Surrey Heath Borough Council

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Friday, 8 February 2019

To: The Members of the **EXECUTIVE**
(Councillors: Moira Gibson (Chairman), Richard Brooks, Mrs Vivienne Chapman, Paul Deach, Colin Dougan, Craig Fennell, Josephine Hawkins, Alan McClafferty and Charlotte Morley)

Dear Councillor,

A meeting of the **EXECUTIVE** will be held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on Tuesday, 19 February 2019 at 6.00 pm. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Karen Whelan

Chief Executive

AGENDA

Pages

Part 1
(Public)

1. Apologies for Absence

2. Minutes — **3 - 4**

To confirm and sign the open minutes of the meeting held on 30 January 2019 (copy attached).

3. Declarations of Interest

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

4. Questions by Members

The Leader and Portfolio Holders to receive and respond to questions from Members on any matter which relates to an Executive function in accordance with Part 4 of the Constitution, Section B Executive Procedure Rules, Paragraph 16.

5.	**General Fund Estimates 2019/20**	**5 - 42**
6.	**Treasury Management Strategy Report 2019/20**	**43 - 66**
7.	**Corporate Capital Programme 2019/2020 - 2021/22**	**67 - 78**
8.	**Investment Strategy Report 2019/20**	**79 - 90**
9.	**Capital Strategy Report 2019/20**	**91 - 102**
10.	**Windlesham Neighbourhood Plan 2018-2028**	**103 - 110**
11.	**Pay Policy Statement**	**111 - 118**
12.	**Response to Surrey Waste Local Plan (Regulation 19) consultation**	**119 - 124**
13.	**Response to the London Heathrow Airspace and future Operations consultation**	**125 - 136**
14.	**Review of Local Authorities' Relative Needs and Resources Consultation**	**137 - 142**
15.	**Consultation on Business Rates**	**143 - 148**
16.	**Exclusion of Press and Public**	**149 - 150**

Part 2
(Exempt)

17.	**Exempt Minutes**	**151 - 154**

To confirm and sign the exempt minutes of the meeting held on 30 January 2019 (copy attached).

18.	**Property Acquisition**	**155 - 162**
19.	**Review of Exempt Items**	**163 - 164**

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

Minutes of a Meeting of the Executive held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on 30 January 2019

+ Cllr Moira Gibson (Chairman)

+	Cllr Richard Brooks	+	Cllr Craig Fennell
+	Cllr Mrs Vivienne Chapman	+	Cllr Josephine Hawkins
+	Cllr Paul Deach	+	Cllr Alan McClafferty
+	Cllr Colin Dougan	+	Cllr Charlotte Morley

+ Present

In Attendance: Cllr Rodney Bates, Cllr Bill Chapman, Cllr Paul Ilnicki, Cllr Rebecca Jennings-Evans, Cllr Jonathan Lytle, Cllr Joanne Potter and Cllr Valerie White

64/E Minutes

The minutes of the meeting held on 22 January 2019 were confirmed and signed by the Chairman.

65/E Exclusion of Press and Public

In accordance with Section 100(A)(4) of the Local Government Act 1972 (as amended) and Regulation 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the press and public were excluded from the meeting for the following items of business on the ground that they involved the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Act as set out below:

Minute	Paragraph(s)
66/E	3
67/E	3
68/E	3

Note: Minutes 66/E and 67/E are summaries of matters considered in Part II of the agenda, the minutes of which it is considered should remain confidential at the present time.

66/E London Road Redevelopment

The Executive agreed to defer consideration of this item to a future meeting.

Note 1: It was noted for the record that Councillor Rodney Bates declared that a relative of his worked with the development site.

67/E The Future of Leisure Provision in Camberley

The Executive made decisions in relation to future leisure centre provision within Camberley.

Note 1: In accordance with the Members' Code of Conduct, Councillors Colin Dougan and Alan McClafferty declared Disclosable Pecuniary Interests as they lived adjacent to the site and left the room during the consideration of the item.

Note 2: It was noted for the record that Councillor Rodney Bates declared that relatives of his lived adjacent to the site.

68/E Review of Exempt Items

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

RESOLVED that

(i) the report associated with minute 66/E remain exempt for the present time; and

(ii) the decision at minute 67/E be made public after the completion of negotiations, but all financial and contractual information to remain exempt for the present time.

Chairman

General Fund Estimates 2019/20

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the Financial Year 2019/20.

PORTFOLIO - Finance Date Signed Off: 11 February 2019	
WARDS AFFECTED	All

Recommendation

The Executive is advised to RECOMMEND to Council that the 2019/20 General Fund Revenue Budget of £13,158,597 as set out in Annex A to this report, be approved;

The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2019/20.

The Executive is asked to NOTE

1. That expenditure totalling £2,042,116 will be charged directly to reserves;
2. That a minimum revenue provision of £2,014,000 is required to repay debt;
3. That the budget includes provision for a staff pay increase;
4. The provisional NNDR baseline of £1,543,240 and the final settlement on will be reported to Council at its meeting on 27th February 2019;
5. That a full report, setting out Council Tax proposals for 2019/20 will be presented to Council on 27th February 2019.
6. The Financial Strategy and its implications for financial sustainability

1. **Resource Implications**

2019/20 Budget

1.1 There is a legal requirement that the Council can only approve a balanced budget. A balanced budget means that expenditure must equal income. If the budget is not balanced then the Council cannot approve it and therefore Council tax cannot be set and revenue collected.

1.2 The Government announced in the settlement that councils will not need to hold a referendum if the increase is more than the higher of 2.99% or £5. This budget has been prepared on the assumption that the maximum Council Tax increase within these limits will be approved.

1.3 **Only Full** Council **can determine the level of Council Tax set however Executive can make a recommendation.**

1.4 The Net Cost of Services for 2019/20 as presented has increased compared to last year. Inflation has impacted payroll and contract costs and there have been additional costs to fund the pension deficit. Property income has fallen due to the need to allow for loss of rent from the SQ although this has been offset in part by rent from new investments. Despite this the Council is still able to have a balanced budget due to higher income from Council Tax and retained Business Rates and the use of reserves, however this will become more challenging in future years. More information is included later in this report.

1.5 The summary budget is included at the end of Annex A and a more detailed set of individual budget for services – the budget book – has been published on the website and is also available in the Member's room.

1.6 2019/20 marks the final year of the 4 year finance settlement announced in 2015. Although a "negative grant" was expected for 2019/20 based on the 2015 announcement this was removed by Government, following intensive lobbying, in the announcement made on the 13th December 2018 and confirmed on the 29th January 2019. This means that although Surrey Heath will again receive no grant at least it will not have to pay money over to the Government.

1.7 The Government made changes to the New Homes Bonus (NHB) in 2017/18 where the first 0.4% increase in the tax base (about 150 houses for Surrey Heath) would not attract NHB. In addition payments were paid for 4 years rather than 6. These changes have resulted in NHB being a reduced incentive for housing delivery. Thankfully no further changes have been proposed for 2019/20. It is worth noting that NHB is not new money but rather paid for by top slicing business rates. However even with a reduced NHB new housing is still vital to drive economic growth and increase the tax base.

1.8 Costs of £2,042,116 in the budget have been charged to reserves. It is expected that the General fund will be at least £2m at the end of 2019/20 if the budget is delivered as shown.

<u>Future Resource Implications</u>

1.9 There are a number of changes to Local Government Finance expected in the coming year. The Government has published a consultation paper it proposals for changes to Business rates and "Fair funding". This will be implemented in the new funding settlement for 2020/21 onwards. Unfortunately from the information provided it is not possible to determine the impact of the changes on Surrey Heath or on Local Government in general. It will be interesting to see whether the funding review results in additional resources for local government or just a change in how these are shared out. It is likely that District Councils will not feature highly in demands for additional cash compared to other areas such as social care and so their funding will at best stay level or more likely continue to reduce.

1.10 In addition to the funding changes the Government is keen to roll out its 75% localisation of business rates across the country in 2020/21. This will see Councils being able to keep 75% of any gains, but also being liable for 75% of any loses over a pre-set baseline. In addition to this the whole business rates system is likely to be rebased meaning that existing gains and losses will be shared out nationally. Clearly where the new baseline is set will have a major impact as to whether an individual

Council is able to make any gains/losses in the following years. If it is set too high then whatever the Council does to stimulate growth it is unlikely to benefit, if it is set too low then this may benefit successful areas disproportionately. The setting of the baseline will be closely linked to the outcome of the Fair Funding review. As if these changes were not enough there is also talk of a revaluation of business rates in 2020 which would impact what businesses pay and therefore what is collected. Considering all these things together it is extremely difficult to predict with any certainty what the Council's funding will be beyond this coming year. It is perfectly possible to foresee a situation after these changes where eventually the Council actually keeps no business rates at all.

1.11 There are also likely to be changes to other grants such as the New Homes Bonus, Homelessness, Housing benefit, Admin grants etc. but what these will be, other than a reduction, is difficult to predict.

1.12 The Council is required to prepare a Medium term Financial Forecast so as to demonstrate that it can achieve a balanced budget in the future or that it understands the challenges in delivering one. This forecast, together with the Financial Strategy, has been included as Annex B in this report. The preparation of the forecast this year has been particularly challenging given there is no information on funding beyond 2019/20.

1.13 The strategy includes a number of assumptions and these are set out in the paper. The key ones being:

- An estimate as to what future funding will be;
- No reduction in services offered
- Only capital expenditure, and the revenue costs resulting, is included if approved by members.
- The redevelopment of the London Road Block and the Arena Leisure centre have been assumed to be revenue neutral i.e. they will generate sufficient income to cover costs. If this is not the case then this may add or reduce financial and cash flow pressures going forward.

1.14 The financial strategy indicates that there will be an ongoing financial gap as follows:

Forecast Resources and Expenditure

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Resources	11,191	10,790	10,903	11,031
Expenditure	-12,365	-12,723	-12,911	-13,102
Net position	-1,173	-1,933	-2,008	-2,071

1.15 The Council has over the years made significant internal efficiency savings and sought to reduce the cost of services through collaboration with other bodies. Rather than cut services the Council has pursued a strategy of increasing income, mainly through investment, and this has been successful in meeting these challenges so far. However the impact of further reduction in funding, inflation and funding capital investment has meant that there is a projected funding gap going forward. Hence the strategy of investment will need to continue to ensure that the Council has sufficient resources to maintain services. Furthermore the Council will only be able to borrow money if it has a means to repay it since there is likely to be very little surplus resource within the existing budget. That said the ultimate solution may well be closer collaboration across Surrey if not a full reorganisation of local government as the current arrangements may not be financially sustainable in the longer term. This outcome may be precipitated anyway by a financial issues at Surrey County Council.

2. **Key Issues**

2.1 The level of budget set and the allocation of resources can impact all the Council's services. This report:

- Sets out recommendations for the budget and Council tax for 2019/20
- Gives details of expected funding including Business Rates and grants for 2019/20
- Includes a financial forecast and strategy showing the financial challenges the Council faces in the future.

2.2 The 2019/20 budget has been built up from individual service budgets that are shown in detail in the budget book. Where possible inflationary pressures have been absorbed and an allowance of £250k has been made for pay increases this year.

2.3 Government funding in the form of business rates and New Homes Bonus has been based on the provisional settlement announced on the 13th December 2018. This is subject to confirmation in February 2019.

2.4 Last year Surrey Heath was part of a Surrey based Business Rates pilot. This was expected to generate £500k which would have gone to Government. The actual amount will be known when the current financial year ends and so is not reflected in this budget. An application was made to join a new pilot for 2019/20, albeit on not such advantageous terms, however this was unsuccessful however the Council will be part of a Surrey Pool. This is not expected to be as good as a pilot but should realise some returns. Although the Council collects £40m from local businesses only 4% comes to the borough to pay for services. That said Business Rates income has increased well above the original base and so some of this increase has been used to support the budget for this year.

2.5 Surrey Heath has invested money in property over the last 3 years which is contributing £1.245m, after borrowing costs and loan repayments, to support Council services. Although this income stream is not without risk it is vital if services are to be maintained in the face of Government funding cuts.

2.6 Having no capital receipts means that the Council will need to continue to borrow to fund its capital aspirations. If these projects are not in themselves self-financing then the interest and Minimum Revenue Provision have to be covered. For every £1m borrowed about £36k revenue is required per year, assuming the asset has a life of 50 years, and so more income generating investments, or reductions in costs, will be required to cover this cost.

2.7 The Council maintains a number of earmarked reserves and provisions. All reserves and provisions are considered appropriate and supportive of future expenditure requirements. Revenue Reserves (including earmarked reserves) are projected to be around £25m at 31st March 2019. These reserves are not only needed for future committed expenditure, such as SANGS, but also to manage the significant financial risks around commercial property and interest rates. Included within this budget is expenditure totalling £2m which has been charged to reserves.

2.8 The General Fund reserve, which is the Council's contingency fund, needs to be sufficient to deal with any unexpected expenditure. Provided Council Tax is increased as predicted and the budget delivered then the General Fund should be at least £2.0m at the 31st March 2020.

2.9 A number of fees and charges have been increased and have been approved in accordance with the Financial Regulations. These changes are reflected within the Budget.

2.10 The financial strategy, included as Annex B, sets out the predicted financial challenges that the Council faces and sets out ways that these can be addressed. It is the responsibility of the Sec 151 Officer to ensure that the budget remains balanced and therefore the financial strategy is an important document in flagging up potential future issues.

3. Next steps

3.1 The following information is required before the 2019/20 Council Tax can be proposed:

3.2 The Funding Settlement announced on December 13th is still provisional. It is anticipated that the final settlement will be announced in Parliament towards the end of January. At this point the referendum limit will also be confirmed

3.3 The County Council, Police and Crime Commissioner and Parishes need to determine their precepts for the year

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

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

- The impact of reduction in Government funding and how this has been addressed
- Costs financed from reserves
- The use of property income to fund services
- The underlying assumptions in the budget
- The financial forecast and its implications in respect of the need for further savings/income if financial stability is to be achieved and the underlying assumptions in its preparation

4. Options

4.1 The Executive is asked to consider and recommend to Council the 2019/20 Revenue Estimates as set out in this paper. Members may amend or reject any part of the budget but are reminded that there is a legal responsibility to set a balanced budget and so any changes could impact on this.

5. Officer Comments

5.1 The investment in property coupled with growth in business rates and use of reserves has enabled the Council to maintain services and a balanced budget for 2019/20. However the financial forecast has identified further challenges in future years driven by Council reductions in Government and other funding coupled with the impact of inflation and the cost of borrowings. This leads to a budget gap of almost £2.2m by 2023/24. Although the Council has adequate reserves at the moment to manage this it only provide breathing space and so action must still be taken.

5.2 The Council will need to continue to grow and maximise its income streams, be this by further investment in property or raising charges, if service cuts are to be avoided in the future. It will also need to seriously consider greater collaboration with other Councils so as to reduce costs as well as looking at ways to manage demand.

5.3 This budget includes an increase in Council Tax of 2.99% this year, the maximum permitted. Even at 2.99% the Surrey Heath increase will be significantly less that both the County and the Police increases. Of all the income streams the Council has Council Tax is least volatile and therefore is the only one that can provide a stable funding base for services.

5.4 Any change relating to 2019/20 budget recommended by Executive will be adjusted for in the budget presented to Full Council on the 27th February 2019. As it is a legal requirement to present a balanced budget any reduction in income, say from a reduction in the increase in Council Tax, will have to be met by equivalent savings elsewhere in the budget.

6. Proposals

6.1 It is proposed that:

(i) The Executive is advised to RECOMMEND to Council that the 2019/20 General Fund Revenue Budget of £13,157,835 as set out in Annex A be approved;

(ii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2019/20.

(iii) The Executive is asked to NOTE

1. That expenditure totalling £2,042,116 will be charged directly to reserves;
2. That a minimum revenue provision of £2,014,000 is required to repay debt;
3. That the budget includes provision for a staff pay increase;
4. The provisional NNDR baseline of £1,543,240 and the final settlement on will be reported to Council at its meeting on 27th February 2019;
5. That a full report, setting out Council Tax proposals for 2019/20 will be presented to Council on 27th February 2019.
6. The Financial Strategy and its implications for financial sustainability

7. Supporting Information

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

8. **Corporate Objective and Key Priorities**

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

9. **Legal Issues**

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

10. **Sustainability**

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

11. **Risk Management**

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

National economy

11.2 The uncertainty over Brexit coupled with inflation could impact the delivery of the Council's budget. Each 1% increase in interest rates adds over £1m to borrowing costs and similarly a 10% cut in retail rental values would take £600k out of the Councils income. The performance of the retail sector and its impact on property values is a particular cause for concern as the Council has invested so heavily in this sector in order to regenerate the town centre.

11.3 Inflation has been absorbed or budgeted for as far as it has been possible to forecast it – however were costs to rise sharply suddenly this could also put strain on the budget. It should also be remembered that these factors may also impact our residents and businesses and therefore impact their ability to pay Council Tax and Business Rates and hence our revenue.

Salaries

11.4 The salary budget has assumed a budgeted pay rise of 2.5%, which has been agreed with staff, in order to bring the Council in to line with other Surrey districts. The budget also assumes a 4% vacancy margin for staff turnover during the year.

Surrey County Council

11.5 The Council still receives grants from Surrey CC to support its community services, family support and recycling. There is a risk that these grants may not be paid given the financial challenges county faces leaving the cost of these services to the Council. If, in the future, Surrey County Council was unable to deliver a balanced budget this could lead to a full reorganisation of local Government within Surrey.

Financial Strategy

11.6 There are a number of financial risks within the forecast which are explored in more detail in the document itself. These primarily are around assumptions in respect of inflation, future funding, interest rates etc. Any change in these assumptions does have a major impact on the forecast going forward and the challenges it presents.

12. **PR and Marketing**

12.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. It is important that the public is informed as to how little Business rates the borough receives compared to what it collects from local ratepayers.

13. **Equalities**

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

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

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

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

ANNEXES	**A – 2019/20 Revenue Budget** **B – Financial Strategy**
BACKGROUND PAPERS	**Budget Book for 2019/20**
AUTHOR/CONTACT DETAILS	**Kelvin Menon – Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
HEAD OF SERVICE	**Kelvin.menon@surreyheath.gov.uk**

Annex A

General Fund Estimates 2019/20

1. The budget for 2019/20 has been prepared on virtually the same basis as last year. The only change in terms of presentation is that the vacancy margin now sits as a single budget at the Corporate level (within finance) rather than being included in each individual function. This year has been especially challenging due to increases in wages, pensions and contract costs together with losses of income in the form of grants and rents. In addition the burden of funding the capital investment plan continues to increase. The Council has invested in more property in 2018/19 and this additional income has been needed to offset some of these costs. Other pressures considered to be of a temporary nature have been funded from reserves.

2. The principles reasons for changes (excluding movements between services and carry forwards) are as follows:

<u>Business - £18k growth</u>

The services has made savings on its Grounds maintenance contract during the year but has had to use this to fund increases in costs as a result of the on street parking transferring to SCC and wages for staff.

<u>Community - £551k growth</u>

£425k of the total increase is due to an increase in asset charges (depreciation) of which £300k is due to the refuse vehicles alone. Under local authority accounting these are not charged to the budget however the £300k for the refuse vehicles does get charged as part of the “minimum revenue payment” (MRP) since they are funded by borrowing. The service has also lost £138k in payments from Surrey for recycling and community services. Contractor inflation on refuse and street cleaning alone amounted to £281k although some of this has been offset through savings on waste contract management and additional income of £176k. In addition there have been staff savings of £80k, offset by wage rises, together with contractor penalties of £80k.

<u>Corporate - £222k growth</u>

£107k of the increase is the estimated cost of the elections in May 2019 which is being funded from reserves. The remainder relates to increments, wage rises and the vacancy margin which is now being held corporately

<u>Finance - £131k growth</u>

£40k growth has been included within corporate management to deal with traveller incursions and the remainder is wages

<u>Legal - £435k saving</u>

The two properties purchased in the year, Vulcan way and Trade city contributed £460k but this is offset in part by wage increases. All other changes have been absorbed within the service

<u>Investment and Development - £1.046 growth</u>

The bulk of this, £1m, relates to the shortfall on rents which is being funded from thr interest equalistion resesrve. The remainder relates to wage growth.

Regulatory - £242k growth

Grants amounting to £71k relating to housing have been removed from the budget as it is anticipated these will not be available this year. £30k relates to an increase in asset charges for disabled grants and the remainder relates to salary increments, wages growth and the transfer of the vacancy margin to the corporate centre.

Transformation - £158k growth

£27k relates to asset charges for IT equipment. £34k has been saved from the closure of the council car scheme with the remainder being increases in staffing costs both in terms of increments, wages, new posts and vacancy margin now transferred

A budget book which includes a detailed for every function and service is published on the Council's website.

Funding from Business Rates

3. The Council, with all the Surrey Districts and the County, is currently in a 100% Business Rates pilot. This pilot allows Pilot members to keep 100% of any Business Rates increases above their predetermined baseline. Whilst the financial outcome of the pilot will not be known until the end of the financial year this could generate an additional £500k for the borough to be used for economic growth – this has not been reflected in the budget.

4. The Government has already announced that a new 75% localisation scheme would be introduced nationally from 2020/21 and so it was hoped that the 2018/19 pilot would be rolled over for another year. However the Government has instead invited Council's to apply for the new pilot and Surrey has made an application. Given that the number of pilots offered will be reduced in 2019/20 it is unlikely that Surrey will be successful. Surrey Heath will then revert to the 50% localisation scheme for that one year, and be part of a business rates pool (with a view to maximising some gains) with a smaller group of Surrey Districts.

5. Under the "standard" 50% scheme for every £1 collected above the baseline 50p goes to Government, 10p to Surrey CC, 20p for a safety net for less successful areas and 20p remains in Surrey Heath. In the 75% pilot 75% of all gains across the county over the baseline are pooled and shared out SCC:Districts on a 70:30 basis. Each member of the Surrey pilot has a guarantee that it will be no worse off in the pilot and a minimum share of gains, assuming there are any, of £500k. A "pool" on the other hand is identical to the 50% scheme except that the 20p safety net payment is retained by pool members for them to share out – they do however have to provide a safety net for each other.

6. What is important to remember is that whether the Council is in a 50%, 75% or 100% scheme this does not denote the % of TOTAL business rates retained in that area. The %ages only apply to *gains* over a pre-set baseline. The bulk of Business Rates collected in Surrey Heath, at least 96%, is redistributed to the County and around the country rather than remaining in the Borough.

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

Total Business Rates and Council Share 2018/19 to 2019/20

		2018/19	2019/20
		Final	Provisional
		£000	£000
Baseline - assumed minimum collected		33,420	34,798
Less: 50% to Government			-17,399
Less: 10% to SCC			-3,480
Less: 70% to SCC		23,394	
Share for SHBC		10,026	13,919
Less Fixed Tariff		-8,517	-12,376
Business Rates for SHBC		1,509	1,543
%age share		4.5%	4.4%
Safety Net		1,463	1,426

8. The table above reflects the figures released in the provisional settlement on the 13th December 2018 and does not include any impact of any growth in business rates over 2018/19. In the budget it has been assumed that the Council will use £950k of this growth in Business Rates above the historical baseline.

9. The Council has worked hard to grow the local economy and support businesses but the shortage of development land makes it challenging to actually build new business premises. This shortage, coupled with permitted development rights which permit the conversion of offices to housing without planning permission, has meant that the Council's business rates tax base has remained pretty static. In future the extension of PD rights to shops and potential other business premises could erode the Council's business rate base even further.

Local Government Settlement 2019/20

10. The settlement, which was announced on December 13th 2018 and confirmed on the 29th January 2019, meant that Surrey Heath would again receive no revenue support grant and that the negative grant of £933k anticipated for 2019/20 had in fact been withdrawn. It is worth stating that even without the negative tariff Surrey Heath has lost £2.7m in Government funding (Business Rates and central grant) since 2010/11.

New Homes Bonus (NHB)

11. In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. This proved to be so successful in delivering houses that over successive years the Government has watered down the incentive to save money. This has moved the scheme from one which paid a fixed reward for every additional house built for each of 6 years to one which only pays the incentive for 4 years and assumes that the first 0.4% increase in

house numbers (150 for Surrey Heath) would have been built anyway and therefore do not require a reward.

12. On the 13th December 2018 the Government announced that Surrey Heath can expect to receive £521,613 in New Homes Bonus for 2019/20. Of this only £10,360 relates to the last year 2018/19. This is because although 144 houses were actually delivered this was below the 0.4% (150 units) threshold so none actually qualified for New Homes Bonus. Due to this threshold the payments the Council can expect in future years will be minimal.

13. NHB is not "new" money and instead comes out of redistributed local authority funds – mainly by top slicing business rates and the Government has assumed that it is there to support on-going services rather than to offset the impact of development. For this reason it has been included in the Governments calculation of "Core Spending Power" which lists the resources all Councils have to deliver services.

Council Tax

14. Council Tax will be set by the Full Council at its meeting on the 27th February 2019.

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

- Up to 3.00% - For those Councils with Adult Social Care responsibilities an additional 6% can be charged over 3 years but Surrey has already used their 6% over the last 2 years
- £5 or up to 3% for Shire Districts – whichever is the higher
- £24 for Police commissioners
- No cap for Parishes and towns

16. Any Council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase at its own expense.

17. The budget has been prepared on the assumption that Council Tax will be increased by the maximum allowed, however members can decide on any amount up to this level. Any resulting shortfall in income would need to be covered by savings within the budget.

18. The current Surrey Heath band D Council Tax is £212.42. Taking account of the increase proposed the new Band D tax will be £218.66.

19. Details of Parish, Surrey County Council and Surrey Police precepts will be included within the paper for Full Council. However indications are that Surrey CC will request the maximum increase allowed, just under 3%, and they have already levied the maximum social care precept. The Police and Crime Commissioner is also likely to go for the full £24 increase.

Tax Base, Parish Support and Collection Fund

20. The tax base has risen overall during the year due to the construction of new properties. This can be seen in the table below:

Council Tax Base

	2018/19	2019/20	Change
Bisley	1,587.78	1,640.07	52.29
Chobham	1,969.27	2,005.58	36.31
Frimley and Camberley	23,871.57	24,103.84	232.27
West End	2,020.58	2,189.73	169.15
Windlesham	8,091.42	8,115.20	23.78
Total	37,540.62	38,054.42	513.80

21. The increase in the tax base, due mainly to the construction of new properties, alone will generate an additional £110k in income each year.

22. The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2018/19 despite the fact that it is no longer funded by Central Government. This may need to be reviewed in the coming year. This is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	**Support given in 2018/19 & 2019/20**
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
TOTAL	**19,943.44**

23. Due to staff working hard to ensure that all money due to the Council for council tax is collected it is predicted that the collection fund will be in surplus at the end of 2018/19. The Sec 151 officer has therefore determined that a surplus of £1,000,000 can be declared for the year. Of this will £756,700 will be paid to Surrey County Council, £126,800 to the Police and the remaining £116,500 to the borough. This will be used to support the budget for 2019/20

<u>Investment income and borrowing costs</u>

24. The 2019/20 budget includes an estimate of £140k for income from Treasury Investments (banks, deposits etc.). Within the budget services are charged with the full cost of borrowing, be that at the PWLB borrowed rate for long term loans or a notional rate of 2% for short term and internal borrowing. Given that some of the money “lent” was in fact surplus cash the Council held, and therefore could invest, an allowance of £150k has been included within the budget representing the lost interest “earned” by using internal rather than external borrowing.

25. The Council may make additional savings on its borrowing costs if it can achieve an interest rate lower than notional 2% on its borrowings – this is not reflected within the budget as it is held in a separate interest equalisation reserve.

Items funded from reserves

26. As in previous years £2,042,116 of expenditure is funded directly from reserves as follows:

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

- £250,000 of costs to support the work of organisational transformation, economic growth and town centre is being financed from the Capital Reserve as this will generate additional income/savings in the future. This may become an additional budget pressure going forward;

- £116,332 for grounds maintenance from the SANGS reserve which has been created to maintain SANGS in perpetuity;

- £26,650 for grounds maintenance and playgrounds from commuted sums reserves which are provided by developers for maintenance of these facilities;

- £124,134 from the Family Support reserves;

- £100,000 from general reserves to fund the Council elections in May 2019;

- £1,000,000 from the interest equalisation reserve to fund the temporary shortfall in rents and;

- £350,000 to fund the final year of pension deficit payments pending the actuarial review in 2019/20

Funding transferred to Reserves

27. As the New Homes Bonus is not required this year to support the budget it will be transferred to reserves.

Impact of Property Purchase in 2019/20

28. The Council has made substantial property investments over the last few years without which it would have been impossible to deliver a balanced budget. This is budgeted to contribute £1.245m to the 2019/20 budget after interest and loan repayments.

29. Although there are risks in property investment in that rentals and investment values can fall it is clear that without this investment being made services would have had to be cut as a result of funding reductions. The Council has adequate reserves to cover this risk in the short term to buy time so that further action can be taken.

30. Under the Prudential Regulations those Councils with borrowings must make an annual charge to revenue, called the minimum revenue payment (MRP), to ensure at the end of the life of the asset funded by debt the Council will have repaid, or will have the funds set aside to repay, any loans it has on that asset. Councils are prohibited

from relying on increases in asset values over time to repay debt. In the 2019/20 budget £2,014,000 has been charged to revenue in accordance with the Council's MRP policy for current and future debt repayment. This payment not only covers debts incurred for property purchase but also loans taken out to fund other assets such as refuse collection vehicles and capital improvements.

Overall Budget

The overall budget taking account of the items above is shown below

ANNEX A

GENERAL FUND REVENUE ACCOUNT

2019/20 SUMMARY BUDGET

	2018/19	2019/20	Variance
	Budget £	Budget £	
Business	943,324	961,515	18,191
Community	4,478,341	5,029,957	551,616
Corporate	1,629,680	1,851,855	222,175
Finance	1,837,587	1,969,280	131,693
Legal and Property	-45,220	-480,401	-435,181
Investment and development	-1,912,080	-852,389	1,059,691
Regulatory	1,897,265	2,139,019	241,754
Transformation	3,261,803	3,420,756	158,953
	12,090,700	14,039,592	1,948,892
Staff and Pension amendments	200,000		-200,000
Add: Minimum Revenue Payment	1,353,000	2,014,000	661,000
Internal asset charges reversed	-2,294,700	-2,625,700	-331,000
NET COST OF SERVICES	11,349,000	13,427,892	2,078,892
Less: External Interest earned	-160,000	-140,000	20,000
Less: Internal Interest earned	-150,000	-150,000	0
Add: Contribution to Parishes	19,943	19,943	0
BUDGET REQUIREMENT	11,058,943	13,157,835	2,098,892
Less: Collection Fund Surplus	-379,500	-116,500	263,000
Less: Business Rates baseline	-1,508,666	-1,543,240	-34,574
Less: Additional Business Rates	-200,000	-950,000	-750,000
Less: New Homes Bonus	-863,886	-521,613	342,273
Add: Tfr to Reserves	863,886	521,613	-342,273
Less: Funding from Reserves	-816,390	-2,042,116	-1,225,726
Add: Parish Precepts	569,890	587,834	17,944
COUNCIL TAX REQUIREMENT	**8,724,277**	**9,093,813**	**369,536**
Less: Special Expenses	-180,000	-185,000	-5,000
Less: Parish Precepts	-569,890	-587,834	-17,944
OWN COUNCIL TAX REQUIREMENT	**7,974,387**	**8,320,979**	**346,592**
Band D equivalent Properties	*37,540.62*	*38,054.42*	
Base Council Tax per Band D property	***£212.42***	***£218.66***	

MEDIUM TERM FINANCIAL STRATEGY AND FORECAST

2020/21 – 2023/24

“Great Place, Great Community, Great Future”

EXECUTIVE SUMMARY

1. The Medium Term Financial Strategy was last presented to Executive in July 2016. Since then the Council’s finances have been transformed with income increasing from property, underspends on most services and excellent collection rates on both Business Rates and Council Tax. However this should not be taken to mean the Council’s financial problems are solved. The Council is now dependent on property income for services and is therefore exposed to risks in the wider economy, especially around retail. Government funding is likely to fall as are grants from partners and inflation, particularly its impact on wage costs, is beginning to bite. In addition demand for services and investment, especially in Camberley Town Centre, continues to rise. All this means that there is now a new set of financial challenges which this strategy seeks firstly to try and quantify and then seek to address.

2. It is important to remember that this report is not a blueprint for setting the budget but rather a prediction based on the facts as known now coupled with a number of assumptions. Estimates of Council Tax or pay growth are merely that – estimates – and are not to be taken as policy. This will be determined by Members, guided by Government, through the budget setting process in due course.

3. Council funding beyond 2019/20 is still not known. Although the Government has said it intends rollout 75% Localisation of Business Rates in 2020/21 the details of how this will work in a general sense have only just been released. No information is available as to what this means for individual Councils. In addition the “Fair funding review”, and Business Rates rebasing and revaluation, are also likely impact the Council’s funding. For the purposes of this forecast it has assumed that Surrey Heath Borough Council will at least start with its share of business rates as per the 2015 settlement but that this will reduce over time.

4. The Council is under a legal duty to set a balanced budget each year and there are various statutory safeguards in place to ensure that this happens. For example if a Council tries to set an unbalanced budget the auditor is obliged to report on this and any precept levied is likely to be illegal. A more well-known safeguard, due to recent events in Northampton, is the serving of a Section 114 notice by the Sec 151 officer which has the effect of stopping all non-essential expenditure. This notice is served if there is a risk that the Council will spend beyond its financial resources and hence become insolvent.

5. This forecast is designed to highlight the challenges in delivering a balanced budget in the future so that action can be taken now. Potential reductions in funding, coupled with the Council’s ambitious capital investment programme and volatility in income streams do have the potential to put considerable strain on the Council’s finances. This may be addressed by further income generation through investment and charges coupled with greater efficiency and collaboration. However if this is not sufficient service reductions may be required.

6. The Council has already taken big steps on the road to self-sufficiency and dealing with the financial challenges it faces. These challenges were not of the Council’s own making but imposed by Central Government and the Council has had to take on considerable risk to address them. These risks, especially the

dependency on property income, has meant that the Council's finances are much more volatile than in the past. Fortunately, the Council does have reserves to deal with some of this volatility for the short term but it is not immune to the ups and downs of the domestic and global economy. However had the Council not invested and therefore not taken on these risks services would have had to be reduced significantly which would have a very dramatic impact on the community. This would have impacted in particular the most vulnerable who depend on the Council's discretionary services.

7. All of the Surrey Districts have come a long way to address the problems they all face. Mostly this has been achieved through income generation from property but there have also been initiatives to work more collaboratively to reduce costs, such as through the Joint Waste Contract. Most Councils have slimmed down their workforce and office space and used technology to become more efficient. What is clear is that there is a limit to what an individual Council can achieve and eventually a different approach is needed. Combining Councils, be this through the creation of new unitaries or super districts, could deliver substantial savings to maintain services. This has to be the medium term goal for Local Government in Surrey and indeed the financial situation at Surrey CC may well precipitate this. Until then Surrey Heath will need to continue to drive efficiency and grow income through charges and investment.

BACKGROUND AND CONTEXT TO THE MEDIUM TERM FINANCIAL STRATEGY

Introduction

8. The Medium Term Financial Strategy (MTFS) sets out the financial challenges that the Council faces over the next four years and sets out a strategy for dealing with them. This builds on the strategy outlined in July 2016 the benefits of which are now being realised.

9. This MTFS endeavours to take account of all the various factors and influences that may impact on the Council for the next few years. These factors include economic conditions, Government spending plans, current expenditure patterns, inflation, capital plans, planned changes to service delivery, changing demand for services, the impact of new legislation, sources of income etc. However exact information is not always available and so a number of assumptions have been made. Hence the forecast should be seen as an indication of the Council's future financial position rather than a solid prediction.

10. The MTFS looks forward anticipating the spending pressures faced by the Council, the impact of decisions already made and those in the pipeline to give an indication of the level of future savings/income required to maintain a balanced budget. This will mean that the Council can plan ahead for future challenges now rather than waiting for when they actually arise.

11. The Council continues to be committed to maximising the use of increasingly scarce resources, directing resources towards its priorities and generating income whilst keeping Council Tax within permitted levels.

12. Over the last couple of years, the Council continued to make significant progress in the achievement of its strategic financial priorities building on work already done. This means that the Council's underlying financial position remains strong but this has been achieved by the Council accepting higher levels of risk.

13. Despite these achievements there are still significant challenges facing Council finances. For example it is not known what the impact of Business Rates localisation or "Fair Funding" will be, the retail economy is very fragile, Brexit has its own set of risks and on top of that there are financial problems at Surrey County Council which could impact us. Hence the strategy needs to remain flexible and the Council's Reserves sufficiently resilient to respond to the impact of these challenges. The Council has always managed to set a balanced budget and its financial standing is sound. However the drive for further savings and new income streams will need to continue to maintain financial stability and the ongoing provision of services to our residents.

Delivering the Council's Objectives

14. The Council has four main objectives which were refreshed last year as follows:
    - **We want to make Surrey Heath an even better place where people are happy to live**
    - **We will support and promote our local economy so that our people can work and do business across Surrey Heath**
    - **We will deliver effective and efficient services better and faster**
    - **We will build and encourage communities where people can live happily and healthily.**

15. These form the basis of the Council's Five Year Strategy and flow through to the Annual Plan each year.

Objective of the Financial Strategy

16. The objective of the financial strategy is to illustrate the financial effects of existing financial commitments over the medium term and hence to set parameters for the efficiency gains and/or income necessary to achieve a balanced budget.

NATIONAL CONTEXT

17. The 2015 Local Government finance settlement set out Council funding up to the year 2019/20. The clear direction of the settlement was to further reduce the level of Local Government funding from Central Government. A distinct change in policy was the acceptance that increasing Council Tax was seen as a way of increasing resources available to fund local services. The intention to transfer a proportion of Business Rates to local Councils, albeit with new duties, signalled that the Government felt that on a national basis local services should be paid for with local taxes. For a number of Districts, Surrey Heath included, the settlement not only took away all Government grant funding by 2017/18 but also contained an obligation to pay money to the Government from 2019/20 by the application of negative grant. Following lobbying it was announced in December 2018 that the negative grant would in fact not be applied in the last year of the settlement namely 2019/20.

18. The Government launched a “Fair Funding Review” in 2016 with the intention of changing the way Local Government finance is distributed. The outcome of this is awaited and it will be interesting to see whether the actual resources to be distributed between Councils increases or whether it is just shared out in a different way. The outcome of the Fair funding review will be one of the factors that will set the base line for the introduction of 75% localisation of business rates in 2020/21. In this new system 75% of any gains above the baseline will be retained by the Council in some way. Whilst this sounds attractive in the same year the business rates system would be “rebased” (this is where gains and losses from across the country are shared), there could also be a full revaluation and one suspects a new set of business rates reliefs for businesses. Overlaying all of this it the next Spending Review which is due in 2020 and could lead to overall cuts (or increases) in Local Government funding. What this will probably mean is that the Council is unlikely to see any increase in its funding form these sources. Although the Government has eased austerity, it is likely that any additional cash will go to areas such as the NHS and social care first as they are seen as having the greatest pressures. How all this will impact on Surrey Heath is difficult to predict, and so the following has been assumed:

    - There will be no negative grant going forward.
    - Councils will continue to be encouraged to increase Council Tax by the maximum allowed – for Districts 3% or £5 – whichever is the higher;
    - The reductions to New Homes Bonus will continue despite the impact on house building;
    - Even with the localisation of business rates the amount received will continue to fall over time as any benefit to Surrey Heath will be cancelled out by the Fair Funding Review;

Government Support

19. Central Government support including business rates has decreased from £4.2m in 2010/11 to £1.5m in 2020/21. As the 4 year settlement is not due until later in 2019 there is no certainty re future funding beyond March 2020. As a result of this all these figures are estimates.

Business Rates

20. Surrey Heath is responsible for collecting business rates, which are set centrally, from all businesses in the borough. Under the standard 50% system, 50% of all business rates collected go to the Government with 40% remaining with the borough and 10% going to the county. In two tier areas, in order to ensure that Districts did not get more money that their relative needs, a "fixed tariff" is charged against the 40% allocation which in effect means that most of it is lost. In addition, the Government sets an annual baseline as to the level of business rates it expects to be billed in the year. If the Council manages to over achieve against this target, then it can effectively keep 40% of any increase (reduced to 20% by the application of a safety net levy) with 10% going to the county and 50% to the Government. If, however, it underachieves then it will suffer 40% of the shortfall but can call on the safety net if there is a large loss. Business rates go up and down not only because businesses open and close but also due to revaluations resulting from appeals from the Valuation Office which can go back several years.

21. For 2018/19 Surrey Heath was in a 100% Surrey Business rates pilot with the County and all the districts. This means that 100% of growth, rather than 50%, is retained in Surrey and split 70:30 between the county and districts. There is also no levy charged. Sadly this scheme was not rolled over in to 2019/20 and a new application was been submitted to join a 75% pilot – however this was unsuccessful and so the Council has reverted back to the standard 50% business rates localisation, as explained above, albeit in a pool with some other Districts. This removes the safety net levy and hence retains an additional 20% of any gains locally.

22. The Government has said that it would like to implement 75% localisation by 2020/21 and potential impact of this has already been set out above. The giving of more business rates to Councils by Central Government is to be welcomed as it enables Councils to share in any growth. The downside of this is that Business rates income is more volatile, than say a direct grant, as it is impacted by the wider economy and that could impact services.

23. The 4 year settlement figures together with the projections are shown in the table below. It has been assumed that the amount of business rates the Council receives will fall over time.

Central Government Funding								
	4 year settlement - February 2016				Estimated	Estimated	Estimated	Estimated
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Core Funding	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
Revenue Support Grant	357	0	0	0	0	0	0	0
Share of Business Rates	1,435	1,464	1,507	1,543	1,250	1,000	750	500
	1,792	1,464	1,507	1,543	1,250	1,000	750	500
Other Grants rolled in:								
Transitional Grant	133	84						
	1,925	**1,548**	**1,507**	**1,543**	**1,250**	**1,000**	**750**	**500**
Reduction in funding		**-377**	**-41**	**36**	**-293**	**-250**	**-250**	**-250**

New Homes Bonus

24. Due to the success of the New Homes Bonus the Government implemented changes to the New Homes Bonus scheme in 2017 to reduce its overall cost as follows:

- For 2018/19 the incentive was to be paid for 4 years rather than the original 6;
- The first 0.4% of the tax base increase each year will not qualify for NHB. That means that the first 150 units built in the borough do not qualify for a bonus. This is likely to have a major impact on the amount of bonus received in any given year

25. Further changes relating to restrictions on NHB for homes granted on appeal or the lack of a local plan have been mooted but were not been implemented in 2019/20.

26. It is difficult to predict the future level of News Homes Bonus. Although the Government may be tempted to reduce the incentive still further they also want more houses to be delivered. Hence it has been assumed that provided houses continue to be delivered at the same rate as now the bonus will remain reasonably static.

Year		**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated payment		0.864	0.521	0.400	0.400	0.400	0.400

Council tax income

27. The Local Government Settlement for 2018/19 allowed Districts to increase Council Tax by up to 3% or £5, whichever is the higher. The Government has stated this will be the limit going forward and so has been assumed in the forecast.

28. It has also been assumed that the tax base will increase by 1.0%. This is about 270 Band D properties per annum.

29. In the future the Government may allow Councils to increase Council Tax through new band or a levy but this has been ignored for forecasting purposes.

Council Tax Forecast

Year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Tax base	37,540	38,054	38,435	38,819	39,207	39,599
Band D	£212.42	£218.76	£225.33	£232.09	£239.06	£246.23
Total funding	£7.974m	£8.325m	£8.661m	£9.010m	£9.373m	£9.751m

It should be noted that the figures exclude the Special Expenses charge.

It is a major element of the Financial Strategy that Council tax is increased by the maximum permitted level each year

SERVICE AND OTHER PRESSURES

Employee Costs

30. The Council has historically sought to limit the growth in salary costs by fixing in cash terms the salaries budget despite increases in wages and increments. This was achieved by greater efficiency resulting in a lower headcount. However more recently the Council has found it increasing difficult to recruit in a number of professional areas resulting in an upward pressure on wages costs. In addition further reductions in headcount are unlikely unless the Council radically changes the way it delivers services. As a result pay growth will be an ongoing budget and for the purposes of the forecast an increase of 2.0% per annum has been assumed.

31. Historically pensions have been an increasing burden on the Council. However a recent actuarial review indicated that the scheme is almost fully funded so no increase in contributions is anticipated over the life of this forecast.

Inflation

32. A number of the Council's contracts are indexed in some way to inflation. It has been assumed that these increases will be in line with CPI and this has been estimated to be 2.0% pa. Any inflation over this will need to be managed through greater efficiency and/or service rationalisation.

Reduction in Surrey County Council support

33. The Council currently receives £350k revenue funding from Surrey County Council to support a number of services including recycling, older people's services, environmental services and supporting families. It has been assumed that this funding will disappear over the next 2 years but the services will be maintained at the expense of SHBC.

Fees and Charges

34. The Council generates a significant income from fees and charges, of which £2m alone comes from parking charges. It has been assumed that all charges will increase by 2.00% pa and this has been incorporated in to the forecast.

Property income

35. The Council holds a significant portfolio of investment property which has made a major contribution to the Council's finances.

36. In terms of the SQ it has been assumed that there will be rental growth of only £50k per annum for the forecast period and that £500k of the current temporary rent reductions will be recovered from 2020/21.

37. In terms of rents for other properties, such as the industrial estates, it has been assumed that these will rise by 1% per annum. In addition the forecast assumes that no properties are purchased over the MTFS period however in reality this will be one of the ways that the financial gap will be addressed.

Treasury Management

38. The Council, as at the 30th November 2018, had £14m invested in various institutions and funds. The Council has also taken out a significant amount of borrowing to fund its investments – currently this stands at £140m. The model assumes that this will be at a constant rate of 2% for the life of the forecast or the PWLB rate if already borrowed. In reality the short term rate the Council is using is likely to be less resulting in a significant saving. This advantage will reduce over time as loans have been forward fixed to reduce risk – £25m in 2022 and £25m in 2023 although it has been assumed the average will still be 2%. That said if rates were to rise sharply, each 1% rise would cost £1m pa, then this could put the Council under financial strain.

Capital

39. The Council has an Asset Management Plan and Capital Strategy. The Capital Strategy sets the framework for capital investment and this is supported by the detailed capital programme each year. The Council is currently reviewing its estate to ascertain take advantage of development opportunities and generate returns.

40. The Council has almost no capital receipts and all capital funding is now either from revenue, grants or through internal and external borrowing. It has therefore been assumed that all capital investment will be self-funded.

Level of Reserves and General Fund

41. Local authorities are required, when considering their budget setting, to "*have regard to the level of reserves needed for meeting estimated future expenditure*" and to ensure that the Council has a sound financial position and is able to meet its ongoing and future requirements. It is the responsibility of the Council, together with its Section 151 Officer, to ensure a prudent approach is taken in the administration of financial affairs and that there are sufficient reserves to meet the anticipated demands and requirements of the authority.

42. Reserves generally are kept for 3 overriding reasons:
    - As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves
    - A contingency to cushion the impact of unexpected events or emergencies
    - A means of building up funds, often referred to as earmarked reserves, to meet known or anticipated requirements. An example is the ongoing maintenance of a SANG.

43. The main reserve the Council utilises in terms of managing its overall financial position is the General Fund reserve. This reserve is used:

    - To protect the working capital of the authority i.e. to manage fluctuations in spending and to ensure there are sufficient funds to meet the ongoing commitments of the Council;

    - To support the Council through any unforeseen occurrences e.g. to support the Council's budget if there are expenditure pressures such as a loss of car parking income or very high price increases (e.g. in fuel) which are unforeseen

    - To be available to fund emergencies for example flooding etc.

44. As part of its Medium Term Financial Strategy there are also some fundamental principles which apply to how reserves are used:

- The reserves must only be used to fund one off items of expenditure;

- Reserves should be maintained at a sustainable level to ensure an adequate working balance is maintained;

- As the Councils funding becomes more volatile, a higher level of reserves needs to be maintained to manage this volatility.

45. The required level of reserves is not specified by statute, either as a cash amount or as a percentage of the Council's budget. The level set is such that the Council's financial position is maintained, having regard to the risks the authority faces, in the foreseeable future. The Section 151 Officer reports at budget setting time on the adequacy of the reserves and whether they are sufficient for the operation of the Council. Currently the Council holds approximately £27m in earmarked and non-earmarked reserves

46. In assessing the overall level of risk, some of the factors which have been considered are:

- The level of inflation on services and wages;

- The impact of the wider economy on say the housing market and council income and the demand for services;

- The continued reduction in Local Government funding across the country as part of central Government's deficit reduction programme;

- The level of volatility in a number of the Council's income streams such as property and business rates

- Legislative pressures and macro-economic policies such as new responsibilities and changing interest rates.

47. At the moment the level of reserves is considered to be adequate to meet most future risks.

MEDIUM TERM FINANCIAL FORECAST

Introduction

48. The Medium Term Financial Forecast sets out the forecast level of resources and expenditure for the authority over the next four years as at the date of preparation. It is important to note that the figures shown in the plan are local forecasts, based upon a number of local and national assumptions and variables, the majority of which are beyond the control or influence of the Council.

49. In preparing this forecast, the Council has taken into account local and national data regarding resources levels and expenditure pressures. This allows the Council to determine the sustainability of its medium term financial position.

50. Whilst it is highly probable that the figures shown in this forecast will change a key benefit of preparing this plan is to understand the degree to which they could change. This then can enable appropriate actions to be in place to ensure that the Council can deal with such changes.

Revenue Resources Projection

Medium Term Revenue Resources Forecast

51. Using the above individual revenue resource stream projections, the medium term revenue resource forecast is set out below. The forecast reflects an estimate in respect of Local Government funding as far as they are known.

	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Business Rates	1,250	1,000	750	500
Business Rates surplus	500	0	0	0
Council Tax	8,675	9,052	9,443	9,849
Collection Fund Surplus	200	200	200	200
Special Expenses	185	185	185	185
New Homes bonus	400	400	400	400
	11,210	**10,837**	**10,978**	**11,134**

52. In terms of revenue expenditure, it has been assumed that the cost of services will stay broadly the same, subject to the areas discussed earlier in this paper. In summary the following assumptions have been made around key cost drivers and income streams used in the forecast.

Base Budget Changes				
	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Wages Inflation	200	404	612	824
contract Inflation	200	404	612	824
Fees and charges inflation	-140	-283	-428	-577
Rental growth	-40	-80	-121	-162
Interest charges change	-78	-121	-164	-208
SCC Grant reduction	175	350	350	350
SQ rent changes per ME	-50	-100	-150	-200
Hof Rental loss	-500	-500	-500	-500
Total	**-233**	**74**	**210**	**351**

53. The Council has an ambitious capital programme in respect of the SQ and Camberley Town centre. The cost of funding for already approved plans (Phase 1) has been reflected in this forecast. Interest is payable from the date of borrowing whereas MRP, which represents the debt repayment, is only required the year after. An implied interest rate of 2.0% has been used.

54. No allowance has been made for any funding for a new Arena Leisure Centre or the redevelopment of the London Road Site since it has been assumed that these will be self-financing. i.e. The cost of borrowing will be covered by income generated. Were this not to be the case then there could be additional financial pressures or indeed resources.

Revenue Expenditure Forecast

55. Using the assumptions above, the revenue expenditure projection for the authority is shown in the table below.

REVENUE FUND PROJECTION 2019/20 to 2023/24

2019/20 £000 Budget	Portfolio	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
961	Business	961	961	961	961
5,030	Community	4,850	4,850	4,850	4,850
1,852	Corporate	1,745	1,745	1,745	1,745
1,969	Finance	1,969	1,969	1,969	1,969
-480	Town centre and Regeneration	-480	-480	-480	-480
-852	Legal and Property	-852	-852	-852	-852
2,139	Regulatory	2,139	2,139	2,139	2,139
3,421	Transformation	3,421	3,421	3,421	3,421
14,040		13,753	13,753	13,753	13,753
	Other items				
-2,625	Internal Asset charges	-2,625	-2,625	-2,625	-2,625
20	Contribution to Parishes	20	20	20	20
-290	Investment income	-160	-160	-160	-160
2,014	MRP funding - current	2,047	2,098	2,150	2,200
521	Tfr to reserves				
-2,043	Reserves funding	-437	-437	-437	-437
11,637		12,598	12,649	12,701	12,751
	Base budget changes				
	Wages Inflation	200	404	612	824
	contract Inflation	200	404	612	824
	Fees and charges inflation	-140	-283	-428	-577
	Rental growth	-40	-80	-121	-162
	Interest for capital program	-78	-121	-164	-208
	SCC Grant reduction	175	350	350	350
	SQ rent changes	-50	-100	-150	-200
	Hof Rental recovery	-500	-500	-500	-500
0	**Total**	(233)	74	210	351
11,637	**Total Budget to be funded**	**12,365**	**12,723**	**12,911**	**13,102**

Overall Position

56. Using the medium term revenue and expenditure projections, the resulting overall forecast position for the authority is shown below.

Forecast Resources and Expenditure

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Resources	11,191	10,790	10,903	11,031
Expenditure	-12,365	-12,723	-12,911	-13,102
Net position	-1,173	-1,933	-2,008	-2,071

57. The gap rises from about £1.2m to almost £2.1m over the life of the forecast driven by reductions in income from property, grants etc. and the impact of inflation.

58. Whilst this can be covered by reserves and indeed the assumptions made may turn out to be better than expected steps will still need to be taken to address this funding gap be it through savings or additional income.

Other issues that may affect the forecast

59. Changes imposed by Central Government could reduce the funding available to Councils and put restrictions on Council Tax. They could also transfer extra duties to Councils, which could have a financial cost, in exchange for greater localisation of business rates.

60. Local factors, such as the pension fund valuation and pressure on wages, could affect the forecast together with more macro-economic factors such as inflation, interest rates and the commercial property market.

Impact of further Capital Expenditure on the forecast

61. So far £6m has been approved for Phase 1 of the SQ refurbishment and about £1m for High Street public realm improvements both of which have been reflected in the forecast.

62. That said, there are further schemes that may be advanced such as Phase 2 at the SQ, capital contributions for the Arena, tenant incentives etc. The revenue cost of this borrowing will depend on the interest rate as well as the length of time the loan is for. Under the prudential regulations the Council must have sufficient revenue resources to cover the interest on the loan as well as make annual provision for debt repayment (Minimum Revenue Payment or MRP). This can add a significant pressure to the revenue budget and ultimately impact services unless it is funded by new income.

63. The table below shows the impact on the revenue budget (interest and debt repayment) of different levels of borrowing over different periods at an interest rate of 3.0%.

Revenue costs of borrowing				
	10 years	20 years	40 years	50 years
	£000	£000	£000	£000
£1m	117	67	43	39
£5m	586	336	216	195
£10m	1,172	672	532	390
£20m	2,344	1,344	1,064	780

Sensitivity

64. The projection can vary widely for a few percentage points. Taking the prudent scenario as a base point then for a number of changes in parameters the savings required for the year ended March 2024 would be:

Change in parameter for forecast period	Cumulative impact on the forecast	Change in projected savings for 2023/24
No changes – base position	0	2,178
0.5% increase in pay each year	522	2,392
0.5% rise in contract inflation each year	522	2,392
0.5% increase in fees and charges	-366	2,029
0.5% increase in borrowing costs in first year	2,500	2,678
Additional 100 houses for Council Tax	-486	1.930
1% rise in direct rents	-413	2,011
HoF to remain empty for life of forecast	2,000	2,678

65. It can be seen that small variations can have a large impact on the overall projection. Similarly of the Council were to receive a fair share of Business Rates collected – say 5% - then this would add between £0.75m and £1.5m to each year of the forecast.

PROPOSED FINANCIAL STRATEGY

66. The Council's strategy has always been to seek to achieve a balanced budget with no reductions in services to the public. This has required a two pronged approach which firstly looked at increasing efficiency and thus making savings, and secondly at increasing income.

67. The strategy to date has been particularly successful. Over the last 9 years, the Council has reduced its cost base in real terms and yet continued to deliver broadly the same range of services without any impact on the public at large. Initially this was achieved through changes to staffing, greater use of technology and collaborative working with other public bodies. However as the scope for further savings reduced, the emphasis changed to one of income generation through the introduction of new chargeable services, increasing existing charges, getting better returns from assets and investing in property for growth. This income growth, particularly from property whether bought for investment or regeneration, has made a major contribution to the Council's finances and enabled it to deal so far with the financial challenges placed upon it by Central Government. However this success has been at the price of the Council taking on increased risk, as can be seen by the recent downturn in retail property, and so the challenge for the Council is not only about generating more income but also coping with the volatility that this can sometimes bring.

68. There are a number of different areas the Council should concentrate on in order to address its financial challenges going forward. These are as follows:

Business Rates and Needs based funding

69. A key area of uncertainty is the Government position on the full localisation of Business Rates and Needs Based Funding. Currently Surrey Heath gets to keep less than 4% of the Business Rates it collects and this may reduce even further over time. There is no way this could be described as "an incentive for growth" and so the Council needs to continue to lobby to ensure it gets a fair share of the economic growth it creates.

Continue to lobby the Government to give a fairer deal to Districts by fixing the baseline at the actual rates achieved and to provide within the new localisation scheme a genuine incentive for growth.

Delivery of Housing

70. The delivery of housing within the Borough is a key driver for economic growth and is in line with Government policy. An additional 1,000 houses over and above the baseline of 149 units would not only give an additional £212k in Council Tax *per year* but also potentially £4.8m in New Homes Bonus. Affordable Housing not only attracts a higher NHB but also reduces the cost of bed and breakfast and homelessness within the borough.

Support the delivery of significant new housing developments within the Borough.

Internal efficiency

71. Whilst a lot of work has already been done to release the easier efficiencies, there is still scope for further work to be done in areas such as shared services, combined management, better procurement, reduced customer contact and streamlined management.

Internal efficiencies, including demand management, and collaborative working, including reducing the number of Surrey Councils, be pursued to deliver further efficiencies

Additional income from charges

72. Charging for discretionary services is an accepted way of increasing resource to support other areas of the Council's activities. For example, charging for parking in parks, where in effect the user pays for the discretionary service they are using.

Introduce new charges in order to generate income to support unfunded services

Additional income from assets

73. The Council has been successful in renting space to partners in Surrey Heath House. So far this contributes £250k to the budget in terms of rent and shared service costs. Applying agile working to all Council staff would free up more space for rent and deliver more income. There is also potential to generate capital receipts from the development of surplus land across the borough and use this to reduce debt.

Put in place a new asset management strategy which will seek to rent out surplus office space and develop/sell surplus land

Reduction in provision of Discretionary Services

74. The Council provides a whole range of services which are not required by statute and therefore not funded. This includes Meals on Home and Community Buses, the theatre, parks and the museum. These services in total cost around £1m hence steps have been taken over recent years to reduce their cost. These services may need to operate on the basis of "the user pays" or be reduced over time. Services which are the legal responsibility SCC may need to be handed back if SCC is unable to adequately fund them.

Work to reduce subsidy for Discretionary services and discuss with Surrey how funding for these services can be maintained

Generate Income through Investment

75. Surrey Heath has invested heavily over the past few years and this made a significant impact on its budget position in 2017/18. Although 2018/19 has proved to be difficult in terms of retail rents it is worth stating that the Camberley Town Centre was never purchased as a pure investment but rather to kick start regeneration and maintain the local economy. That said it still makes a hefty contribution to the finances. Despite the risks investment in property is likely to be the only thing which can bridge the financial gap the Council is forecasting in the time available.

76. The Council has always been open about the risks from property investment. It has sought to reduce these risks by using professional advisers, concentrating on the local market, having a mixed portfolio and looking for solid investments. Of the Council's current investments about 25% are in industrial property with the remainder in retail. It was always intended that property purchased would be held for the longer term with a focus on maintaining income rather than capital growth. As income becomes more volatile, it will be essential that the Council maintains adequate reserves to enable it to deal with these peaks and troughs as they occur.

77. It is important that income from existing investments is maximised. This is because the loan has to continue to be financed even if the income from the asset is much reduced. It is therefore vital that property when it becomes empty is either re-let or repurposed as quickly as possible so as to minimize the adverse impact on the Council's finances.

Continue to invest prudently in property to generate additional income and ensure that income from assets already owned is maximised

78. The strategy above has already been shown to work, and despite some fluctuations, has enabled the Council to maintain services despite losing a significant amount of Government funding.

Looking ahead

79. It is clear that the Council will continue to find itself in an environment where the need to deliver savings and income growth is ongoing. This is due in the main to the Government taking more and more of the Councils resources, as well as the fact that rising cost and demand far outstrips the ability of Council Tax to fund them. Unless the Government is prepared to share to business rates more fairly only a strategic re-organisation of Local Government in Surrey can eventually deliver the financial cost savings required. In the meantime continued investment, development and more efficient working will be needed to plug the gap.

80. The performance of the wider economy could have a significant impact on the Council's finances in the years to come which will need to be managed.

RISK MANAGEMENT

81. The Corporate Risk Register includes the risk of the Council being unable to deliver a balanced financial strategy over the medium term. Specific risk factors include:

    - External limitations including the Government's ongoing review of Local Government resources, planned localisation of Business Rates and Council Tax pressures including capping;

    - Reduced income from fees and charges, which the Council is dependent upon to help balance its revenue budget;

    - Budget pressures created by change in demand – decrease/increase in demand for existing services or demand for new services and increased customer expectations.

    - In respect of Business Rates, were the claim for charitable relief from NHS bodies be successful the Council would have to repay up to £6m and potentially lose £500k pa in income depending on how the localisation works.

    - Risks inherent in property investment and development in terms of movement in the market, development overruns and loss of sales, rental void periods and competition. This risk, driven by the national economy particular in respect of retail, is by far the most significant risk the Council faces and could prove to be very difficult to manage.

    - Risks arising from interest rate changes. The forecast is based on an average rate of 2% and at the moment the council is achieving significantly below this. However if this was to change by 1% then this could potentially add £1m to interest rate costs. This risk has been partly reduced by taking a forward loan for £50m at a fixed rate.

82. The Council is attempting to address these risks by ongoing sound financial management and placing an emphasis on value for money, efficiency planning and invest to save initiatives. The Council conducts a thorough due diligence process on all its investments and employs professional advisers to advise it on potential acquisitions to try to minimise risks.

83. The Council also employs professional property managers to advise on tenants and maintain income from the estate. The quality of this advice will be crucial in the very difficult times ahead. Whilst not investing in property would eliminate the risk, it would lead to a reduction in services to cover the loss in funding the Council has suffered.

84. The Council seeks to manage its risks, at least in the short term, by retaining an adequate level of reserves to allow time for other actions to be taken.

85. A major risk, which is outside of the Council's control, is the financial stability of Surrey County Council. In the forecast it has been assumed that Surrey CC funding will be withdrawn over 4 years. Were this to happen more quickly this would increase the financial pressure on Surrey Heath as it tries to maintain those services. In addition Surrey CC has an ambitious savings program which needs to delivered if it is to remain financially viable. If it was unable to achieve this then this could lead to a full reorganisation of local government within Surrey as has happened in Northamptonshire. Were this to happen any financial obligations entered in to by Surrey Heath would transfer to the new Council.

EQUALITIES

86. The strategy has been prepared as far as possible in line with the Council's approach to equalities in that it does not discriminate or support discrimination on the grounds of age, disability, gender, race, religion or belief, or sexuality. The effect on protected groups of actions required to deliver the strategy would form part of an Equalities impact assessment when those changes are considered

OVERALL CONCLUSIONS

87. This strategy and forecast give an overview of the current and future position of the Council. Prospects for the Borough's finances are better than they might have been due to the focus on income generation, but the financial challenges continue to grow in the years ahead.

88. Maintaining reserves does enable the Council to cover cyclical shortfalls in income for a few years until rents recover in the future. However, despite the current issues around retail investment, the Council has taken the decision to invest in its own town centre to deliver regeneration and hence it must continue to support these through investment with the view that there will be a positive outcome. The Council can take some comfort that its track record so far has been good. Savings have been achieved, income generated and most importantly services maintained, however the challenge continues. Work will need to continue in earnest to seek more efficiencies and to generate income through construction lead growth, new charges, asset utilisation and investment. This will also include giving up some control in order to work more closely with other local authorities.

89. Whilst the last few years have brought challenges to Councils, they have also given real opportunities to those that are prepared to take the initiative. Surrey Heath has shown through its investment in property and transformational approach to services that it is not afraid to take difficult decisions. The course has been set and the journey started – now we just have to "Keep calm and carry on".

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Treasury Management Strategy Report 2019/20

Summary
Report to Executive to consider and recommend to Council the Treasury Strategy for 2019/20

Portfolio Finance
Date Portfolio Holder signed off report: 11 February 2019
Wards Affected All

Recommendation

The Executive is advised to RECOMMEND to Council that

(i) The Treasury Management Strategy for 2019/20;

(ii) The Treasury Management Indicators for 2019/20 at Annex C of this report; and

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

be adopted.

Resource Implications

1. Investment Income for 2019/20 has been budgeted at £140,000 which is calculated at an average return of 1% on a £14 million portfolio. £2.8 million has been budgeted for interest payments calculated as average cost of 2.0% on debt of £139 million. These figures are influenced by changes to interest rates, levels of debt and investment funds.

2. The proposed corporate capital programme for 2019/20 – 2020/21 will need to be funded by borrowing or out of capital receipts arsing from the sale of Ashwood House.

3. Any changes required to the approved treasury management indicators and strategy, say because of changes in economic conditions, will be reflected in future reports for Executive and Council to consider.

Key Issues

4. Treasury Management is “the management of the Council’s cash flows, borrowing and investments, and the associated risks”. The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of charging interest rates. The

successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

5. The Council's investment portfolio comprises of funds available for longer-term investment, and short term investments sufficient to meet cash flow requirements.

6. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

7. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

8. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

9. Should the assumptions on which this report is based change significantly, the Council will be asked to approve a revised Treasury Management Strategy Statement. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

Options

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

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

Proposals

12. The Executive is asked to approve and recommend to Council the adoption of:

    a) The Treasury Management Strategy for 2019/20.
    b) The Treasury Management Indicators for 2019/20 at Annex C.
    c) The Minimum Revenue Provision (MRP) policy statement at Annex F

Supporting Information

<u>National and International Factors which influence the Council's Treasury Strategy</u>

13. The Council's treasury management advisors, Arlingclose Limited, have given us their assessment of the wider external factors that the Council's investment strategy needs to take in to account in terms of the economy, interest rates and credit outlook. This is set out below:

Economic background:

14. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.

15. UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

16. The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

17. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

18. While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September.

Credit outlook:

19. The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

20. The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken

by management were factored in. The BoE did not require any bank to raise additional capital.

21. European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast:

22. Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting further increases during 2019. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly.

23. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

24. Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

25. For the purpose of setting the budget, it has been assumed that no new investments will be made and that new long-term loans will be borrowed at an average rate of 2.0%.

Local Context

26. The Council currently has £139 million of external borrowing and £22 million of investments (as at 31st December 2018) as set out in Annex E.

27. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is

to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum of £5million. However the Council will continue to borrow externally if there is a sound business case for doing so.

28. The Council has a falling CFR due to using its capital receipts to repay some of its debt. However this would increase if further capital investment through borrowing is undertaken.

Borrowing Strategy

29. The Council currently holds £139 million of loans, an increase of £20 million on the previous year, which it is using to fund its property acquisitions. The Council may borrow in advance to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing limit of £190m, however the Council will incur a cost of carry until the funds are applied. This is because generally borrowing rates are higher than investment returns.

Objectives:

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

Strategy:

31. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

32. The majority of the Council's borrowing is short term in order to take advantage of low rates, however it has fixed some of its borrowing for the longer term to give certainty of cost in the future and reduce risk. There is still a risk of exposure to increased variable interest rates on the Council's short term borrowing.

33. On the advice of the council's treasury advisors the Council has arranged fixed rate forward starting loans for £50m. These will replace the short term borrowing of the same amount and are due to start in 2021 and 2022. This has enabled certainty of cost to be achieved in the future whilst taking advantage of low interest rates in the short term.

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

Sources:

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

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

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

36. The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates. Short term borrowing has all been from Other Public Bodies.

<u>Municipal Bond Agency:</u>

37. UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Hence at the moment the UKMBA does not compare favourably with other sources of finance. Any decision to borrow from the Agency will require the approval of Council and therefore a separate report would be required.

<u>Short-term and Variable Rate loans:</u>

38. These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

<u>Debt Rescheduling:</u>

39. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some

loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Annual Minimum Revenue Provision (MRP) Statement

40. When a Council borrows, it is required to indicate how it intends to fulfil its duty to make prudent provision for the repayment of the capital borrowed from revenue. This provision is called the Minimum Revenue Payment or MRP. Best practice guidance recommends that Councils prepare a statement of policy on making MRP in respect of the forthcoming financial year. The Council's MRP statement will be recommended to Council by the Executive on 19th February 2019 as part of the Capital Budget for 2019/20.

41. The recommended policy is attached in Annex F and the forecast MRP in £m is shown in the table below:

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
MRP Payment	1.318	1.369	2.014	2.047	2.098

Investment Strategy

42. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's average investment balance was £13million. This is expected to remain at £13million in 2019/20.

Objectives:

43. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates:

44. If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy:

45. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to remain diversified into higher yielding asset classes during 2019/20, particularly for investments held for the longer term. The Council's surplus cash remains invested in money market funds and in short-term unsecured bank deposits. No changes are proposed to the 2019/20 investment strategy from that adopted in 2018/19.

Business Models:

46. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties:

47. The Council's Treasury advisors have advised that the Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£3m 20 years	£3m 50 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£3m 10 years	£3m 25 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£3m 5 years	£3m 15 years	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£3m 4 years	£3m 10 years	£2m 4 years	£2m 10 years
A+	£2m 2 years	£3m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£3m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 months	£3m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
BBB+	£3m next day only	£3m 6 months	£2m 5 years	n/a	£1m 2 years
None	£1m 6 months	n/a	£3m 25 years	£1m 5 years	£2m 5 years
Pooled funds and real estate investment trusts	£2m per fund or trust				

This table must be read in conjunction with the notes below:

Credit Rating:

48. Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured:

49. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks Secured:

50. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government:

51. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates:

52. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £2m per company as part of a diversified pool in order to spread the risk widely.

Registered Providers:

53. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds:

54. Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be

used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

Real Estate Investment Trusts:

56. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational Bank Accounts:

57. In addition the Council may incur operational exposures, for example though bank current accounts, collection accounts and merchant acquiring services, to UK banks with a credit ratings of at least BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, thereby putting these operational deposits at risk. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council's current accounts, together with a Business Reserve account are held with NatWest Bank who are currently rated BBB+. Deposits with the Council's current account are restricted to overnight deposits.

Supranational Banks:

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

Risk Assessment and Credit Ratings:

59. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other Information on the Security of Investments:

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

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

Investment Limits:

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

64. Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£2m per country
Registered Providers and social landlords	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total
Real estate investment trusts	£3m in total

Liquidity Management:

65. The Council uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Other Items

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

Treasury Management Indicators

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

Corporate Objectives and Key Priorities

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

Policy Framework

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

- a) New borrowing is to be contained within the limits approved by the Council, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Council's prudential indicators.
- b) Investments to be made in accordance with the MHCLG guidance on Local Council Investments, on the basis of a selection of external rating agencies credit ratings for rated institutions and as detailed in the Treasury Management Policy statement and approved schedules and practices.
- c) Sufficient funds to be available to meet the Council's estimated outgoings for any day.
- d) Investment objectives are to maximise the return to the Council, subject to the overriding need to protect the capital sum.
- The Council's response to interest rate changes is to minimise the net interest rate burden on borrowing and maximise returns from investments, subject to (a-d) above.

Legal Issues

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

Governance Issues

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

Sustainability

72. None

Risk Management

73. Poor returns on investments could lead to a reduction in income required to support the revenue budget. However, low returns on investments should mean low rates for borrowing which could offset any potential loss. There is a risk that variable interest rates on short term borrowing could rise faster than expected leading to an increase in costs and therefore needing savings elsewhere in the Council's budget.

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

75. 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 thereby putting the Council's investments at risk.

Consultation

76. The Council's treasury advisors have been consulted and advised on the treasury strategy.

Officer Comments

77. Treasury Management, in particular the management of debt, is becoming an increasingly important area for the Council. This can lead to financial benefits but also carries risks which need to be clearly understood.

Annexes	Annex A – Arlingclose Economic and Interest Rate Forecast December 2018 Annex B – 2019/20 Other Items - Treasury Management Strategy Annex C – 2019/20 Treasury Management Indicators Annex D – Investments as at 31 December 2018 Annex E – Existing Investment and Debt Portfolio Annex F – Minimum Revenue Policy (MRP) Statement
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2017 Edition
Author/Contact Details	Nahidah Cuthbert nahidah.cuthbert@surreyheath.gov.uk
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Annex A

Arlingclose Economic & Interest Rate Forecast December 2018

The Council's Treasury Advisors Arlingclose has provided theire prediction of interest rates over the next 3 years. This is shown in the table below together with their underlying assumptions and predictions.

Underlying assumptions:

- Arlingclose's central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak

economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B

Other Items

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

1. **Policy on Use of Financial Derivatives:** Local authorities, but not Surrey Heath, have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
2. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
3. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
4. **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. This is monitored by holding regular meetings with the advisers to ensure that they continue to meets the Council's treasury management objectives. In addition, the Council's tender process for treasury management advice ensures value for money.
5. **Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.
   The total amount borrowed will not exceed the authorised borrowing limit of £190 million. The maximum period between borrowing and expenditure is not expected to exceed two years, although the Council is not required to link particular loans with particular items of expenditure. At the moment there are no plans to borrow in advance.

6. **Other Options Considered**
   The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Head of Finance, having consulted the Portfolio Member, believes that the above strategy represents an appropriate balance between risk management and cost

effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Markets in Financial Instruments Directive:

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, The Executive Head of Finance believes this to be the most appropriate status.

Annex C

Treasury Management Indicators for 2019/20

The Council measures its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

1. Security: average credit rating

   The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A+

   This is calculated by applying a score to each investment (AAA = 1, AA+=2, etc.) and taking the arithmetic average weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

2. Liquidity: cash available within three months

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

	Target
Total cash available within 3 months	£5m

3. Liquidity: borrowing in past three months without prior notice

   The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

	Target
Total sum borrowed in past 3 months without prior notice	£5m

4. Interest Rate Exposures:

This indicator is set to control the Council's exposure to interest rate risk. The Council holds investments of £22 million and variable rate borrowing of £109 million equating to net borrowing of £87 million. The limit on one-year revenue impact of a 1% rise in interest rates has been set at £1 million. The Council has sufficient reserves in an Interest Equalisation Reserve to mitigate the impact of an interest rate rise for 2019/20.

The Council has also fixed £50 million of these loans which are due to start in 2020/21 at an average rate of 2.88% thereby reducing its interest rate exposure.

5. Maturity Structure of Borrowing:

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

	Upper	Lower
Under 12 months	100%	10%
12 months and within 24 months	100%	10%
24 months and within 5 years	100%	10%
5 years and within 10 years	100%	10%
10 years and within 20 years	100%	10%
20 years and within 30 years	100%	10%
30 years and within 40 years	100%	10%
Over 40 years	100%	10%

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

6. Principal Sums Invested for Periods Longer than a year:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£2m	£2m	£2m

Annex D

INVESTMENTS as at 31st December 2018

	£
Aberdeen Liquidity Fund	3,000,000
Blackrock	3,000,000
CCLA	1,000,000
Legal & General	3,000,000
Total Money Market Funds	10,000,000
Debt Management Office	9,650,000
CCLA Property Fund	2,212,559
Total Longer Term Investments	2,212,559
Total Invested (excluding the NatWest Business Reserve)	**21,862,559**
NatWest Business Reserve	304,377
Total Invested (including NatWest Business Reserve)	**£22,166,935**

Annex E

Existing Investment & Debt Portfolio Position

	31-Dec-18 Actual Portfolio £m	31-Dec-18 Average Rate %
External Borrowing:		
Public Works Loan Board - Long Term	**(29)**	2.8%
Local authorities - Short Term	**(110)**	0.9%
Total Gross External Debt	**(139)**	**1.8%**
Investments:		
Banks & Building societies	0	0.1%
Government (incl. local authorities)	10	0.5%
Money Market Funds	10	0.7%
Other Pooled Funds	2	4.3%
Total Treasury Investments	**22**	**2.5%**
Net Debt	**(117)**	**0.7%**

Annex F

Minimum Revenue Policy (MRP) Statement

1. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2012 with 2012 being the first year of operation. The Council has assessed its method of MRP and is satisfied that the guidelines for its annual amount of MRP set out within this policy statement will result in its making the prudent provision that is required by the guidance.

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

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

3. The Council will aim to minimise the impact of MRP on the General Fund by only acquiring assets with a longer rather than shorter economic life through borrowing.

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

5. The forecast MRP in £m is shown in the table below:

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
MRP Payment	1.318	1.369	2.014	2.047	2.098

Note: The Council may need to amend to MRP policy dependent on Guidance from MHCLG. If this is the case it will be submitted to members again for approval at a later date

Corporate Capital Programme 2019/20 – 2021/22

Summary

To consider the Corporate Capital Programme for 2019/20, the Prudential Indicators for 2019/20 to 2021/22, and the provisional capital programme for 2019/20 to 2021/22.

Portfolio - Finance
Date signed off: 11 February 2019

Wards Affected	All

Recommendation

The Executive is advised to RECOMMEND to the Council that:

(i) the new capital bids for £2.348m in Annex A for 2019/20 be approved, and that they be incorporated into the Capital Programme;

(ii) The Prudential Indicators summarised below and explained in Annex C, including the MRP statement, for 2019/20 to 2021/22 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 be approved.

Prudential Indicator	**2019/20 Estimated £m**	**2020/21 Estimated £m**	**2021/22 Estimated £m**
Capital Expenditure	2.348	0.64	0.6
Capital Financing Requirement	183	181	179
Ratio of net financing costs to net revenue stream	12.36%	11.65%	11.44%
Financing Costs	1.342	1.306	1.306
Operational Boundary	185	185	185
Authorised Limit	190	190	190

The Executive is also advised to note:

(i) that the Capital Financing Requirement for this Council as at 31 March 2020 is estimated to be £183m and as such a Minimum Revenue Payment of £2.014m is required

(ii) the provisional Capital Programme for 2019/20 to 2021/22; and

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

Resource Implications

1. Executive Heads of Service were required to present capital bids for 2019/20; these were considered by the Corporate Management Team on the 20th November 2018 prior to submission to Executive. Bids were only considered if they met a statutory obligation or it could be demonstrated that they would be self-funding.

2. The 2019/20 Capital Programme as proposed is shown in Annex A. The Council holds surplus capital receipts and these receipts, as shown in Annex C, will be sufficient to fund the entire capital programme and therefore no existing revenue and/or borrowing will have to be used.

3. The Council is free to borrow for capital purposes only up to the level of its Capital Funding Requirement (CFR) provided that this is below the "authorised limit". It is worth noting that for every £1m borrowed at current interest rates revenue of at least £36k pa will be required to cover the costs of interest and loan repayments over a 50 year period. If the life of the asset acquired is shorter then more revenue will be required to cover the shorter repayment period of the loan. Councils must by law make a revenue provision each year for repayment – they cannot rely on selling the asset to repay debt.

4. Additional capital receipts may be realised from the sale of Council assets and if this is the case they will be applied against capital spend thereby reducing borrowing.

5. The Revenue Capital Fund is estimated to be about £10m at 31 March 2019 and can be used to support the Capital Programme if required. However this reduces the amount of reserve available to support revenue expenditure and hence the General Fund in the future. The Council did undertake borrowing during 2018/19 to fund significant property acquisitions and is prepared to do this again should the need arise.

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

Key Issues

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

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

Options

9. The Executive has the option of agreeing, amending or rejecting the proposed recommendation to council in respect of the capital expenditure and prudential indictors. It is a statutory requirement that the Council adopts the prudential code and sets prudential indictors

Proposals

10. The Executive is advised to RECOMMEND to Council: that

    (i) The new capital bids for £2.348m in Annex A are approved for 2019/20 and that they be incorporated into the Capital Programme.

    (ii) the Prudential Indicators summarised below, including the MRP statement, and explained in Annex C for 2019/20 to 2021/22 be approved in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

Prudential Indicator	**2019/20 Estimated £m**	**2020/21 Estimated £m**	**2021/22 Estimated £m**
Capital Expenditure	2.348	0.64	0.6
Capital Financing Requirement	183	181	179
Ratio of net financing costs to net revenue stream	12.36%	11.65%	11.44%
Financing Costs	1.342	1.306	1.306
Operational Boundary	185	185	185
Authorised Limit	190	190	190

11. The Executive is also advised to NOTE:

    (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2020 is estimated to be £183m and as such a Minimum Revenue Payment (MRP) of £2.014m is required.

    (ii) The provisional Capital Programme for 2019/20 to 2021/22.

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

Supporting Information

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

13. Annex B provides brief background information for schemes.

14. Annex C sets out the impact on available capital receipts and the Prudential Indicators for 2019/20 to 2021/22.

Corporate Objectives and Key Priorities

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

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

Legal Implications

17. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code 2018 and produce Prudential Indicators.

Risk Management

18. If the Council exhausts its capital receipts and hence all capital expenditure has to be financed from revenue or loans. This will mean that future programmes will need to be financed by borrowing which has an impact on revenue as both the capital (MRP) and interest need to be financed. To put this in to context for every £1m borrowed over a 50 year period at least £36,000 of revenue is required annually to fund this debt.

Annexes	Annex A – 2019/20 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex C – Prudential indicators.
Background Papers	None
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Consultations, Implications and Issues Addressed

	Required	**Consulted**	
Resources			
Revenue	✓	✓	
Capital	✓	✓	
Human Resources	n/a		

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

Version:

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

TABLE 1 – ACTUAL AND ANTICPATED CAPITAL SCHEMES FROM 2018/19 to 2020/21

3 YEAR CAPITAL PROGRAMME	**2019/20**	**2020/21**	**2021/22**	**3 Year Funding Requirement**
	Estimated Total	**Estimated Total**	**Estimated Total**	
	£m	**£m**	**£m**	**£m**
Disabled Facilities Grants	0.600	0.600	0.600	1.800
Community Bus	0.040	0.040	0.000	0.080
FME Server Replacement	0.010	0.000	0.000	0.010
Filer Storage Replacement	0.021	0.000	0.000	0.021
Switch Replacement	0.057	00000	0.000	0.057
Members ICT Equipment Replacement	0.020	0.000	0.000	0.020
Public Realm Improvements (Camberley High Street)	1.600	0.000	0.000	1.600
GRAND TOTAL OF ALL SCHEMES	**2.348**	**0.640**	**0.600**	**3.588**

Executive are asked to approve and recommend to Council the schemes set out in the column headed 2019/20 which total £2.348m.

Executive and Council will be asked to approve any carry forwards from 2018/19 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2019/20 CAPITAL PROGRAMME

FUNDING FOR 2019/20 CAPITAL PROGAMME	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£m	£m	£m	£m
Disabled Facilities Grants	0.600	0.600	0.000	**0.000**
Community Bus	0.040	0.000	0.000	**0.040**
FME Server Replacement	0.010	0.000	0.000	**0.010**
Filer Storage Replacement	0.021	0.000	0.000	**0.021**
Switch Replacement	0.057	0.000	0.000	**0.057**
Members ICT Equipment Replacement	0.020	0.000	0.000	**0.020**
Public realm Improvements (Camberley High Street)	**1.600**	**0.700**	**0.000**	**0.900**
GRAND TOTAL OF ALL SCHEMES	**2.348**	**1.300**	**0.000**	**1.048**

Of the £2.348m schemes recommended for 2019/20, grant funding of £1.3m is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and borrowing.

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

<u>Background Notes on New Schemes</u>

Disabled Facilities Grants
Central Government Grant to the Better Care Fund includes an element for Disabled Facilities Grant (DFG) allocated to Surrey Heath. While Government's expectation is that this money is passported to the local housing authority it is not ring-fenced. In 2017/18 the full amount was passed to the Council but it is expected that each year will involve negotiation and the Council will have to demonstrate how delivery of the service meets health and social care priorities.

Community Bus
The average life of a community bus is about 8 to 10 years. As buses get older they require more maintenance and consume more fuel. One of the buses in the fleet is over 11-years which will need replacement with the next 12-months. The payback period for replacement of the bus is 10-years.

ICT Capital Spend
Investment in IT equipment to replace various items of hardware that are coming to the end of their useful lives.

Members ICT Equipment Replacement

After the 2019 local elections, we will need to provide 35 councillors with iPads to enable them to work electronically using office 365 for email and Modern Gov for committee administration and meetings. This equipment is essential to ensure councillors provide an efficient and effective support to their constituents, and can communicate and prepare and attend meetings.

Public Realm Improvements (Camberley High Street)

The payment represents the final instalment of the £4.4m project of which £3.5m has been funded by the EM3, the Local Enterprise Partnership with the remaining £900k coming from CIL contributions. This scheme will provide public realm improvements to the High Street, part of Princess Way and Knoll Walk to support the regeneration of Camberley Town Centre.

Movement in Available Capital Receipts

	2019/20 Estimate £m	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Forecast Capital Receipts 1st April	5.200	4.152	4.112
Capital Receipts during year	0.000	0.000	0.000
Capital Grants (Disabled Facilities Grant)	1.300	0.600	0.600
TOTAL AVAILABLE FUNDS	**6.500**	**4.752**	**4.712**
Proposed Capital Programme	(2.348)	(0.640)	(0.600)
TOTAL SCHEMES REQUIRING FUNDING	**0.000**	**0.000**	**0.000**
FUNDING REQUIREMENT	**0.000**	**0.000**	**0.000**

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2018/19

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

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

Capital Expenditure and Financing	2018/19 Revised £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k
Capital Programme	46,410	2,348	640	600
Total Expenditure	**46,410**	**2,348**	**640**	**600**
Capital Receipts	0	1,048	40	0
Government Grants	3,312	1,300	600	600
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing	43,098	0	0	0
Total Financing	**46,410**	**2,348**	**640**	**600**

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

Capital Financing Requirement	31.03.19 Revised £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
Total CFR	**184**	**183**	**181**	**179**

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

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

Debt	**31.03.19 Revised £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**
Borrowing	147	147	147	147
Finance leases	0	0	0	0
Total Debt	**147**	**147**	**147**	**147**

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

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

Operational Boundary	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	185	185	185	185
Other long-term liabilities	0	0	0	0
Total Debt	**185**	**185**	**185**	**185**

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	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	190	190	190	190
Other long-term	0	0	0	0

liabilities				
Total Debt	**190**	**190**	**190**	**190**

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	2018/19 Revised %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	2.44	12.36	11.65	11.44

Financing costs of Capital Investment Decisions: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure.

Financing Costs	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
General Fund (£M)	**1.342**	**1.306**	**1.306**

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

Annual Minimum Revenue Provision (MRP) Statement 2019/20

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

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

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

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

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

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

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2020, the budget for MRP has been set as follows:

	2019/20 Estimated MRP £000
Capital expenditure before 01.04.2008	0
Supported capital expenditure after 31.03.2008	1.952
Unsupported capital expenditure after 31.03.2008	0.062
Total	**2.014**

Investment Strategy Report 2019/20

Summary
The Council invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management** investments), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second of these categories.

Portfolio - Finance
Date Signed Off – 11 February 2019

Wards Affected
All

Recommendation

The Executive is advised to RECOMMEND to Full Council the approval of the Investment Strategy, as set out at Annex A to the report.

1. Resource Implications

1.1 Following 8 years of Government funding cuts the Council embarked on a strategy of income generation through property in order to maintain valuable services. In addition further property was acquired in order to advance the Council's key priority the regeneration of Camberley town centre.

1.2 Over the last year the Council has invested £25m in commercial investments which has all been funded through external borrowing. These investments are budgeted to contribute £550k a year towards Council services. This represents 4.6% of the Councils net budget and is thus a vital source of revenue if current services are to be maintained. In total the Council has been £164m invested in property generating a net income of £2.7m towards services. This is equivalent to 22.5% of the overall net cost of services.

2. Key Issues

2.1 New guidance in relation to investment was issued by the Government in January 2018 and further guidance was issued by CIPFA later in the year. This Guidance was issued in response to the growth in commercial investment by councils as a way of balancing their books and maintaining services. The objective of the guidance is to provide greater transparency in respect of property acquisition and ownership and in particular for members to enable them to understand the risks inherent in this type of investment.

2.2 The guidance has statutory backing and hence all Councils must have regard to it and the completion of an investment strategy complies with these requirements.

2.3 Government guidance recommends that Councils should not borrow money to invest in property solely for financial gain. Investment in property should also support local objectives such as securing jobs and employment sites, growing the local economy etc. Generally speaking if an investment is in borough or close to it is assumed that this condition is fulfilled. Whilst other investments are not prohibited the Council has to state clearly its reasons for ignoring the guidance and how it is managing risks etc. Further guidance is expected from CIPFA which may be more prescriptive in its application

2.4 Property investment is not without risk and the value of investments can rise and fall over time. Given it is the Council's intention to hold property for the longer term the key consideration in the acquisition of any property is the certainty of the income stream to fund the borrowing since ultimately the borrowing costs will fall on the council's revenue budget.

2.5 Extensive due diligence is carried out with each acquisition to assess the security of this income stream and a margin is included to cover voids etc. However as with any investment there are no absolute guarantees but by having the portfolio spread over a number of different tenants in different properties goes some way to minimising this risk.

2.6 In respect of the town centre property this has been acquired with a view to regeneration and economic growth of an area rather than for investment return and as such therefore carry a higher risk than property purchased solely for financial gain.

2.7 In the short term income from these properties, particular during redevelopment, is likely to remain under pressure. However in the long run the investment the Council has made in its town centre through refurbishment of the SQ, public realm improvements and the potential redevelopment of LRB should ensure that over the life time of the borrowing to support these, namely 50 years, these should increase in value and generate a return for the Council.

3. Options

3.1 Members can accept, reject or amend the recommendations within this paper.

4. Proposals

4.1 It is proposed that the Executive:

(i) NOTE the contents of the Investment strategy;
(ii) RECOMMEND approval of the Investment Strategy by Full Council

5. Supporting Information

5.1 The Investment strategy is included as Annexe A within this paper.

5.2 Government guidance on local government investment is available on the MHCLG website.

6. Corporate Objectives And Key Priorities

6.1 Investment in property not only supports the Council objectives around place in that it supports the local economy but also prosperity in that it generates income to support services and maintains employment sites in the borough.

7. Legal Issues

7.1 The Council has to have regard to statutory guidance in respect of Local Government Investments.

8. Governance Issues

8.1 Only Full Council can approve capital investments and borrowing limits. In addition this strategy must be approved by Full Council.

9. Sustainability

9.1 Investment in property is one of the ways that the Council is not only sustaining its local economy but also sustaining Council services in the face of significant cuts in Government funding.

10. Risk Management

10.1 Investing in property is not without risk but it is an area in which local authorities have had a long involvement. Rents can fall, tenants can leave, and costs can rise. In addition the overall value of the asset can also fall sometimes to below the cost of acquisition. The Council takes steps to minimise these risks through a robust due diligence process and having independent valuation to ensure that it does not overpay for acquisitions. It also acquires property with a view to hold them for the long term.

10.2 The Council maintains reserves to enable it to deal with fluctuations in income, say between tenancies, for the short term. In addition as it is the Council’s intention to hold property for the longer term any reductions in value are likely to recover over time. That said there are no guarantees that the anticipated income and assets value will be achieved which in turn could put at risk services which are supported by investment income. However this needs to be weighed up against the fact that these services would need to significantly reduce had the Council not invested in property at all.

Annexes	**Investment Strategy 2019/20**
Background Papers	
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Head of Service	**Kelvin Menon Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**

Annex 1

Investment Strategy Report 2019/20

Introduction

1. As explained in the summary the Council invests its money for two broad purposes:

   - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**), and
   - to earn investment income (known as **commercial investments** where this is the main purpose)

2. This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second of these categories.

Treasury Management Investments

3. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government in the form of Business Rates and Council Tax. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10m and £20m during the 2019/20 financial year.

4. **Contribution**: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

5. **Further details**: Full details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy, which is elsewhere on this agenda.

Commercial Investments: Property

6. Under guidance issued in January 2018 the Ministry for Housing, communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit. This means that property purchased to further regeneration opportunities, such as the SQ shopping centre, are defined as commercial investments.

7. **Contribution:** The Council currently invests in local commercial property to support economic development and regeneration as well as with the intention of making a profit that will be spent on local public services.
8. The Council's current commercial property portfolio falls under either the place or prosperity objective within the corporate plan.

Place Objective

9. These properties are mainly based within Camberley Town centre and have been purchased to enable the Council to bring forward its regeneration plans as well as driving economic growth within Camberley.

10. The purchase of the SQ and its associated land holdings has enabled the Council bring forward a redevelopment of the London Road Block as it now has a controlling interest in the site. Similarly the Council has invested in the refurbishment of the shopping centre to attract new retailers and drive the economy of the town. The acquisition of the House of Fraser building has given the Council control of this key site at a time when its future is uncertain thereby ensuring that it can control what happens to this building and hence delivers a solution. The acquisition and subsequent conversion of Ashwood House in to housing has meant that a derelict building has been brought back in to use and will also provide much needed housing in the Town Centre.

Prosperity Objective

11. The Council has acquired a number of Industrial Estates (St Georges Industrial estate, Albany Park, Trade City and Sandhurst) in the borough or just over the boundary. These have been purchase primarily for investment return but also to ensure that these key employment sites remain as they are. i.e. they are not redeveloped for housing etc. This supports the local economy by maintaining employment within the borough. The Council has also considered buying property outside borough for investment return but has not done so far.

Property held for investment purposes in £ millions

Property	**Actual**	**31.3.2018 actual**	
	Purchase cost £m	**Gains or (losses) £m**	**Value in accounts £m**
The SQ and associated properties	105	4	109
Other Town centre properties	8	(2)	6
St Georges Industrial Estate	8	1	9
Albany park Industrial Estate	16	2	18
Trade City Industrial Estate	12	Acquired in year	Acquired in year
Sandhurst Industrial estate	15	Acquired in year	Acquired in year
TOTAL	**164**	**5**	

12. **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

13. A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. However it is likely that the 31st March 2019 valuation will indicate that the fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss. This is mainly because of a downturn in retail sector rents coupled with values not increasing quickly enough on recently acquired assets to cover the costs of acquisition. The Council is taking mitigating action as follows to protect the capital invested:
    - Investing in the assets i.e. the refurbishment of the town centre properties, to in time drive rents upwards;
    - Looking to alternative uses for surplus retail property to deliver income.
    - Ensuring that commercial properties are fully let.
    - Intending to retain properties for the medium to longer term until values recover thereby not realising any loss. Indeed most properties will initially be worth less than their purchase prices due to the costs of acquisition hence it is important that properties are acquired with a view to holding for a longer time period rather than a quick turnaround.

14. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by :

    a. Having a knowledge of the local market by looking at rental and vacancy rates and the values of comparable properties. This is primarily why investment has been restricted to the local area where the Council has the greatest knowledge.
    b. The Council employs agents to advise it on the purchase of property who do an assessment of the rental market, assess the risks associated with the tenants and that type of property and also provide an independent valuation which the Council basis its offer on. The council also employs professionals such as surveyors etc. to advice on any maintenance and structural issues.
    c. Generally speaking local advisors are used as they have an understanding of the local Surrey Heath property market. Professional advice is tendered for to ensure that best value is obtained.

    d. Tenants and covenant strength are reviews by the use of credit ratings if appropriate, level of arrears etc. and the results of this are factored in to any offer made.

    e. The properties are all managed by professional external managers who advise on tenancy strategies to ensure that the assets remain fully occupied. These advisors are subject to review by the investment and development team to ensure that they continue to deliver value and drive the Council's investment property forwards.

15. **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority holds significant cash reserves which can be called upon if required. In addition the Council has not borrowed fully up to its capital funding requirements meaning there is adequate headroom for further funds to be borrowed should liquidity become an issue. That said the Council acquired the properties with the intention of holding them for the medium to long term and is making regular repayments to ensure that loans will be fully paid off within 50 years. This means that even if the value of the assets does not increase the debt outstanding will fall over time.

Loan Commitments and Financial Guarantees

16. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council. At the date of this report the Council has not made any loans nor entered in to any guarantee arrangements with third parties.

Proportionality

17. The Council has already lost £2.7m in Government funding over the last 8 years, which represents 25% of its net budget, with more reductions anticipated. In order to be able to continue to deliver discretionary services, such as meals on wheels and community transport, the Council has had to generate income to cover this shortfall. In common with many other Councils one of the ways it has done this is through investment in commercial property. Hence the Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services is to fund them from reserves in the short term until the profit improves, increasing income and savings from other services and as a last resort ceasing to provide some or all of the council's discretionary services.

Proportionality of Investments

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	2020/21 Budget £m	2021/22 Budget £m
Gross service	43.543	44.435	45.471	45.800	46.600

expenditure					
Investment income	2.397	2.884	4.228	3.800	4.000
Proportion	6.3%	6.4%	9.2%	8.2%	8.6%

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has complied with this guidance and has only borrowed to fund capital acquisitions and programs that have been approved and are/have commenced.

Capacity, Skills and Culture

Elected members and statutory officers: The decision as to whether to make an offer for a particular property rests with the Chief Executive advised by the Leader, Deputy Leader, Sec 151 Officer, the Monitoring officer, Executive Head of Investment and Development and other professional advisors as appropriate.

For each potential acquisition detailed information is provided consisting of the expected rents, costs, financial return, borrowing costs, MRP provision, environmental risks, state of the property, tenant strength, state of the rental market etc. this also includes measuring of future cash flows and the impact of voids and investment at lease renewals. Some of this work is done internally by the Investment and development service and some is done with the assistance of external advisors. The Council's asset acquisition strategy stipulates a minimum return of 2% after borrowing costs to ensure that there is a margin for voids etc. and the council is keen to be not over exposed within one particular sector. An exception to this is property acquired in Camberley Town centre which forms part of the Council's regeneration plans.
The Council has a number of staff with experience of property acquisition over many years and with that a good knowledge of the inherent risks in property ownership.

Commercial deals: Most of the Council's property deals are either negotiated directly or through agents. The agents, who are commercial property companies and work with many Councils, are fully aware of the requirement that the Council is unable to pay more than a red book valuation and of the need to ensure that borrowing entered in to is affordable and prudent.

Corporate governance: Although the Chief Executive can recommend that the Council purchases a property she has no authority to complete the purchase, increase the capital program or increase borrowing. All acquisitions have to be approved by Full Council on the recommendation of the Executive. Such approval, if granted, is within agreed financial parameters (in respect of purchase price etc.) and subject to the Chief Executive being satisfied that the due diligence has been satisfactorily completed.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	15	12	12
Commercial investments: Property	145	171	171
TOTAL EXPOSURE	160	183	183

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	0	0	0
Commercial investments: Property	120	147	147
TOTAL FUNDED BY BORROWING	120	147	147

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investment rate of return (net of all costs)

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	1.94	1.22	1.00
Commercial investments: Property	2.28	2.27	2.03

A number of other investment indicators are included below in order to monitor the Council's commercial property activity

Other investment indicators

Indicator	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Debt to net service expenditure ratio	2.75	3.1	3.04
Commercial income to net service expenditure ratio	8:11	8:12	8:14

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Capital Strategy Report 2019/20

Summary
This Capital Strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written to enhance members' understanding of these technical areas.

Portfolio - Finance and
Date Signed Off – 11 February 2019

Wards Affected
All

Recommendation

The Executive is advised to RECOMMEND to Full Council the approval of the Capital Strategy, as set out at Annex A to the report.

1. Resource Implications

1.1 This new report summarises the capital programme, treasury strategy and investment strategy. These documents set out how the Council intends to manage its £14m of investments, £139m of borrowing and £180m of investment property together with approval for the 2019/20 capital programme of £2.3m.

1.2 Following 8 years of Government funding cuts the Council embarked on strategy of income generation through property in order to maintain valuable services. In addition further property was acquired in order to advance the Council's regeneration aims in Camberley. In 2019/20 this is budgeted to contribute £1.2m to the Councils revenue budget without which it would not be possible to provide many of the Council's discretionary services. This income however is not without risk and despite the Council having strategies in place to manage risk this income is not guaranteed.

1.3 In addition in order to fund this, the Council has entered in to £139m of borrowing with annual budgeted interest costs of £2.8m. The strategy for the management of these borrowing has significant revenue implications for the Council and this is explored in more detail in this paper.

2. Key Issues

2.1 The Capital Strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas and fully complies with the Prudential Code 2017.

2.2 The revised Prudential code stipulates that a summary Capital Strategy should be prepared which summarised the Council Capital, Investment and Borrowing plans. This document fulfils those requirements. Members requiring further detail are advised to refer to the more detailed underlying strategies and plans.

3. Options

3.1 Members can accept, reject or amend the recommendations within this paper.

4. Proposals

4.1 It is proposed that the Executive:
(i) NOTE the contents of the capital strategy;
(ii) RECOMMEND approval of the Capital Strategy by Full Council

5. Supporting Information

5.1 The Capital strategy is included as Annex A within this paper.

5.2 Government guidance on local government investment and the Prudential Code .

6. Corporate Objectives And Key Priorities

6.1 Property investment and Treasury Management not only supports the Council objectives around place in that it supports the local economy but also prosperity in that it generates income to support services and assists with regeneration.

7. Legal Issues

7.1 The Council has to have regard to statutory guidance in respect of Local Government Investments and the Prudential Code.

8. Governance Issues

8.1 Full Council is required to approve the Capital Strategy.

9. Sustainability

9.1 Investment in property is one of the ways that the Council is not only sustaining its local economy but also sustaining Council services in the face of significant cuts in Government funding. This report also looks at the affordability and sustainability of the Council's capital programme and borrowings.

10. Risk Management

10.1 Investing in property and Treasury Management are not without risk. Rents and investment returns can fall and the value of investments can also fluctuate. The Council takes steps to minimise these risks by the use of professional advisors and due diligence but this is not a guarantee.

10.2 The Council maintains reserves to enable it to deal with a level of risk and in terms of property purchases with the intention of holding it for the longer term. That said the Council is not immune to the wider economy and thus service could be put at risk if the anticipated income and returns are not delivered. This risk though does need to be set against the very real risk of services being cut completely had the Council opted not to invest in property at all.

Annexes	**Capital Strategy 2019/20**
Background Papers	
Author/Contact Details	**Kelvin Menon Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**
Head of Service	**Kelvin Menon Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**

Annex A

Capital Strategy Report 2019/20

Introduction

1. This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Capital Expenditure and Financing

2. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £25,000 are not capitalised and are charged to revenue in year.

3. In 2019/20, the Council is planning capital expenditure of £2.348m as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ million*s*

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Capital Projects	1.9	10.4	2.348	0.640	0.600
Capital investments	2.5	36.0	0.0	0.0	0.0
TOTAL	4.4	46.4	2.348	0.640	0.600

4. The main General Fund capital projects include:
   - Disabled facilities grants – grants for improvements to enable residents to stay in their own home;
   - Replacement community bus;
   - IT equipment including filer storage and switches;
   - Final instalment of the High street Camberley public realm improvements.

5. The Council will also incur further capital expenditure on investments, such as further improvements to the SQ shopping centre and acquisition further investment property. These will come forward for approval from members as required.

6. **Governance**: Service Heads bid annually in October to include projects in the Council's capital programme. Bids, which include business cases, are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Corporate Management Team

appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to Executive in February which in turn makes recommendations to Council as part of the annual budget setting process.

7. Further details of the Council’s capital programme can be found in the Capital Programme Report which can be found by on the Executive agenda for February 2019.

8. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Capital financing in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
External sources	**0.7**	**3.3**	**1.3**	**0.6**	**0.6**
Own resources	**0.9**	**0.0**	**1.1**	**0.0**	**0.0**
Debt	**2.8**	**41.1**	**0.0**	**0.0**	**0.0**
TOTAL	**4.4**	**46.4**	**2.4**	**0.6**	**0.6**

9. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as “minimum revenue provision (MRP)” . Councils are required by law to make MRP transfers over the life of a loan so as ensure that Councils are able to repay debt. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP transfers and use of capital receipts are as follows:

Replacement of debt finance in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
MRP Payment	1.318	1.369	2.014	2.047	2.098

10. The Council’s full MRP statement is included within the Treasury Strategy report for 2019/20 which can be found on the February 2019 Executive agenda

11. The Council’s cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to fall by £1m during 2019/20. Based on the above figures for expenditure and financing, the Council’s estimated CFR is as follows:

Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	2	7	7	7	8
Capital investments	140	177	176	174	171
TOTAL CFR	**142**	**184**	**183**	**181**	**179**

12. **Asset management**: To ensure that capital assets continue to be of long-term use, the Council is currently preparing an asset management strategy. This will be presented to members in 2019/20

13. **Asset disposals**: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council does not plan to receive any capital receipts from asset sales in future years. The 2018/19 receipt relates to Ashwood House. However this may change if surplus land is brought forward for sale or disposal.

Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	0	5.2	0	0	0
TOTAL	**0**	**5.2**	**0**	**0**	**0**

Treasury Management

14. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

15. Due to decisions taken in the past, the Council currently has £139m borrowing at an average interest rate of 1.8% and an average of £14m treasury investments at an average rate of 1.0%.

16. **Borrowing strategy**: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term

loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

17. Following advice from the Council's Treasury advisors the Council has retained the bulk of its borrowing in short term loan so as to take advantage of low interest rates. In order to cap its exposure to interest rate rises the Council has entered in to two forward dated 40 year loans with an insurance company of £25m each which commence in 2020/21 and 2021/22 and have fixed interest rates of 2.85% and 2.91%

18. Projected levels of the Council's total outstanding debt (which comprises borrowing, leases are shown below, compared with the capital financing requirement (see above).

Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Debt	120	147	146	145	143
Capital Financing Requirement	142	184	183	181	179

19. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table above, the Council expects to comply with this in the medium term. If the Council decides to acquire more investments these will be funded by debt and the CFR will be rise accordingly.

20. **Liability benchmark**: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £158m and is forecast to fall to £154m over the next three years.

Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	120	147	146	145	143
Liability benchmark	114	158	156	156	154

21. The table shows that the Council expects to remain borrowed lower than its liability benchmark.

22. **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – total external debt	190	190	190	190
Operational boundary – total external debt	185	185	185	185

23. Further details on borrowing are included in the treasury management strategy which can be found within the February Executive agenda

24. **Investment strategy**: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

25. The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Treasury management investments in £millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Near-term investments	**12.0**	**13.0**	**13.0**	**13.0**	**13.0**
Longer-term investments	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
TOTAL	**14.0**	**15.0**	**15.0**	**15.0**	**15.0**

26. Further details on treasury investments are included within the treasury management strategy which is included within the February executive agenda

27. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Head of Finance and staff, who must act in line with the treasury management strategy approved by Executive and Council and the half yearly reports on treasury management activity are presented to

Executive. The Performance and Finance committee is responsible for scrutinising treasury management decisions.

Commercial Activities

28. With Central Government financial support for local public services declining, the Council has invested in some commercial property purely or mainly for financial gain. It has also invested in assets, especially those within Camberley Town centre, for economic development and regeneration and as a consequence has accepted a lower return and a higher risk.

29. Total commercial investments are currently valued at £180m with the largest being the SQ shopping centre and associated land holdings in Camberley.

30. With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures in the short term include loss of tenants, property valuation and voids. In the medium term there are risks around maintenance. These risks are managed by a rigorous due diligence process prior to purchase to high light any concerns and then after purchase by the use of professional managers and advisors to advice the Council on how to maintain its investment returns. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £200m. Should investment yield fall by 2% the Councils reserves are sufficient to cover this loss for the short term until new tenants/uses are in place or the asset could be sold.

31. **Governance**: Decisions on commercial investments are made by Full Council on the recommendation of Executive.

32. Further details on commercial investments and limits on their use are in Investment strategy which is included within the February executive agenda.

33. The Council also has limited commercial activities such as the Theatre, community services etc. which whilst being primarily operated for community benefit does expose it to some commercial risk. This risk is not considered to be significant for the 2019/20.

Liabilities

34. In addition to debt of £139m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £914k) It also set aside last year £2.7m to cover risks of business rates appeals and revaluations and £1m for bad debts. These provisions will be reviewed as part of the accounts closure process for 2018/19.

35. **Governance**: The risk of liabilities crystallising and requiring payment is monitored by finance and reported within the annual financial statements.

Revenue Budget Implications

36. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	**-0.211**	**0.270**	**1.342**	**1.306**	**1.306**
Proportion of net revenue stream	**-1.96%**	**2.44%**	**12.36%**	**11.65%**	**11.44%**

37. Further details on the revenue implications of capital expenditure are included within the Capital programme included within the February 2019 Executive agenda.

38. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Head of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because it is either funded by external grant or there is sufficient revenue to cover the costs of borrowing.

Knowledge and Skills

39. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Head of Finance is a qualified accountant with over 30 years' experience and the professional property advisors the Council uses are all qualified surveyors with many years' experience. In addition the Chief Executive has many years of experience in property investment and development. The Council is very supportive of training and pays for junior staff to study towards relevant professional qualifications.

40. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Montagu Evans as property consultants and Addleshaw Goddard as external lawyers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Windlesham Neighbourhood Plan 2018-2028

Summary

The Windlesham Neighbourhood Plan 2018-2028, has been the subject of independent examination and the Examiner's report concluded that, subject to modifications, the plan complies with the legal requirements and basic conditions set out in legislation. Officers concur with these conclusions. The Executive is asked to agree the modifications, to resolve to publish a Decision Statement and to agree that the Neighbourhood Plan should proceed to referendum.

Portfolio - Planning and People

Date Portfolio Holder signed off report: 27/01/2019

Wards Affected
Windlesham Ward
Part of Bagshot Ward from 2 May 2019

Recommendation

The Executive is asked to RESOLVE that

(i) the Windlesham Neighbourhood Plan be modified in order to comply with the legal requirements and basic conditions (attached as Annex 2);

(ii) the Decision Statement, as attached as Annex 1 publish;

(iii) the Windlesham Neighbourhood Plan, as modified, proceeds to referendum in the current Windlesham Ward of Windlesham Parish.

1. Resource Implications

1.1 There is a resource implication arising from the cost of holding the referendum, however, the Council is eligible to apply for a neighbourhood planning grant of £20,000 once a referendum date has been set.

2. Key Issues

Background

2.1 In October 2014, Windlesham Parish Council requested that the Windlesham Ward of Windlesham Parish be designated as a neighbourhood area, for which a Neighbourhood Development Plan would be prepared. Subsequently, the parish ward boundaries have been reviewed and revised boundaries will come into effect from May 2019. The designated area for the Windlesham Neighbourhood Plan thus comprises the current Windlesham Ward of Windlesham Parish and from 2 May part of this area will fall within Bagshot Ward of Windlesham Parish.

2.2 Windlesham Parish Council, the ‘qualifying body’, submitted the draft Windlesham Neighbourhood Plan, along with supporting documents, to the Borough Council in February 2018. Following submission, the Borough Council publicised the Plan and supporting documents and invited representations over a 6 week period from Friday 6th April to Friday 18th May 2018.

2.3 The Borough Council appointed an independent examiner, to examine the Plan and consider whether it should proceed to referendum. The Examination took place in November and December 2018 and the Examiner’s Report was received in mid-December 2018.

Decision Statement

2.4 The Examiner’s report concluded the draft Windlesham Neighbourhood Plan met the basic conditions and should proceed to referendum, subject to the modifications set out in the report (see Annex 1). The Examiner also recommended that the Plan Area (the Windlesham Ward of Windlesham Parish) is the appropriate area in which to hold the referendum.

2.5 In accordance with legislation, the Borough Council must consider each of the recommendations made in the Examiner’s Report, decide what action to take in response and consequentially what modifications should be made to the draft Plan. If the Borough Council accepts the Examiner’s Report recommendations then the plan proceeds to a referendum.

2.6 Officers have considered the Examiner’s recommendations and reasons for them, as set out in Annex 1. The Examiner recommends the deletion of two polices, which cover procedural issues rather than land use policy matters and minor changes to a policy on Green Belts, to accord with National Policy and to a car parking policy, to accord with Surrey County Council car parking standards. Officers recommend that the Examiner’s recommendations are accepted and that the modifications are made to the draft Windlesham Neighbourhood Plan.

2.7 Officers are satisfied that the Neighbourhood Plan, as modified, complies with the legal requirements, including the basic conditions, as set out in legislation, and that the Plan should proceed to referendum. Furthermore, officers agree that the referendum area should be the current Windlesham Ward of Windlesham Parish.

2.8 The recommendations set out below seek approval to publish a Decision Statement and to confirm that the Windlesham Neighbourhood Plan should proceed to referendum on 2 May 2019.

The Borough Council will organise the referendum on behalf of the Parish Council. If more than 50% of the votes are in favour, the Windlesham Neighbourhood Plan it will proceed to be “made” (adopted) to form part of the Surrey Heath Development Plan and will be used in the determination of planning applications.

3. Options

3.1 The options for the Executive to consider are to:

(i) **AGREE** that the Windlesham Neighbourhood Plan be Modified in order to comply with the legal requirements and to publish the Decision Statement and to agree the Plan proceeds to Referendum in the current Windlesham Ward of Windlesham Parish.

(ii) **NOT AGREE** that the Windlesham Neighbourhood Plan be Modified in order to comply with the legal requirements and not to publish the Decision Statement and to not agree the Plan proceeds to Referendum in the current Windlesham Ward of Windlesham Parish.

4. Proposals

4.1 It is proposed that members agree that the Windlesham Neighbourhood Plan, as modified, complies with the legal requirements and basic conditions, issue the Decision Statement (attached as Annex 1) and that the Windlesham Neighbourhood Plan, as modified, is the subject of a referendum.

5. Supporting Information

5.1 The Draft Windlesham Neighbourhood Plan 2018.

6. Corporate Objectives and Key Priorities

6.1 The Windlesham Neighbourhood Plan contributes to the delivery of the following two Corporate Objectives: Place – to make Surrey Heath an even better place where people are happy to live and People – to build and encourage communities where people can live happily and healthily in an environment that the Community is proud to be part of.

7. Policy Framework

7.1 Section 70(2) of the Town and Country Planning Act 1990 (as amended) provides that a local planning authority must have regard to a post-examination draft neighbourhood development plan, so far as material to the determination of planning applications. Furthermore, the Windlesham Neighbourhood Plan will, subject to the referendum results, form part of the Surrey Heath Development Plan.

8. Legal Issues

8.1 No matters arising

9. Consultation

9.1 The Windlesham Neighbourhood Plan has been the subject of public consultation and will be the subject of a referendum.

Annexes	Annex 1: Decision Statement including Examiner's Recommendations for Modifications Annex 2: Windlesham Neighbourhood Plan incorporating Modifications
Background Papers	Draft Windlesham Neighbourhood Plan Windlesham Neighbourhood Plan Examiner's Report
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Head of Service	Jenny Rickard

WINDLESHAM NEIGHBOURHOOD PLAN 2018-2028

DECISION STATEMENT (PROCEEDING TO REFERENDUM)

Published pursuant to Regulation 18 of the Neighbourhood Planning (General) Regulations 2012

1 SUMMARY

1.1 Following an independent Examination, Surrey Heath Borough Council is satisfied that the Windlesham Neighbourhood Plan 2018-2028, as modified, complies with the legal requirements and basic conditions set out in legislation[1]. The Plan can therefore proceed to referendum.

1.2 A referendum will be held on 2 May 2019.

2 BACKGROUND

2.1 On 14th October 2014, Windlesham Parish Council requested that, in accordance with Regulation 5(1) of the Neighbourhood Planning (General) Regulations 2012 ("the Regulations"), the Windlesham Ward of Windlesham Parish be designated as a neighbourhood area, for which a Neighbourhood Development Plan would be prepared.

2.2 On 27th January 2015 Surrey Heath Borough Council formally approved that the Windlesham Neighbourhood Area (i.e. the land within Windlesham Ward) be designated, in accordance with the Neighbourhood Planning (General) Regulations 2012.

2.3 Windlesham Parish Council – the 'qualifying body', submitted the draft Windlesham Neighbourhood Plan, along with supporting documents, to Surrey Heath Borough Council on 15th February 2018 in accordance with Regulation 15 of the Neighbourhood Planning (General) Regulations 2012.

2.4 Following submission of the draft Windlesham Neighbourhood Plan, Surrey Heath Borough Council publicised the Plan and supporting documents and invited representations over a 6 week period from Friday 6th April to Friday 18th May 2018, in accordance with Regulation 16.

2.5 Surrey Heath Borough Council appointed an independent examiner, Deborah McCann BSc MRICS MRTPI Dip Arch Con Dip LD, to examine the Plan and consider

[1] Schedule 4B (12) of the Town and Country Planning Act 1990, as amended by the Localism Act 2011

whether it should proceed to referendum. The Examination took place over November and December 2018.

2.6 The Examiner's Report was received in December 2018. This concluded the draft Windlesham Neighbourhood Plan met the Basic Conditions and should proceed to referendum, subject to the modifications set out in the report (see Appendix 1). The Examiner also recommended that the Plan Area is the appropriate location for which to hold the referendum.

2.7 In accordance with legislation[2], Surrey Heath Borough Council must consider each of the recommendations made in the Examiner's Report, decide what action to take in response to each recommendation and what modifications should be made to the draft Plan in order to be satisfied that it meets the Basic Conditions, is compatible with Convention Rights and complies with the definition of a neighbourhood development plan and its provisions. If the authority is satisfied, then a referendum must be held. Consideration also needs to be given as to whether to extend the area to which the referendum is to take place.

3 DECISION AND REASONS

3.1 Having considered the Examiner's recommendations and reasons for them, the Council concurs with the Examiner's view and has decided to make modifications to the draft Windlesham Neighbourhood Plan to ensure that it meets legal requirements including the Basic Conditions as set out in legislation. Appendix 1 documents these modifications, together with the reasons for them.

3.2 The Council is satisfied that the Neighbourhood Plan, as modified, complies with the legal requirements including the Basin Conditions, and can proceed to referendum.

3.3 The Council also agrees with the Examiner that the referendum area should reflect the extent of the current[3] geographical area of the Windlesham Ward of Windlesham Parish.

3.4 This Decision Statement is published to confirm that the Windlesham Neighbourhood Plan should proceed to referendum. A referendum will be held in the parish of Windlesham. The date on which the referendum will take place is agreed as 2 May 2019.

[2] Schedule 4B (12) of the Town and Country Planning Act 1990, as amended by the Localism Act 2011
[3] Windlesham Ward as defined in January 2019

APPENDIX 1 - EXAMINER'S RECOMMENDATIONS AND LOCAL AUTHORITY'S RESPONSE (REGULATION 18(1))

Modifications to the draft Windlesham Neighbourhood Plan (December 2018) in response to the Examiner's recommendations

Section and Policy in draft Windlesham Neighbourhood Plan	Examiners Report Page Reference	Examiner's Recommendation	Reason Given by Examiner	SHBC Actions
Housing and Potential Housing Sites WNP1.3 - Replacement of Large Houses by Smaller Dwellings	Page 21	Modify policy wording as follows: Planning applications for the replacement or subdivision of large houses in large plots in the Green Belt, with a small number of priority dwellings <u>will</u> be supported <u>where they are consistent with the National Policy for Green Belts, where</u> ~~in a manner which ensures that~~ the openness of the Green Belt within the WNP area is safeguarded and Windlesham's heritage assets are conserved in a manner appropriate to their significance.	The policy as currently worded does not have sufficient regard for National Policy, in relation to the Green Belt.	Accepted
New Development standards WNP1.4 – Planning Design and Access Statement	Page 22	Delete policy.	This is a planning procedural issue covered by national and local standards and not a land use policy.	Accepted
New Development standards	Page 22	Delete policy.	This is a planning procedural issue covered by national and local standards and not a land use	Accepted

Policy No WNP1.5 - Statement of Community Consultation			policy.	
Vehicle Parking WNP4.2 – New Residential Developments Parking Space Standards	Page 27	Modify policy wording as follows: ~~Car parking for~~ New residential development ~~households~~ should, where space permits provide ~~sufficient space~~ parking spaces within the boundaries of the development for: • ~~A minimum of~~ 2 vehicles for 1 and 2-bedroom dwellings; and • ~~A minimum of~~ 3 vehicles for 3+ bedroom or larger dwellings.	This policy is not consistent with the Surrey County Council Vehicular and cycle parking standards document. Whilst it is accepted that rural areas are reliant on the private car and therefore car ownership levels are often higher in rural areas than more densely developed urban areas the imposition of a minimum parking requirement across all types of residential development- including affordable housing can have an impact upon the viability, deliverability and appearance of a proposed development. For clarity and in order to meet the Basic Conditions the policy should be modified.	Accepted

Pay Policy Statement 2019/20

SUMMARY

To recommend the adoption of the Surrey Heath Borough Council's Pay Policy Statement 2019/20**.**

Portfolio – Leader (Non-Executive Function)

Date Portfolio Holder signed off report: 31 January 2019

Wards Affected - All

RECOMMENDATION

The Executive is advised to RECOMMEND that the Surrey Heath Borough Council Pay Policy Statement 2019/20, as attached at Annex A to this report, be agreed.

1. Resource Implications

1.1 There are no resource issues arising from this report.

2. Key Issues

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

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

2.3 The Policy Pay Statement 2019/20 is attached at Annex A.

3. Options

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

4. Equalities Impact

4.1 An Equalities Impact Assessment has been completed.

Annexes	**Annex A –** Pay Policy Statement 2019/20
Background Papers	**None**
Author/Contact Details	**Belinda Tam – HR & OD Manager** **belinda.tam@surreyheath.gov.uk**
Executive Head	**Louise Livingston – Executive Head of Transformation**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

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

Surrey Heath Borough Council Pay Policy Statement
Financial year 2019-20

1 Purpose

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

This pay policy statement sets out Surrey Heath Borough Council's policies relating to the pay of its workforce for the financial year 2019-20.

2 Background

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

3 Responsibility for decisions on remuneration

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

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

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

a) To offer a competitive salary and benefits package;
b) To link progression to personal performance;
c) To take account of skills shortages by the use of recruitment and retention allowances (if required);

d) That all salary and conditions of service matters are negotiated internally by the Joint Staff Consultative Group.

4 Salary grades and grading framework

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

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

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

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

An award of 2 % was awarded for 2018/2019 (see Appendix 1). If an award is made for 2019/2020 this document will be updated to reflect this.

5 Chief Officers Remuneration

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

Post
Chief Executive (Statutory role)
Executive Head Business
Executive Head Community
Executive Head Corporate
Executive Head Finance (Statutory role)
Executive Head Regulatory
Executive Head Transformation
Head of Legal (Statutory role)
Head of Property and Development

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

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

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

There is no provision for bonus payments pay for all employees (including Chief Officers) comprises payments by way of salary, pensions and other standard elements of contractual remuneration required in law. Employees have the opportunity to join the private medical scheme after a number of years' service.

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

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

7 Exceptional increases and additions to remuneration for Chief Officers

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

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

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

9 New starters joining the Council

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

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

10 Relationship between remuneration of Chief Officers and all other employees

The difference between the highest paid salary and the average full time equivalent salary of the workforce (as at 30th November 2018):

Salary	Amount per annum	Ratio with highest salary
Highest Basic Salary (Chief Executive)	£120, 687	n/a
Mean (average) Basic Salary	£34, 038.79	3.55:1
Lowest point on standard payscales to which an employee is appointed	£13, 423	8.99:1

Appendix 1

SURREY HEATH BOROUGH COUNCIL

SALARY SCALES

WITH EFFECT FROM 01 APRIL 2018
(increase of 2% from last award)

SH1		SH2		SH3		SH4	
SCP	£	SCP	£	SCP	£	SCP	£
1.2	12618	2.7	16146	3.11	19991	4.15	23577
1.3	13423	2.8	17087	3.12	20797	4.16	24793
1.4	14226	2.9	18061	3.13	21588	4.17	25995
1.5	15036	2.10	19171	3.14	22378	4.18	27151
1.6	15581	2.11	19716	3.15	22921	4.19	27696

SH5		SH6		SH7		SH8	
SCP	£	SCP	£	SCP	£	SCP	£
5.19	28366	6.23	33171	7.28	38902	8.33	44755
5.20	29570	6.24	34372	7.29	40271	8.34	46339
5.21	30754	6.25	35542	7.30	41636	8.35	47932
5.22	31955	6.26	36760	7.31	42977	8.36	49542
5.23	32498	6.27	37302	7.32	43520	8.37	50089

SH9	
SCP	£
9.37	51289
9.38	52954
9.39	54621
9.40	56285
9.41	56828

SH20 HEAD of SERVICE	
SCP	£
20.101	59311
20.102	61558
20.103	64537
20.104	67520
20.105	70516

SH21 EXECUTIVE HEAD	
SCP	£
21.106	73517
21.107	76517
21.108	79519
21.109	82733
21.110	85949

SH22 CHIEF EXECUTIVE	
SCP	£
22.201	108963
22.202	112870
22.203	116780
22.204	120687

Human Resources - April 2018

Response to Surrey County Council's Regulation 19 Surrey Waste Local Plan consultation

Summary

The report sets out the response to Surrey County Council's consultation on the Regulation 19 Surrey Waste Local Plan 2019. The consultation began on Monday 14th January and ends on Sunday 10th March.

The Surrey Draft Waste Plan has implications for future waste management infrastructure within Surrey Heath and for air pollution and traffic congestion associated with waste management infrastructure proximal to the Borough's Eastern border. The consultation document and annexes are available online at: https://www.surreycc.gov.uk/land-planning-and-development/minerals-and-waste-policies-and-plans/waste-plan-2008/issues-and-options

Whilst there are no sites allocated within Surrey Heath, the Plan has implications for employment sites in the Borough, as well as implications relating to air quality and traffic congestion from a site allocated in a neighbouring authority.

Portfolio: Environment & Health and Planning & People
Date Portfolio Holder signed off report: 4/02/19 and 7/02/19

Wards Affected
ALL

Recommendation

The Executive is advised to RESOLVE that the response set out in the letter at Annex 1 of this report be agreed as the Council's formal response to Surrey County Council consultation on the Regulation 19 Surrey Waste Local Plan.

1. Resource Implications

1.1 There are no resource implications beyond that provided for within the agreed budget for 2018/19.

2. Key Issues

2.1 Surrey County Council is consulting on the content of the spatial strategy, policies and allocated sites within the Regulation 19 Surrey Waste Local Plan. This follows on from the Regulation 18 Draft Local Plan consultation that closed in February 2018. The content relating to Surrey Heath Borough Council includes the implications for waste related development within established employment sites and the air quality and traffic implications from an allocated site in a neighbouring authority.

2.2 The Council previously objected to the Surrey Waste Local Plan making provisions for the possibility to locate waste related development on established employment sites. The Regulation 19 Plan ensures through Policy 14 that proposals for waste related development on established employments sites would only be permitted if it can be demonstrated that the site could be operated without causing significant adverse impacts. It is therefore considered that the objection has been addressed by Surrey County

Council.

2.3 The Council previously raised concerns for the potential traffic congestion and air quality impacts associated with two shortlisted sites (Land at Martyrs Lane, Woking, and Land adjacent to Trumps Farm, Kitsmead Lane, Longcross). The Surrey Waste Local Plan allocates Land adjacent to Trumps Farm in Runneymede Borough Council. These concerns have been addressed by assessment work undertaken by Surrey County Council in relation to air quality and traffic congestion for allocated sites and policy requirements set out in Policy 14.

2.4 It is stated in the Surrey Waste Local Plan at Paragraph 3.10.12.1 that Surrey County Council has in place a Statement of Common Ground (SoCG) with Surrey's 11 district and borough Council's. It is noted in the response that this has not yet been formally agreed and should therefore not be detailed as agreed in the document.

3. Options

3.1 The options for the Executive to consider are:-

(i) To **AGREE** the response on the consultation for the Regulation 19 Surrey Waste Local Plan as set out in Annex 1 of this report.

(ii) To **AGREE** the response on the consultation for the Regulation 19 Surrey Waste Local Plan as set out in Annex 1 of this report and any additional comments which the Executive may wish to make.

(iii) To **NOT AGREE** the response on the consultation for the Regulation 19 Surrey Waste Local Plan as set out in Annex 1 of this report.

4. Proposals

4.1 It is proposed to submit the consultation response attached at Annex 1 by the 10th March 2019 deadline.

5. Corporate Objectives And Key Priorities

5.1 The proposals may affect the Council's ability to achieve the Objective for Prosperity, with changes in policy having the potential to affect the Council's capacity to support the local economy.

6. Policy Framework

6.1 The consultation process Surrey Heath is responding to will have implications for planning applications for waste related development in the Borough.

7. Other Matters

7.1 In relation to governance, sustainability, risk management, equalities impact, human rights, community safety, consultation, PR and Marketing there are no matters arising from this consultation by Surrey County Council.

8. Consultation

8.1 The Surrey Draft Waste Plan runs between 14th January 2019 and 10th March 2019.

Annexes	Appendix 1 letter to Surrey County Council's Planning and Development Services
Background Papers	None
Author/Contact Details	Keiran Bartlett - Planning Officer Keiran.bartlett@surreyheath.gov.uk
Head of Service	Jenny Rickard – Executive Head of Regulatory

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Service Chief Executive
Our Ref:
Your Ref:
Direct Tel:
Email:

Planning and Development Service
Room 385 County Hall,
Penrhyn Road
Kingston upon Thames
KT1 2DW

20th February 2019

Dear Sir/Madam,

Surrey Heath Borough Council's response to Regulation 19 Surrey Waste Local Plan 2018-2033 .

Thank you for the opportunity to comment on the Surrey Draft Waste Local Plan consultation. This letter is the Council's formal response.

Surrey Heath Borough Council has had the opportunity to consider proposals and has the following comments to make.

The Council previously objected to the new Surrey Waste Local Plan (SWLP) making provision for the possibility of waste related development on established employment sites. Although it is noted that the Regulation 19 Plan does still make this provision, it is recognised that Policy 14 ensures that proposals for waste related development on established employments sites would only be permitted if it were demonstrated that the site could be operated without causing significant adverse impacts. As such, the Council is satisfied that its previous objection has now been addressed.

The Council acknowledges that assessment work has been undertaken in respect of air quality and transport impacts relating to sites allocated in the SWLP, including in relation to the Thames Basin Heaths Special Protection Area. The Council notes that the site at Martyrs Lane, Woking is no longer proposed for allocation.

The Council notes that at Paragraph 3.10.12.1 of the plan it is stated that Surrey County Council has in place a Statement of Common Ground (SoCG) with Surrey's 11 district and borough Council's. It is our understanding that at the time the consultation documents were published an SoCG had not been formally agreed and should therefore not be detailed as agreed in the SWLP document.

Yours faithfully,

Cllr Moira Gibson
Leader of the Council
Surrey Heath Borough Council

Karen Whelan
Chief Executive
Surrey Heath Borough Council

Response to the London Heathrow Airspace and Future Operations Consultation

Summary

This report sets out the Council's response to London Heathrow's consultation on airspace and future operations. The consultation began on Wednesday 8th January and ends on Wednesday 4th March 2019. The material is set out under six consultation topics:

- Airspace change;
- Managing noise at an expanded Heathrow;
- Respite through runway and airspace alteration;
- Directional preference;
- Night flights – early morning arrivals;
- Night flights – other night restrictions.

The consultation requests feedback in response to specific questions contained at the end of each topic section. The Council's response considers the material provided for each of the topic areas and responds from Surrey Heath's perspective. The letter of response is included at Annex 1.

Portfolio: Special Projects
Date Portfolio Holder signed off report: 30 January 2019

Wards Affected
ALL

Recommendation

The Executive is advised to RESOLVE that the response set out in the letter at Annex 1 of this report be agreed as the Council's formal response to London Heathrow Airport's consultation on airspace and future operations.

1. Resource Implications

1.1 There are no resource implications beyond that provided for within the agreed budget for 2018/19.

2. Key Issues

2.1 London Heathrow Airport is consulting on plans for its future expansion. The current consultation follows an earlier consultation held in January-March 2018 relating to airspace change and airport expansion that the Council previously responded to.

2.2 The Airspace Design Principles that were previously consulted on have been applied to develop airspace Design Envelopes which demonstrate the general locations where future flight paths will be located. However, specific flight path options have not yet been developed, and instead will be consulted on at a later date.

2.3 Officers have considered the material provided within the six consultation topic areas in order to identify the key issues, from Surrey Heath's perspective.

Airspace Change for Expansion and Existing Two Runways

2.4 Airspace Design Envelopes have been produced as part of the Consultation. The proposed Design Envelopes indicate that there will be more incidences of overflight in Surrey Heath, also covering a wider area of the Borough. The Council's response puts forward concerns about the noise and air quality effects this would bring about and also the potential impacts in respect of quality of life arising from noise pollution, and possible implications for people's health and wellbeing arising from air pollution. Based on this information, the Council raises an objection to the Airspace Design Envelopes as proposed by London Heathrow and puts forward preferences for where future flight paths should be located within the Envelopes. The information regarding flight path preferences has been provided from officers in the Environmental Health Team. It is based on minimising the amount of movements to and from Heathrow over the Borough and thus noise greater than 65dB, and the improved accuracy that performance based navigation provides.

Managing noise for an expanded Heathrow

2.5 As part of the consultation, London Heathrow proposes a new noise objective and an approach to developing a package of noise measures for an expanded Heathrow. The Council's response is supportive of Heathrow's aim to limit and reduce the effects of noise for communities. However, the response strongly suggests that a commitment emphasising that noise arising from night flights will be minimised should be explicitly referenced in the finalised noise objective. This would help ensure that Heathrow's ambitions go beyond the limitation of noise, also seeking to minimise the number of people who are impacted by noise. The Consultation informs that a Noise Envelope Design Group (NEDG) will be established, consisting of technical experts. The Council's response states that it is expected the NEFG should develop strong links with local groups and boards representing communities impacted by noise. This is considered essential, in order for the NEDG to fully understand the concerns and interests of local people.

Respite through runway and airspace alternation

2.6 The consultation asks whether it would be preferential to have longer periods of respite less frequently or a shorter period of respite every day. The Council's response notes that in principle, airspace alteration and respite zones should offer less overflight to impacted communities. However, having reviewed both the existing flight paths and the proposed Design Envelopes, it is the Council's opinion that the new arrangements would introduce an increased number of flight paths, more of which would be in areas that are currently not overflown. Concerns are raised again by the Council in relation to the flight path alteration measures. The Council's response adds that airspace alteration should be operated fairly, ensuring affected communities are afforded equal levels of respite, as far as possible.

Directional preference

2.7 Directional preference options are presented as part of the Consultation, which include an easterly or westerly directional preference or a 'no preference' approach. Currently, there is a westerly directional preference in operation at Heathrow, meaning the majority of flights arrive from the east and depart to the west. Having reviewed the Airspace Design envelopes, the Council's response advises that the operation of an easterly directional preference would provide a fairer balance, which, in practice, would mean operating approximately a 50/50 split in easterly and westerly operations due to the prevailing wind direction being from the southwest. In addition, the Council suggest that intervention should take place to change the direction of aircraft arrivals once departure operations have ceased at night. This would help to provide relief for communities to the west and southwest of Heathrow and strike a fairer balance for those impacted by noise.

Night flights - Early morning arrivals

2.8 In relation to early morning arrivals during London Heathrow's operational night time period, the consultation asks whether respondents' preference is for London Heathrow to use one runway for scheduled arrivals from 5.30am (Option 1) or use two runways for scheduled arrivals from 5.45am (Option 2). There is also a commitment to extend the scheduled flight night time ban so that a 6.5 hour ban is established. The Council's response is supportive of this commitment. However, clarification is sought regarding whether the implementation of a later start time for scheduled flights would generate a period of increased aircraft movements and associated noise over the proceeding hours up to 7.00am. In respect of the 6.5 hour ban, the Council suggest, in principle, Option 1 would appear to be more desirable, as the consultation material advises this would facilitate a later start for scheduled flights, at 6.00am, on two of every three days. Irrespective of this, the response also notes that in the interests of Surrey Heath residents' quality of life, the ban period should end no earlier than 6:30am.

Night flights – Other night restrictions

2.9 Other restrictions for night flights are also set out in the consultation. Feedback and suggestions are sought on how the quietest aircraft can be encouraged at night. The Council expresses support for a comprehensive review of Heathrow's landing fees, in order to achieve night flight noise reductions. This could include lower landing fees to incentivise quieter aircraft, and the introduction of fines as a deterrent for nosier, more disruptive aircraft, so that it would not be viable for such flights to be operational at night. The Council also asks what the average number of flights per night arriving during the restricted recovery period is, and suggests implementation of an annual target reduction to this figure. In addition to the Government's statutory requirements for night time quota point reductions, the Council encourages London Heathrow to implement supplementary annual voluntary reductions. It is considered that this would send a clear message to airlines and affected communities that Heathrow is fully committed to reducing night time noise.

3. Options

3.1 The options for the Executive to consider are:-

(i) To **AGREE** the response to the London Heathrow consultation on airspace and future operations, as set out in Annex 1 of this report.

(ii) To **AGREE** the response to the London Heathrow consultation on airspace and future operations, as set out in Annex 1 of this report with any additional comments which the Executive may wish to make.

(iii) To **NOT AGREE** the response to the London Heathrow consultation on airspace and future operations, as set out in Annex 1 of this report.

4. Proposals

4.1 It is proposed that members agree to submit the letter of response attached at Annex 1 as Surrey Heath Borough Council's formal response to the London Heathrow consultation on airspace and future operations.

5. Supporting Information

5.1 The London Heathrow Airspace and Future Operations consultation documentation and information is available at https://afo.heathrowconsultation.com

6. Corporate Objectives And Key Priorities

6.1 Underpins the theme of *People* set out in the Council's Five Year Strategy by ensuring Surrey Heath's interests are fully considered in respect of future air quality and aircraft related noise so that people can live happily and healthily. Also underpins the theme of *Place*, helping to make Surrey Heath a clean, green and safe place where people enjoy and contribute to a high quality of life and a sustainable future.

7. Policy Framework

7.1 The consultation process Surrey Heath is responding to is of a strategic nature. The proposals impact a large number of local authorities, including Surrey Heath.

8. Consultation

8.1 London Heathrow Airport's consultation on airspace and future operations runs between 8th January and 4th March 2019.

Annexes	Annex 1 - letter of response to London Heathrow Airport
Background Papers	Link to the Heathrow Airspace and Future Operations Public Consultation – https://afo.heathrowconsultation.com/
Author/Contact Details	Christopher Kirk - Senior Planning Officer Christopher.kirk@surreyheath.gov.uk
Head of Service	Jenny Rickard – Executive Head of Regulatory

Consultations, Implications and Issues Addressed

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

Review Date:
Version: 2

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Service Chief Executive

FREEPOST LHR AFO CONSULTATION

19th February 2019

Dear Sir/Madam,

Heathrow Airspace and Future Operations Consultation

Thank you for the opportunity to comment on the London Heathrow Airspace and Future Operations Consultation. This letter is Surrey Heath Borough Council's formal response.

Airspace Change for Expansion and Existing Two Runways

The Council has reviewed the airspace change proposals for both the existing two runway airport and the expanded London Heathrow with a third runway.

In relation to airspace change, the consultation asks, *what sites or local factors should we be aware of in your area (or other areas of interest to you), when designing flight paths for an expanded three-runway Heathrow?* The same question is posed regarding the design of new arrival flight paths for making better use of the existing two runways.

Thames Basin Heaths Special Protection Area

Having studied the Airspace Design Envelopes that have been produced as part of the Consultation, Surrey Heath is concerned to note that significant areas of the Thames Basin Heaths Special Protection Area within Surrey Heath and surrounding local authority areas would potentially be subject to increased overflight. The Thames Basin Heaths Special Protection Area is an area of international importance for nature conservation. It is home to endangered wild bird species protected by UK and EU law, as designated in the EU Birds Directive. An important consideration for these habitats is air quality, which could be impacted by increased overflight. In Surrey Heath's response to the previous Airspace and Expansion consultation, the Council requested that future flight paths should have due regard to these designations. As some of the Design Envelopes include Special Protection Areas, the Council seeks clarification as to how London Heathrow would prevent or mitigate harm arising from associated impacts to the air quality in these areas.

Airspace Design Envelopes

From comparing the twelve existing departure routes in operation from London Heathrow, known as Noise Preferential Routes, with the Design Envelopes released as part of the Consultation, it is notable that a wider area of the Borough could experience overflight from aircraft departing from Heathrow. For example, Design Envelope 'Departure 4' (D4) encompasses the entire Borough of Surrey Heath. In addition, the diagram for D4 demonstrates three flight paths would be established within this Design Envelope. Together, the three flight paths would generate 0-17 flights per hour, of which a minimum of 0-17 flights per hour would produce noise levels above 65 decibels. In addition, the information provided for Design Envelope D9 shows an area of overflight concentred in the far northeast of the Borough at a height of between 2,000 and 9,000 feet, generating 0-17 flights per hour, of which a minimum of 0-17 flights per hour would produce noise levels above 65 decibels. The information provided alongside the Design Envelope does not state the number of possible flight paths within this area.

Design Envelopes ‘Arrival 5’ (A5) and A6 also include large areas of Surrey Heath. London Heathrow’s existing arrival patterns appear to typically involve aircraft arriving from holding stacks. The general paths of arrival from these stacks do not show areas of Surrey Heath being overflown. It is understood that the airspace change brought about through the proposed Design Envelopes could therefore have a much greater incidence of overflight of Surrey Heath and therefore accompanying noise and air quality impacts. This is of concern, as the number of overflights and associated noise that could be experienced by communities in the Borough following implementation of new flight paths within the proposed Design Envelopes would appear to be more frequent and over a wider area of the Borough than under existing airspace arrangements.

Over the period of time that London Heathrow has been operational, a large number of residents have self-selected the locality of their homes, according to their tolerance to noise. This will need to be given due consideration when introducing new areas of intense overflying. The positioning of the proposed Design Envelopes represents significant impacts in respect of quality of life, arising from noise pollution and furthermore, possible implications for people’s health and wellbeing arising from air pollution. Surrey Heath Borough Council therefore raise objection to the Airspace Design Envelopes, as proposed.

The consultation material also discusses the introduction of performance based navigation for new flight paths and the use of independent parallel approaches on Heathrow’s two existing runways. It is understood that the use of independent parallel approaches is a short-term solution in the context of Heathrow’s expansion. It is also understood that it is a requirement for Heathrow to introduce performance based navigation, as it is committed to do so under the Government’s Modern Airspace Strategy. However, whilst Surrey Heath recognises that this measure will be introduced, we also note that this technology will generate narrower and more concentrated flight paths. We suggest that communities impacted by this are therefore offered respite from overflight, to ensure they are not continually subject to frequent, concentrated overflight.

Taking into account the improved accuracy that proposed performance based navigation measures provide, and in order to minimise noise impacts to and from Heathrow over Surrey Heath, the Council would favour the following flight path options within the relevant Design Envelopes provided:
For easterly operations it would be preferential for arrival flight paths for the southern runway to hug the western edges of Design Envelope A5 and for arrival flight paths for the southern or middle runways to favour the west edge or middle of Design Envelope A6.
For westerly operations it would be the Council’s preference for departure flight paths from the southern runway to favour the eastern boundary of Design Envelope D4 and for departure flight paths from the southern runway that head south first before turning north back over Heathrow to favour the mid and eastern edge of Design Envelope D9, up to 3000ft.

Managing noise for an expanded Heathrow

In relation to managing noise, the consultation asks, *do you support our proposals for a noise objective?* General comments and suggestions are also sought in relation to proposals for a noise objective and the proposed approach to developing a package of noise measures for an expanded Heathrow.

Having considered the draft noise objective, Surrey Heath is supportive of its aim to limit and reduce the effects of noise for communities. In addition to the general aims stated in the objective, we would like to see a specific commitment that emphasises minimising noise arising from night flights in particular. We strongly suggest that this should be explicitly referenced in the finalised noise objective. It is also considered important that the objective should seek to limit the number of residential communities and people that are impacted by noise. This would help ensure that ambitions go beyond the limitation of noise, also seeking to minimise the number of people who are impacted by noise.

As part of the package of noise measures that are being put in place by Heathrow, Surrey Heath would suggest that the benefits arising from technical advances being brought about such as performance based navigation and independent parallel approaches, should be passed onto impacted communities. Technical advances that play a part in achieving reduced noise impacts are likely to widely benefit airlines and London Heathrow itself. It is therefore considered reasonable that noise reduction benefits should be passed onto surrounding communities. We would therefore expect that once it is formed, the Noise Envelope Design Group (NEDG) consisting of technical experts should develop strong links with local groups and boards representing residential communities impacted by noise. This is considered essential, in order for the NEDG to fully understand the concerns and interests of local people and take these into account in the design of a noise envelope framework.

Respite through runway and airspace alternation

In relation to respite through runway and airspace alternation, the consultation asks, whether it would be preferential to have longer periods of respite less frequently (all day on some days but no relief on other days) or a shorter period of respite (e.g. for 4-5 hours) every day, and asks for any other related comments or suggestions.

It is considered, due to the Borough's position in relation to London Heathrow, that airspace alteration is likely to have a greater impact on Surrey Heath than runway alteration, as the latter will mostly impact communities directly adjoining the Airport. However, we recognise the directional preference of arriving and departing flights will impact Surrey Heath and have therefore submitted comments in relation to this in the Directional Preference section of our response.

In principle, airspace alteration and respite zones should offer less overflight to communities surrounding Heathrow than the current airspace pattern for both arrivals and departures. However, having reviewed the existing defined departure flight paths and the arrival patterns, compared with the proposed Design Envelopes, Surrey Heath's interpretation of the information presented is that the proposed new arrangements would introduce an increased number of flight paths and more flight paths in areas that are currently not overflown. We are concerned that whilst the proposed flight path alteration measures would provide respite from the flight path options indicated by the Design Envelopes, their implementation would still result in increased overflight and noise related disruption for communities in Surrey Heath.

If, following London Heathrow's consideration of the concerns outlined above, the potential new flight path routes demonstrated through the Design Envelopes are still to be implemented, Surrey Heath would support the offer of respite to communities, through airspace alteration. In response to whether it would be preferential to have longer periods of respite less frequently or a shorter period of respite every day, it is considered that this is a subjective question, as different communities will have preferences that are specific to their own unique circumstances. However, we would expect airspace alteration to be operated fairly, ensuring all impacted communities are afforded equal levels of respite, as far as possible.

Directional preference

In relation to directional preference, the consultation asks, *should we continue to prefer westerly operations during the day and easterly operations at night to reduce the total number of people affected by noise?* It also asks, *should we sometimes intervene to change direction of operations to provide relief from prolonged periods of operating in one direction – even if that means slightly increasing the number of people affected by noise?*

It is acknowledged that currently, London Heathrow operates a westerly directional preference, meaning that the majority (70%) of night time aircraft arrive from the east, over London and take-off to the west, over Berkshire and Surrey. It is also understood from the consultation material that arriving aircraft are quieter than departing aircraft. The options for future directional preference presented are:

- Westerly preference,
- Easterly preference, and
- No preference.

Having reviewed the options, Surrey Heath considers that the operation of an easterly directional preference for aircraft arrival and departure would provide a fairer balance, which, in practice, would mean operating approximately a 50/50 split in easterly and westerly operations at London Heathrow due to the prevailing wind direction being from the southwest. However, from the information provided, we understand that an easterly directional preference could result in all night flights arriving from the west, once departure operations have ceased. This is not considered to be a reasonable approach for communities to the west and southwest of London Heathrow. Therefore, Surrey Heath would suggest that intervention should take place to change the direction of aircraft arrival operations during the night period, to provide relief for communities to the west and southwest of Heathrow and to strike a fair balance for those impacted by noise. A 'no preference' scenario is considered undesirable for both London Heathrow and surrounding communities, as this would result in increased uncertainty and unpredictability of noise arising from aircraft operations, as a result of frequent changes in the direction of flight.

Night flights - Early morning arrivals

In relation to early morning restrictions for night flights, the consultation asks whether respondents' preference is for London Heathrow to use one runway for scheduled arrivals from 5.30am (runway touchdown time 5.15am), use two runways for scheduled arrivals from 5.45am (runway touchdown time 5.30am). A further option named 'unknown' is also provided.

The Council supports London Heathrow's commitment to increase the overnight period in accordance with the Government's expectation that a 6.5 hour scheduled night flights ban is introduced and maintained. We consider this will result in improvements to the quality of life of communities impacted by noise arising from aircraft activities associated with Heathrow, as the period with no scheduled flights would increase by approximately one hour. However, clarification is sought regarding whether the implementation of a later start time for scheduled flights would generate a period of increased aircraft movements and associated noise that could have adverse impacts for affected communities over the proceeding hours following the night flight ban. Any increase in noise over the period from 5:30/5:45am to 7.00am would be significantly disruptive to impacted communities, and during unsociable hours.

In respect of selecting an option, we would advise that different communities will have preferences that are specific to their own unique circumstances. In principle, option 1 would appear to be more desirable as this would facilitate a later start for scheduled flights, at 6.00am, on two of every three days. However, we would suggest that any period of noise impacting residential areas before 6.30am is particularly disruptive to those who are affected. In our response submitted to London Heathrow's previous Airspace and Expansion consultation, the

Council objected to Heathrow's preferred ban period of 11.00pm to 5.30am. We advised that, in the interests of Surrey Heath residents' quality of life, a ban period that ended no earlier than 6:30am would be more desirable than Heathrow's preferred ban period, ending at 5:30am. Surrey Heath would therefore still welcome a third option that offered a 6.30am start time for scheduled flights.

Night flights – Other night restrictions

In relation to other restrictions for night flights, the consultation asks for feedback and suggestions on how to encourage the quietest type of aircraft at night and also welcomes general comments regarding night flights and restrictions.

Surrey Heath would support a comprehensive review of Heathrow's landing fees, in order to achieve night flight noise reductions. The implementation of lower landing fees for only the quietest aircraft to operate at the airport should be continued and extended as far as possible, to incentivise predominantly the quietest types of aircraft to operate during the night time period. This approach could be reinforced by the introduction of fines or significant fee increases for older, noisy aircraft landing at night, so that it would not be viable for such flights to be operational within the night time period. Therefore, as well as incentivising quieter aircraft, there would also be a deterrent for nosier, more disruptive aircraft.

Clarification is sought as to what the average number of flights arriving during the restricted recovery period is, per night. Surrey Heath suggest it would be beneficial for London Heathrow to implement an annual target reduction to this figure. We understand the requirement for a restricted recovery period is unavoidable, since aircraft may experience technical issues or be subject to delays that are not within London Heathrow's jurisdiction. It is also noted that the restricted recovery period falls within Heathrow's night quota which is subject to restricted aircraft movements in accordance with the Government's quota count system.

We are aware, from the consultation material provided, that the Government continually reduces the amount of quota points available in the night quota period as new aircraft and technology become available. For London Heathrow to demonstrate a strong commitment to minimising noise throughout the night time period, we would encourage the implementation of supplementary voluntary reductions to the number of quota points per year. This, in addition to an overall reduction in night flight arrivals would send a clear message to airlines and affected communities that Heathrow is fully committed to reducing night time noise.

Finally, we consider the suggestion for regular reviews of the quota count to make sure it achieves its objectives is good practice in the context of night time noise management. We would also suggest that this review should be extended to the number of incoming flight arrivals, in addition to the quota count. This will help ensure that flight restrictions are maintained and noise levels decreased, as London Heathrow continues to develop and expand.

Surrey Heath Borough Council wish to be notified of the outcome of this consultation and to be kept informed of future consultations released by London Heathrow in respect of its expansion, changes to airspace and future operations.

Yours faithfully,

Cllr Moira Gibson
Leader of the Council
Surrey Heath Borough Council

Karen Whelan
Chief Executive
Surrey Heath Borough Council

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Review of Local Authorities' Relative Needs and Resources Consultation

Summary

To advise Executive on a response to the Consultation on the a Review of Local Authorities' Relative Needs and Resources

Portfolio - Finance
Date signed off: 11 February 2019

Wards Affected
Not applicable

RECOMMENDATION

The Executive is advised to RESOLVE to:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

1. Resource Implications

1.1 For a while the Government has been looking in to changing the way funding is allocated between Local Authorities. The current methodology was first introduced 10 years ago and last updated in 2013/14. Hence a Council's base "Need" has not been recalculated since then.

1.2 This review, also called the "Fair funding" review will set the baseline funding level (relative needs less relative resources) that Councils can expect to get from the new Business Rates system. Currently Surrey Heath's baseline funding is £1.543m however this could change significantly as a result of this review. Unfortunately individual council exemplifications showing the impact of the proposals have not been provided so it is not possible to say with any certainty what the impact will be. However it is likely that the "negative grant" that was not implemented this year may well be brought back albeit under the guise of this review.

1.3 It is important to understand that this paper calculates a Council's *relative* needs to other Councils and not its *absolute* needs. It is therefore a formula to determine how the cake is divided rather than determining whether the cake is actually large enough. Hence although there will be individual winners and losers from this new formula there will at the moment be no additional money for local government as a whole.

2. Key Issues

2.1 The Government has stated that it wishes to "simplify" the way the ***relative needs*** are calculated in order to make it more transparent. Whilst this is generally a good idea it does mean that some Council with specific local needs may be disadvantaged. Under the proposals all Districts would qualify for a “foundation” element that would basically be awarded on a per capita basis. This would be subject to an “Area cost adjustment” which takes account of the different premises and wages costs around the country. There would be no adjustments for Deprivation or rurality, as is currently the case, since these were not major drivers of cost in the services Districts provide. This “Foundation” payment would cover waste, environment, Homelessness, Sports and central services.

2.2 Whilst not directly impacting Surrey Heath the formulas for adult and children's Social care, public health and highways will be much more complex. These will take in to account demographics, depreciation, no on benefits, mortality ratios, traffic flows and road lengths amongst other things. The Government has also said that they would divide the total funding between all councils and services possibly on the basis of expenditure based regression updated for future demographic and population changes. This could result in the upper tier authorities needs being much higher than at present thereby reducing the funding available for lower tier authorities.

2.3 Once a Council’s ***relative needs*** have been calculated this will then be reduced by the ***relative resources*** calculation. This basically makes a deduction to take account of the fact that it is easier for some Councils to raise income locally compared to others. i.e. different tax bases, council tax, council tax discounts, collection rates etc.

2.4 The Government has asked for comments on its proposals and methodology through a number of consultation questions. A recommended response is attached to this paper.

2.5 The consultation commenced on the 13th December 2018 and ends on the 21st February 2019 with the new system coming in 2020/21.

3. Risk Management

3.1 No issues form this paper although the Government’s proposals do increase funding risk to the Council.

4. Equalities Implications

None from this paper but loss of funding for the Council could result in loss of services and impact disproportionately those people with protected characteristics, such as the elderly, since they are the greatest users of services.

5. Options

5.1 The Executive can decide to amend the consultation or not respond

6. Proposals

6.1 It is proposed that the Executive:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

ANNEXES	**Annex A – Draft Consultation response**
BACKGROUND PAPERS	**DCLG – A Review of Local Authorities Relative Needs and Resources**
AUTHOR/CONTACT DETAILS	**Kelvin Menon – Executive Head of Corporate Finance** **Kelvin.menon@SurreyHeath.gov.uk**
HEAD OF SERVICE	**As above**

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LONDON
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19th February 2019

Dear Sir or Madam

RESPONSE TO CONSULATION REVIEW OF LOCAL AUTHORITIES RELATIVE NEEDS AND RESOURCES

Please find below the responses of Surrey Heath Borough Council to the above consultation.

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

The proposed system benefits from being much simpler and transparent than the existing system. The use of population only for Districts recognizes that the vast majority of costs incurred by districts are driven by population rather than any other factors. That said the "Fixed Cost" element within the formula should be retained in that every district whatever its population will have a fixed cost for areas such as democratic services etc.

Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?

No comment

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?

No comment

Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

The proposed methodology looks reasonable however it is not clear as to what geographical areas this will be applied to. These need to be small enough to take account of local variations

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

Yes – Councils could be asked to supply this data as part of the annual CTB1

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Agree

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

Agree but this should be based on an assumption which applies to all districts

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

Agreed the notional level should be used to ensure all Districts are treated equally

Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

A national average should be used so as not to penalize those Councils which have decided to invest resources in to collections

Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

A uniform split should be used otherwise a Councils with identical tax bases and precepts could face different resource deductions due to decisions taken by other precpetors in their area. .

Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

Historical Council tax growth should be used for projections going forward to ensure that the resource adjustment remains in line with the tax base at any one time.

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

Agreed as these income streams are local generated from local people and volatile. In addition as councils are not allowed to make a profit on services any income received is used to cover the costs of providing that additional service and is therefore not available to support wider council functions

Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

Parking income should not be included as the income is volatile and is reinvested in parking and associated services.

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

Agreed. Any significant decrease in a Council's funding must take account of the fact that changes to services take time to implement. Otherwise services are likely to be cut rather than redesigned thereby adversely impacting the local community

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

Agreed that the level of funding in 2019/20 should be the baseline and that this should also include business rates baseline funding, new homes bonus and the additional funding for the "negative grant".

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The baseline resources calculation will form an important part of the resources councils have to deliver services. If the amount an individual authority receives is suddenly reduced significantly this will impact on the Council's ability to provide, in particular, discretionary services which by their very nature (meals on wheels etc.) would impact residents with protected characteristics. Hence any changes made to the way resources are shared needs to be done in such a way that the changes can be managed by individual Councils thereby mitigating potential impacts on services.

Finally this paper is a consultation on how a Council's relative need to other Councils is calculated and not its absolute need. It does nothing to address the underfunding of local government but merely looks as a different way of sharing out an ever diminishing funding. Until the funding need is addressed the problems with councils providing services to meet their local needs will continue..

This response was tabled at the Council's Executive meeting on the 19th February 2019

Yours faithfully

Karen Whelan
On behalf of Surrey Heath Borough Council

Consultation on Business Rates

Summary

To advise Executive on a response to the Consultation on the Business Rates Retention Reforms

Portfolio - Finance Date signed off: 11 February 2019	
Wards Affected	Not applicable

RECOMMENDATION

The Executive is advised to RESOLVE to:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

1. Resource Implications

1.1 Business Rates form a key part of the resources the Council has to provide services. The Council has been successful in maintaining business rates and this has grown in line with inflation since the baseline was set in 2013.

1.2 The Government has stated its intention to move to a new system in 2020/21 which will see 75% of business rates levied being retained by the Local Government Sector. This does not however mean that 75% of the £40m business rates collected in Surrey Heath will be retained by the borough. The share that Surrey Heath keeps will be determined by how the Council's "relative needs and resources" are determined – the consultation in respect of this is also on the agenda.

1.3 Currently the Council receives around £1.5m in baseline funding and in 2019/20 £1m of historic growth has been used to support the budget. In the current system locally generated growth is retained locally until a "reset" of the business rates system takes place. This "reset" effectively shares growth made in one area with areas that have suffered losses and everyone is effectively put back to the Baseline needs assessment. Hence the proposed full reset in 2020/21, as in the consultation paper, coupled with a recalculation of the baseline needs assessment could have a major impact on Surrey Heath's resources going forward.

1.4 The Government is also consulting on a number of other changes in respect of Business rates such as appeals, treatment of future growth, split in 2 tier areas, treatment of the central list and simplification of business rates accounting. These are all covered in the attached consultation paper and response.

2. Key Issues

2.1 The Government has asked for comments on its proposals through a number of consultation questions. A recommended response is attached to this paper.

2.2 The consultation commenced on the 13th December 2018 and ends on the 21st February 2019 with the new system coming in 2020/21.

3. Risk Management

3.1 No issues from this paper although the Government's proposals do increase funding risk to the Council.

4. Equalities Implications

None from this paper but loss of funding for the Council could result in loss of services and impact disproportionately those people with protected characteristics, such as the elderly, since they are the greatest users of services.

5. Options

5.1 The Executive can decide to amend the consultation or not respond

6. Proposals

6.1 It is proposed that the Executive:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

ANNEXES	**Annex A – Draft Consultation response**
BACKGROUND PAPERS	**DCLG – Business Rates Retention Reform – sharing the risk and reward, managing volatility and setting up the reformed system**
AUTHOR/CONTACT DETAILS	**Kelvin Menon – Executive Head of Corporate Finance** **Kelvin.menon@SurreyHeath.gov.uk**
HEAD OF SERVICE	**As above**

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2nd Floor, Fry Building,
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LONDON
SW1P 4DF

22nd February 2019

Dear Sir or Madam

RESPONSE TO CONSULATION ON BUSINESS RATES RETENTION REFORM

Please find below the responses of Surrey Heath Borough council to the above consultation.

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Our initial position is that in an ideal world there should be no reset of the system. Councils are encouraged to develop their local economies. In Surrey Heath we work closely with businesses that wish to expand as well as encouraging other businesses to move here. However we accept that we are in a fortunate position in being in one of the more economically active areas of the country however it needs to be recognised that this growth does not come without a cost be it in terms of pressure on infrastructure, lack of housing or over-development, some of which could be mitigated through investment funded by business rates growth. The presence of a reset, however structured, makes it difficult to fund this type of infrastructure investment since there is no long term certainty of an income stream to fund it. After all the Council can borrow on the back of increased Council tax for housing developments as that income is guaranteed so why should not the same principle apply to business developments?

Coming from this position it is difficult to say which mechanism is the most appropriate. However we would urge the Government to consider these two things when designing the reset mechanism as follows:

- Councils need to be protected from large movements in funding arising out of resets. This is particularly the case with the full reset proposed for 2020/21. Services simply cannot be turned on and off as funding comes and goes and any large changes de need to be phased in;

- There needs to be a mechanism where some growth can be retained if it is being used to fund investment to deliver future growth. For example money borrowed to fund road improvements to deliver more business rates. Without this the business case for Councils borrowing to drive economic growth will be a lot more difficult to deliver.

Question 2: Please comment on why you think a partial/ phased reset is more desirable.

There needs to be a mechanism where some growth is retained to encourage investment hence a phased reset if probably prefereable

Question 3: What is the optimal time period for your preferred reset type?

Please see the answer above. The time period should be as long as possible. It should be noted that borrowing for infrastructure is at least 25 years and can be up to 50.

Question 4: Do you have any comment on the proposed approach to the safety net?

It is difficult for Councils to deal with sudden financial resource changes as services simply cannot be turned on and off. Hence there does need to be a safety net in place to manage this. This safety net should also cover changes as a result of the reset. The most equitable way to fund this would be through a top slice on total national business rates income and it should be set at 95%.

Question 5: Do you agree with this approach to the reform of the levy?

The whole purpose of the localisation of Business rates is to provide an incentive to councils to deliver economic growth which then benefits the country as a whole through increased in Corporation and employment taxes as well as VAT. Fundamentally any redistribution of gains acts as a disincentive to deliver growth and therefore everyone is the poorer. However if the Government is minded to take this course of action then if the levy rate is set too high then it becomes a disincentive for growth particularly as gains are likely to be lost as a result of the reset anyway within a fixed time period. If the Government only wishes to apply the levy to “Extraordinary” growth i.e. that resulting from a movement in provisions then this could be achieved by only applying it to those movements. Setting a threshold at 100% or 200% of baseline funding is somewhat arbitrary since the baseline funding itself is only an arbitrary calculated figure. A better comparison would be to compare growth in business rates with a Councils total funding, say as used in the Core Spending Power figures, and then to apply a levy if growth exceeds a fixed %age of that funding. Alternatively a fixed sum could be used – say the first £1m etc be exempt.

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as ‘extraordinary’?

This should have a clear definition as set out i.e. movements in items for which are not related to the management of the local economy by Councils. I.e. Provisions etc

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

The current split assumes that business rates growth is primarily down to districts and is driven by the planning process. However counties have a role to play as they are responsible for major infrastructure such as highways as well as the skills of the local workforce.

Question 8: Should a two-tier area be able to set their tier splits locally?

Yes there should be a process in place to enable two tier areas to come to a local agreement as to the split.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

Incentives by their very nature would need to have financial incentive and so this inevitably will mean they are not cost neutral. Councils within a pool could be offered greater flexibilities around rates reliefs etc. which need not impact on the whole business rates system. They could also be given the opportunity to designate local enterprise zones to enable gains to be used to support investment being protected.

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

No

Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

No

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Yes but there does need to be a mechanism to take account of significant one off appeals which arise as a result of legal action. This could be based on a percentage of total appeals compared with the baseline in that year. The current NHS claim is a good example of a potential claim which would not be in the normal course of business, is backdated for a long period and represents a substantial proportion of a council's business rates baseline

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

Yes this would reduce complexity and volatility and therefore should be implemented. However the issue of growth being retained locally as a result of Councils regenerating their place needs to be addressed.

Question 14: What are your views on the approach to resetting Business Rates Baselines?

Whatever system is used there must be adequate protections built in to ensure that changes to Council's resources are damped in some way so as to ensure that there are no cliff edges. This is because it is difficult for Councils to manage large swings in the level of resources available from one year to another.

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Business Rates form an important part of the resources councils have to deliver services. If the amount an individual authority receives is suddenly reduced significantly this will impact on the Council's ability to provide, in particular, discretionary services which by their very nature (meals on wheels etc.) would impact residents with protected characteristics. Hence any changes made to the way resources are shared needs to be done in such a way that the changes can be managed by individual Councils thereby mitigating potential impacts on services.

Finally as a Council we work very hard to maintain and grow our local economy. We work closely with businesses to understand their issues and to help them develop and grow within the borough. As a Council we have taken a proactive approach to halting the economic decline of our major shopping centre by taking control of it and investing in its refurbishment to attract new tenants. We are also in advanced talks with developers on a redevelopment of the northern end of Camberley which will bring a significant amount of new housing and retail development. It is anticipated that these initiatives will stabilise if not grow our business rates but they do not happen without a cost. Investment is needed on improving public realm and the assets we own and these needs to be paid for in some way. If the Government redistributes the financial gains from this investment then there is no incentive to borrow money to deliver economic growth since it cannot be effectively funded. Any new Business Rates scheme should allow growth generated as a result of the Council taking a proactive approach to investment to be retained locally rather than shared out. After all increased taxes from VAT, stamp duty, employment taxes, corporation tax and benefit savings as a result of this growth already go straight to the Government for sharing out. Unless this happens Councils such as ourselves will be less likely to invest to grow their local economy and as a result the whole country will be that much the poorer and there will be less business rates available overall.

This paper was agreed at the Council's Executive Meeting on the 19th February 2019

Yours faithfully

Karen Whelan
On behalf of Surrey Heath Borough Council

EXCLUSION OF PRESS AND PUBLIC

RECOMMENDATION

The Executive is advised to RESOLVE that, under Section 100A(4) of the Local Government Act 1972 (as amended) and Regulation 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the public be excluded from the meeting for the following items of business on the ground that they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Act, as set out below:

Item	Paragraph(s)
17	3
18	3
19	3

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

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