outline planning application.

The Council has commissioned consultants to prepare a high level feasibility study. This is now underway and due to be completed by the end of 2017.



Place

- Improve the public spaces across the town centre starting with Princess Way and the High Street.

A Local Enterprise Partnership bid for High Street improvements was submitted in August. Work is now starting on a detailed project plan in anticipation of a positive response.

- Bring forward proposals for the Arena Leisure Centre.

The Replacement Leisure Centre Options Appraisal report was agreed by Executive in July 2017. We are currently looking at the options with a view to commencing the formal tender process, securing a partner to deliver the final outcome, in Autumn 2018.



**THE
SQ**
CAMBERLEY

Prosperity

Objective

We will support and promote our local economy so that people can work and do business across Surrey Heath

Priorities

- Work with partners to support our economy through strategic development planning and economic growth
- Encourage inward investment
- Support local businesses by encourage improvements to local transport and infrastructure.
- Encourage new developments to strengthen the local economy

In 2017/18 we said we would:

- Use borrowing to generate investment returns to support services which contribute to economic growth in Surrey Heath.

The Council has invested in the refurbishment of The Square which will assist with economic growth in Surrey Heath. We continue to look for further investment opportunities which to date have generated a return on investment of 3.3%.

- Review the Local Plan and produce an 'Issues and Options' document for public consultation.

The Issues and Options Document is on track and is due to go out for public consultation by March 2018.

- Work to increase residential development across the Borough.

The delivery of new homes at Princess Royal Barracks and Deepcut has moved a step closer. Cala Homes have submitted a planning application for the first 200+ new homes.

- Refresh the Economic Development Strategy.

The Council is currently reviewing the Economic Development Strategy with an updated version due to be considered by the Executive.

- Promote Surrey Heath as a location for companies to invest in.

The Council has either hosted or taken part in four local and national events to promote Surrey Heath. These events being; The Camberley Expo, REVO, Surrey Heath Business Breakfast and MIPIM UK.



Prosperity

- Work with Camberley High Street stakeholders to help deliver improvements to the High Street.

The Shopfront Improvement Grant Scheme has now been launched and is available to receive applications with the first one already submitted. Work has started to set up High Street forums and engage with businesses, not only on the shop front improvement scheme but also the High Street public realm improvements.

- Press for a positive outcome from our Local Enterprise Partnership (LEP) funding bids and work up plans for the delivery of the projects to improve the Camberley area transport and roads.

We have been successful with bids for The Meadows and the A30 frontage. A bid was submitted to the Local Enterprise Partnership for High Street improvement in August. Final board approval is due in December 2017. In addition the Council has made a bid to the One Public Estate and other bids to government departments.

- Encourage and support Surrey County Council to deliver the A30 road improvements and the Meadows roundabout works.

A consultation has already commenced with businesses regarding the Meadows roundabout improvements. A public consultation process on the Surrey County Council website has now taken place.

- Work with Business Associations across the Borough to develop projects to deliver improvements.

The Frimley Business Association was awarded the Silver Award for their greening project. The official opening of the A331 cycle lane took place in July with the Yorktown and Watchmoor Park Business Association.



People

Objective

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

Priorities

- To work with partners to improve health and wellbeing
- Support older and more vulnerable people to live independently and remain active
- Use our parks and countryside to enhance sporting and leisure opportunities
- Address housing needs within the community

In 2017/18 we said we would:

- Work with partners to promote the health and wellbeing of our residents and encourage delivery of activities that promote sport and healthy living.

Summer bin hangers were distributed to promote summer wellness. Working with our partners, Frimley Park Hospital and the Camberley Massage Centre, self-assessments for the Workplace Health and Wellbeing Charter are being carried out. Business Services are promoting physical exercise in the work place.

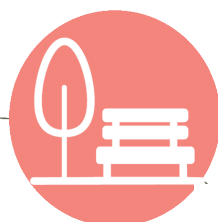
- Pilot a new dementia respite day care service at the Windle Valley Centre.

Funding has been agreed for the refurbishment of the Windle Valley Day Centre and work commenced in October.

The work around the provision of Dementia Day Care services has been undertaken in two phases. Funding has been secured to deliver a Carer Respite service, supporting residents and their Carers by offering short notice service provision. This service focuses on support for carers generally and not just those supporting people with Dementia. Work is currently ongoing with this service with it intended to commence in January 2018.

- Deliver a new Young Ambassadors programme to encourage community involvement and leadership in young people.

We have successfully recruited 7 Young Ambassadors who promoted the Surrey Youth Games. This year's Young Ambassadors will be recognised as part of the Surrey Heath Sports Awards ceremony taking place in October 2017.



- Encourage an increase in the number of volunteers delivering sport and health related activities and events.

A new webpage advertising volunteering opportunities has been developed and is live on the Council's website. Additionally, 6 volunteers were successfully recruited to support the borough's first "Go-Tri" triathlon event in September 2017.

- Re-evaluate and operate our sports facilities to best meet changing customer needs.

The Arena replacement project could see the delivery of a state of the art leisure facility developed around the needs of the borough. We are currently working closely with the Lawn Tennis Association to develop a park tennis strategy as well as assessing the potential to incorporate netball activities.

- Expand Camberley Youth Theatre and Community Arts Programme.

Camberley Theatre has been chosen as the only Surrey based venue to be part of Hopper; a joint project with Surrey Arts and Take Art, who are looking at developing theatre for Early Years audiences.

The Theatre will deliver three Early Years productions in the coming year as part of the Hopper project. Additionally Creative Minds Academy Youth Theatre has seen membership increase from 60 to 90 in the past 6 months, classes have increased from 5 to 11, with new classes such as technical theatre and dance offered.

- Consult on and develop a new Healthy Home Strategy addressing how homes meet the needs of our residents.

Work has commenced on developing a Healthy Home Strategy in preparation for the implementation of the Homelessness Reduction Act 2017.

- Deliver a programme of high quality community events.

Since April we have delivered the Camberley International Festival, Camberley Carnival, Go-Tri, Surrey Heath Show, Circus Zyair, participation in Surrey Youth Games, Outdoor Theatre in Frimley Lodge Park, Watchetts Festival of Sport and Frimley Lodge Live music Festival as well as numerous nature/ heritage walks and workshops.



Performance

Objective

To deliver effective and efficient services better and faster

Priorities

- To improve digital access to services and provide excellent customer care
- Adapt the way we work to meet changing needs and challenges
- To work collaboratively with partners in all sectors
- Maximise use of buildings and land we own

In 2017/18 we said we would:

- Continue to improve digital access to services, making them more accessible and efficient to all.

We are implementing a cloud based document management system and a full review of the telephone system is underway to improve both the customer experience and efficiency.

- Review our asset management plan to ensure we maximise every opportunity to better use our land and buildings including Surrey Heath House.

A review has commenced of the Councils land holdings to identify potential income and development opportunities as well as shared working in our public services. South Central Ambulance Service who have entered into a lease arrangement to occupy part of the Ian Goodchild Centre is one recent example.

- Become the administering authority for the joint waste contract and establish a centralised office to manage the joint waste contract and the non-statutory functions of the Waste Disposal Authority.

Surrey Heath has been appointed as the administering authority for the joint waste contract. A centralised contract management office has been formed which has been named Joint Waste Solutions (JWS). The client teams for waste and street cleansing across the partnership were transferred to Surrey Heath on 2 May 2017.



Performance

- Commence the joint waste contract with our partners

The contract with Amey was signed by the four authorities on 25th May 2017. On the same date the Inter Agency Agreement was signed with the four authorities with Surrey County Council as observer. The contract commenced in Elmbridge on 5th June and Woking on 11th September. The Surrey Heath contract is due to commence in Feb 2018.



- Make parts of the Doman Road Depot available to the joint waste contractor to generate additional income to the Council.

Areas of the Doman Road Depot have been allocated for use by the joint contract. Partners will not be using the depot until the contract in Surrey Heath commences in February 2018.

- Install a new corporate and guest wireless network in Surrey Heath House to support agile and efficient working.

The installation of the new wireless network has taken place in Surrey Heath House. This will be live by the end October 2017.

- Deliver efficient governance arrangements by successfully implementing the outcomes of the Boundary Commission for England's Electoral Review.

The final recommendations from the Boundary Commission were published at the end of August and are subject to an order being laid before Parliament with the new arrangements due to be implemented at the 2019 Local Elections. A Polling Place review will commence as a result of the changes.

Performance

- Implement a new Performance Management framework to drive services to be more efficient.

The performance management framework has been reviewed with new elements updated including a new competency framework and a complete cycle of the performance documents now complete.

- Continue to explore alternative ways to deliver our services more efficiently.

The waste partnership went live in May 2017, with Surrey Heath becoming the employing authority for Surrey Waste Solutions. There is further work underway to develop the Environmental Health Partnership, enhancing the services already being delivered in partnership with other local authorities and agencies.

- Continue to identify commercial opportunities to increase income and support the Council's sustainability.

The Council is working to bring forward acquisition opportunities from local property agents. An agreed strategy is being implemented which sets out the area of search and the criteria for taking prospects forward. The Council is also working to identify potential areas of housing development on council owned sites.



Additional Success Measures

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

Place	Target	Apr - Jun	Jul - Sep
<ul style="list-style-type: none"> Percentage of Household Waste sent for Recycling, Reuse and Composting 	63% Q	62%	62%
<ul style="list-style-type: none"> Occupancy of Camberley town centre car parks 	55% Q	53%	54%
<ul style="list-style-type: none"> Percentage of food premises achieving 3 stars or above 	95% Q	96.62%	96.61%

Prosperity	Target	Apr - Jun	Jul - Sep
<ul style="list-style-type: none"> Increase in Council Tax Base (No. of Properties) 	35,787 Q	36,143	36,229
<ul style="list-style-type: none"> Increase in Business Rates base (No. of Properties) 	2,589 Q	2,655	2,656
<ul style="list-style-type: none"> Percentage of minor planning applications determined within 8 weeks (National Target) 	65% Q	83%	90%
<ul style="list-style-type: none"> Percentage of major planning applications determined within 13 weeks (National Target) 	60% Q	89%	91%

People	Target	Apr - Jun	Jul - Sep
<ul style="list-style-type: none"> Number of users of the Arena Leisure centre 	500,000 A	121,071	125,062 (246,133)
<ul style="list-style-type: none"> Sports pitch income for the year 	£110,000 A	£18,577	£20,863.66 (£39,441)
<ul style="list-style-type: none"> Number of journeys by community bus in a year 	24,000 A	5,166	6,806 (11,972)
<ul style="list-style-type: none"> Number of meals on wheels served in the year 	28,500 A	9,596	9,853 (19,449)

Performance	Target	Apr - Jun	Jul - Sep
<ul style="list-style-type: none"> Time taken to process benefit claims (Days) 	15 Q	6.4	9.7
<ul style="list-style-type: none"> Percentage of complaints responded to within target 	90% Q	90%	88%
<ul style="list-style-type: none"> Collection rate for Council Tax Per Quarter 	100% A	29.34%	28.06% (57.4%)
<ul style="list-style-type: none"> Collections rate for Business Rates Per Quarter 	100% A	30.35%	26.75% (57.1%)
<ul style="list-style-type: none"> Percentage of payment transactions where the customer has self served 	30% Q	34%	35%
<ul style="list-style-type: none"> Customer satisfaction rating of good/ excellent to exceed 90% 	90% Q	100%	100%

Key

A = Annual

Q = Quarterly

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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SurreyHeath



Committee Work Programme 2017/18

Portfolio	Corporate
Ward(s) Affected:	n/a

Purpose

To consider the Committee work programme for the remainder of the municipal year 2017/18.

Background

1. The Performance and Finance Scrutiny Committee was appointed by the Council at its Annual Meeting on 17 May 2017 and it is anticipated that it will be re-appointed for 2018/19.
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 meeting in this municipal year namely 21 March 2018.
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.
6. 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

7. It is proposed that Members consider a work programme for the remaining meeting of 2017/18.

Resource Implications

8. 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

9. The Scrutiny Committee is advised to consider a work programme for the remainder of the municipal year 2017/18.

Background Papers: None

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Service Head: Richard Payne 01276 707150
e-mail: richard.payne@surreyheath.gov.uk

PERFORMANCE AND FINANCE SCRUTINY COMMITTEE –
DRAFT WORK PROGRAMME – 2017/18

DATE	TOPIC	OFFICER
21 March 2018		
1.	Scrutiny of Portfolio Holders – Regulatory/Community	Jenny Rickard/ Tim Pashen
2.	Corporate Risk	Kelvin Menon
3.	Community linked reports	Tim Pashen
4.	Regulatory linked reports	Jenny Rickard
5.	Task and Finish Groups	Rachel Whillis
6.	Committee Work Programme	Rachel Whillis

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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:

<u>Item</u>	<u>Paragraph(s)</u>
15	3
16	3

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