Surrey Heath Borough Council

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Friday, 7 February 2020

To: The Members of the **EXECUTIVE**
(Councillors: Alan McClafferty (Chairman), Colin Dougan, Josephine Hawkins, Rebecca Jennings-Evans, David Lewis, David Mansfield and Adrian Page)

Dear Councillor,

A meeting of the **EXECUTIVE** will be held at Surrey Heath House on Tuesday, 18 February 2020 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 - 8**

To confirm and sign the open minutes of the meeting held on 21 January 2020 (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.

Part 2
(Exempt)

To confirm and sign the exempt minutes of the meeting held on 21 January 2020 (copy attached).

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 Surrey Heath House on 21 January 2020

+	Cllr Dan Adams	+	Cllr Josephine Hawkins
+	Cllr Vivienne Chapman	+	Cllr Adrian Page
+	Cllr Paul Deach		

+ Present

In Attendance: Cllr Graham Alleway, Cllr Peter Barnett, Cllr Rodney Bates, Cllr Cliff Betton, Cllr Tim FitzGerald, Cllr Sharon Galliford, Cllr Shaun Garrett, Cllr Alan McClafferty, Cllr Emma-Jane McGrath, Cllr Sashi Mylvaganam, Cllr Graham Tapper, Cllr Pat Tedder and Cllr Valerie White

68/E Election of Chairman

It was proposed by Councillor Paul Deach, seconded by Councillor Adrian Page, and

RESOLVED that Councillor Josephine Hawkins be elected as Chairman for that meeting.

69/E Minutes

The open and exempt minutes of the meeting held on 17 December 2019 were confirmed and signed by the Chairman.

70/E Questions by Members

Councillor Vivienne Chapman responded to a question from Councillor Rodney Bates, confirming that actions to make Camberley Town Centre a Dementia Friendly Community were being looked at across the Town Centre.

71/E Revenue Grants 2020/21

The Executive was informed that the Council funded a number of voluntary organisations which either worked in partnership with the Council or performed functions on the Council's behalf.

Members were reminded that, in January 2019, it had been agreed that a full review of the Revenue Grant scheme would be undertaken during the year, to review whether grants were being made at the correct levels, to the right organisations, and the value for money the revenue grants realised. At the Executive meeting on the 11 September 2019 a revised scheme had been agreed, to be introduced from 1 April 2020.

The Executive considered the grants sought by the organisations which had applied for Revenue Grants for 2020/21, the relevant supporting information concerning those organisations, and the amounts it was proposed to award.

It was noted that the proposed awards would result in an increase to the budget for 2020/21.

Members were advised that it was proposed to defer and delegate the decisions on applications from Tringhams and Camberley Central Job Club. It was also proposed to defer the application from Mustard Seed Trust for one year as the Scheme was currently closed to new referrals, and divert a further applicant, Camfest, to the Surrey Heath Lottery Fund.

Service level agreements had been introduced in 2013 to enable the Council to set out targets and outcomes to be achieved throughout the year. The agreements were used to monitor the performance of organisations throughout the year. Grant payments were only made after a successful monitoring report was received.

It was reported that the review had introduced ring fencing to 3 organisations who worked with the Council: Citizens Advice Surrey Heath, Blackwater Valley Partnership and the Basingstoke Canal Authority.

RESOLVED that

(i) Revenue Grants for 2020/21 be awarded to

a. Surrey Heath Citizens Advice (CASH) – £80,000;
b. Voluntary Support North Surrey - £30,000;
c. Surrey Heath Age Concern - £10,000;
d. Catalyst Support - £4,000;
e. The Autism Trust - £10,000;
f. The Hope Hub - £17,000;
g. VSNS - £10,000;
h. Basingstoke Canal Authority - £10,000;
i. Blackwater Valley Countryside Partnership - £10,000;
j. Surrey Heath Sports Council - £3,500;
k. Surrey Heath Arts Council - £1,500;

(ii) the other in-kind benefits provided to organisations be noted;

(iii) all grants be subject to Service Level Agreements;

(iv) no Revenue Grant be awarded to Camfest in 2020/21 but the organisation be advised to apply to the Lottery Fund;

(v) the application by Mustard Seed Autism Trust be deferred for a year;

(vi) decisions on awarding of grants to Tringhams and Camberley Central Job Club be delegated to the Executive Head of Transformation in consultation with the Safeguarding & Support Portfolio Holder.

Note 1: In accordance with the Members' Code of Conduct, the following declarations were made:

(i) Councillor Rodney Bates declared a pecuniary interest as he had been employed by Camberley Central Job Club; he also declared a non-pecuniary interest as he was a Trustee of Old Dean Community Group, which had been provided with staffing by Voluntary Support North Surrey, and declared for the record that a family member worked for Catalyst;

(ii) Councillor Paul Deach declared a non-pecuniary interest as he was a County Council representative on Basingstoke Canal Management Board;

(iii) It was noted for the record that Councillor Alan McClafferty declared that his wife was the chair of Trustees for Surrey Heath Age Concern.

72/E Mytchett Skate Park, Camberley

The Executive was reminded that Mytchett Skate Park was a very well used and an important facility for older children and teenagers in the borough. It was reported that it was proving increasingly difficult and costly to maintain this facility and the ramps would no longer be fit for purpose beyond 2020.

The Executive considered the options presented for the refurbishment of this facility and supported the refurbishment in principle. It was, however, suggested that alternative materials such as concrete be used instead of the proposed steel ramps, which would help ameliorate the impact of noise from the Skate Park. Members therefore requested further information on costings for equipment made from such materials.

The importance of consulting with users of the facility on the materials and design of the Skate Park was noted.

RESOLVED that

(i) the refurbishment of Mytchett Skate Park be agreed in principle;

(ii) the use of materials which would ameliorate the impact of noise from the Skate Park be supported; and

(iii) Officers be asked to submit a further report with details on costings for equipment made from alternative materials.

73/E Suitable Alternative Natural Greenspace (SANG) provision and allocation in Surrey Heath

The Executive was informed that the provision of a financial contribution to Suitable Alternative Natural Greenspace (SANG) was a requirement for all planning applications involving new residential development to mitigate the

adverse recreational impacts on the Thames Basin Heaths Special Protection Area (SPA).

Members were informed that SANG capacity in the borough was becoming limited, particularly in the west of the borough. Without further provision, in the next 6 to12 months applications for new residential development were at risk of being refused due to lack of SANG capacity.

A SANG allocation criteria had been produced to help ensure that remaining SANG capacity was used efficiently and made available for those developments that are best placed to deliver the spatial strategy for the Borough. A SANG Acquisition Strategy had also been produced, identifying the main areas in the borough with potential for SANG creation to mitigate the impact of future housing development in the west of the borough on the SPA.

Members considered the SANG Acquisition Strategy and, in respect of the potential sites, it was agreed to change the reference from Pine Ridge Golf Course to Frimley Fuel Allotments, as this more accurately reflected the area concerned.

The Executive considered proposals to investigate the acquisition of land for SANG through negotiations with relevant landowners. It was also proposed to contact neighbouring authorities to identify the immediate issue this Council had with a shortage of SANG in order to ascertain if they could provide any additional SANG capacity.

RESOLVED that

(i) the SANG allocation criteria, as set out in Annex 1 to the agenda report, be agreed;

(ii) authority be delegated to the Executive Head of Regulatory Services, in consultation with the Portfolio Holder for Planning & People, to investigate the acquisition of land for SANG through negotiations with relevant landowners and to prioritise investigating potential at suitable sites, as identified in the SANG Acquisition Strategy as set out at Annex 2 to the agenda report, as amended;

(iii) neighbouring authorities (Bracknell, Hart and Rushmoor) be contacted to highlight the immediate issue Surrey Heath has in respect of the shortage of SANG and to ask again if they can provide any SANG capacity.

Note: In accordance with the Members' Code of Conduct, Councillor Rodney Bates declared a non-pecuniary interest as he was a Trustee of Frimley Fuel Allotments.

74/E Local Plan Annual Monitoring Report

The Executive considered the Surrey Heath Authority Monitoring Report (AMR) which had been produced in line with the requirements set out in the Localism Act 2011. The AMR monitored the period from 1 April 2018 to 31 March 2019. The purpose of the AMR was to provide details of the actions which had been taken to implement a Local Development Plan and the Local Development Scheme, to indicate the extent to which policies in the current Surrey Heath Local Plan had been achieved, and to identify any solutions and changes where targets were not being met.

Members considered the AMR and raised concerns that no additional Gypsy pitches had been provided since the adoption of the 2012 Surrey Heath Local Plan.

RESOLVED that the Surrey Heath Local Plan Authority Monitoring Report be approved for the purpose of making the document publically available at the Council offices and on the Council's website.

75/E Urgent Action

The Executive noted Urgent Action which had been taken in accordance with the Scheme of Delegation of Functions to Officers.

RESOLVED to note the urgent action taken under the Scheme of Delegation of Functions to Officers.

76/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)
69/ E (part)	3
77/E	3
78/E	3
79/E	3
80/E	3
81/E	3
82/E	3

Note: Minutes 78/E, 79/E and 80/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.

77/E Repurposing of the Ground Floor of Ashwood House

It was proposed by Councillor Josephine Hawkins, seconded by Councillor Dan Adams and

RESOLVED to defer consideration of this item to a future meeting.

78/E Acquisition of SANG capacity

The Executive made decisions relating to the acquisition of SANG capacity.

79/E Acquisition of property to provide supported accommodation for those sleeping rough or at risk of homelessness

The Executive made decisions regarding the acquisition of property to provide supported accommodation for rough sleepers and those at risk of homelessness.

80/E Supplementary Estimate

The Executive made decisions in relation to agreeing a supplementary estimate.

81/E Executive Working Group Notes

The Executive received the notes of the meetings of the Local Plan Working Group, Camberley Town Centre Working Group and Surrey Heath Villages Working Group which had taken place over the previous 6 months.

RESOLVED to receive the notes of the Executive Working Group meetings in the previous 6 months.

82/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 financial information at minutes 78/E and 79/E and the associated agenda reports remain exempt for the present time but the decisions to be made public following the completion of the necessary legal processes;

(ii) minute 80/E and the associated agenda report remain exempt for the present time; and

(iii) the Executive Working Group notes presented at minute 81/E remain exempt at the present time as the information contained in the notes will be released in due course as part of other processes.

Chairman

General Fund Estimates 2020/21

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the Financial Year 2020/21.

Portfolio - Finance Date Consulted: 3 February 2020	
Wards Affected	All

Recommendation

The Executive is advised to RECOMMEND to Council that the 2020/21 General Fund Revenue Budget of £14,176,572 as set out in Annex A 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 2020/21.

The Executive is asked to NOTE

1. That expenditure totalling £2,027,000 will be charged directly to reserves;

2. That a minimum revenue provision of £2,213,000 is required to repay debt;

3. That the budget includes provision for a 2% staff pay increase;

4. The provisional NNDR baseline of £1,568,384 and the final settlement on will be reported to Council at its meeting on 26th February 2020;

5. That a full report, setting out Council Tax proposals for 2019/20 will be presented to Council on 26th February 2020.

1. Resource Implications

2020/21 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 provisional settlement that councils will need to hold a referendum if the increase is more than the higher of 1.99% or £5. This budget has been prepared on the assumption that the maximum Council Tax increase (£5) 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 2020/21 as presented has increased by due to a number of reasons. Increased pensions costs and wage increases have added £650k to annual costs and there have been pressures on income in areas such as parking and property. However, this has been offset by an increase in income because of property purchased at the end of 2018/19 but not reflected in that budget. The additional cost of services has been funded by a combination of increased business rates and some new homes bonus. That said although there is no savings target for this year additional income and savings will be required to deal with budgetary pressures going forward.

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

1.6 2020/21 was to be the first year of a three-year settlement. However, in October 2019 the Government announced that it would defer the outcome of the Fair Funding Review and Business Rates changes and therefore only issue a 1-year settlement. This has meant that the reductions in funding expected – in particular the "negative grant" - has been put on hold for at least a year. Were this to be implemented in 2021/22 it could result in a significant reduction in funding from Business Rates for the Council.

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 (171 houses for Surrey Heath in 2019/20) would not attract NHB. In addition, payments were paid for 4 years rather than six. These changes have resulted in NHB being a reduced incentive for housing delivery. Although no changes were made in 2019/20 in October 2019 the then Government has announced that from 2020/21 it was their intention to only make a payment for one year rather than 4. This, coupled with the threshold, will mean that the Council is unlikely to get any further New Homes Bonus payments after the current legacy payments end.

1.8 Costs of £2,027,000 in the budget have been charged to reserves. It is expected that the General fund will be at least £2m at the end of 2020/21 if the budget is delivered as shown.

Future Resource Implications

1.9 There were a number of changes to Local Government Finance expected in the 2020/21 however, these have now been deferred. It was expected that the fair funding review together with changes to the localisation and rebasing of business rates would be introduced. Rebasing is where existing gains (and losses) from each area are shared across the country. Although exact details of how this would work are not available, the Council's advisors LG futures have modelled how this may work and estimate the Council could lose up to £1.5m in 2021/22, mainly due to the loss of historical business rates gains. No

doubt during 2020/21 the current Government will outline its spending priorities and how these will impact on Local Government Funding. Given the pressures on social care and health, it is unlikely that Districts will feature highly in demands for additional cash and so their funding will at best stay level or more likely continue to reduce.

1.10 As well as changes to New Homes Bonus explained above there are likely to be changes to other grants such as Homelessness, Housing benefit, Admin grants etc. but what these will be is difficult to predict as no information is available.

1.11 The Council is required to prepare a Medium Term Financial Forecast 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, will be presented to Council as part of the Council budget setting report in February 2020. The preparation of the forecast this year is likely to be particularly challenging given there is no information on funding beyond 2020/21.

1.12 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. Going forward if services are to be maintained the strategy of investing will need to continue. This however is being made more difficult due to the limited property available and the increased borrowing costs imposed by Government. In addition, whilst neither the Government nor CIPFA have prohibited property investment as a way of increasing income they have certainly sought to make it more difficult for Councils to invest in this way. Hence, the Council will therefore need to consider carefully during the coming financial year as to whether it ignores Government Guidance in order to address more demanding local funding issues as evidenced by the Medium Term Financial Strategy. In the end, the ultimate solution is likely to be closer collaboration across Surrey if not indeed a full reorganisation of local government as the current arrangements are not financially sustainable in the longer term. For the moment, however the Council has adequate reserves to manage these uncertainties.

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 2020/21
- Gives details of expected funding including Business Rates and grants for 2020/21 subject to confirmation
- Includes a financial forecast and strategy showing the financial challenges the Council faces in the future.

2.2 The 2020/21 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 £200k has been made for pay increases this year representing a 2% increase for all staff and a further £200k for pensions.

2.3 Government funding in the form of business rates and New Homes Bonus has been based on the provisional settlement announced on the 20th December 2019. This is subject to confirmation in February 2020.

2.4 Although the Council applied to be part of a Business Rates pilot for 2020/21 this was unsuccessful. Although some Surrey Districts are in a pool for 2020/21 due to Surrey Heath's falling Business Rates base it was not advantageous for it to join. However, historical pooling and pilot gains have been utilised in this budget.

2.5 Surrey Heath has invested money in property over the last 4 years, which is contributing £3.372m, after borrowing costs but before 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 The Council only has limited capital receipts and so needs 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 from the overall revenue budget. For every £1m borrowed about £39k 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 £33m at 31st March 2020. 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. They can also be used to balance the budget until new income streams or savings are available. Included within this budget is expenditure totalling £1.5m, 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 2021.

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 Annexe 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 2020/21 Council Tax can be proposed:

a) 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

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

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

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

- The 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 2020/21 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 affect this.

5. Officer Comments

5.1 The investment in property coupled with growth in business rates, New Homes Bonus and use of reserves has enabled the Council to maintain services and present a balanced budget for 2020/21. However, future changes in funding, such as the fair funding review, are likely to lead to a reduction in resources from Government and an increasing budget gap going forward. Whilst the Council has adequate reserves to manage this pressure in the short-term action will need to be taken to address this be it further property investment, closer working with other Councils or reductions to services.

5.2 This budget includes a recommended increase in Council Tax of £5 this year, the maximum permitted. Even at £5 the Surrey Heath increase will be significantly less than 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.

5.3 Any change relating to 2020/21 budget recommended by Executive will be adjusted for in the budget presented to Full Council on the 26th February 2020. 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 2020/21 General Fund Revenue Budget of £14,176,572 as set out in Annexe 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 2020/21.

(iii) The Executive is asked to NOTE

1. That expenditure totalling £2,027,000 will be charged directly to reserves;
2. That a minimum revenue provision of £2,213,000 is required to repay debt;
3. That the budget includes provision for a 2% staff pay increase;
4. The provisional NNDR baseline of £1,568,387 and the final settlement on will be reported to Council at its meeting on 26th February 2020;
5. That a full report, setting out Council Tax proposals for 2019/20 will be presented to Council on 26th February 2020.

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 affect 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 could take about £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. That said the economic consensus is that low interest rates will be in place for a while

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 affect our residents and businesses and therefore affect 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 2.0%, 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. These have been reduced over the past few years but are still quite sizeable. The County is also keen to transfer services with funding to the Council as it seeks to downsize. However, there is a risk that this funding will be reduced and withdrawn in the future thereby leaving the Council with a funding gap if the service is to be maintained.

Savings Target

11.6 The Budget as presented does not include an in year savings target. However new income streams and efficiencies will be required in the future to address

the financial challenges the Council will be facing. This is explored more fully in the Financial Strategy, which is being presented to Full Council later this month.

Financial Strategy

11.7 There are a number of longer-term financial risks, which are explored within the financial strategy, which will be presented to Full Council in February 2020. 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.

Rental Income

11.8 The Council is dependent on rental income to maintain its services. Rents, in particular those in the retail sector, are under increasing pressure from CVAs etc. The business plan for the SQ is being finalised by the Council's advisors at the moment and so the budget assumes that the income will remain static in the coming year. However early indications are that this may not be the case and hence if the income were to fall this would be a budget pressure arising during the year which would need to be covered by other income, savings or reserves.

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 be 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 – General Fund Estimates** **B – Budget summary**
BACKGROUND PAPERS	**Budget Book for 2020/21**
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 2020/21

1. The budget for 2020/21 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:

Business - £206k growth

3. The service has suffered from reductions in income from parking due to reductions in footfall across the town.

Community - £142k saving

4. Growth in the service has been offset by an anticipated increase in garden waste charges to be implemented over the year.

Corporate - £80k saving

5. Most of the saving is due to a budget reduction in elections which are not required in 2020/21.

Finance - £121k saving

6. This relates to a reduction in salaries costs coupled with a recharge for staff time to Joint Waste and a change in the vacancy margin

Legal and Property - £418k saving

7. Income from a new property, Theta, has been offset in part by void periods at Albany Park, which have been charged to the budget rather than reserves. In addition the removal of Ashwood House from rating, due to its current condition, has resulted in a £233k saving. However, there has been growth of £606k to reflect the expected vacant period following the ending of a tenancy at Albany Park and of this £500k has been charged to the equalisation fund in reserves.

Investment and Development – £64k increase

8. No change has been made for the SQ as the new business plan has not been finalised as yet. However early indications are that there may be fall in income for the centre due to wider economic factors and this could result in a budget pressure during the year. The loss from House of Fraser is being charged to reserves and there has been a small rise in interest costs.

Regulatory - £393k growth

9. £370k of the increase is due to additional depreciation being charged on Disabled Facilities Grants (due to a larger grant allocation_ which is reversed out before the budget requirement anyway. However, there have also been increased in wages costs as well as growth in Family Support, which was agreed by members earlier in the year.

Transformation - £366k growth

10. £40k relates to an increase in grant funding to community groups and the rest for increases in wages costs, ICT licences and depreciation

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

Funding from Business Rates

11. The Council receives a proportion of money collected from local businesses. In 2020/21, the "standard" 50% scheme applies which means that 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.

12. It was anticipated that 2020/21 would mark the first year of a new 75% scheme with rates being rebased to reflect the fair funding review –however, this has been deferred to 2021/22. It is likely that if it is implemented in 2021/22 this could result in a significant loss of funding to the Council. The implications of this have been explored in the Medium Term Financial Strategy, which is appended, to the budget setting report for Full Council later this month.

13. 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 percentage 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.

14. 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 2020/21

		2018/19	2019/20	2020/21
		Final	Final	Provisional
		£000	£000	£000
Baseline - assumed minimum collected		33,420	34,798	35,365
Less: 50% to Government			-17,399	-17,683
Less: 10% to SCC			-3,480	-3,537
Less: 70% to SCC		23,394		
Share for SHBC		10,026	13,919	14,146
Less Fixed Tariff		-8,517	-12,376	-12,578
Business Rates for SHBC		1,509	1,543	1,568
%age share		4.5%	4.4%	4.4%
Safety Net		1,463	1,426	1,451

15. The table above reflects the figures released in the provisional settlement and does not include any impact of any growth in business rates over 2020/21. LG futures have estimated that in reality Surrey Heath will received £2.8m in total and so an additional £1.1m has been included within the budget for this year. However, this growth may be lost in future years if the business rates system is reset.

16. 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 that permit the conversion of offices to housing without planning permission, has meant that the Council's business rates tax base has remained 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 2020/21

17. The provisional settlement announced on December 20th 2019 confirmed that again Surrey Heath would receive no revenue support grant. It is worth noting that Surrey Heath has lost £2.7m in Government funding (Business Rates and central grant) since 2010/11 and that this has been made up by income from Property and efficiencies in order to avoid having to make cuts

New Homes Bonus (NHB)

18. 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 (171 for Surrey Heath) would have been built anyway and therefore do not require a reward.

19. For 2020/21, it is anticipated that Surrey Heath will receive £909,995 in New Homes Bonus. As this is not new money but assumed by Government to be used to support services £500,000 of this is being used this year to manage increases in expenditure with the remainder being put in to reserves. Future payments are likely to decrease sharply, thereby increasing budget pressures, as the Government has signalled that in future it will only pay the incentive for 1 year rather than 4.

Council Tax

20. Council Tax will be set by the Full Council at its meeting on the 26th February 2020.

21. The Minister has confirmed that there will be a cap on Council tax increases. The tax increase must be less than 2% or £5 whichever is the higher in order to escape capping.

22. 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.

23. The budget has been prepared on the assumption that Council Tax will be increased by the maximum £5 allowed, however members can decide on any amount up to this level. Any resulting shortfall in income would need to be covered by savings or income in year within the budget.

24. The current Surrey Heath band D Council Tax is £218.66. Taking account of the increase proposed the new Band D tax will be £223.66.

25. Details of Parish, Surrey County Council and Surrey Police precepts will be included within the paper for Full Council. However, Surrey CC has agreed to increase their Council Tax by the maximum 3.99% allowed (equivalent to £57.96 for a Band D taxpayer) and the Police are likely to go for the maximum £10 increase.

Tax Base, Parish Support and Collection Fund

26. 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

	2019/20	2020/21	Change
Bisley	1,640.07	1,676.50	36.43
Chobham	2,005.58	2,058.83	53.25
Frimley and Camberley	24,103.84	24,283.22	179.38
West End	2,189.73	2,313.69	123.96
Windlesham	8,115.20	8,193.62	78.42
Total	38,054.42	38,525.86	471.44

27. The increase in the tax base, due mainly to the construction of new properties, alone will generate an additional £106k in income each year.

28. 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 previous years despite the fact that Central Government no longer funds it. 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 2019/20 & 2020/21
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**

29. 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 2019/20. The Sec 151 officer has therefore determined that a surplus of £1,500,000 can be declared for the year. Of this £1,128,000 will be paid to Surrey County Council, £202,500 to the Police and the remaining £169.500 to the borough. This will be used to support the budget for 2020/21

Investment income and borrowing costs

30. The 2020/21 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.

31. 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

32. As in previous years £2,027,000 of expenditure is funded directly from reserves as follows:

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

- £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;

- £1,500,000 from the interest equalisation reserve to fund the temporary shortfall in rents and;

- £202,000 for the Arena during its construction

Funding transferred to Reserves

33. As not all the New Homes Bonus is required to support the budget, £400,000 will be transferred to reserves.

Impact of Property Purchase in 2020/21

34. 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 £3.2m to the 2020/21 budget after interest but before loan repayments.

35. 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 because 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.

36. 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 2020/21 budget, £2,213,000 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 in annex B below

ANNEX B

GENERAL FUND REVENUE ACCOUNT

2020/21 SUMMARY BUDGET

	2019/20	2020/21	Variance
	Budget	Budget	
	£	£	
Business	961,515	1,167,225	205,710
Community	5,029,957	4,887,728	-142,229
Corporate	1,851,855	1,771,732	-80,123
Finance	1,969,280	1,880,424	-88,856
Legal and Property	-480,401	-899,225	-418,824
Investment and development	-852,389	-788,200	64,189
Regulatory	2,139,019	2,532,972	393,953
Transformation	3,420,756	3,786,843	366,087
	14,039,592	14,339,499	299,907
Add: Minimum Revenue Payment	2,014,000	2,213,000	199,000
Internal asset charges reversed	-2,625,700	-2,105,870	519,830
NET COST OF SERVICES	13,427,892	14,446,629	1,018,737
Less: External Interest earned	-140,000	-140,000	0
Less: Internal Interest earned	-150,000	-150,000	0
Add: Contribution to Parishes	19,943	19,943	0
BUDGET REQUIREMENT	13,157,835	14,176,572	1,018,737
Less: Collection Fund Surplus	-116,500	-169,500	-53,000
Less: Business Rates baseline	-1,543,240	-1,568,384	-25,144
Less: Additional Business Rates	-950,000	-1,100,000	-150,000
Less: New Homes Bonus	-521,613	-909,995	-388,382
Add: Tfr to Reserves	521,613	400,000	-121,613
Less: Funding from Reserves	-2,042,116	-2,027,000	15,116
Add: Parish Precepts	587,834	0	-587,834
COUNCIL TAX REQUIREMENT	**9,093,813**	**8,801,693**	**-292,120**
Less: Special Expenses	-185,000	-185,000	0
Less: Parish Precepts	-587,834	0	587,834
OWN COUNCIL TAX REQUIREMENT	**8,320,979**	**8,616,693**	**295,714**
Band D equivalent Properties	*38,054.42*	*38,525.86*	
Base Council Tax per Band D property	***£218.66***	***£223.66***	

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Corporate Capital Programme 2020/21 – 2022/23

Summary

To consider the Corporate Capital Programme for 2020/21, the Prudential Indicators for 2020/21 to 2022/23, and the provisional capital programme for 2020/21 to 2022/23.

Portfolio - Finance
Date consulted: 3 February 2020

Wards Affected	All

Recommendation

The Executive is advised to RECOMMEND to Full Council that:

(i) new capital bids for £1.479m in Annex A for 2020/21 be approved, and that they be incorporated into the Capital Programme;

(ii) The Prudential Indicators summarised below and explained in Annex C to this report, including the MRP statement, for 2020/21 to 2022/23 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	**2020/21 Estimated £m**	**2021/22 Estimated £m**	**2022/23 Estimated £m**
Capital Expenditure	1.479	1.0	1.0
Capital Financing Requirement	224	221	219
Ratio of net financing costs to net revenue stream	19.18%	18.75%	18.25%
Financing Costs	2.067	2.077	2.079
Operational Boundary	230	230	230
Authorised Limit	235	235	235

The Executive is also advised to note that:

(i) the Capital Financing Requirement for this Council as at 31 March 2021 is estimated to be £224m and as such a Minimum Revenue Payment of £2.2m is required

(ii) the provisional Capital Programme for 2020/21 to 2022/23; 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 2020/21; these were considered by the Corporate Management Team on the 12th November 2019 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 2020/21 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 £39k 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 £11m at 31 March 2021 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.

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 £1.479m in Annex A are approved for 2020/21 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 2020/21 to 2022/23 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	**2020/21 Estimated £m**	**2021/22 Estimated £m**	**2022/23 Estimated £m**
Capital Expenditure	1.479	1.0	1.0
Capital Financing Requirement	224	221	219
Ratio of net financing costs to net revenue stream	19.18%	18.75%	18.25%
Financing Costs	2.067	2.077	2.079
Operational Boundary	230	230	230
Authorised Limit	235	235	235

11. The Executive is also advised to NOTE:

    (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2021 is estimated to be £224 m and as such a Minimum Revenue Payment (MRP) of £2.2 m is required.

    (ii) The provisional Capital Programme for 2020/21 to 2022/23.

    (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 2020/21 to 2022/23.

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 £39,000 of revenue is required annually to fund this debt.

Annexes	Annex A – 2020/21 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 2020/21 to 2022/23

3 YEAR CAPITAL PROGRAMME	**2020/21**	**2021/22**	**2022/23**	**3 Year Funding Requirement**
	Estimated Total	**Estimated Total**	**Estimated Total**	
	£m	**£m**	**£m**	**£m**
Disabled Facilities Grants	1.000	1.000	1.000	3.000
CRM System Replacement	0.030			0.030
MFD printer Replacements	0.024			0.024
Laptop and Monitor Refresh	0.060			0.060
Civica cloud upgrade	0.016			0.016
Theta 2nd Floor	0.049			0.049
Frimley Lodge Refurbishment	0.040			0.040
HR/Payroll System	0.030			0.030
Footfall Sensors	0.050			0.050
Car park Resurfacing	0.155			0.155
New Boiler for Travelex unit	0.025			0.025
GRAND TOTAL OF ALL SCHEMES	**1.479**	**1.000**	**1.000**	**3.479**

Executive are asked to approve and recommend to Council the schemes set out in the column headed 2020/21 which total £1.479 m.

Executive and Council will be asked to approve any carry forwards from 2019/20 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2020/21 CAPITAL PROGRAMME

FUNDING FOR 2020/21 CAPITAL PROGAMME	**Scheme Total**	**Grant**	**Other External Contribs**	**Other Funding Required**
	£m	**£m**	**£m**	**£m**
Disabled Facilities Grants	1.000	1.000	0.000	**0.000**
CRM System Replacement	0.030	0.000	0.000	**0.030**
MFD printer Replacements	0.024	0.000	0.000	**0.024**
Laptop and Monitor Refresh	0.060	0.000	0.000	**0.060**
Civica Cloud upgrade	0.016	0.000	0.000	**0.016**
Theta 2nd Floor	0.049	0.000	0.000	**0.049**
Frimley Lodge Refurbishment	0.040	0.000	0.000	**0.040**
HR/Payroll System	0.030	0.000	0.000	**0.030**
Footfall Sensors	0.050	0.000	0.050	**0.000**
Car park Resurfacing	0.155	0.000	0.000	**0.155**
New Boiler for Travelex unit	0.025	0.000	0.000	**0.025**
GRAND TOTAL OF ALL SCHEMES	**1.479**	**1.000**	**0.050**	**0.429**

Of the £1.479m schemes recommended for 2020/21, grant & other external contributions funding of £1.050m is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and borrowing.

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

Background Notes on New Schemes

Disabled Facilities Grants

Central Government Grant to the Better Care Fund includes an element for Disabled Facilities Grant (DFG) allocated to Surrey Heath. While Government's expectation is that this money is passported to the local housing authority it is not ring-fenced. In 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.

Customer relationship Management System Replacement (CRM)

The existing CRM system has being in use for over 15 years and is no longer fit for purpose due to advances in technology. Modernisation of our CRM system will assist in meeting corporate objectives relating to accessing new digital services which will improve the customer experience for residents and staff.

MFD Printer Replacements

Investment in six new generation MFD printers to replace the current seven printers, which have come to the end of their useful lives. The new printers support the corporate objective to deliver effective services better and faster.

Footfall Sensors

Installation of Internet of things (IOT) sensors within Camberley, which will allow greater understanding of footfall and traffic movements to enable the Council to evaluate interventions required and to identify trends in road uses and the impacts of road works, diversions on traffic movement.

Frimley Lodge Window Refurbishment

The existing windows and glazed doors in Frimley Lodge park pavilion are in excess of 30 years old and have now reached the end of their useful serviceable lives.

Replacement of the windows will allow the standard of accommodation provided in the pavilion to be improved, which would generate increased rental opportunities and reduced revenue costs due to savings in heating during the winter months.

HR/Payroll System

The current HR payroll has being in use since 2002 and due to advances in technology is no longer fit for purpose, furthermore it also has poor business continuity as it is not based in the cloud. The aim of the project is either to procure enhancements to the current system or procure a brand new system, either choice would lead to greater efficiencies in staffing levels, resilience and allowing improved agile working access to the system.

Car Park & Access Road Resurfacing

The current surfaces of the following car parks and access road are at the end of their useful life and require replacing, Watchetts Road car park, Watchetts Recreation ground access road and car park and Chobham car park.

New Boiler

The tenancy of Units 2 & 3 at Albany Park industrial estate is coming to an end and the existing tenants will be reinstating the premises at their own cost. In order to help re-let the building, a new boiler will be required to heat the office part of the two units and this falls on the Landlord. .

Theta 2nd Floor Refurbishment

The Theta building is a Council owed investment property. This project will spilt the existing open plan accommodation into smaller suites that should be more attractive in the current rental market.

Laptop and Monitor Refresh & Civica Cloud upgrade

A number of departments will be moving to more agile working in future and users will be given laptops and new monitors where required so that they will not be tied to Surrey Heath House. In addition, the Civica financials system will move to the cloud to allow greater resilience and improved remote access by all staff.

Movement in Available Capital Receipts

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Forecast Capital Receipts 1st April	3.680	3.201	3.201
Capital Receipts during year	0.000	0.000	0.000
Capital Grants (Disabled Facilities Grant)	1.000	1.000	1.000
TOTAL AVAILABLE FUNDS	**4.680**	**4.201**	**4.201**
Proposed Capital Programme	(1.479)	(1.000)	(1.000)
TOTAL SCHEMES REQUIRING FUNDING	**0.000**	**0.000**	**0.000**
FUNDING REQUIREMENT	**0.000**	**0.000**	**0.000**

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2020/21

The Local Government Act 2003 requires the Council 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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

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

Capital Expenditure and Financing	**2019/20 Revised £M**	**2020/21 Estimate £M**	**2021/22 Estimate £M**	**2022/23 Estimate £M**
Capital Program	39.040	1.479	1.0	1.0
Total Expenditure	**39.040**	**1.479**	**1.0**	**1.0**
Capital Receipts	0.250	0.479		
Government Grants	0.750	1.000	1.0	1.0
Reserves				
Revenue				
Borrowing	38.040			
Total Financing	**39.040**	**1.479**	**1.0**	**1.0**

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

Capital Financing Requirement	**31.03.20 Revised £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**	**31.03.23 Estimate £m**
Total CFR	**225**	**224**	**221**	**219**

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 Council 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	**31.03.20 Revised £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**	**31.03.23 Estimate £m**
Borrowing	164	163	160	158
Finance leases	0	0	0	0
Total Debt	**164**	**163**	**160**	**158**

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 Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council'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 and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2019/20 Revised £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Borrowing	230	230	230	230
Other long-term liabilities	0	0	0	0
Total Debt	**230**	**230**	**230**	**230**

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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2019/20 Revised £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Borrowing	235	235	235	235
Other long-term liabilities	0	0	0	0
Total Debt	**235**	**235**	**235**	**235**

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	**2019/20 Revised %**	**2020/21 Estimate %**	**2021/22 Estimate %**	**2022/23 Estimate %**
General Fund	19.08	19.18	18.75	18.25

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 Revised £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
General Fund	**2.063**	**2.067**	**2.077**	**2.079**

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 2020/21

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 2020/21 will not be subject to a MRP charge until 2021/22.

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:

	2020/21 Estimated MRP £M
Capital expenditure before 01.04.2008	0
Supported capital expenditure after 31.03.2008	2.006
Unsupported capital expenditure after 31.03.2008	0.061
Total	**2.067**

Treasury Management Strategy Report 2020/21

Summary **Report to Executive to consider and recommend to Council the Treasury Strategy for 2020/21**
Portfolio Finance **Date Portfolio Holder signed off report:**
Wards Affected All
Recommendation **The Executive is advised to RECOMMEND to Council that** **(i) the Treasury Management Strategy for 2020/21 to this report;** **(ii) the Treasury Management Indicators for 2020/21 at Annex C to this report;** **(iii) the Minimum Revenue Provision policy statement and estimated minimum revenue provision payment table at Annex F to this report; and** **(iv) the Treasury Management Policy Statement at Annex G to this report;** **be adopted.**

Resource Implications

1. The budget for investment income in 2020/21 is £140,000, based on an average investment portfolio of £13 million at an interest rate of 1.08%. The budget for debt interest paid in 2020/21 is £3.8million, based on an average debt portfolio of £164million at an average interest rate of 2%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

2. Funding for the proposed corporate capital programme for 2020/21 – 2022/23 will be funded by capital receipts.

3. Any changes required to the approved treasury management indicators and strategy, say due to changes in economic conditions, will be reflected in future reports for Executive and Full 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 and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.

5. The Council's portfolio of investments comprise 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. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

7. Investments held for service purposes or for commercial profit are considered in the Investment Strategy which is on this agenda.

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

Options

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

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

Proposals

11. The Executive is asked the approve and recommend the Council the adoption of:
    a) The Treasury Management Strategy for 2020/21
    b) The Treasury Management Indicators for 2020/21 at Annex C
    c) The Minimum Revenue Provision (MRP) Policy Statement at Annex F
    d) The Treasury Management Policy Statement at Annex G

Supporting Information

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

12. The Council's treasury management advisors, Arlingclose Limited have provided 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:

13. 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 2020/21.

14. UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

15. GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

16. The Bank of England maintained Bank Rate to 0.75% in November 2019 following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

17. Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

18. In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit Outlook:

19. Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ring-fenced banks embedded in the market.

20. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

21. Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast:

22. The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

23. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

24. For the purpose of setting the budget, it has been assumed that no new treasury management investments will be made and that existing loans will be financed at an average rate of 2%.

Local Context

25. On 30th November 2019, the Council held £164 million of borrowing and £13 million of treasury investments.

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

is to maintain borrowing below their underlying levels, sometimes known as internal borrowing subject to holding a minimum of £5 million.

Borrowing Strategy

27. The Council currently holds £164 million of loans, an increase of £25 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 of £190 million, however the Council will incur a cost of carry until the funds are utilised.

28. A review of the Council's leases under IFRS16 which will come into effect on 1st April 2020 was undertaken. The Council has decided not to increase the Authorised Limit for Borrowing as the impact of IFRS16 was deemed to be insignificant.

Objectives:

29. 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:

30. 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. With short-term interest rates currently much lower than long-term rates, it is likely to continue to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

31. The majority of the Council's borrowing is short term in order to take advantage of the 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.

32. The Council has previously raised the majority of its long term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a more expensive option. The Council may look to borrow loans from other sources, in order to lower interest costs and reduce over resilience on one source of funding in line with the CIPFA Code.

33. In order to manage risk on its short term borrowings, 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.

Sources of borrowing:

34. The approved sources of 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 (excepts 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

Municipal Bonds Agency:

35. 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 that the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will require the approval of Full Council and therefore a separate report would be required.

Short term and Variable Rate loans:

36. 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. Financial derivatives may be used to manage this interest rate risk (see section below)

Debt Rescheduling:

37. 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:

38. 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 Provision or MRP. Best practice guidance recommends that Authorities 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 18th February 2020 as part of the Capital budget for 2020/21.

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

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
MRP Payment	1.400	2.159	2.213	2.274	2.320

Investment Strategy

40. 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 investment balance was £13 million. This is expected to remain at £13 million in 2020/21.

Objectives:

41. 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 return 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 unsuitable 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:

42. If the UK enters into a recession in 2020/21, 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. However any loss in income will be outweighed by savings on borrowing costs.

Strategy:

43. 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 2020/21 particularly for investments held for the longer term. The majority of the Council's surplus cash is currently invested in money market

funds, on the advice of our advisors Arlingclose. No changes are proposed to the 2020/21 investment strategy from that adopted in 2019/20.

Business Models:

44. 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:

45. 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.

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
None	£1m 6 months	n/a	£3m 25 years	£1m 5 years	£2m 5 years
Pooled funds and real estate investment trusts	£3m per fund or trust				

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

Credit Rating:

46. Investment limits are set by reference to the lowest published long-term credit rating from a selection of external ratings 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:

47. 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:

48. 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:

49. 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:

50. 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 £2 million per company as part of a diversified pool in order to spread the risk widely.

Registered Providers:

51. 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:

52. 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.

53. 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:

54. 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational Bank Accounts:

55. The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than 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, and balances will therefore be kept below £3 million per bank. 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. Deposits with the Council's current account are restricted to overnight deposits.

Supranational Banks:

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

Risk Assessment and Credit Ratings:

57. 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.

58. 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:

59. 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, 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.

60. 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:

61. 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. Please refer to the table below:

	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	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total

Liquidity Management:

62. The Council uses purpose-built cash flow forecasting software 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

63. 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

64. 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

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

Policy Framework

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

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

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

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

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

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

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

Legal Issues

67. 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

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

Sustainability

69. None

Risk Management

70. Poor returns on investments could lead to a reduction in income also 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 cost and therefore leading to savings being needed elsewhere in the Council's budget.

71. 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.

72. 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

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

Officer Comments

74. Treasury Management, in particular the management of debt, is becoming an increasing important are 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 November 2019 Annex B – 2020/21 Other Items - Treasury Management Strategy Annex C – 2020/21 Treasury Management Indicators Annex D – Investments as at 30th November 2019 Annex E – Existing Investment and Debt Portfolio Annex F – Minimum Revenue Policy (MRP) Statement Annex G – Treasury Management Policy Statement Annex H - Glossary
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2017 Edition
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Head of Service	Kelvin Menon - Executive Head of Finance

Annex A

Arlingclose Economic & Interest Rate Forecast November 2019

The Council's Treasury Advisors Arlingclose has provided their 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:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local 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. **Financial Derivatives**

   Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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. At the moment the Council does not hold any Financial Derivatives.

5. **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 meet the Council's treasury management objectives. In addition, the Council's tender process for treasury management advice ensures value for money.

6. **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.

7. **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 2020/21

The Council measures its exposure to treasury management risks using the following indicators. The Council is asked to approve these 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. 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 which equates 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.

4. 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:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
Over 40 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. This table means there is total flexibility on borrowing periods to achieve the most cost effective option.

5. 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:

	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£2.5m	£2.5m	£2.5m

Annex D

INVESTMENTS as at 30th November 2019

	£
Debt Management Office	250,000
AAA Rated MM Fund - Aberdeen Standard	3,000,000
AAA Rated MM Fund - Blackrock	3,000,000
AAA Rated MM Fund - CCLA Public Sector Deposit Fund	1,000,000
AAA Rated MM Fund - Legal and General	3,000,000
Total Money Market Funds	**10,000,000**
CCLA Property Fund	2,184,488
Total Longer Term Investments	**2,184,488**
Total Invested (excluding the NatWest Business Reserve)	**12,434,488**
NatWest Business Reserve	107,671
Total Invested (including NatWest Business Reserve)	**£12,542,158**

Annex E

Existing Investment & Debt Portfolio

	30-Nov-19 Actual Portfolio £m	30-Nov-19 Average Rate %
External Borrowing:		
Public Works Loan Board - Long Term	**(56.39)**	2.4%
Local authorities - Short Term	**(107.75)**	0.8%
Total Gross External Debt	**(164.14)**	**1.3%**
Investments:		
Banks & Building societies	0.11	0.1%
Government (incl. local authorities)	0.25	0.5%
Money Market Funds	10.00	0.7%
Other Pooled Funds	2.18	5.0%
Total Treasury Investments	**12.54**	**1.6%**
Net Debt	**(151.60)**	**0.3%**

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	**Estimated economic life**
Asset Class	
Land and heritage assets	50 years
Buildings and services	50 years
Vehicles and Plant	10 years
IT equipment and software	5 years
Investment property	50 years
Assets for regeneration and/or under construction	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:

	2018/19 actual	**2019/20 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
MRP Payment	1.400	2.159	2.213	2.274	2.320

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

Annex G

Treasury Management Policy Statement

The Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

1. The Council defines its treasury management activities as: The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Risk management

2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

Value for money

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

4. The Council greatly values revenue budget stability. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

5. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

6. The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local Council services is an important, but secondary, objective.

7. The Council will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Annex H

Glossary of Terms

Amortising	A loan or bond where principal is repaid over its term, rather than only on maturity.
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Authorised limit	The maximum amount of debt that a local Council may legally hold, set annually in advance by the Council itself. One of the Prudential Indicators.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out.
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of taxpayers. See also bail-in.
Bank of England	The central bank of the UK, based in London, sometimes just called “the Bank”.
Bank Rate	The official interest rate set by the Monetary Policy Committee, and the rate of interest paid by the Bank of England on commercial bank deposits. Colloquially termed the “base rate”.
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
Building society	A mutual organisation that performs similar functions to a retail bank but is owned by its customers.
Call account	A deposit account that can be called back, normally on instant access.
Capital	(1) Long-term, as in capital expenditure and capital receipt. (2) Principal, as in capital gain and capital value. (3) Investments in financial institutions that will absorb losses before senior unsecured creditors.
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer

	than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance capital expenditure, and the associated accounting.
Capital finance Regulations	Legislation covering local authorities' activities in capital finance, treasury management and accounting. Separate regulations are published for the four nations of the UK.
Capital financing requirement	A local Council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
CET1	Core equity tier 1 - the purest form of capital for a financial institution, which is available to absorb losses while it remains a going concern, usually expressed as a ratio to risk weighted assets.
Certainty rate	Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.
Certificate of deposit (CD)	A short-term debt instrument, similar to a deposit, but that is tradable on the money markets.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government
Collective investment Scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.

Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee, measured on a harmonised basis across the European Union.
Credit default swap (CDS)	Derivative for swapping credit risk on a particular issuer, similar to an insurance policy where the buyer pays a premium against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a credit rating agency of a counterparty's future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes credit ratings. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a counterparty will default on its financial obligations.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit or bond. Contrast with equity. (2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a covenant, usually as a result of being in financial difficulty (rather than an administrative oversight).
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a swap, option or future. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying. See also embedded derivative and hedge.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. (2) To calculate the present value of an investment taking account of the time value of money.

Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of counterparties to limit credit risk or borrowing to a range of maturity dates to limit refinancing risk.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Duration	In relation to a bond or bond fund, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
Equity	(1) The residual value of an entity's assets after deducting its liabilities. (2) An investment in the residual value of an entity, for example ordinary shares.
Fair value	IFRS term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
Fiscal policy	Measures taken by government to boost or slow the economy via taxation and spending decisions. Fiscal loosening or easing refers to cuts in taxes or increases in spending, while fiscal tightening refers to the opposite. See also monetary policy.
Financial institution	A bank, building society or credit union. Sometimes the term also includes insurance companies.
Financial instrument	IFRS term for investments, borrowing and other cash payable and receivable.
Forward deal	An arrangement where a loan or deposit is arranged in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.
Fund manager	Regulated firm that manages collective investment schemes.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.

General Fund	A local Council reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	Yield on gilts. Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a loan to the lender if the borrower defaults.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment strategy	A document required by investment guidance that sets out a local Council’s investment plans and parameters for the coming year. Sometimes forms part of the Council’s treasury management strategy.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.
Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets. There are specific definitions in government investment guidance.

Loans CFR	The capital financing requirement less the amount met by other long-term liabilities; i.e. the amount to be met by borrowing.
Local infrastructure rate	Discount on PWLB rates for new loans borrowed, available to local authorities that have been successful in a bidding round.
Long-term	Usually means longer than one year.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk.
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid. (2) A type of loan where the principal is only repaid on the maturity date.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
MiFID II	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Monetary policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
Monetary Policy Committee (MPC)	Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
Money market fund (MMF)	A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to CNAV and LVNAV funds with a WAM under 60 days which offer instant access, but the European Union definition extends to include cash plus funds.
Money markets	The markets for short-term finance, including deposits and T-bills. See also capital markets.

MRP	Minimum revenue provision - an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Municipal bonds agency	Company that issues bonds in the capital market and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	Borrowing minus treasury investments.
Operational boundary	A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Option	A derivative where the holder pays a premium to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A credit rating agency's expected direction of travel in the long-term rating over the next two years.
Pension Fund	Ring-fenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of treasury management.
Pooled fund	See collective investment scheme.
Premium	(1) The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. See also discount. (2) The initial payment made under a derivative.
Price risk	The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments.
Principal	The amount of money originally lent on a debt instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a credit arrangement and debt.
Professional client	MiFID II term for a client of a regulated firm that has a higher level of experience in financial markets than a retail client, and therefore needs a lower level of protection. Local

	authorities may “opt up” to be treated as professional clients if they meet certain requirements.
Property fund	A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local Council capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the Prudential Code and determined by the local Council to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money. Reversing QE by selling back bonds, or allowing them to mature without replacement, is sometimes called quantitative tightening.
Rating watch	A term used by credit rating agencies to indicate that a credit rating is under review, and that a change is likely within three months. The direction of potential change is usually indicated.
Recession	A period of economic slowdown. The technical definition is two consecutive quarters of negative GDP growth.
Redemption	The process of withdrawing cash from a collective investment scheme and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the prospectus.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an

	unplanned loss. Managed by maintaining a smooth maturity profile.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing
REIT	Real estate investment trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many ways.
Revenue expenditure	Expenditure to meet the ongoing cost of delivering public services including salaries and the purchase of goods and services, as opposed to capital expenditure.
Ring-fencing	The process by which large UK banks have been split into retail banks and investment banks in order to promote financial stability.
RPI	Retail prices index - an older measure of inflation that tracks the prices of goods and services including mortgage interest and rent. Index-linked gilts are uprated using RPI. See also CPI.
Security	(1) A financial instrument that can be traded on a secondary market. (2) The concept of low credit risk. (3) Collateral.
Secured investment	An investment that is backed by collateral and is therefore normally lower credit risk and lower yielding than an equivalent unsecured investment.
Share	An equity investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.
Strategic funds	Collective investment schemes that are designed to be held for the long-term, comprising strategic bond funds, diversified income funds, equity funds and property funds.
Supported borrowing	Borrowing for which the repayment costs are supported by government grant.
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. See also income return.

Treasury investments	Investments made for treasury management purposes, as opposed to commercial investments and service investments.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.
Treasury management Advisor	Regulated firm providing advice on treasury management, capital finance and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management Indicators	Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk.
Treasury management policy statement	Document required by the Treasury Management Code setting out a local Council's definition of and objectives for treasury management.
Treasury management practices (TMPs)	Document required by the Treasury Management Code setting out a local Council's detailed processes and procedures for treasury management.
Treasury management Strategy	Annual report required by the Treasury Management Code covering the local Council's treasury management plans for the forthcoming year.
Treasury management System	Computer programme for recording investments, borrowing, cash flow forecasts and market data to assist with treasury management operations.
Unit	The equivalent of a share in an authorised contractual scheme or unit trust.
Unit trust	A type of collective investment scheme that is structured as a trust, where investors buy units in the trust.
Unsupported borrowing	Borrowing where the cost is self-financed by the local Council. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing.
Usable reserves	Resources available to finance future revenue and/or capital expenditure. Some usable reserves are ring-fenced by law

	for certain expenditure such as on schools or council housing.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price.
Yield curve	A chart of yields or interest rates for similar instruments over a range of maturity dates.

Investment Strategy Report 2020/21

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 designed to meet the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second of these categories.

Portfolio and Date Consulted
Finance

Wards Affected
All

Recommendation
The Executive is advised to:
(i) NOTE the contents of the Investment strategy;
(ii) RECOMMEND approval of the Investment Strategy by Full Council

1. Resource Implications

1.1 As a result of several years of Government funding cuts the Council embarked on a strategy of income generation through investment in property in order to maintain services. Property was also acquired to advance the Council's key priority namely regeneration of Camberley town centre.

1.2 In total the Council has £171m invested in property which was budgeted to generate a net income of £3.8m towards services.

2. Key Issues

2.1 New guidance in relation to investment was issued by the Government in December 2017 and further guidance was issued by CIPFA in 2019. 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. All of this Council's investments are either in borough or close to

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 carries a higher risk than property purchased solely for financial gain.

2.7 In the short term income from these properties, particular in the current economic climate, 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 reap dividends and ensure that over the life time of the borrowing to support these, namely 50 years, they should increase in value and recover any valuation losses made.

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. However despite all these precautions values investments are still exposed to market conditions.

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 2020/21**
Background Papers	
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Annex 1

Investment Strategy Report 2020/21

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 was first issued in 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 average £13m over the 2020/21 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 2020/21 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 secure a development partner for the London Road Block. It has also meant that the Council has been able to take an active part in the management of the centre and to invest to try and halt its decline.

Prosperity Objective

11. The Council has acquired a number of Industrial Estates and Offices 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.

Property held for investment purposes in £ millions

Property	**Actual**	**31.3.2019 actual**	
	Purchase cost £m	**Gains or (losses) £m**	**Value in accounts £m**
The SQ and associated properties	105	(23)	82
Other Town centre properties	1	0	1
St Georges Industrial Estate	8	1	9
Albany park Industrial Estate	16	3	19
Trade City Industrial Estate	13	(3)	10
Sandhurst Industrial estate	14	(1)	13
Theta	14	0	14
TOTAL	**171**	**(23)**	**148**

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 made within the past twelve months has indicated that it is no longer sufficient to provide security against loss, and the authority is taking

actions to protect the capital invested. This includes investing I the property to maintain an income flow to fund the borrowing, attracting longer leases in order to raise the valuation, looking to alternative uses for surplus space and also retaining the property until such time as the valuation recovers

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

	2018/19 Actual £m	**2019/20 Forecast £m**	**2020/21 Budget £m**	**2021/22 Budget £m**	**2022/23 Budget £m**
Gross service expenditure	43.756	45.471	44.891	45.000	45.900
Investment income	4.318	4.237	4.264	4.349	4.436
Proportion	9.9%	9.3%	9.5%	9.7%	9.7%

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.

Total investment exposure in £millions

Total investment exposure	**31.03.2019 Actual**	**31.03.2020 Forecast**	**31.03.2021 Forecast**
Treasury management investments	30	15	15
Commercial investments: Property	171	171	171
TOTAL EXPOSURE	201	186	186

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	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	0	0	0
Commercial investments: Property	179	164	162
TOTAL FUNDED BY BORROWING	179	164	162

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	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	0.91	1.00	1.00
Commercial investments: Property	2.51	2.46	2.48

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

Other investment indicators

Indicator	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Debt to net service expenditure ratio	3.93	3.78	3.83
Commercial income to net service expenditure ratio	2:12	2:13	2:13

Capital Strategy Report 2020/21

Summary
This Capital Strategy Report, which was introduced for the first time last year, gives 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 is provided so as to enhance members' understanding of these technical areas.

Portfolio - Finance
Date Consulted: 3 February 2020

Wards Affected
All

Recommendation

The Executive is advised to RECOMMEND to Full Council that Capital Strategy, as set out at Annex A to this report, be agreed.

1. Resource Implications

1.1 This report summarises the capital programme, treasury strategy and investment strategy. These documents set out how the Council intends to manage its £13m of investments, £164m of borrowing and £171m of investment property together with approval for the 2020/21 capital programme of £1.5m.

1.2 The Council has acquired property for two reasons as follows:

- Property acquired to generate an income to maintain services following years of Government Funding cuts. This property also contributes to the economic sustainability in that it primarily consists of employment sites in the borough. This income however is not without risk and despite the Council having strategies in place to manage risk this income is not guaranteed.
- Property acquired to assist with the regeneration of Camberley Town centre and its economic vitality. These assets may not generate a return in the short term but it was vital that the Council controlled them if its development aims for the Camberley were to be moved forward.

1.3 In order to fund this, the Council has £164m of borrowing with annual budgeted interest costs of £3.8m.The strategy for the management of this 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 was a new report in 2019/20 and is intended to give 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 with a view to enhance members' understanding and also fully complies with the Prudential Code 2017.

2.2 The 2017 Prudential Code stipulates that a summary Capital Strategy should be prepared which summarises the Council's 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 which can be found elsewhere on this agenda.

2.3 Currently property investment has been restricted to within the borough boundary or close to as this not only generates an income but also fulfils the aim of supporting the economy of the borough by maintaining employment sites in line with Government guidance. However the number of properties available for investment in this area are limited and so the Council may need to look further afield in order to address the Council's financial pressures. Councils are permitted to depart from statutory Government Guidance, but must set out clearly the reasons for doing so and consider the risks – were this to be the case this would form the basis of a separate report to members in the future.

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 maintaining Council services in the face of reductions 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 2020/21**
Background Papers	
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Annex A

Capital Strategy Report 2020/21

Introduction

1. This Capital Strategy report givies 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 with the intention of enhancing members' understanding of these sometimes technical areas.

2. Decisions made in the year on capital and treasury management can have financial consequences for the Council for many years in to the future. They are therefore subject to both a national regulatory framework and to a local policy framework summarised in this report.

Capital Expenditure and Financing

3. 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.

4. In 2020/21, the Council is planning capital expenditure of £2.348m as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2018/19 Actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Capital Projects	10.352	39.040	1.479	1.000	1.000
Capital investments	41.780	0.0	0.0	0.0	0.0
TOTAL	52.132	39.040	1.479	1.000	1.000

5. The main General Fund capital projects include:
   - Disabled facilities grants – grants for improvements to enable residents to stay in their own home;
   - Car park resurfacing;
   - IT equipment including Laptops and printers;
   - Upgrades to Council facilities such as Frimley Lodge Park.

6. The Council may also incur further capital expenditure on investments, such as improvements to the SQ shopping centre, repurposing of BHS and Hof as well as the acquisition of additional investment property. These will be brought forward to members on a case by case basis for their

consideration as required. Hence they have not been included in this report.

7. The figures do not include the implications of any schemes which may be carried forward from one year to the next. This will be considered by members on the basis of a report to be presented later in the year

8. **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.

9. 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 2020.

10. 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

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources	2.317	0.750	1.000	1.000	1.000
Own resources	2.321	0.250	0.479		
Debt	47.494	38.040	0.000		
TOTAL	**52.132**	**39.040**	**1.479**	**1.000**	**1.000**

11. 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

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
MRP Payment	1.400	2.159	2.213	2.274	2.320
Use of Capital	0.827	0.250	0.479	0.000	0.000

Receipts					

12. The Council's full MRP statement is included within the Treasury Strategy report for 2020/21 which can be found on the February 2020 Executive agenda

13. 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 2020/21. 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

	31.3.2019 actual	**31.3.2020 forecast**	**31.3.2021 budget**	**31.3.2022 budget**	**31.3.2023 budget**
General Fund services	2	7	7	7	8
Capital investments	188	218	217	214	211
TOTAL CFR	**190**	**225**	**224**	**221**	**219**

14. **Asset management**: To ensure that capital assets continue to be of long-term use, the Council is currently preparing an updated asset management strategy which will be presented to members in 2020/21

15. **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

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Asset sales	4.9	0	0	0	0
TOTAL	**4.9**	**0**	**0**	**0**	**0**

<u>Treasury Management</u>

16. 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.

17. Due to decisions taken in the past, the Council currently has £164m borrowing at a budgeted average interest rate of 2.00% and an average of £13m treasury investments at a budgeted average interest rate of 1.0%.

18. **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%).

19. 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 February 2021 and February 2022 and have fixed interest rates of 2.85% and 2.91%

20. 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

	31.3.2019 actual	**31.3.2020 forecast**	**31.3.2021 budget**	**31.3.2022 budget**	**31.3.2023 budget**
Gross Debt	179	164	163	160	158
Capital Financing Requirement	190	225	224	221	219

21. 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.

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

	2019/20 limit	2020/21 limit	2022/22 limit	2022/23 limit
Authorised limit – total external debt	235	235	235	235
Operational boundary – total external debt	230	230	230	230

23. The authorised and operational boundaries have not been increased in 2020/21 to reflect the changes due to the change in the accounting treatment for leases as the amount is not material.

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

25. **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.

26. 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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	30.0	11.0	11.0	11.0	11.0
Longer-term investments	2.0	2.0	2.0	2.0	2.0
TOTAL	**32.0**	**13.0**	**13.0**	**13.0**	**13.0**

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

28. **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. Half yearly reports on treasury management activity are presented to Executive and

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

Commercial Activities

29. 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.

30. Total commercial investments are currently valued (as at date of the last market valuation) at £148m with the largest being the SQ shopping centre and associated land holdings in Camberley. The market value includes a write down for the property in Camberley Town centre due to the current state of the retail market. As there is no intention to sell these assets in the foreseeable future these losses have not been realised.

31. 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 highlight 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 currently subject to an overall maximum investment limit of £200m – however this may be reviewed depending on the Council's strategic requirements. 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 as a last resort be sold.

32. **Governance**: Decisions on whether to purchase commercial investments can only be made by Full Council on the recommendation of Executive.

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

34. 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 2020/21.

Liabilities

35. In addition to debt of £164m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £6.3m) It also set aside last year £0.5m to cover risks of business rates appeals

and revaluations and £1.5m for bad debts. These provisions will be reviewed as part of the accounts closure process for 2019/20.

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

Revenue Budget Implications

37. 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

	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	**2.063**	**2.067**	**2.077**	**2.079**
Proportion of net revenue stream	**19.08%**	**19.18%**	**18.75%**	**18.25%**

38. Further details on the revenue implications of capital expenditure are included within the Capital programme included within the February 2020 Executive agenda.

39. **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

40. 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, the property department has a qualified surveyor with investment experience and the legal department has lawyers experienced in property matters.

41. 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.

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Mytchett Skate Park, Camberley

Summary

Review of Mytchett Skate Park (off Hamesmore road, Camberley) following the annual play inspection carried out in 2018 and subsequent options for the area and maintenance moving forward.

Portfolio: Places & Strategy
Date Portfolio Holder signed off report: 31st January 2020

Wards Affected: Mytchett & Deepcut

Recommendation

The Executive is advised to RESOLVE that Mytchett Skate Park be enhanced by replacing the existing equipment with a steel frame structure and a 'Skatelite Pro' riding surface, set out at Option 1 of this report, within the existing location and footprint of the site.

The Executive is advised to RECOMMEND to Full Council that £54,000 be added to the Capital Programme, to be funded by Developer Contributions, for the replacement of the ramps at Mytchett Skate Park.

1. Key Issues

1.1 Mytchett Skate Park is proving increasingly difficult and costly to maintain and the ramps will no longer be fit for purpose beyond 2020. The level of maintenance as well as our local knowledge of the area tells us that this skate park is very well used and an important facility for older children and teenagers.

1.2 At present any risk is being managed to maintain safety and will be continue to be until it is removal and replacement but this is not sustainable longer term. The equipment needs to be removed and/or replaced as soon as possible as we need to allow time for ordering new ramps and planning for its removal at the end of the summer holidays.

Mytchett Park Location Map

2. Resource Implications

2.1 The Council currently has £23k CIL funding available for Mytchett and £59k (value at 1st April 2019) developer contributions available from the Blackwater Valley fund (shown below).

2.2 If it utilises the £23k CIL funding available for Mytchett, approx. £31k would be required from the Blackwater Valley funding.

BLACKWATER VALLEY & DEVELOPER CONTRIBUTIONS
Commuted sum held to meet the annual maintenance costs and refurbishment of the recreational facilities at Crabtree Park, Watchmoor Reserve and Mytchett Recreation Ground.

Maintenance

2.3 All maintenance costs are currently included within the current grounds maintenance contract.

2.4 Both the skatelite and metal surface maintenance repairs can be catered for within the existing budget. Individual sheets can be replaced quite easily and quickly if needed and therefore keep maintenance costs down. With reference to concrete surfaces, faults may occur less frequently but if repairs are needed, it may cost thousands of pounds due to the work required. Examples of typical maintenance costs are provided within the options below.

3. Options

3.1 There are five options are noted below;

3.2 **Option One – Skatelite Ramps (new ramps with refurbished half pipe)**

Replace all ramps excluding the half pipe, which can be refurbished to look like new. The frame will be constructed of steel. The proposed

riding surface, called ‘Skatelite Pro’ is a laminated composite material which is very low maintenance and is available in a range of colours. The remaining ramps will be replaced and enhanced.

Cost: £54k + VAT (as of July 2019)

This is the preferred option as this material appears to offer the quietest, safest and most cost effective option both in terms of installation and maintenance. This option also re-uses the existing framework of the half pipe.

As per all of the Council’s play area refurbishments, a full consultation with users will take place to choose a preferred design and colour.

The advantages of using the Skatelite Pro riding surface is:

- Forgiving surface, reducing chance of serious injuries.
- Smooth, fast and durable
- Weather resistant
- Cleaner friendly i.e Graffiti
- Fire resistant and self-extinguishes
- Easy to maintain
- Aesthetically pleasing to the eye
- Stays the same temperature in direct sunlight
- Maintains its grip in damp weather conditions
- Additional ramps can be added to new skate parks
- The preferred riding surface of the large majority of skate park users according to ‘Fearless Ramps’

The disadvantages are that this surface can suffer from expansion in a wet climate but this surface does not need painting annually and replacement sheets are cheaper than steel sheets.

Skatelite Pro

<u>Example of a typical Maintenance cost:</u>

Sheet Replacement - £350 per sheet

Yearly Painting – No annual painting / staining required with Skatelite surface.

Guarantee - The new ramps generally come with a 25 year guarantee on the steel frames, and a five year manufacturers and a five year workmanship guarantee on the riding surface.

3.3 **Option Two – Skatelite Ramps with Steel structure (all new)**

Replace all ramps with brand new ramps (including the half pipe). Frame, riding surface and warranties as set out above.
Cost: £65k + VAT (as of July 2019).

As per all of the Council's play area refurbishments, a full consultation with users will take place to choose a preferred design and colour.

Example of a typical Maintenance cost;
As above in Option One.

3.4 **Option Three – Steel ramps with Steel structure (like for like)**

Replace all ramps with brand new steel ramps. The frame will be constructed of steel. All steel riding surfaces are made of 3mm rolled, painted steel and 9mm noise dampening plywood. This is the closest match to the material in place at the moment but we have experienced problems with the ends of the metal sheets lifting at the corners.
Cost: £64,320k + VAT

As per all of the Council's play area refurbishments, a full consultation with users will take place to choose a preferred design and colour.

Steel

Example of a typical maintenance cost;

Sheet Replacement - £420 per sheet
Yearly Painting - £1500 (highly recommended otherwise ramps will get too hot in summer)

Guarantee - The new ramps generally come with a 25 year guarantee on the steel frames, and a five year manufacturers and a five year workmanship guarantee on the riding surface.

Disadvantages to using steel:

- Dents
- Lifts at corners and edges
- Expands greater than other surfaces
- In summer the surface can get extremely hot
- Slippery when wet
- Yearly paint required
- Labour intensive
- Unforgiving hard surface

3.5 **Option Four – Concrete Ramps**

Replace all ramps with concrete ramps. There are various options for using concrete and this material can be more durable and last longer (10 years plus). However, the financial implications are higher in terms of the initial installation and potential maintenance costs. The risk of more serious injuries with this riding surface is also a concern.

Cost from approx. £150-200k upwards.

Example of a typical maintenance cost:

Fearless Ramps have just repaired a fire damaged concrete bowl for £8000 in Mile End and over 40 l/m of cracking in Rushmoor for £13,800
Guarantee – Fearless Ramps only provide a one year guarantee on concrete ramps.

Disadvantages to using concrete:

- Vastly less ramps for your money
- Unable to add ramps to the existing skate park
- Maintenance costs of concrete ramps are very high
- Susceptible to fire damage = very large repair costs and/or closure of whole park

- Very hard and unforgiving surface (the most common surface for broken bones)
- Smooth concrete is slippery – especially for tyres/wheels
- Rough concrete is ‘grippy’ and can cause more severe skin grazes
- Slippery in damp air
- Flooding in concrete bowls if drainage is not sufficient
- Very few concrete companies have been in operation for more than 1 year and therefore unable to honour their guarantees.

3.6 **<u>Option Five – Remove only</u>**

Remove with no replacement.
Cost: £2k + VAT (as of July 2019)

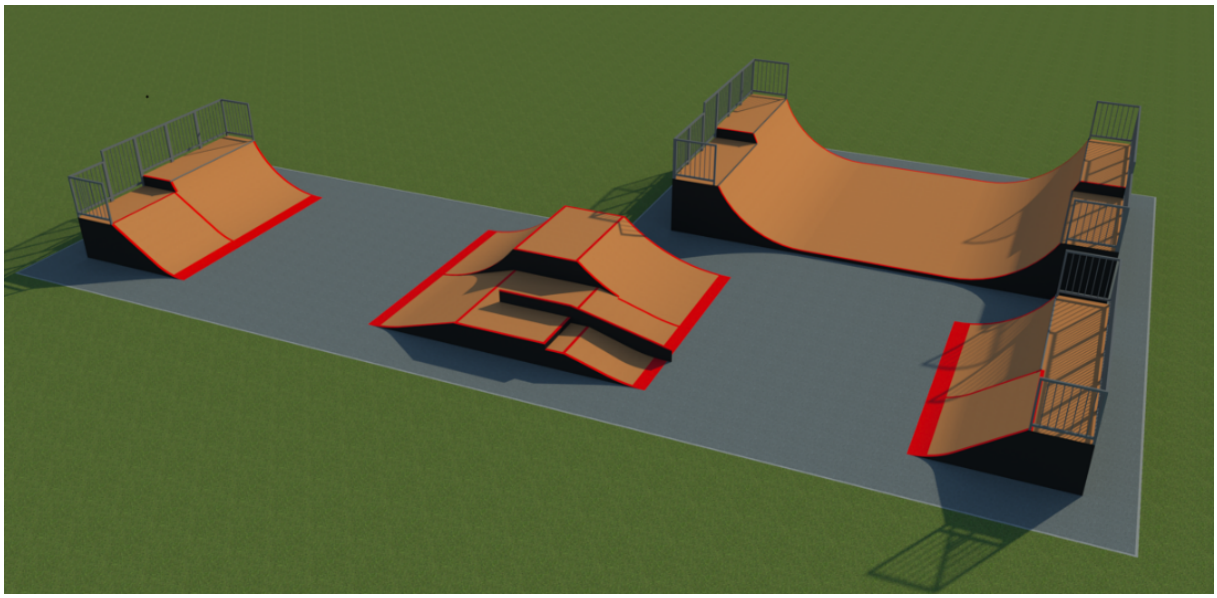
4. Supporting Information

4.1 <u>Option 1 cost breakdown</u>

Quote QT 01-3366a
Mychett Rec - New Ramps (Refurbish Half Pipe)

Date:	30/07/2019
Client:	Surrey Heath Council
Prepared for:	Julia Woodbridge
Email Address:	juliawoodbridge@surryheath.gov.uk
Prepared by:	Joe Douglas

SITE	SITE ITEM	DESCRIPTION	REMEDIAL ACTION	CODE	UNIT PRICE	QUANTITY	SUBTOTAL
Mytchett Rec	Half Pipe (6ft / 5ft x 25ft)	Split Height 6ft / 5ft x 25ft	Refurbish half pipe with metal railings, improved framework and new under-surface and riding-surface.		£12,000.00	1	£12,000.00
End 1	Quarter Pipe (4ft x 12ft)	4ft x 12ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
	Flat Bank (4ft x 8ft)	4ft x 8ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
Middle	Jump Box (4ft x 10ft)	4ft x 10ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
	Driveway (Grind Rail & Wembley Gap) (2ft x 10ft)	2ft x 10ft	Manufacture, supply and install skate ramp as per design.		£6,000.00	1	£6,000.00
End 2	Quarter Pipe (5ft x 12ft)	5ft x 12ft	Manufacture, supply and install skate ramp as per design.		£8,000.00	1	£8,000.00
	Flat Bank (4ft x 8ft)	4ft x 8ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
					SITE TOTAL		£54,000.00
					GRAND TOTAL		£54,000.00
					*ALL PRICES EXCLUSIVE OF VAT		E&OE

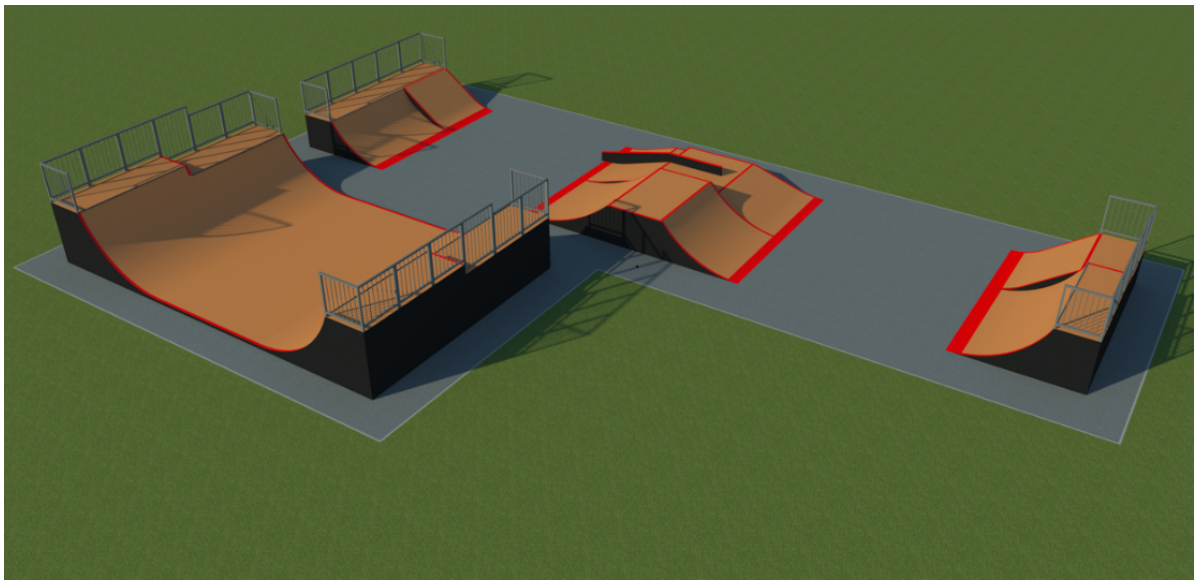


4.2 Option 2 cost breakdown

Quote QT 01-3366b
Mychett Rec - All New Ramps

Date:	30/07/2019
Client:	Surrey Heath Council
Prepared for:	Julia Woodbridge
Email Address:	juliawoodbridge@surryheath.gov.uk
Prepared by:	Joe Douglas

SITE	SITE ITEM	DESCRIPTION	REMEDIAL ACTION	CODE	UNIT PRICE	QUANTITY	SUBTOTAL
Mytchett Rec	Half Pipe (6ft / 5ft x 25ft)	Split Height 6ft / 5ft x 25ft	Manufacture, supply and install skate ramp as per design.		£23,000.00	1	£23,000.00
End 1	Quarter Pipe (4ft x 12ft)	4ft x 12ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
	Flat Bank (4ft x 8ft)	4ft x 8ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
Middle	Jump Box (4ft x 10ft)	4ft x 10ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
	Driveway (Grind Rail & Wembley Gap) (2ft x 10ft)	2ft x 10ft	Manufacture, supply and install skate ramp as per design.		£6,000.00	1	£6,000.00
End 2	Quarter Pipe (5ft x 12ft)	5ft x 12ft	Manufacture, supply and install skate ramp as per design.		£8,000.00	1	£8,000.00
	Flat Bank (4ft x 8ft)	4ft x 8ft	Manufacture, supply and install skate ramp as per design.		£7,000.00	1	£7,000.00
					SITE TOTAL		£65,000.00
					GRAND TOTAL		£65,000.00
					*ALL PRICES EXCLUSIVE OF VAT		E&OE



4.3 Option 3 cost breakdown

Quote QT 01-3366c
Mychett Rec - All New Ramps - Metal

Date:	29/01/2020
Client:	Surrey Heath Council
Prepared for:	Julia Woodbridge
Email Address:	juliawoodbridge@surryheath.gov.uk
Prepared by:	Joe Douglas

SITE	SITE ITEM	DESCRIPTION	REMEDIAL ACTION	CODE	UNIT PRICE	QUANTITY	SUBTOTAL
Mytchett Rec	Skate Ramps	Metal	Manufacture, supply and install skate ramp as per design.		£64,320.00	1	£64,320.00
					SITE TOTAL		£64,320.00
					GRAND TOTAL		£64,320.00
					*ALL PRICES EXCLUSIVE OF VAT		E&OE

5. Corporate Objectives And Key Priorities

5.1 **Place** - Protect, manage and maintain our parks and open spaces including the provision of quality leisure facilities;

The replacement of a Skate Park offering is an important part of maintaining our parks and open spaces.

The skate Parks are key leisure and recreational facilities for older children and play an important role in creating diversity in terms of our leisure offer and increasing our play value as a borough.

5.2 **Prosperity** - Strengthen the Council's financial independence by increasing our own income;

A full review and careful consideration of every available option will ensure the best use of any available funds for replacement.

5.3 **People** - Use our green space to deliver a programme of sport and leisure activities supporting community engagement with all people;

The skate park is an important opportunity for older children to engage with the community and have regular exercise and take part in leisure and recreation.

5.4 **Performance** - Improve access to services through the use of technology;

6. Risk Management

6.1 The maintenance of this equipment is catered for within the current grounds maintenance contract. There would be no cost implications unless a piece of equipment failed or needed repair outside of the warranty period.

7. Consultation

7.1 Consultation will be carried out with the users to assist with the equipment selection process and final design and colour.

8. PR And Marketing

8.1 An improvement in Mytchett Skate Park will make a positive contribution to the facilities for older children and also contribute to the following:

- Improve leisure provision in the borough
- Increasing opportunity for leisure activities
- Protecting and enhancing facilities for older children
- Creating an improved flagship Skate Park
- Operationally easier to maintain and manage
- Reduce maintenance costs
- Reduce risk levels to users

Annexes	None
Background Papers	None
Author/Contact Details	Julia Woodbridge – Senior Contract Officer Julia.woodbridge@surreyheath.gov.uk
Head of Service	Daniel Harrison - Executive Head of Business

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Update to the Self and Custom Build Homes Register Entry Requirements

Summary

The Self and Custom Build Register identifies individuals and association of individuals who are seeking to acquire serviced plots of land in Surrey Heath. Entry on to the register is by application.

In March 2018 Surrey Heath introduced a Local Connection Eligibility Test to introduce a requirement for entrants to Surrey Heath's Self-Build and Custom Housebuilding Register to have a connection to the Borough.

The Council has a duty to grant planning permission for Self and Custom Build homes to meet identified needs as evidenced from the Register. It is therefore important that the local connection and other tests are as robust as possible.

Executive approval is sought to update the current Local Connection Test with tighter criteria requiring entrants to demonstrate a stronger link to the Borough. In addition approval is sought for the introduction of a fee for applicants to enter and remain on the register and for a Financial Solvency Test.

These steps will ensure that the demand identified in the Register is a more accurate reflection of needs in the Borough and ensures the most effective use of limited land available for development in the Borough. In addition it will prioritise those with the strongest local connections to the Borough in the Register.

Portfolio: Planning & People
Date Portfolio Holder signed off report: 14/1/20

Wards Affected
All

Recommendation

The Executive is advised to RESOLVE that

i) the amendments to the Self and Custom Build Register entry requirements, as set out in this report, be agreed;
ii) the Local Connection Test be revised to ensure a tighter criteria for those applicants who can demonstrate a strong and specific link to the Borough;
iii) a fee to enter and remain on the register be introduced; and
iv) a Financial Solvency Test be introduced.

1. Resource Implications

1.1 The fee paid to enter and remain on the register will cover administrative costs. There are no resource implications beyond that provided for within the agreed budget for 2019/20.

2. Key Issues

2.1 In accordance with the Self-Build and Custom Housebuilding Act 2015 (as amended by the Housing and Planning Act 2016), all Councils must maintain and regularly update a Self-Build and Custom Housebuilding Register. The Regulations also allow relevant authorities to set local eligibility criteria in the form of a Local Connection Test. The Register can then be divided into two parts. Part 1 is for those individuals and associations who meet both the Local Connection Test and the national eligibility criteria. Part 2 is for those individuals and associations who do not satisfy the Local Connection Test, but do meet the national eligibility criteria.

2.2 The Acts place a 'duty to grant planning permission' on Councils, whereby entries on Part 1 of the Register are counted towards the number of suitable serviced plots that must be granted planning permission. Accordingly, it is a requirement that following each annual base period of 12 months, the Council has 3 years in which to grant planning permission an equivalent number of plots of land for self-build and custom build home as there are entries to Part 1 of the Register for that base period.

2.3 Surrey Heath introduced a Self-Build and Custom Housebuilding Register in 2015, in accordance with the Self-Build and Custom Housebuilding Act 2015 (as amended by the Housing and Planning Act 2016). The Register currently has a total of 76 applicants on Part 1 and 281 applicants on Part 2.

Local Connection Test

2.4 In March 2018 Surrey Heath introduced a Local Connection Test for eligibility to the Council's Self-Build Register to ensure plots are only granted for residents with a local connection to Surrey Heath. Setting the Local Connection Test sought to ensure that Part 1 of the Register is a reasonable reflection of the demand for serviced plots of land in Surrey Heath.

2.5 A review of the Local Connection Test has recently been undertaken and has concluded that it should be made more robust to ensure that only those with a strong local connection to the Borough are entered onto Part 1. At present there are a wide range of family connections considered suitable to establish a connection with the Borough and lack of a need to demonstrate a connection to the Borough. Such an approach reflects that developed by other Councils.

2.6 The current Local Connection Test and revised changes to the Local Connection Test can be seen at Annexes 1 and 2.

Financial Solvency Test

2.7 The Self-Build and Custom Housebuilding Act 2015 (as amended by the Housing and Planning Act 2016) also allows for the introduction of a Financial Solvency Test to determine if the person applying to be on the Register has the financial ability to purchase land and fund the construction of their project. Currently entrants onto the Register for Surrey Heath do not have to demonstrate whether they can afford to pursue a self-build project. If a test is not introduced, the Council may end up delivering plots that are not ultimately realised for self and custom build. This would be an inefficient use of time and resources, and may inhibit land being made available for residential development in a timely manner. A Financial Solvency Test is therefore proposed to enable the Council to have a more robust understanding of actual demand for self and custom build plots.

2.8 The Financial Solvency Test will require individuals and associations of individuals to self-certify that they have sufficient financial resources to purchase land for their own self-build and custom housebuilding. The Council will undertake spot checks of applicants' financial information to confirm whether an applicant is suitable for entry on the register.

Fee Charging Schedule

2.9 National Policy also allows for relevant Local Authorities to charge an initial entry fee for those to enter and an annual fee to remain on the Register on a cost recovery basis. This must be proportionate and reflect genuine costs incurred by the Council in administering the Register.

	Individual	Associations
Initial Part 1 inclusion fee	£75	£125
Annual Part 1 Fee	£30	£30
Initial Part 2 inclusion fee	£75	£125
Annual Part 2 Fee	None	None

The above fees reflect the reasonable costs likely to be incurred including assessment of documents submitted, potential requests for additional information, correspondence with applicants and other associated administration. The fees proposed are comparable to the fees introduced by other neighbouring authorities, as set out in the tables below:

Hart

	Individual	Associations
Inclusion fee Part 1	£75	£125
Inclusion fee Part 2	£75	£125
Annual Fee Part 1	£30	£30
Annual Fee Part 2	None	None

Runnymede

Inclusion fee	£65
Annual Fee	£60

2.10 Upon the implementation of the revised Local Connection Test, Financial Solvency Test and cost recovery fees, existing entrants on the register will be contacted to update their information. Any entrants on Part 1 of the register who fail to meet the Councils revised criteria in respect of local connections and financial solvency will be moved to Part 2 of the register. Existing entrants who fulfil the Local Connection Test and Financial Solvency Test will remain on Part 1, subject to receipt of payment of the annual fee. Existing entrants on the Register will not be required to pay an initial fee to enter Part 1.

3. Options

3.1 The options for the Executive to consider are:

a) AGREE to revise the Local Connection Test, introduce a Financial Solvency Test and to introduce fees to enter onto, and remain on the Register on a cost-recovery basis.

b) AGREE to revise the Local Connection Test, introduce a Financial Solvency Test and to introduce fees to enter onto, and remain on the Register on a cost-recovery basis, with modifications; or

c) NOT AGREE to revise the Local Connection Test, introduce a Financial Solvency Test and to introduce fees to enter onto, and remain on the Register on a cost-recovery basis.

4. Risk Management

4.1 If Surrey Heath chooses not to introduce the proposals set out in this report, the Council is likely to be required to grant planning permission for a significant number of self and custom build plots which exceed genuine needs in the Borough. This may also result in delivering plots that are not ultimately realised for self and custom build, which would be an inefficient use of time and resources and may inhibit land being made available for residential development in a timely manner.

5. Proposals

5.1 It is proposed to:

- update the Local Connection Test criteria regarding residency and employment in the Borough;
- introduce a fee for applicants to join and remain on Part 1 and Part 2 of the Register as set out in the table above;
- introduce a self-certification Financial Solvency Test for applicants wishing to enter on to the register.

5.2 The Council will also contact those entrants already on the Self-Build Register informing of them these proposals and the fees payable to remain on the Register. Existing entrants will be asked to update their details and their entry on the Register will be adjusted accordingly.

6. Corporate Objectives And Key Priorities

6.1 The implementation of a Local Connection Test, Financial Solvency Test and entry fees underpins Objective 3 of the Corporate Plan: People - *building and encouraging communities where people can live happily and healthily* by ensuring that efficient and effective use of land is made in order to fully address housing needs within the community. Furthermore, it also underpins Objective 1 - *making Surrey Heath an even better place where people are happy to live,* by ensuring people with a strong local connection to Surrey Heath, including existing residents, are given priority for entry to the Self-Build Register.

7. Policy Framework

7.1 The Self-Build and Custom Housebuilding Register forms part of the evidence base that informs policy making in the emerging Surrey Heath Local Plan.

8. Legal

8.1 The duty to provide sufficient planning permissions to meet demand for self-build and custom housebuilding introduced by the 2016 Regulations is mandatory. The ability to update the Local Connection Test criteria, introduce fees and a Financial Solvency Test is discretionary but recommended in order to comply with the Regulations, in particular, the '*duty to grant planning permission'*.

9. Other Matters

9.1 In relation to governance, sustainability, equalities impact, human rights, community safety, PR and Marketing there are no matters arising from the review of the Local Connection Test criteria, introduction of fees for entry and to remain on the Register and the introduction of a Financial Solvency Test.

Annexes	**Annex 1 – Current Local Eligibility Testing** **Annex 2 – Local Connection Test Updated Criteria**
Background Papers	**None**
Author/Contact Details	**Russell Hamilton – Assistant Planning Policy Officer** **Russell.Hamilton@Surreyheath.gov.uk**
Head Of Service	**Jenny Rickard – Executive Head of Regulatory**

Self-Build Register Local Connection Test

Please check the boxes of any of the following statements that apply to you.

- ☐ I have lived in Surrey Heath Borough for a period of at least 12 months
- ☐ I am currently employed within Surrey Heath in either full-time or part-time employment and have been for at least 12 months *
- ☐ I have immediate family members (spouse / partner, parents, step parents, adult (aged 18 years and over) children or step children, or siblings and step siblings) who have lived in Surrey Heath Borough as their main place of residence continuously for at least 5 years
- ☐ I am currently in the regular service of armed forces of the Crown, or left the service not more than 5 years ago **

After you submit your registration, Surrey Heath Borough Council reserves the right to ask you for further evidence to confirm your eligibility. This may include the following:

- Evidence of residency in the Borough, through submission of utility bills, Council Tax statements and/or lease agreements
- Evidence of employment in the district, through submission of employment contracts or a letter from your employer which includes your name and their address.
- Evidence of immediate family in the Borough through Council Tax statements or utility bills
- Military identification card or evidence of past service including the date of leaving service.

Associations are only eligible for entry onto Part 1 of the register if all the members of the association meet the entry conditions set out for individuals, above.

* This must be continuous employment for no less than 16 hours per week

** *"Regular armed forces of the Crown"* means the regular forces within the meaning of section 374 of the Armed Forces Act 2006(1).

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Self-Build Register Local Connection Test Eligibility Confirmation Form.

Applicant name:

Applicant address:

Please check the boxes of any of the following statements that apply to you.

- ☐ 1. I have lived in Surrey Heath Borough for three consecutive years
- ☐ 2. I have previously lived in the Borough for a period of three consecutive years within the past 10 years
- ☐ 3. I am currently employed within Surrey Heath and have been employed in Surrey Heath for a period of 3 out of the last 5 years *;
- ☐ 4. I am currently in the regular service of armed forces of the Crown, or left the service not more than 5 years ago **

After you submit your registration, Surrey Heath Borough Council reserves the right to ask you for further evidence to confirm your eligibility. This may include the following:

- Evidence of residency in the Borough, through submission of utility bills, Council Tax statements and/or lease agreements (for Criteria No 1 at least 3 years old and for Criteria No 2 at least 10 years old)
- Evidence of employment in the district, through submission of employment contracts or a letter from your employer which includes your name and their address (for Criteria 3 at least 3 years old).
- Military identification card or evidence of past service including the date of leaving service.

Associations are only eligible for entry onto Part 1 of the register if all the members of the association meet the entry conditions set out for individuals, above.

* This must be continuous employment for no less than 16 hours per week

** *"Regular armed forces of the Crown"* means the regular forces within the meaning of section 374 of the Armed Forces Act 2006(1).

Financial Solvency Test

You must have sufficient resources and demonstrate that you can afford to purchase land for your self-build or custom housebuilding project.

This criteria applies to Part 1 and Part 2 of the register. The Council has the right to set this eligibility criteria as set out in The Self-build and Custom Housebuilding Regulations 2016 (October 2016) Part 5.

Evidence of sufficient resources to purchase land should include one, or a combination, of the following:

> Details of savings or equity that could be used to purchase land at a realistic or average land value.
>
> In principle bank-loan agreement or offer of a self-build mortgage from a verifiable and recognised lender (such as a member of the Council of Mortgage Lenders). Evidence must show that the release of funds for the purchase of the land covers the purchase of a plot at a realistic market land value.
>
> Written confirmation and evidence from a qualified financial advisor with active membership of an appropriate professional body. Evidence should clearly demonstrate that you have sufficient readily accessible funds or equity to purchase land.
>
> Any other information which demonstrates, to the Council's satisfaction, that you have sufficient resources to purchase land for your own self-build or custom housebuilding.

For associations of individuals this form should be completed for each individual.

5. I confirm that I have sufficient resources to purchase land for self-build and custom housebuilding

Yes ☐

No ☐

The Council will hold any personal and/or financial information securely and retain any personal and/or financial information until such time a person is removed from the register.

You are not required to submit this evidence at the time of applying to go on the register, but the Council reserves the right to request this evidence at a later stage to verify your claim. If this evidence is not provided to the Council within 21 days of a request, you may be automatically moved to Part 2 of the register.

The applicant has the ability to opt out of the Register at any time. To opt out please email any request to the following email address: SelfBuild@surreyheath.gov.uk.

If your application is successful the Council may pass your contact details onto developers or agents providing self and custom build plots in Surrey Heath so that you can be kept up to date with Self and Custom Build opportunities in the Borough, to agree to this sharing of information please tick here: ☐

(Please note if you do not tick the box and do not consent to the sharing of your contact details, developers or agents would not be able to update you on the Self Build opportunities in Surrey Heath.)

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Poverty in Surrey Heath

Summary:

To undertake the relevant work to ascertain the level of poverty within the most deprived wards within Surrey Heath and consider the factors that contribute towards this, and determine what action the Council and its partners can take to alleviate this.

Portfolio: Support & Safeguarding and Planning & People

Date Signed Off*:* 27th January 2020

Wards Affected: Old Dean, St Michaels and Watchetts

Recommendation

The Executive is advised to RESOLVE that

(i) further research be undertaken to understand and provide the localised mapping of services in the most deprived wards; and

(ii) a further report setting out an action plan for the Council and its partner be brought to the Executive in the summer of 2020.

1. Key Issues

1.1 At the Full Council meeting on the 9th October 2019, a Council Motion proposed by Councillor Rebecca Jennings-Evans and seconded by Councillor Valerie White asked the Executive Head of Regulatory and Transformation to:

(a) Undertake the relevant work to ascertain the level of poverty a across all sectors of the community in Surrey Heath and factors that are causing this:
(b) Determine what action the council can take to alleviate the problem where poverty is found to be present in Surrey Heath, either independently or through collaboration with its external partners, and:
(c) Report on these matters to the Executive in early 2020 at the latest.

2. Resource Implications

2.1 This work will be undertaken within the approved budget for 2019/20. A joint budget has been identified equally between the Regulatory and Transformation service.

3. Options

3.1 The Executive is advised the RESOLVE that:

(i) Further research be undertaken to understand and provide the localised mapping of services in the most deprived wards;

(ii) A further report setting out an action plan for the Council and its partner be brought to the Executive in the summer of 2020.

4. Proposals

4.1 It is proposed to undertake a study to identify and understand the community groups (to include statutory services where appropriate) that operate in St Michael's and Old Dean to include church, sport groups, and unofficial community champions. To understand what services are currently offered and what more is required to support those living in poverty within the community (the gaps). Further details of the approach to be taken are set out in Annex B.

4.2 Based upon the above work, it is proposed to develop an outline action plan that can address this inequality, together with clear improvement measures.

4.3 Members are asked to support the recommendation.

5. Supporting Information

5.1 The Council has a long history of working collaboratively with its partners to identify and address local issues and priorities, the social prescribing service is an excellent example of this.

5.2 One of the key indicators that can be used to identify Poverty and its impacts is the Index of Multiple deprivation (IMD). The data from 2019 shows that in Surrey Heath we have five key super output areas where statistical measures are closer towards the worst 10% (1st decile). These cover the St Michaels, Old Dean and Watchetts wards, further data is provided in Annex A. Please note that the Super Output Areas (SOA) focus on 3/4 roads within the ward, not the whole area, an example of this is 008A which relates to: Chapel Road, St Michaels Road, Avenue Sucy and Surrey Avenue. The IMD source focuses on a number of issues not purely financial. Whilst the IMD is not the only source of data that can be used, it provides a useful filter to identify the main local areas of deprivation.

5.3 The St Michaels Community Group and Old Dean Community Group are independent organisations that consist of a broad membership which includes Ward Councillors. These groups have recently entered in to a dialogue whereby they share ideas and good practice to maximise their effectiveness. The groups represent two of the IMD areas in which it is acknowledged that poverty and hardship exists.

The group, together with representatives of faith groups, family support, Surrey Heath Clinical Commissioning group, Accent Housing and the Executive Head of Regulatory have recommended that further research is required to understand and ascertain the very localised mapping of services, specifically in

- Old Dean areas 004C, (Esher Road, Bracknell Road, Wimbledon Road, Wimbledon Close, Horseshoe Crescent);
- 004A (Deanside), 004B, St Michaels 008A (Chapel Road, St Michaels Road, Avenue Sucy, Surrey Avenue and Southway); and
- Watchetts 008F (James Road, Bain Avenue, Wood Road, Greenlands Road).

The group has scoped a project outline as attached as Annex B. Councillors Lewis, Morley and Jennings-Evans are supportive of the proposal.

5.4 The organisations outlined above, and the Portfolio Holders have reviewed the suggestions outlined within the proposals and are supportive of the approach that the additional local research and action plan will provide the Council and its partners an approach to alleviate the situation and that this will be considered by the Executive in the summer of 2020.

6. Corporate Objectives and Key Priorities

6.1 This project supports the objective of building and encouraging communities where people can live happily and healthily. In particular, this project will be delivered through work with partners and aims to put in place measures that will improve the health and wellbeing of the community.

7. Consultation

7.1 Consultation with local people and local groups will form part of the project.

Annexes	**Annex A – IMD Data 2019** **Annex B – Research proposal**
Background Papers	**Full IMD Data 2019**
Author/Contact Details	**Jayne Boitoult - Community Partnership Officer** **jayne.boitoult@surreyheath.gov.uk**
Service Managers	**Louise Livingston - Executive Head of Transformation** **Jenny Rickard – Executive Head of Regulatory**

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

Resources	**Required**	**Consulted**
Revenue	N/A	
Capital	✓	✓
Human Resources	N/A	
Asset Management	N/A	
IT	N/A	

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

Annex A – IMD Data

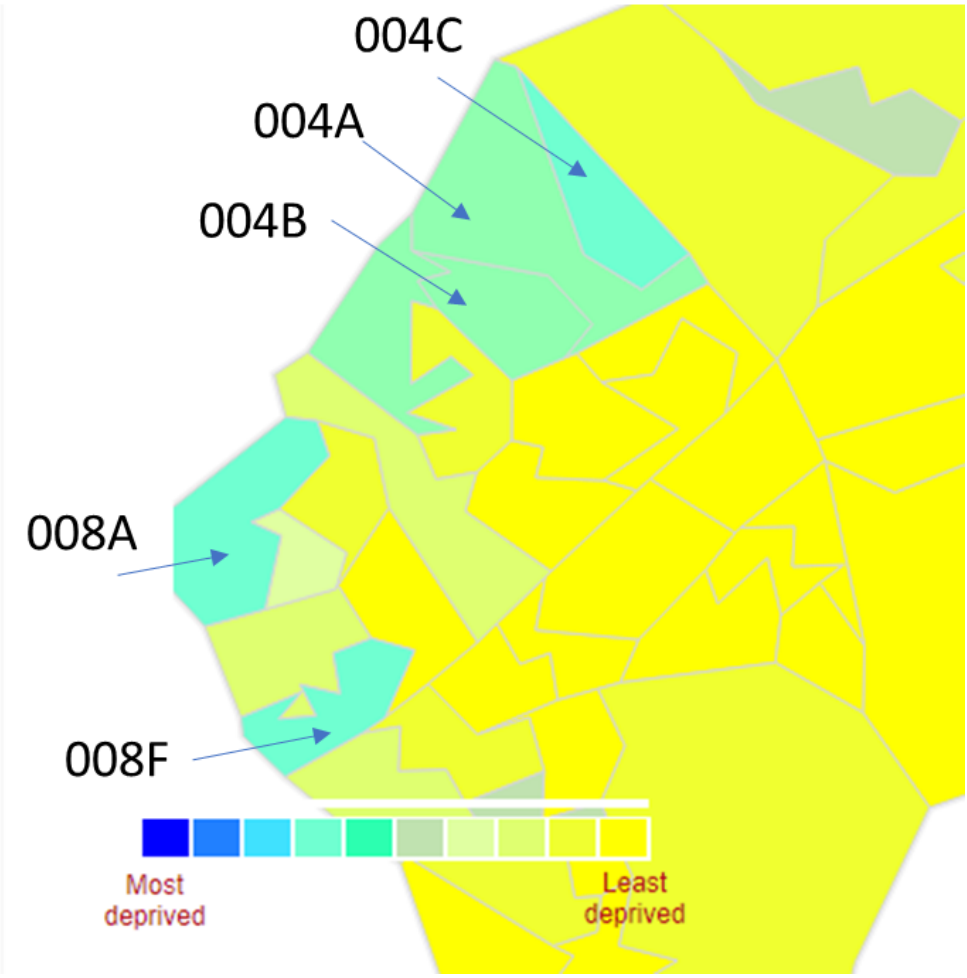
004A- Highview Crescent, Berkshire Road, Horseshoe Crescent, local issues recognised by ODCoG**:** education, skills, training, income, older people, children.

004B – Turf Hill Road, Lorraine Road, Cordwalles Cres, Pascal Road, Deanside, local issues recognised by ODCoG: education, skills, training.

004C – Mitcham Road, Mitcham Close, Esher Road, Bracknell Road, local issues recognised by ODCOG: education/skills/training, income, Employment, children, older people.

008A - Chapel Road, St Michaels Road, Avenue Sucy, Surrey Avenue and South way), local issues recognised by St Michaels group: living/environment, income, education/skills/training, disability older, people.

008F – James Road, Bain Avenue, Wood Road, Greenlands Road: local issues: education, skills, training.



Annex B Project Scope

1. Identify and understand the community groups (to include statutory services where appropriate) that operate in St Michael's, Watchetts and Old Dean to include church, sport groups, and unofficial community champions.

2. To ascertain what people would both wish to have and feel that they need to have in support of addressing poverty within community (the gaps).

3. To host an event/s with front line workers providing access to both wards to consult with to ascertain views and understanding on issues (the ideas).

4. Based upon the above, develop an outline action plan that can address this inequality, together with clear improvement measures.

5. Timescale 3-4 months.

6. Maximum budget available £7,000

Council Finances as at the 31st December 2019

Summary

To provide the Executive with a high-level view as to the Financial Performance for the period to 31st December 2019.

Portfolio - Finance Date consulted: 3 February 2020	
Wards Affected	All

Recommendation

The Executive is advised to RESOLVE to note the report.

1. Key Issues

1.1 This report covers the first nine months of the financial year to the 31st December 2019. Its purpose is to give members a high-level view of the financial performance of services for the period, highlighting any significant variances against 2019/20 approved budget, which may influence the year-end outturn. It also provides an update on the Capital budget position as well as Debtors and Treasury as at the 31sth December 2019.

1.2 We are now 9 months into the financial year, which allows us to provide a more accurate forecast as to the outturn at year-end. Services are forecasting that they will be underspent on the budget overall at the end of the financial year. Income for garden waste and parking are currently falling behind budget and so these areas are being monitored closely to see whether there is likely to be any impact as the year progresses.

2. Resource Implications

Revenue Budget

2.1 Actuals against Budget for the first nine months are shown in the attached Annex A. Overall corporately, it is forecast that spending will be under budget at the end of the financial year.

Capital Budget

2.2 As at the 31st December 2019, £4.1m had been spent on capital projects. This included £2.2m on the new Arena project, £442k for the London Road Block, £663k on renovation grants, £183k on the high street public realm improvements, £288k on Playgrounds, £101k on main square car park refurbishment and £52k on IT related projects.

Treasury Investments

2.3 The Council currently has £18M in cash investments and £151m in borrowings. Based on the advice of our Treasury advisers, £57m is made up of longer-term loans from the Public Works Loans Board with the remainder being shorter-term loans from the other local authorities.

3. Debtors

Sundry Debts

3.1 Sundry debts include all debts except those relating to housing benefits. At the 31st December 2019, these amounted to £3.8m compared with £9.9m for the same period last year. The reduction of £6.1m relates mainly to a large invoice of 6m that was raised in December 2018, but paid in January 2019. Once this invoice is stripped out, the debt situation has remained fairly static over the period in question.

Housing Benefit Debts

3.2 These debts arise when an overpayment in housing benefit has been made and thus have to be recovered. At the 31st December 2019, the balance was £583k compared with £577k at the end of July 2019. During the last 3 months, £100k was collected and £106k of new debts was raised. 24 debtors, or around 9% of the total, account for over half of the debt.

4. Officer Comments

4.1 The performance of the first nine months has been encouraging however, a number of income streams will need to be monitored as the year progresses.

5. Options

5.1 Members can accept, reject or amend the proposal.

6. Proposals

6.1 It is proposed that the Executive notes the report and comments accordingly.

7. Supporting Information

7.1 None

8. Corporate Objectives and Key Priorities

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

9. Risk Management

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

Background Papers	**None**
Author/contact details	**Adrian Flynn - Chief Accountant** **Adrian.Flynn@surreyheath.gov.uk**
Head of Service	**Kelvin Menon - Executive Head of Finance** **Kelvin.menon@surreyheath.gov.uk**

Annex A

Summary Information on the Revenue Budget Position at 31 December 2019

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

The statements below show the actual position against profiled budget as at the 31st December 2019 excluding pensions, redundancy and asset recharges, as these are not in control of the services themselves.

Finance

At the end of the third quarter**,** there are no issues to report and all areas are on track to meet budget targets at the year-end.

Interest received, is expected to be ahead of the budget forecast at year-end, based on the returns received to the 31 December 2019.

Transformation

All budgets are on track to meet their year-end targets except for telephones which is forecasting an overspend relating to both landline and mobile charges and software licences. The software variance is caused in part by the changeover to the cloud and how licences are now calculated for cloud based systems, which is based more on users, rather than just the system itself as in the past.

The Kevin Cantlon Fund will be underspent at the year-end due to low take up and the fund is currently being rebranded to allow a wider range of applicants to apply. It is expected that a carry forward request will be made at the end of the financial year.

Corporate

Corporate expenditure budgets are forecast to be under budget at year-end. The majority of this underspend relates to Government grants that have being received not just in the current year but also in previous years.

Business

The vast majority of the expenditure budgets are on track to be on or around budget at year-end, but there are a couple of matter's that may cause issues as the year progresses.

Car Parking Income is below budget at present due to a decrease in the town centre footfall compared to last year. In addition, there has been no increase in charges. The town centre working group are currently looking into car parking provision in the town centre including fees and charges.

In respect of the Theatre, sales and room hire income are forecasted to be above budget at year-end based on activity so far. Artists fees have exceeded the budget and so may result in an overspend. The theatre is working to ensure that this is managed during the year but the overall performance of the theatre has improved significantly.

Regulatory

The majority of budgets are forecast to be on track to meet budget targets at year-end, planning income is well above budget due to a number of large applications received to date but is expected that activity will reduce for the rest of 2019/20 and into the 2020/21financial year. Housing, Chobham flood alleviation scheme have also received large government grants during the period, however it is anticipated that these will be requested to be carried forward at year end.

Legal and Property

As the purchase of Theta did not take place until the year-end, the net rental income was not included in the 2019/20 budget. Some of this income will be used to offset increased expenditure in business rates, service charges and planned maintenance costs but will still generate a surplus at the year-end to offset other budget pressures elsewhere

Investment & Development

Our town centre investments are under pressure due to rent renewals and CVAs. The Council's retail agents are working hard in order to minimise the impact of any shortfall on the year-end outturn.

Community

All budgets are on track to meet budget targets at year-end, other than the variable element of the waste contract, which may report an adverse variance due to issues with Amey around garden waste income. There is a considerable amount of uncertainty with this figure until the dispute has been resolved.

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Exclusion of Press And Public

Recommendation

The Executive is advised to RESOLVE that, under Section 100A(4) of the Local Government Act 1972 (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)
15	3
16	3
17	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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By virtue of
Regulation 21(1)(A) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000.

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

Document is Restricted

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