Runnymede BOROUGH COUNCIL

Corporate Management Committee

Thursday 21 January 2021 at 7.30pm

This meeting will be held remotely via MS Teams with audio access to the public for the Part I items via registered dial-in only

Members of the Committee

Councillors N Prescot (Chairman), J Gracey (Vice-Chairman), A Alderson, I Chaudhri, D Cotty, L Gillham, M Heath, J Hulley, R King, M Maddox, D Whyte and M Willingale.

In accordance with Standing Order 29.1, any Member of the Council may obtain remote access via MS Teams to the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A (3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425624). (Email: john.gurmin@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

Continued……

4) You are only permitted to hear the debate on the items listed in Part I of this Agenda, which contains matters in respect of which reports have been made available for public inspection. You will not be able to hear the debate for the items in Part II of this Agenda, which contains matters involving Exempt or Confidential information in respect of which reports have not been made available for public inspection. If you wish to hear the debate for the Part I items on this Agenda by audio via MS Teams you must register by 10.00 am on the day of the meeting with the Democratic Services Team by emailing your name and contact number to be used to dial-in to democratic.services@runnymede.gov.uk

5) **Audio-Recording of Meeting**

As this meeting will be held remotely via MS Teams, you may only record the audio of this meeting. The Council will not be recording any remote meetings.

LIST OF MATTERS FOR CONSIDERATION
PART I

Matters in respect of which reports have been made available for public inspection

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection.

a) Exempt Information

b) Confidential Information

(No reports to be considered under this heading)

1. NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP

2. MINUTES

To confirm and sign the Minutes of the meeting of the Committee held on 17 December 2020 (attached at Appendix ‘A’). As this meeting is being held remotely, the Chairman will ask the Members of the Committee if they approve these Minutes which will then be signed when this is physically possible.

Runnymede Borough Council

APPENDIX 'A'

CORPORATE MANAGEMENT COMMITTEE

17 December 2020 at 7.30 p.m. via MS Teams

Members of the Committee present: Councillors N Prescot (Chairman), J Gracey (Vice-Chairman), A Alderson, I Chaudhri, D Cotty, L Gillham, M Heath, J Hulley, R King, M Maddox, D Whyte and M Willingale.

Members of the Committee absent: None.

Councillors T Burton, D Clarke, R Edis, J Furey, E Gill, J Olorenshaw, P Snow, J Sohi, P Sohi and J Wilson also attended.

MINUTES

The Minutes of the meeting held on 19 November 2020 were confirmed as a correct record. As the meeting was being held remotely using MS Teams, the Chairman would sign these minutes when this was physically possible.

MEDIUM TERM FINANCIAL STRATEGY UPDATE

This item was withdrawn from the agenda under the provisions of Standing Order 27.7.

DISCRETIONARY GRANT FUNDING: ADDITIONAL RESTRICTIONS GRANT FUNDING POLICY AND PROPOSAL FOR DELEGATED AUTHORITY

The Committee considered a Discretionary Additional Restrictions Grant (ARG) Funding Policy to allocate funding provided from the Government. Runnymede had been allocated £1,788,480 to be used during 2020/21 and 2021/22 to provide support to businesses that were affected by the Covid pandemic. It was agreed that it would be appropriate to allocate £788,480 for the 2020/21 financial year with the balance of £1,000,000 to be allocated to the 2021/22 financial year to ensure that support was ongoing. There were many businesses that did not qualify for any of the other Government Covid support packages for various reasons. They now faced extreme hardship and were unable to meet their day to day business expenses. The ARG funding would be used to assist these businesses. The Committee noted the types of businesses that could apply for this funding which included businesses which did not operate through commercial premises.

The Committee approved the Policy and it was agreed that Members of the Committee would be advised of the grant awards made to businesses under this Policy. The Committee noted the various communications channels that would be used to make businesses aware of this funding. The publicity for the Policy would be undertaken within existing provision and no additional resources would be provided for this publicity.

In view of the number of different grant funding policies produced by the Government in response to the Covid pandemic and in order to ensure an efficient and immediate response by the Council, it was agreed that delegated authority be given to the Assistant Chief Executive (Section 151 Officer) and the Corporate Head of Customer, Digital and Collection Services to implement further Covid related grants in consultation with the Chairman and Vice-Chairman of the Corporate Management Committee.

RESOLVED that -

i) Runnymede's Discretionary Additional Restrictions Grant Funding Policy attached at Appendix 'C' to the agenda be approved and officers start administering the scheme as quickly as possible; and

ii) delegated authority be given to the Assistant Chief Executive (Section 151 Officer) and the Corporate Head of Customer, Digital and Collection Services to implement further Covid related grants in consultation with the Chairman and Vice-Chairman of the Corporate Management Committee.

URGENT ACTION - STANDING ORDER 42

Proforma 972 detailing action taken after consultation with the Chairman and Vice-Chairman of the Committee was noted by the Committee. This Urgent Action had been circulated by the Assistant Chief Executive to all Members of the Committee for information and had been discussed informally by officers and Members after the close of the Committee's meeting on 15 October 2020. It was agreed that blocked out signatures would be provided for any future Part I public Standing Order 42 reports.

The Urgent Action related to approval for two schemes arising out of the Covid pandemic – a Test and Trace Support Payments Scheme and a Test and Trace Discretionary Payments Scheme. The Committee noted that 23 Test and Trace support payments and 20 Test and Trace discretionary payments had been made.

COMMUNICATIONS AND MARKETING TEAM STAFF RESTRUCTURE

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraphs 1 and 3 of Schedule 12A to Part 1 of the Act.

The Committee considered a report proposing a staff restructure of the Communications and Marketing Team. It was proposed to delete a Senior Communications Officer post which was currently vacant. Part of this salary had been used to support the Senior Web Content Editor post within Digital Services. It was proposed to use the remainder of this salary to create a new permanent junior Communications Executive post at grade 7-8. It was also proposed to delete the vacant Marketing Officer and Communications and Web Officer posts (both at Grade 9) and create a new manager post at grade MMA. This would create a saving of £8,670 as the cost of one MMA post was less than the cost of two Grade 9 posts. £4,000 of this saving would be used to create a software licences budget for the Team. The remaining saving of £4,670 would be transferred to the Digital Services staff budget to offset the cost of the Senior Digital Content Officer.

In order to thoroughly test the market and give the best chance of filling the MMA post, the Council would advertise for a Marketing Manager, Communications Manager and Social Media Manager with the intention of filling only one post depending on applicants' skillsets. The person recruited would be able to deputise for the Team's overall manager when required. It was also proposed to create within the Team's salary budget a sum of £15, 000 per year to pay for freelance work on specific projects where specialist ad hoc resource was needed. This would not fund agency staff but instead would buy in the time of people not employed by the Council who had particular expertise to carry out a specific piece of work. As another part of the restructure, the Council's separate Apprenticeship salary fund would be used to create a new apprentice within the Communications and Marketing Team on grade 7.

The current Team structure consisted of the team manager, an apprentice, a part time graphic designer and the vacant posts of Senior Marketing and Communications Officer, Marketing Officer and Communications and Web Officer. Therefore, the number of permanent posts in the team would be reduced by one under the new structure. The Council's corporate website would be owned and content managed solely in Digital Services and this would allow the restructured Team to focus on other areas of work to benefit the Council.

The new structure would enable a saving to be made and would enhance resilience of the Team by recruiting an experienced officer to the MMA post and developing the skills of junior staff through the creation of a Communications Executive post and a new apprentice post. Specific projects that required specialist skills could be funded through the freelance staff budget.

The Committee expressed its full support for these proposals and commended the Team (which was the smallest unit providing these services amongst Councils in Surrey), for the excellence of its work.

RESOLVED that –

the proposals in the report be accepted and authority be given for the following changes:

A. the deletion of two grade 9 posts to create a new MMA post with the recruitment for this post to include advertising for a Marketing Manager, Communications Manager and Social Media Manager, with one position to be filled depending on applicants' skillsets;

B. the deletion of the Senior Marketing and Communications Officer post and replacement with a Communications Executive post;

C. the creation of a £15,000 permanent budget for freelance staff;

D. the transfer of £4,000 from the Communications and Marketing salary budget to a new software licences budget; and

E. the transfer of £4,670 to the Digital Services staff budget to offset the cost of the Senior Digital Content Officer.

<u>BUSINESS CASE FOR HYBRID MAIL</u>

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

Hybrid mail had been successfully piloted as a remote mailing solution in the Revenues, Benefits, Customer Services and Housing sections of the Council over the past 19 months. In view of the success of this pilot, the Committee considered a report seeking authority to enter into a Council wide 5 year contract with the provider of the pilot hybrid mail solution and approval for the centralisation of hybrid mail management within the Digital Mail and Business Support Team.

The term "hybrid mail" described the process of printing and posting letters remotely. Hybrid mail enabled officers to send single or multiple letters created on Council computers to an offsite company for production and mailing. The Council had used a hybrid mail supplier procured using the Crown Commercial Services Framework RM 1063 to undertake a hybrid mail pilot across the Revenues, Benefits, Customer Services and Housing business centres of the Council. A direct award of the hybrid mail pilot had been made to this supplier due to the unique features of their solution compared to other suppliers. The pilot had provided modest cashable savings but significant non cashable benefits in terms of staff productivity and improvements in quality of the letters. Time had been freed up to enable officers to deliver other service tasks, there had been improved management of consumables, greater consolidation of communications, increased ability to send mail remotely, increased quality of correspondence, greater accuracy of postage addresses, reduction in data breach risks, ability to retract correspondence as a result of late changes and more price awareness through cost tracking.

The Council's Project Management Office had managed the implementation of the pilot. It was agreed that it would be appropriate to centralise the hybrid mail function within the Council's Digital Mail and Business Support Team. It was noted that a hybrid mail policy would be developed and implemented as part of the roll out of hybrid mail across the Council. Following the roll out, a review of Civic Centre business centres including evaluation of consumables purchases would take place. It was also agreed that in 2021, when officer Civic Centre occupation rates had reached normal levels after the roll out of the Covid vaccination, the level of usage of Civic Centre Multi Functional Devices (MFD)s would be reviewed and a report would be made to the Committee on whether any change in respect of the MFDs was recommended.

In view of the benefits provided by the supplier of the hybrid mail pilot, the Committee agreed that the Council should enter into a contract with that supplier to roll out hybrid mail across the entire Council organisation which would be for 3 years plus two annual extensions of one year, both of which would be dependent upon satisfactory performance by the supplier. Prices would be set for the duration of the contract. In order to have a place on the Framework, the supplier had to demonstrate that they had adequate measures to prevent modern slavery occurring as part of their work. Termination of the contract at particular intervals would be possible in the event of default by the supplier.

RESOLVED that -

i) procurement of a 5 year contract for a Council wide Hybrid Mail solution to be in place by April 2021, be approved;

ii) onboarding to Hybrid Mail for the remaining Council areas in Finance and Development and Building Control, Environmental Services, Community Services and Law and Governance, be approved; and

iii) centralisation of Hybrid Mail management within the Digital Mail and Business Support Team, be approved.

REVIEW OF DIGITAL SERVICES – FINAL REPORT

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraphs 1 and 3 of Schedule 12A to Part 1 of the Act.

The Committee noted the outcome of consultation which had taken place with staff and UNISON on the proposed restructure of the Council's Digital Services team which had been agreed by the Committee at its meeting on 15 October 2020, subject to that consultation.

As a result of the consultation, there had been minor amendments to job descriptions and clarification of grades, job titles and the requirements for progression to a particular higher job grade. The comments of UNISON and an Equality Screening assessment including comments from the officer Equalities group were noted.

The Committee approved the revised structure and the movement of the review onto the implementation stage, as agreed in the consultation time-line.

RESOLVED that –

the revised structure and the movement of the review onto the implementation stage as agreed in the consultation time-line, be approved.

COMMERCIAL SERVICES REVIEW

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraphs 1 and 3 of Schedule 12A to Part 1 of the Act.

The Committee considered a report reviewing the structure of the Council's Commercial Services business unit and proposing a rebranding of the Commercial Services function and a new, more efficient and effective structure. The report also recommended a move to the "Corporate Landlord Model" under which the rebranded business unit would effectively take control of all assets on behalf of the Council. It was noted that an equality impact assessment would be completed as part of the restructure.

The Commercial Services function was responsible for all of the Council's non housing assets. The income generated from the function was vital to the Council's operations. The Commercial Services business unit also consisted of the Building Services Team. In addition, the Corporate Head of Assets and Regeneration had management control of the staff employed by the RBC companies who undertook the day to day running of the Addlestone One scheme.

The Building Services Team had undertaken day to day maintenance of Spelthorne Borough Council operational properties. As Spelthorne had served notice to terminate these services some of the staff within the Building Services Team might be transferred to Spelthorne under the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations. This was likely to happen at the beginning of the next financial year and the Committee agreed delegated authority for this transfer as set out in resolution ii) below.

The Committee agreed that it was appropriate for the Council to adopt the Corporate Landlord model so that there would be one property function which managed assets and asset related budgets which would be a change from the current position where operational teams were involved in property related matters. The Committee agreed that the Council should consider procuring a managing agent as described in paragraph 3.3 of the report who would control the rent roll and service charges of the whole property portfolio. This would be a longer term business objective and a further report would be submitted to the Committee to ensure the viability of this proposal together with a plan showing how this course of action would be pursued.

Under the restructure, the Commercial Services Team would be rebranded to be called the Strategic Land and Property Assets Team. This new team would consist of three business centres – one called Property Portfolio, one called Building and Projects and one called Facilities and Contracts. The range of skills available in the Teams would be increased from the present level. The restructure would bring all project and building related issues affecting the Council's estate under one team and would enable the Teams to work together to ensure a seamless delivery of the property portfolio.

Where possible, permanent members of staff would be brought into the Strategic Land and Property Assets team so that the costs arising from the numbers of agency staff which were currently used would be reduced. It was agreed that the Commercial Services Assistant

Director role be removed in the new structure and be replaced by a Property Portfolio Manager post. A junior Graduate Property Surveyor post would be included in the new structure to provide succession planning and a residential property administrator role would be introduced in the new structure to manage residential lettings and arrears.

It was noted that there were two roles which undertook letting and sales functions referred to in paragraph 4.8 of the report who were employed by RBCI Limited. In view of the current lack of work for these roles it was agreed that these two posts be made redundant subject to the agreement of the RBCI Board and that the position be reviewed when the Magna Square development residential flats became available.

The Committee noted the implications of the restructure for the RBC companies, the costs of the new structure and the potential savings to the Council which would result as set out in the financial implications in the report. The Committee approved the new arrangements which would provide an efficient and effective structure for the Council going forward. The Committee agreed to delegate authority to the Chief Executive, Corporate Head of Human Resources and Organisational Development and Corporate Head of Assets and Regeneration to conduct a formal consultation process with UNISON and the staff affected and to implement the new arrangements.

RESOLVED that -

i) the new structure for Commercial Services be approved, and delegated authority be given to the Chief Executive, Corporate Head of Human Resources and Organisational Development and the Corporate Head of Assets and Regeneration to conduct a formal consultation process with UNISON and the staff affected and to implement the new arrangements;

ii) delegated authority be given to the Chief Executive, Corporate Head of Human Resources and Organisational Development and the Corporate Head of Assets and Regeneration to approve the TUPE of staff from the Building Services Team to Spelthorne Borough Council;

iii) a rebranding be approved so that Commercial Services will become the Strategic Land and Property Assets business unit;

iv) the two redundancies as outlined in paragraph 4.8 of the report be approved subject to RBCI Limited Board approval, as these individuals are employees of the company RBCI Limited;

v) the financial implications be noted;

vi) the savings which will be potentially received as illustrated in the financial implications in the report be noted; and

vi) it be noted that a further report will be submitted to the Committee in due course regarding the potential for the appointment of an external managing agent as set out in paragraph 3.3 of the report.

CONTRACTS FOR MECHANICAL AND ELECTRICAL INSTALLATION MAINTENANCE SERVICES, GENERAL BUILDING REACTIVE WORKS AND LEGIONELLA CONTROL MANAGEMENT SERVICES

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

The Committee considered a report proposing changes to the procurement of various contracts. It was proposed that the three existing separate contracts for heating and ventilation systems maintenance, electrical installation maintenance and automatic rooflight and window systems maintenance be merged to form a single mechanical and electrical installation maintenance services contract to be let to a single specialist contractor. It was also proposed that the existing contract for the provision of general building reactive works be let to a single contractor on a longer contract term. It was also proposed that the existing two separate contracts for Legionella Control Management services for Housing properties and non Housing operational buildings be merged into one contract to be let to a single specialist contractor. The anticipated values of the various new contracts, the proposed contract lengths and the procurement processes required were agreed by the Committee.

It was noted that, with regard to the proposed new general building reactive works contract, key performance indicators would be written in to the specification and tenderers would have to provide references. It was unlikely that the contracts would have TUPE implications and if they did, the tenderer would have to notify the Council of this in their bid.

The Committee approved the changes to the procurement of these contracts, noting that this would provide greater value for money and budget and efficiency savings. The new contracts would be more cost effective and would reduce the Council’s risks. The Council would also benefit from economies of scale.

RESOLVED that -

i) the contract lengths, anticipated contract values and procurement processes of the following contracts be approved: -

a) Mechanical and Electrical Installation Maintenance Services – contract with an anticipated value as reported, for an initial period of three years with the option for possible mutually agreed extension on an annual basis by a further four years up to a maximum contract term of seven years in total;

b) General Building Reactive Works – contract with an anticipated value as reported, for an initial period of three years with the option for possible mutually agreed extension on an annual basis by a further four years up to a maximum contract term of seven years in total;

c) Legionella Control Management Services – contract with an anticipated value as reported, for an initial period of two years with the option for possible mutually agreed extension on an annual basis by a further two years up to a maximum contract term of four years in total; and

ii) the contract duration(s) within the respective maximum contract periods at resolution i) above will be based on the event that the contract(s) prove to be successful and there are no pressing reasons to terminate the contract(s).

REDUCING THE COSTS OF AGENCY STAFF

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

The Committee considered a report proposing a method of reducing the costs to the Council of agency staff.

The report proposed two ways of reducing agency staff costs. One of those ways was to revise the internal governance arrangements of the Council as set out in paragraph 3 of the report to ensure that managers followed a particular process to obtain agency staff and to ensure adequate monitoring and peer challenge of agency usage. The Committee approved those arrangements.

The other way of reducing agency staff costs that was proposed was for the Council to enter into a single agency contract for the whole authority. The Committee noted the differences between master vendor and neutral vendor single agency contracts and agreed that a neutral vendor contract was appropriate for the Council's needs and approved the procurement route, proposed provider and contract length as set out in the report. The proposed provider had whole authority contracts with a number of other local authorities.

The contract would be for two years with the option to exercise two additional 12 month extensions. Runnymede would move to a whole authority agency contract in two stages. In the first stage the contract would apply to all areas of Runnymede Borough Council except for the Direct Services Organisation (DSO). If the provider provided to be successful, at the end of the DSO's current agency contracts in May 2021, DSO agency provision would be incorporated into a single contract.

The Committee noted the estimated savings that could be achieved by the Council by entering into this contract. The more the Council used the proposed provider, the more the cost to the Council of the agency staff would reduce. The rate of commission or margin charged by the proposed provider was set within the ESPO M STAR 3 Framework and could not be altered. This Framework permitted the direct award of a call-off contract for a Managed Service Provider under Lot 1A Neutral Vendor service provision.

RESOLVED that -

i) a vendor neutral contract to procure agency staff be approved;

ii) the ESPO M STAR 3 Framework be used to directly award a 2 year plus 1 year plus 1 year call-off contract to the provider specified in the report using a Lot 1A: Neutral Vendor Service provision; and

iii) the proposed governance arrangements as set out in paragraph 3 of the report be approved.

<u>PADD FARM TASK FORCE</u>

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

Further to its previous consideration of this matter at its meeting on 10 September 2020, the Committee considered a report on the comments of the Padd Farm Task Force on the report of Mr Jonathan Bore on the effectiveness of Enforcement action by the Council regarding the Padd Farm site in Hurst Lane, Egham and future options for the Hurst Lane area. The Committee also considered the comments of a group of Hurst Lane residents on that report which were separate to the Task Force's comments. Mr Bore had found the Council's approach to Planning Enforcement to be competent and that it had ultimately led to the successful clearance of unauthorised activity from the Padd Farm site. Mr Bore had made eleven service enhancement recommendations.

The Committee also considered the advice of officers on Mr Bore's report and recommendations and on the comments of the Task Force and on the comments of a group of Hurst Lane residents. This advice was contained within the report and was also given verbally at the meeting. Having considered all of these matters, the Committee considered a list of recommended actions set out by officers in the report. These actions had been formulated in response to each service enhancement recommendation. The Committee noted the background to its consideration of this matter.

In respect of the comments of a group of Hurst Lane residents, officers advised the Committee that the desire of the Council had only ever been to address the Planning breaches at Padd Farm. The Council had not promised a legal review. The Council was clear that Mr Bore was sufficiently experienced to deal with the subject matter but that if he considered he needed legal support he could approach the Council. As Mr Bore did not seek such support this confirmed that he had the necessary skills and experience to undertake his task.

The Committee noted the response of officers to claims made by the group of Hurst Lane residents in respect of the way in which officers had dealt with enforcement cases for the area. While the resident views on these cases were noted by the Committee, the Committee noted that there was no evidence of this or fault identified in Mr Bore's report and that he had found the action had been competent and successful. A number of Members took the time to comment on the quality and hard work of the Enforcement Team.

One suggestion that had also been made by the group of Hurst Lane residents was that a form of Committee be created to consider matters relating to the area. Officers advised that such a Committee would not be the most appropriate vehicle as there might be an assumption that such a body would have more powers than it could be given and ultimately Planning decisions had to rest with the Planning Committee and not some other body. Some Members considered that this would also risk a disproportionate focus of enforcement resources to the scale of issues to the detriment of other areas of the Borough who had also had Planning enforcement needs.

Officers were pleased that the group of Hurst Lane residents looked forward to constructive relationships with the Council. Officers looked forward to building this relationship.

The Committee expressed its appreciation of the work of Councillor Hulley who had been the Member link with the Task Force and of the work of Mr Bore.

The Committee noted the actions that officers had proposed in response to Mr Bore's service enhancement recommendations. The Committee decided to adopt all the Actions A to H as recommended by officers in the report with the exception of Action B which was amended to read as set out in Appendix '1' attached to these Minutes, to include the Chairman of the Planning Committee in the action. Appendix '1' contains all of the Actions which were agreed by the Committee.

It was noted that there would be no special priority given to Padd Farm or Hurst Lane when Planning officers were considering enforcement cases. Action H related to officers taking relevant opportunities to seek to engage with the Government and other parties to strengthen Planning enforcement powers and legislation. The Committee suggested that these discussions should include the questions of whether any proposals could be put forward regarding repeat offenders and criminal sanctions.

RESOLVED that -

i) Mr Bore's recommendations be considered after due consideration of the Task Force's comments, the comments of a group of Hurst Lane residents and the advice of Officers; and

ii) **the list of recommended actions set out by officers in the report in response to Mr Bore's recommendations, the Task Force's comments and the comments of a group of Hurst Lane residents be adopted subject to the amendment to Action B as set out in Appendix '1' attached to these Minutes which contains all of the Actions agreed by the Committee.**

ENFORCEMENT OF PROCEEDS OF CRIME ORDERS – PADD FARM

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

This item was withdrawn from the agenda under the provisions of Standing Order 27.7.

PROPOSED SALE OF A LONG LEASEHOLD INTEREST IN A PROPERTY

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

The Committee considered a report seeking approval for the sale of the long leasehold interest in a block of residential units in the Addlestone One development in accordance with the Heads or Terms outlined within the report.

The Committee noted the reasons for the difficulties which had been encountered in selling any of the units within this block. Officers had considered various options which were the sale of the whole block on the open market, the sale of the whole block as shared ownership and the sale of the whole block for affordable rent. The conclusion reached was that the best option available was the sale of the whole block for affordable rent. Negotiations had taken place with a registered provider and Heads of Terms had been drawn up which were noted by the Committee and which would be subject to approval by the Board of the registered provider in the New Year.

The Committee noted the financial and legal implications of the sale and approved the sale, noting that a capital receipt would be generated for the Council from the sale. This capital receipt would assist the Council in funding its Capital Programme and the sale would also provide further affordable rental units for the Borough.

It was agreed that a Member of the Committee would be advised regarding the further details that they requested on the financial implications of the sale.

RESOLVED that –

the sale of the units in the block of residential units in the Addlestone One development as reported by way of a lease for the time period as reported to the registered provider specified in the report be approved in accordance with the Heads of Terms outlined within the report.

ACHIEVE LIFESTYLE GRANT FACILITY – FURTHER RELEASE OF FUNDS

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 3 of Schedule 12A to Part 1 of the Act.

The Committee considered the proposed release of a further tranche of grant to Achieve Lifestyle from the previously approved provision, following further enforced closedown of their facilities.

At its Extraordinary Meeting on 28 September 2020, Full Council had been informed that due to the coronavirus lockdown, Achieve Lifestyle had not been able to open for four months which had adversely affected their income at short notice. Full Council had agreed to provide a grant facility to Achieve Lifestyle to ensure that they could continue in business and keep the Egham Orbit leisure facility in the borough running as a preventative measure to avoid much larger costs in the longer term. Full Council had agreed to release an initial £150,000 from this grant facility and had also agreed that the release of any further tranches of the grant facility would be subject to the approval of Corporate Management Committee to ensure that Members were given the opportunity to scrutinise the expenditure and ensure that appropriate controls were in place.

It had been hoped that, barring any further lockdowns, the release of £150,000 from the grant facility agreed at the Extraordinary Council meeting on 28 September 2020 would enable Achieve Lifestyle to remain in business through to the end of March 2021. However, on 31 October 2020, the Prime Minister had announced a second national lockdown for England which meant that leisure and entertainment venues had to close their doors for a month until 2 December 2020. Furthermore, Runnymede was currently under Tier 4 Covid restrictions. The Committee noted Achieve Lifestyle's latest cash flow forecast. Covid had had a devastating impact on the income of Achieve Lifestyle and officers now recommended releasing a further tranche of £150,000 from the grant facility.

The Committee noted that the Council had the legal power to provide a grant facility to Achieve Lifestyle and that the financial support was in accordance with the Government and Local Government Association advice on support measures from Councils to leisure providers to mitigate the impact of Covid. The grant facility was purely to offset the losses incurred by Achieve Lifestyle during the pandemic. It was not a loan facility, nor was it intended to offset any losses or debts incurred by Achieve Lifestyle before the pandemic.

Officers were currently working with Achieve Lifestyle to ascertain what their financial position would be coming out of the pandemic and after the pandemic. A number of Members of the Committee were concerned that the financial information currently available was limited. It was noted that Council officers would be assisting Achieve Lifestyle in providing more financial information and that the Council could not direct Achieve Lifestyle in the way that Achieve Lifestyle operated. Officers would report to the Committee's meeting on 21 January 2021 on progress made regarding the provision of further information on Achieve Lifestyle's financial position.

The Committee noted the need for further funding by Achieve Lifestyle. In order to protect the Council's investment in Egham Orbit Centre, to avoid much larger costs in the longer term and to enable Achieve Lifestyle to remain in business, the Committee agreed to release the further tranche of funding of £150,000 as recommended by officers.

The Committee also noted the immediate need for grant funding by Achieve Lifestyle and agreed to resolve that the decision to release the further tranche of funding be not called-in. This course of action had been agreed by the Chairman of the Overview and Scrutiny Select Committee.

It was also agreed that an update would be provided to Corporate Management Committee Members on progress in attempting to establish the social value provided by Achieve Lifestyle, as agreed at the Extraordinary Meeting of Full Council on 28 September 2020.

RESOLVED that -

i) a further sum of £150,000 from the previously approved grant facility be released to Achieve Lifestyle with immediate effect; and

ii) in accordance with Standing Order 27.8 b) and with the agreement of the Chairman of the Overview and Scrutiny Select Committee, no request for call-in of this decision will be effective as the interests of the Council and the Borough would be prejudiced by delay in implementing the decision at resolution i) above in view of the immediate need for grant funding by Achieve Lifestyle.

URGENT ACTION – STANDING ORDER 42

By resolution of the Committee, the press and public were excluded from the meeting during the consideration of this matter under Section 100A (4) of the Local Government Act 1972 on the grounds that the discussion would be likely to involve the disclosure of exempt information of the description specified in paragraph 5 of Schedule 12A to Part 1 of the Act.

Proforma 973 detailing action taken after consultation with the Chairman and Vice-Chairman of the Committee was noted by the Committee. The Committee also noted that verbal approval had been given to this urgent action by the Vice-Chairman and a copy of the signed and dated proforma would be forwarded to officers by the Vice-Chairman when this was physically possible.

(The meeting ended at 10.19 p.m.) Chairman

PADD FARM TASK FORCE – ACTIONS AGREED APPENDIX '1'

Actions agreed by the Corporate Management Committee at its meeting on 17 December 2020 in respect of the agenda item on Padd Farm Task Force.	
A)	That the Corporate Head of Development Management and Building Control (CHDMBC) consider, in conjunction with other Green Belt authorities, how to work closer together with regards Planning Enforcement, share knowledge and consider if there are options available to work in partnership and supporting each other on difficult or complex sites.
B)	That the Chief Executive, in conjunction with the CHDMBC and the Chairman of the Planning Committee or the Chairman of the Planning Committee's nominee, gives consideration on how to increase Enforcement resource within the Runnymede Borough Council Development Management Service as budgets permit.
C)	That the CHDMBC consider what if any Enforcement policy or procedure documents should be updated/developed and when.
D)	That the CHDMBC should explore ways to deliver closer working relationships with residents of Hurst Lane with regular meetings.
E)	That an email be sent to Members and Planning Service officers with regards recommendations 6 and 7 of Mr Jonathan Bore's report.
F)	That the Chief Executive should give further consideration to recommendation 8 of Mr Jonathan Bore's report and consider if there are any possible or appropriate ways to assist with the future options of the site.
G)	That the officers in the Planning Policy Service should continue meeting with the Virginia Water Neighbourhood Forum and providing relevant assistance as appropriate.
H)	That the Chief Executive and CHDMBC take relevant opportunities to seek to engage with Government and other parties to strengthen Enforcement powers/legislation.

3. **APOLOGIES FOR ABSENCE**

4. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and e-mail it to the Legal Representative or Democratic Services Officer by 5.00 p.m. on the day of the meeting. **Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.**

Members are reminded that a non-pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared. Membership of an outside body in their private capacity as a director, trustee, committee member or in another position of influence thereon **should be regarded as a disclosable pecuniary interest, as should an appointment to an outside body by the Council as a trustee.**

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when obtaining remote access to the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must withdraw from the meeting if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

5. **STATEMENT OF ACCOUNTS 2019/20 (FINANCE – PAUL FRENCH)**

Synopsis of report:

The purpose of this report is to highlight the production of the Statement of Accounts and the annual audit, update members on the Redmond Review and recommend that the accounts be approved by the Leader of the Council.

Recommendation:

That the Statement of Accounts for the financial year 2019/20 be approved and the Chairman of the Corporate Management Committee signs the Statement of Accounts.

1. **Context of report**

1.1 The Statement of Accounts reports on the Council's financial results in the form required by statute and recommended accounting practice.

1.2 The unaudited Statement of Accounts for 2019/20 was completed and posted on the Council's website on 31 July 2020 and was submitted for audit.

1.3 It is at this stage prior to audit sign off, that the Statement of Accounts need to be signed by the Chairman to signify formally the completion of the Council's approval process of the accounts.

2. **The Statement of Accounts**

2.1 Our accounts are prepared in accordance with the accounting conventions which apply to all local authorities. We have a statutory responsibility to prepare accounts that present accurately and fairly our operations during the year. This must be done in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the code) (CIPFA/LASAAC). In accordance with the Accounts and Audit Regulations 2015, the draft accounts must be issued by the end of May and the audited version published before the end of July each year.

2.2 In response to an unprecedented situation across the UK relating to COVID19 and the need to reduce the pressure on authorities to comply with legal deadlines, the Government introduced The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. These Regulations provided authorities with additional time to complete the audit of their accounts for 2019/20, given the impact of the COVID19 virus on the availability of local authority staff and auditors to complete the audit process within current deadlines due to sickness or redeployment. These Regulations apply only in relation to annual accounts relating to the 2019/20 financial year. For Runnymede the deadline to publish its unaudited accounts moved from 31 May 2020 to 31 August 2020 with the deadline for publishing audited statements being pushed back from 31 July 2020 to 30 November 2020.

2.3 For the finance team the redeployment included making welfare calls, managing the payment of Covid related grants, reconciling and paying volunteers for shopping trips and trying to assess the effects of the pandemic on the Council's finances. Of course, it is not just the finance officers that were caught up in this additional activity, Covid redeployment also meant that budget managers were not focussed on the year end making the closedown process less efficient and more problematical than usual. Despite all this, Runnymede officers managed to publish the draft accounts before the August deadline on 31 July 2020.

3. **Resource Implications**

3.1 During a normal year, producing the Council's statutory accounts is undoubtedly the biggest challenge for the team. Throughout the year, the Council produces management accounts for officers and members based on certain criteria. At the end of the year, in order to adhere to different statutory and regulatory requirements we have to not only close down and balance the management accounts, but also turn them into the more complex and technical financial accounts. It is sort of akin to spending a year creating one side of a double-sided jigsaw puzzle and then being asked to break it all up to create the other side with a different picture – all in under two months.

3.2 With the first national lockdown being enforced so close to the year end, the finance team were wholly unprepared for working remotely. With an outdated Financial Management System and a majority of the working papers created for the closedown being manual in nature, this caused several issues for the team. Whilst new ways of working were introduced out of necessity, they were more of a "band-aid" to get us through the lockdown rather than way of working for the future. This is something that will need to be addressed before next year's closing programme is drafted, although many of the practical issues will remain.

3.3 Due to the complexity of the accounts, the compilation of the accounts is usually undertaken by the accountancy team on large 27 inch screens with various files and folders permanently open for ease of reference and for reconciliation and cross-casting purposes. Due to the national lockdown, this was not possible this year and staff working remotely had to contend with flipping between screens on small laptops to undertake the work making it a much longer and stressful process.

3.4 Meeting the tight deadlines set by Government is only possible due to the goodwill and dedication of the highly experienced members of staff who undertake substantial amounts of additional hours in order to get the job completed. In addition, it is also necessary to employ a temporary member of staff for a month to help close down the Collection Fund accounts to ensure they are completed in time to integrate into the main accounts. Unfortunately, due to ill health, the temporary member of staff's tenure had to be cut short placing a bigger burden on the remaining staff and reducing the time available for oversight before publication.

3.5 Looking further ahead, due to the ever increasing complexity of the Council's accounts, there is a need to align the Council's management accounts with the statutory accounts to reduce workloads at the year end. A new Financial Management System which would assist with this is already included in the Council's Digital Transformation Strategy. However, given the Council's current financial position the proposed procurement exercise has been delayed until the full financial consequences of the Covid crisis have been addressed.

4 Audit Considerations

4.1 The Code of Audit Practice 2008 requires the auditor to issue two reports about the audit of the Statement. First, a report to those charged with governance summarising the conclusions of the auditor (the "ISA 260" report). Second, a value for money conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This includes the financial sustainability of the Council going forward into future years. These are to be presented to the next meeting of the Standards and Audit Committee.

4.2 The 2018/19 accounts were the first to be audited by BDO who brought with them new audit approaches and the requirement for new working papers, many of which were required to be created during the audit. With this year's audit being undertaken remotely, this put severe time pressures on officers to deliver and explain transactions when normally an auditor would sit down with them and/or look items up themselves.

4.3 As with last year BDO, like many other audit firms, struggled with resourcing the audit. Originally the audit was scheduled for the start of August (hence the push to get the accounts closed by end of July) but this was then put back to the start of September, followed by a further delay until the start of October. With the exception of the Audit Manager, a whole new audit team, including the audit partner, undertook the Council's audit this year meaning that there was no continuity or prior knowledge of the Council's systems or ways of working meaning additional work for officers.

4.4 Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that this situation is not unique to Runnymede with 55% (265) of audit opinions not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

The Redmond Review

4.5 The Redmond Review published on 8 September 2020, set out a new path for local authorities and their auditors, recommending the creation of a new audit regulator, expanding eligibility for appointment as a local public auditor and an extended deadline for delivering audited financial statements to councils. On 17 December 2020 the Ministry of Housing, Communities and Local Government issued their response to Sir Tony Redmond's review. The main points of the response in relation to the future of the annual accounting process are as follows:

- The date for publication of audited accounts is to be 30 September for 2020/21 and 2021/22, but could then return to 31 July if MHCLG decide that other improvements following the Review have made that a viable and sustainable option (*there is no mention of whether the deadline for unaudited accounts will be moved from 31 May, so presumably there are no plans to do so).*

- MHCLG will engage with local government to better understand the barriers to timely completion of the accounts attributable to capacity and capability of finance teams and consider how they might best be addressed
- MHCLG will explore how standardised statements of service information should be communicated to all taxpayers and service users.
- MHCLG to work with CIPFA/LASAAC to remove accounts disclosures that may no longer be necessary, with a target of making a start in the 2022/23 Accounting Code.
- MHCLG will look for an opportunity to legislate for Sir Tony's recommendation that the external auditor be required to present an annual audit report to a full council meeting.

4.6 A majority of the other responses are in relation to the recommendation for the creation of an Office of Local Audit Regulation to oversee, procure, manage and regulate the external audits of local authorities in England. The full response can be found here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

5. Legal implications

5.1 The basic requirement for the audit of accounts is contained in section 3 of the Local Audit and Accountability Act 2014.

5.2 The Accounts and Audit (England) Regulations 2015 (the Regulations) require the responsible financial officer to sign the accounts and certify that they present a true and fair view no later than 31 May.

5.3 The Regulations require that no later than 31 July, the accounts be submitted for approval by the appropriate Committee and that the Member presiding at the meeting sign and date the Statement of Accounts to indicate the Committee's approval. The responsible financial officer must also re-sign the accounts before the Committee approve them.

5.4 Authorities are required to publish the Statement of Accounts as soon as reasonably possible after the audit is concluded. In any event the Statement for 2019/20 must be published by 31 July 2020, even if the audit has not been concluded. As highlighted in the body of the report the timetable applicable for the publication of accounts for 2019/20 was altered by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The Council complied with the revised timetable.

5.5 The Regulations require authorities to advertise that the audit has been concluded and that the Statement of Accounts is available for inspection by electors. No objections were received during the inspection period.

(To resolve)

Background papers

Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (CIPFA)

6. **2021/22 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT**
(FINANCE – PAUL FRENCH)

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2021/22.
This report should be read in conjunction with the Capital Strategy report set out elsewhere on this agenda (to follow).

Recommendations to Full Council on 9 February 2021:-

i) The proposed 2021/22 Treasury Management Strategy encompassing the Annual Investment Strategy attached at Appendix 'B' be approved;

ii) The Council adopts the UK Money Markets Code;

iii) The Prudential and Treasury Management Indicators for 2021/22 set out in Appendix 'C' be approved;

iv) The authorised limit for external borrowing by the Council in 2021/22, be set at £759,704,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003); and

v) That there be no change to the previously adopted MRP policy as set out in paragraph 3.5 of this report.

1. Context of report

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

1.5 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cashflows, 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.

1.5 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition (the TM Code) and the Prudential Code (the Code) and this report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the relevant CIPFA Codes and MHCLG Guidance on Local Authority Investments. (MHCLG Investment Guidance)

1.6 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:

- Prudential and Treasury Indicators and Treasury Management Strategy (this report)
- A mid year Treasury Management Report
- An annual Treasury Report

1.7 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations. It covers two main areas:

Capital Issues:

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.
- Treasury management issues:
- Policy on the use of external service providers
- The economy and prospects for interest rates
- The current treasury position
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt restructuring
- Annual investment strategy
- Treasury indicators which limit the risk and activities of the Council
- Other treasury matters (required under MHCLG Investment Guidance)

1.8 The Council has delegated responsibility for the implementation and regular monitoring of its treasury managemnet policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.9 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Select Committee which will be considering this report at its meeting on 4 February 2021.

1.10 A glossary of treasury terms has been included at Appendix 'D' to assist Members with some of the terms covered in this report.

2 Capital Strategy

2.1 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.2 The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

2.3 The Capital Strategy is reported separately from the Treasury Management Strategy Statement to ensure the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure on an asset. The Capital Strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.5 If the Council borrows any money to fund non-financial investments that may be contrary to the MHCLG Investment Guidance and CIPFA Prudential Code, there will also be an explanation of why borrowing was required and why there has not been adherence to the MHCLG Investment Guidance and CIPFA Prudential Code.

2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this TMS report.

Minimum Revenue Provision (MRP) Policy Statement

3.1 When a Council funds capital expenditure by borrowing, the costs are charged to the Council Tax payer in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.

3.2 To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principal on any borrowing undertaken. There is not an earmarked reserve for MRP, it is represented in the accounts as increased cash.

3.3 There is no requirement on the HRA to make MRP.

3.4 Revised statutory guidance has been issued by the MHCLG which local authorities are required to have regard to which requires the full Council to approve an MRP Statement in advance of each year. The aim of the MHCLG Investment Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends 4 options for calculating a prudent MRP as follows:

1. Regulatory Method
2. CFR Method
3. Asset Life Method (repayment over the useful life of the asset on an asset life basis)
4. Depreciation Method (cost less estimated residual value)

Options 1 and 2 should normally only be used for Government-supported borrowing with options 3 and 4 being used for self-financed borrowing.

3.5 In December 2014 the Council set an MRP Statement to relate to prudent provisions and the relevant useful lives of assets. These will be unique to each asset borrowed against and as such will not affect the overall method chosen for calculating MRP. There are therefore no plans to amend the statement at the present time. The Council's MRP statement for 2020/21 will therefore be as follows:

"The Council will use the asset life method as its main method for calculating MRP.

In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated. Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts) no MRP charge will be applied".

3.6 A change introduced by the revised MHCLG Investment Guidance was the allowance that any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the Council had made no such VRP overpayments.

4 Treasury Management Strategy (TMS)

Treasury management consultants and training

4.1 The Council recognises that there is value in employing external providers of treasury management services in order to secure access to specialist skills and resources. Link Asset Services (Link) provide this service to the Council, although responsibility for final decision making remains with the Council and its officers at all times.

4.2 The quality of this service is controlled by the Assistant Chief Executive assessing the quality of advice offered and other services provided by Link. In particular, the Assistant Chief Executive holds regular meetings with Link (normally 3 to 4 times a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

4.3 The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Relevant training courses, seminars and conferences are provided by a range of organisations including Link and CIPFA.

4.4 The CIPFA Code requires the Assistant Chief Executive to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Member training was last carried out by Link to 22 Members in November 2017. Further training was planned for November 2020 but due to other commitments this has been deferred until 2021.

The economy and prospects for interest rates

4.5 The Council has appointed Link as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and paragraphs gives Link's view on interest rates and the ecomony (as at November 2020) and are based on an assumption of a reasonable Brexit agreement being reached on trade negotiations between the UK and the EU by 31 December 2020:

Link Group Interest Rate View	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.81%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%
10yr PWLB Rate	1.11%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.30%	1.30%	1.30%	1.20%
25yr PWLB Rate	1.66%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
50yr PWLB Rate	1.49%	1.30%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%

Link Group Interest Rate View	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
3 Month LIBID	-0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
6 Month LIBID	-0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
12 Month LIBID	-0.01%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%

4.6 Bank rates are forecast to stay at 0.1% during the forecast period. Gilt yields have continued to fall as it becomes increasingly likely that the UK will exit the Brexit transition period with no EU trade deal as differences remain, although talks are continuing. On top of that, there has been a seismic move on coronavirus restrictions as much of the South East moved into a new Tier 4, effectively locking those areas down, with Christmas easing withdrawn totally and severely restricted elsewhere. The resurgence of the virus is a set back for the economy. Countries around the world have imposed restrictions on travel from the UK due to fears over the new variant of coronavirus, and with borders shutting, no lorries or ferry passengers will be able to sail from the ports of Dover, this can have a ripple effect on supply and demand in our shelves and the fragile state of the economy.

4.7 The Bank of England's Monetary Policy Committee kept Bank Rate unchanged in November. However, it revised its economic forecasts to take account of a second national lockdown from 5 November to 2 December which is going to put back economic recovery and do further damage to the economy. Furthermore, the tier system has been maintained as the only tool to combat the current pandemic with the south East of England set on Tier 4. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

4.8 The Bank's forecasts appear to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

4.9 However, the minutes did contain several references to downside risks. The MPC reiterated that the recovery would take time, and the risks around the GDP projection were judged to beskewed to the downside". It also said, "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2 December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31 March 2021 will limit the degree of damage done.

4.10 Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC still remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

4.11 Public borrowing is now likely to increase by about £30bn to around £420bn (21.7% of GDP) as a result of the new lockdown. In normal times, such an increase in gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable. It is also quite possible that the Bank of England will do more QE in 2021 to support the economy, although negative interest rates could also be a usable tool in the tool box later on in 2021.

4.12 While Link's Bank Rate forecast contains no increase up to June 2023, it is quite possible that Bank Rate may not increase for some time further out than then as it is going to take a considerable time for the economy to recover lost capacity and momentum. Link do not think that inflation will pose a threat requiring increases in Bank Rate as there is likely to be spare capacity in the economy for a considerable time.

<u>The current treasury position and prospects for investment rates</u>

4.13 The Council's treasury portfolio position as at 30 November 2020 comprised of:

	31 Mar 20 £'000	**30 Nov 20** **£'000**
Borrowing		
Fixed Rate - PWLB	627,292	622,292
Fixed Rate - Money Market	5,000	5,000
TOTAL BORROWING	**632,292**	**627,292**
Specified Investments		
Banking sector	15,500	11,000
Building societies	5,000	5,000
Local Authorities	24,000	28,000
Money Market Funds	30,600	24,650
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	461	471
TOTAL INVESTMENTS	**79,561**	**73,121**
NET	**552,731**	**554,171**

4.14 Investment returns are likely to remain low during 2021/22 and the same with little/no increase in the following few years. However, as major progress has been made with an agreed Brexit, then there is upside potential for earnings. As the UK and EU have agreed a Brexit deal including the terms of trade, then Bank Rate is forecast to remain steady over the next few years on 0.10% to quarter 1 of 2024. Based on this agreed Brexit and existing money market rates which are hovering around 0.01%, the probable investment earnings rates for returns on investments over the next few years can be expected to mirror the base rate at 0.10%.

4.15 While the Bank of England said earlier in the year that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

4.16 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

4.17 All investments are made with reference to the Council's core balances and cash flow requirements which are derived from the annual budget, the Medium Term Financial Strategy, the Capital Programme and Capital Strategy, and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

4.18 It is important that the Council manages its treasury management activities to maximise investment income and reduce debt interest, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs. Based on the above forecasts, the 2020/21 estimate for investment income and debt interest split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	91	0	91
Interest on loans to RBC companies	1,477	0	1477
Dividend income	120	0	120
Interest paid on deposits and other balances	(2)	0	(2)
Net Investment Income	**1686**	**0**	**1,686**
Debt Interest	(15,097)	(3,426)	(18,523)
Management Expenses	(50)	0	(50)
Net Investment Income / (Debt interest)	**(13,461)**	**(3,426)**	**(16,877)**

4.19 The estimate is based on achieving the assumed investment returns set out in paragraph 4.14, using the level of revenue and capital reserves for 2020/21 as set out in the latest capital and revenue budgets contained in the Medium-Term Financial Strategy.

Policy on charging interest to the Housing Revenue Account (HRA)

4.20 The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.

4.21 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost. The figures in the above table indicate no investment income for the HRA in 2021/22 this is due to investment rates currently being at or close to zero. Deducting a credit risk percentage reduces any potential investment rates to zero or below.

Borrowing Strategy

4.22 In general the Council will borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.23 A key aim of the Treasury Management Strategy is to minimise the cost of the Council's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period of time. This reduces the impact on the revenue budget of interest payments.

4.24 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Assistant Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.25 The Council's strategy for long term borrowing is currently as follows:

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- *Public Works Loan Board (PWLB)*
- *any institution approved for investments*
- *any other bank or building society approved by the Financial Conduct Authority*
- *UK public and private sector pension funds and Insurance Companies (except the Surrey Pension Fund)*
- *Capital market bond investors*
- *UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues.*

Debt instruments

Borrowing will be arranged by one of the following debt instruments:

- *fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicators*
- *bonds*

4.26 Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.

Policy on Borrowing in Advance of Need

4.27 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

4.28 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.

4.29 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.

Debt restructuring

4.30 From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.31 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.32 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.33 All rescheduling will be reported to the Council, at the earliest meeting following its action.

PWLB Lending Criteria

4.34 In November 2020 the Government issued revised guidance following consultation on the future of PWLB lending. Specifically, Government has made it evident that if there is any part of a capital programme that is deemed to be commercial in nature and falling under the “asset for yield” category, no PWLB loans of any type can be borrowed. “Commercial” does not mean a scheme cannot deliver a profit, but the primary purpose of the scheme has to be something else: for example, economic regeneration or the provision of housing.

4.35 If an authority wishes to borrow from the PWLB it needs to submit a high-level description of its capital spending and financing plans for the following three years including the expected use of PWLB borrowing facilities. In order to borrow in the future, the Council needs to submit:

- How much they plan to spend in each year in each of a set of categories which between them cover all acceptable capital activity
- A short description of the main projects in each of these categories covering at least 75% of the spending in that category is required.
- An assurance from the section 151 officer that the local authority is not borrowing in advance of need (assumed to be for commercial spend, rather than the Prudential Code definition), and does not intend to buy investment assets primarily for yield.

4.36 The Government guidance goes on to state that, an authority must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans and that local authorities should expect that their auditors will review their internal decision making processes around borrowing and investment, including the assessment of whether their plans are compliant with the lending terms of the PWLB.

4.37 The Treasury has the ultimate sanction to ask for full repayment of any PWLB loans borrowed with premium, in cases where there is clear breach of the rules.

Annual Investment Strategy

4.38 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing. The Council recognises that investment in other financial investments taken for non-treasury management purposes, requires careful investment management and all such investments are covered in the Capital Strategy (reported elsewhere on this agenda).

4.39 Local authorities must draw up an "Annual Investment Strategy" for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the MHCLG Investment Guidance place a high priority on the management of risk and require the Council to invest its funds prudently. This approach is inherent in our treasury management strategy.

4.40 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.

4.41 The MHCLG Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council's strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2020/21 in March 2020 and an updated Strategy for 2021/22 is set out at Appendix 'B'.

4.42 There are no changes to the proposed strategy for next year. However, as a consequence of setting aside MRP, cash balances will increase over time as that money is set aside awaiting repayment of the loan. The knock-on effects of this is that there is more money to invest until the principal sums borrowed mature which means the Council will need to increase its counterparty limits and/or seek additional investment vehicles for its money. Estimated cumulative MRP balances built up over the next four years are anticipated to be as follows:

	MRP cumulative balance at 31 March £'000
2020/21	12,473
2021/22	16,445
2022/23	20,577
2023/24	24,874

4.42 A close eye will be kept on the limits for each counterparty to ensure that the increasing balances held as a result of setting aside MRP can be adequately catered for and any required amendments will be brought back to this committee for approval.

5 UK Money Markets Code

5.1 The requirement to report in accordance with the CIPFA TM Code, and the MHCLG Investment Guidance is incorporated within this report. CIPFA also recommends the UK Money Markets Code to its members as good practice to which they should adhere.

5.2 The UK Money Markets Code (April 2017) is a voluntary code of practice which was introduced to help re-establish trust in financial markets and is endorsed by the Money Markets Committee (MMC), and has been developed to demonstrate that market participants meet the minimum standards of professionalism in their market activities, to ensure a fair and effective market.

5.3 The Code applies to all those who transact in any of the unsecured deposit, repo or the securities lending markets. In particular, any market participant who actively places their excess cash in wholesale bank deposits or invests in Certificates of Deposit or Commercial Paper should consider themselves within scope – Runnymede is one such participant. Importantly, the concept of proportionality is embedded throughout the Code, enabling market participants such as the Council to adopt only those elements appropriate for their business

5.3 The Code is based on the following underpinning principles in order to promote an open, fair and effective market:

- ***Ethics***: behave in an appropriate and professional manner.
- ***Governance***: have an appropriate senior management governance framework.
- ***Risk Management***: maintain an effective risk control environment.
- ***Information Sharing and Confidentiality***: communications between market participants should be clear, accurate, professional, and meet all appropriate confidentiality standards.
- ***Execution, and Settlement***: Exercise appropriate skill and care when negotiating, executing and settling trades.
- Have in place ***effective and efficient processes*** to promote the secure, smooth and timely settlement of trades, which includes never intentionally allowing a trade to fail.

5.4 Why sign up to the Code? Encouraging all participants to adhere to the Code raises the bar for good practice across the entire market. The code is also a valuable resource:

- when setting up or reviewing the activities undertaken by a treasury function;
- as a guide to good practice;
- to develop internal audit programmes for Treasury.

5.5 As proportionality is embedded throughout the Code, instead of having to adhere to all the technical specifications, participants can use their judgement about what is appropriate and consistent with the principles of the Code. Adherence to the Code can be affirmed by a standard statement of commitment to the *principles* underlying the Code which can be demonstrated by appearing on the Public Register.

5.6 Officers believe that the Council already meets the relevant criteria in the code for the activities it carries out so there is no additional burden on the Council or its officers in formally adopting the code. A recommendation to adopt the code has therefore been added to this report and the TMPs will be amended to reflect the adoption should Members agree.

6 Treasury Management Risks

6.1 Treasury management activity involves risks which cannot be eliminated but need to be managed. Treasury management risks could be defined as: The ongoing activity of adjusting the authority's treasury exposures due to changing market or domestic circumstances, in order to manage risks and achieve better value in relation to the authority's objectives. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk.

6.2 Overall responsibility for treasury management risk remains with the Council at all times. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

6.3 The MHCLG issued revised statutory guidance on Local Government Investments in 2018, the MHCLG Investment Guidance, and this forms the structure of the Council's policies. The key intention of the MHCLG Investment Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. This means that first and foremost the Council must ensure the security of the principal sum invested (i.e. ensure the full investment is returned), then ensure that we have the liquidity we need (i.e. ensure we have the funds available when we need them), and only then should the yield on return be considered. In order to facilitate this objective, the MHCLG Investment Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) (TM Code). The Council adopted the TM Code in March 2018 and applies its principles to all investment activity.

6.4 In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) and in the Council's Statement of Accounts both of which can be found on the Council's website. The key risks are as follows:

- Credit and counterparty risk management
- Liquidity Risk Management
- Interest Rate Risk Management
- Exchange Rate Risk Management
- Inflation Risk Management
- Refinancing Risk Management
- Legal and Regulatory Risk Management
- Fraud, error and corruption, and contingency management
- Price / Market risk management

7. Prudential and Treasury Management Indicators 2021/22

7.1 The Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

7.2 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Strategic Business Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

7.3 In setting or revising their prudential indicators, local authorities must have regard to:

- Service objectives e.g. strategic planning for the authority
- Stewardship of assets e.g. asset management planning
- Value for money e.g. option appraisal
- Prudence and sustainability e.g. implications for external borrowing
- Affordability e.g. implications for Council Tax and balances
- Practicality e.g. achievability of the forward plan.

7.4 To demonstrate that these objectives are being fulfilled the Code operates through the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator is annually updated as part of the budget process and projected forward for the next three years. The Code requires that the Council approves certain mandatory prudential indicators.

7.5 Prudential Indicators are designed to support and record local decision making. They are not performance indicators and are not comparable between authorities, all of whom will have differing policies and debt positions. In addition, the indicators should not be taken individually; the benefit from monitoring will arise from following the movement in indicators and the year on year changes over time.

7.6 Both the Code and the TM Code set definitions for the terms used and the method of calculating the indicators. A complete set of all indicators, which are a mix of estimated and actual figures, ratios, and limits, is set out in Appendix 'C'.

8 Legal Implications

8.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions.

8.2 Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.

8.3 The LGA 2003 requires each Council to set an affordable borrowing limit. The Full Council must carry out this duty; it cannot be delegated. Having set this limit the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.

8.4 Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.

8.5 The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

8.6 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

"A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."

9. Environmental/Sustainability/Biodiversity implications

9.1 Ethical or Sustainable investing directs investment capital to companies that seek to combat climate change, environmental destruction, while promoting corporate responsibility. In the past, such investments were thought of as a lower-return strategy, investing for people who wanted to put morals above profits. But now evidence suggests that companies which embrace low-carbon technology for example, are more likely to be future proofed and therefore more attractive for investors.

9.2 For the Council, the types of treasury investments it can make in this regard are limited. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. However, the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

10. Conclusions

10.1 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

10.2 We remain in a very difficult investment environment with several unknowns. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. You only need to look to 2020 to show just how quickly circumstances can change.

10.3 With interest rates currently close to, or actually returning, negative rates, it is easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. This strategy ensures that any such risks are minimised and appropriately managed.

(To recommend to Full Council on 9 February 2021)

Background Papers

None stated

Annual investment strategy
for the 2021/22 financial year

Introduction

1. The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2017 Edition) ("the TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. This strategy applies to both in-house and externally managed funds. Where used, managers of External funds must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2020/21 in March 2020.

Investment Policy

4. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our treasury advisers ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

5. Further, the Council's Officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain and monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

6. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.

8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

   - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

   - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

10. The Assistant Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These

criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, the Council's treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing.

12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for Officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

13. The Guidance defines specified investments as those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The Guidance defines specified investments as those:

    - denominated in pounds sterling,
    - due to be repaid within 12 months of arrangement,
    - not defined as capital expenditure by legislation, and
    - invested with one of:
        - the UK Government,
        - a UK local authority, parish council or community council, or
        - a body or investment scheme of "high credit quality".

    The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Banks 1	16	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	364 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	364 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£10.0m	Liquid
Government bonds (gilts) and treasury bills	21	N/A	No limit	364 days
Multinational Development Banks		AAA	£1.0m	364 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

15. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £6m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high credit quality if they meet the following criteria:

    i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or
    ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA or AA+

    and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i) Short term – F1 / P-1 / A-1
    ii) Long term – A- / A3 / A-

17. **Banks 2 –** Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

18. **Banks 3 –** The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity.

Building societies

19. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

20. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. The Council will only use Money Market Funds with a Constant or Low Volatility Net Asset Value (CNAV / LVNAV).

Government bonds (gilts) and treasury bills (T-bills)

21. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

22. T-Bills are short term securities issued by HM Treasury on a discount basis. For example, a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the capital gain received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

23. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

24. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £1 million to be placed with any non-UK country at any time;

25. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

26. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

27. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £3 million (excluding any accrued interest).

28. The advice of our treasury management consultants will be sought prior to making any long-term investment as to the appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Any bank or building society (including forward deals in excess of one year from inception to repayment).	37	AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds b) A financial institution that is guaranteed by the United Kingdom Government	30, 37	 AAA N/A	 £1.0m £1.0m	 3 years 3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A
Investment in Property	33	Subject to the limits set out in the Capital Strategy		

Supranational bonds

29. The Council will invest in two types of bonds:

a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

Short Dated Bond Funds / Enhanced Cash Funds

30. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter 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 stability in meeting the Council's investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council will make loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. This will be done via the Funding Circle peer-to-peer lending platform. Nevertheless, it is anticipated that such companies will, on occasion, fail to repay the money lent. The Council will therefore ensure that the interest rate secured on such loans is high enough to cover the cost of defaults in all but the most exceptional circumstances.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the Council's Capital Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives"

35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

36. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:

- No more than £1 million of outstanding investments are to be over 3 years until maturity, and
- No more than £3 million of outstanding investments are to be over 1 year until maturity.

38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 32).

Planned Investment Strategy for 2021/22

39. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The cash flow forecast will be used to divide surplus funds into three categories:
    - Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
    - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
    - Long-term – cash not required to meet cash flows and used primarily to generate investment income.

40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Annex A

Credit ratings and definitions

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	**S&P**	**Fitch**
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

<u>(Negative) Rating Watch – Fitch Ratings</u>
Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

<u>Review for possible downgrade – Moody's (Standard & Poor's is very similar)</u>
Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

<u>(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)</u>
Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

APPENDIX 'C'

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1 **Capital Expenditure –** This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2019/20 Actual £000s**	**2020/21 Probable £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**	**2023/24 Estimate £000s**
Housing Revenue Account	3,753	4,280	7,916	10,900	8,500
General Fund	14,355	34,341	67,367	16,580	33,906
Non-Financial Investments	-	-	-	-	-
- Investment Properties	45,342	8,116	470	-	-
- Capital Loans	-	-	14,431	-	-
Total	**63,450**	**46,737**	**90,184**	**27,480**	**42,406**
Financed by:					
Capital Receipts	4,301	5,134	20,049	8,071	2,744
Earmarked Reserves	2,806	4,182	1,238	1,229	935
Capital Grants & Contributions	424	571	545	535	535
Revenue	1,294	3,965	6,716	10,148	8,192
Total	**8,825**	**13,852**	**28,548**	**19,983**	**12,406**
Net financing need for the year	**54,625**	**32,885**	**61,636**	**7,497**	**30,000**

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown below:

Non-financial Investments	**2019/20 Actual £000s**	**2020/21 Probable £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**	**2023/24 Estimate £000s**
Capital Expenditure	45,342	8,116	14,901	-	-
Financing costs met	-	-	14,431	-	-
Net financing need for the year	**45,342**	**8,116**	**470**	**-**	**-**
Percentage of total net financing need	83%	25%	1%	0%	0%

2 **The Council's borrowing need (the Capital Financing Requirement)** – The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
CFR at start of year: – HRA	101,956	101,956	100,000	100,000	100,000
– General Fund	91,695	100,684	126,339	172,677	179,760
– Non-financial investments	398,825	441,171	446,537	457,862	454,144
Total CFR at start of the year	**592,476**	**643,811**	**672,876**	**730,539**	**733,904**
Net financing need for the year	**54,625**	**32,885**	**61,636**	**7,497**	**30,000**
Less MRP/VRP and other financing movements	(3,289)	(3,820)	(3,973)	(4,132)	(4,297)
CFR at end of year (31 March)	**643,812**	**672,876**	**730,539**	**733,904**	**759,607**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

3 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFS and Capital Programme.

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund (GF) Balance	12,368	6,733	3,161	(305)	(2,544)
HRA Balances	30,657	33,673	33,661	31,661	27,238
GF Earmarked reserves	14,177	11,049	6,342	5,944	6,050
Capital Receipts Reserve	6,806	12,216	9,889	15,338	20,246
Capital Grants Unapplied	2,210	1,105	0.00	0.00	0.00
Other	14,102	17,923	21,897	26,030	30,362
Expected investments at year end	**80,320**	**82,699**	**74,950**	**78,668**	**81,352**

4 **Affordability Prudential Indicators –** The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5 **Ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	2019/20 Actual %	2020/21 Probable %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	93.67	153.16	334.12	279.07	308.37
HRA	46.12	46.02	46.03	46.03	46.03

The General Fund increase is due to additional borrowing to fund the Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers hence the sharp increase in the percentage, however this income is not allowed to be included in this calculation. Including the income generated by the Property Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

6 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	3,000	3,000	3,000

7 **Investment risk benchmarking** - The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 3, 6 or 12 month LIBID (The London Interbank Bid Rate – the rate at which a bank is willing to brrow from other banks).

8 **Borrowing** – The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

9 **Current Portfolio Position** – The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
External Debt					
Debt at 1 April	571,546	632,574	660,431	720,111	727,608
Expected change in debt	61,028	27,857	59,680	7,497	30,000
Actual gross debt at 31 March	**632,574**	**660,431**	**720,111**	**727,608**	**757,608**
CFR	**643,812**	**672,876**	**730,539**	**733,904**	**759,607**
Under / (over) borrowing	**11,238**	**12,445**	**10,428**	**6,296**	**1,999**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Non-financial investment debt at 1 April	571,546	632,574	660,431	720,111	727,608
Percentage of total external debt	70%	70%	68%	63%	62%

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following three financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

10 **The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	558,221	619,857	627,354	657,354
HRA	101,956	100,000	100,000	100,000
Other / Temporary Borrowing	16,500	18,000	18,200	18,900
Total Operational Boundary	**676,677**	**737,857**	**745,554**	**776,254**

11 **The authorised limit for external debt** – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

Authorised limit	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	558,221	619,857	627,354	657,354
HRA (set at old HRA debt cap)	103,647	103,647	103,647	103,647
Other / Temporary Borrowing	33,100	36,200	36,600	38,100
Total Authorised Limit	**694,968**	**759,704**	**767,601**	**799,101**

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing).

12 **Treasury Management Limits on Activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposure UPPER limits	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**	**2023/24 Estimate £000s**
on fixed interest rates based on net debt	690,907	695,086	723,902
on variable interest rates based on net debt	0	0	0

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change on a daily basis therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2020/21				
	FIXED interest		**VARIABLE interest**	
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

GLOSSARY OF TREASURY TERMS

Term	Definition
Basis Point	1/100th of 1%, i.e. 0.01%
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.
DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

GLOSSARY OF TREASURY TERMS

ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
LIBID – London Interbank BID Rate	The interest rate at which London banks are willing to borrow from one another.
LIBOR – London Interbank Offer Rate	The interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.
MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

GLOSSARY OF TREASURY TERMS

Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
Repo – Reverse Repurchase Agreements	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

7. **CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 TO 2024/25 (FINANCE – PAUL FRENCH)**

Synopsis of report:

To recommend a draft Capital Strategy and Capital Programme for Full Council approval in February 2021.

The report highlights the use of existing and future capital receipts and the potential use of revenue contributions to fund certain items of capital expenditure. The Strategies come together in the Council's Medium-Term Financial Strategy (MTFS) and detailed Revenue Budget for 2021/22 to be considered by Full Council in February 2021.

The Council is also seeking dispensation from government to charge revenue spending to its capital budget to both protect services and avoid revenue balances being depleted to a dangerously low level.

This report should be read in conjunction with the Treasury Management Report set out elsewhere on this agenda

Recommendations to Full Council on 9 February 2021;

i) The Capital Strategy attached at Appendix 'E' and the Capital Programme at Exempt Appendix '1' (separately circulated) be approved.

ii) Council seek dispensation from Government to charge revenue spending to its capital budget to both protect services and avoid revenue balances being depleted to a dangerously low level.

iii) This Committee consider future revisions to the Council's Capital and Treasury Management Strategies to maintain useable capital receipts at a prudent level.

1. Context of report

1.1 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice ("TM Code"), and specifically the Prudential Code when determining how much it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable.

1.2 The Prudential Code for Capital Finance in Local Authorities 2017 together with the Governments Statutory guidance and CIPFA's Prudential Property Investment Guidance requires the Council to produce a comprehensive capital strategy. The purpose of the capital strategy is to describe how the investment of capital resources will contribute to the achievement of the Council's key objectives and priorities, and to describe the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes. Runnymede has for some time produced an annual Capital Strategy which has been expanded to ensure that the new requirements, including the investment Guidance, are met.

1.3 Under the TM Code the Council must also have an approved investment strategy, and the implications associated with that detailed in the capital strategy. This includes financial and non-financial assets, for example, money on deposit is a financial asset and investment property is a non-financial asset.

1.4 This report should be read in conjunction with the Treasury Management Report - this will allow readers to understand how stewardship, value for money, prudence, governance, risk management, sustainability and affordability are managed by the Council. The Council's strategies are influenced by Government policy and their legislative targets, for example the autumn 2020 announcement that petrol and diesel engines are to be phased out within a decade will influence how the Council provides electric charging points in its car parks.

1.5 There have been no significant changes to the Council's strategies since the Council planned significant regeneration projects commencing in Addlestone and Egham (including a new leisure centre with an indoor swimming pool), and the detailed project plans for Marshall Place and Barbara Clark House. All of these place shaping projects commit considerable capital sums which revitalise areas of the Borough, create new leisure facilities including cinemas, employment opportunities, reduce running costs, provide much needed new housing, including affordable units and a long term sustainable income stream to fund further major regeneration projects.

1.6 Over the last decade the Council has used various strategies to increase its revenue income, capital receipts and prudential borrowing to invest in the infrastructure, regeneration and commerce of the Borough. The Council still plans to be financially self-sufficient by 2025 despite the setback of the 2020 pandemic. This has been the aim of the Council since 2014 and continues to be so over the life of the current Corporate Business Plan and the financial strategies which support it. Each year the financial strategies are updated and reviewed by Council.

1.7 The long-term revenue implications of the Council's strategies are included in the Medium-Term Financial Strategy (MTFS) which includes:

- Funding the fixed interest, fixed term maturity and annuity loans
- Setting aside income to repay debt when due (Minimum Revenue Provision policy)
- Maintaining the General Fund minimum working balance at a prudent level and setting up a specific budget or earmarked reserves for void, bad debt loss or repairs to commercial assets that the tenant cannot fund to mitigate risk of loss of any kind.
- Continuous review of income, debt levels and void rates to ensure effective budgetary control of the Council's financial.
- Funding more of its capital programme from revenue and placing less reliance on capital receipts.
- Rolling valuation of asset values with certain high value assets being valued every year.

1.8 The reduction in revenue resources between 2010 and 2020 has a number of funding implications for the Capital Strategy and detailed capital programme. These include the following:

- Capital receipts have been declining for a number of years. However, the sale of the apartments in Addlestone will replenish capital receipts for the next few years. As Egham Gateway East is completed in 2021/22 further capital receipts will be received.
- Traditionally short life assets (heavy vehicles and plant, CCTV equipment) have mainly been funded from Capital receipts. The Council created a "Repairs and renewals fund "in 2018/19 to fund more "short life" assets from revenue income and place less reliance on capital receipts.
- The Council has ambition to commence further regeneration schemes when Egham Gateway East is completed. It is likely these will be joint ventures with strategic partners rather than the Council funding entire schemes

1.9 As part of the Council's governance arrangements the Capital Strategy, Treasury Management Strategy and MTFS consider the long-term context when making investment decisions. Individual business cases progress through various Member working parties, committees and full Council. Performance is monitored through the revenue and capital budget monitoring reports to Corporate Management Committee with Treasury Management and Prudential Indicators performance being reported to Members three times in a financial year – setting, half year monitoring and year end actuals - to both Corporate Management Committee and Overview and Scrutiny Select Committee.

1.10 The Council has a proportion of its assets and all investment property assets valued by an external professional valuer in January each year as part of its stewardship arrangements in preparing the Statement of Accounts to report to the electorate. These include the assets and liabilities of the Council owned companies.

1.11 The overarching aims of these strategies is to provide a framework within which the capital investment plans will be delivered. While it covers a four-year timeframe, the Council recognises there is some uncertainty in future years. Therefore, the strategies focus on 2021/22 and 2022/23.

1.12 During the Covid19 pandemic the Council reviewed its capital spending plans in light of its evolving financial position with many schemes being deferred. The exception to this being the Egham Gateway regeneration scheme although it is likely the practical completion date will be delayed in 2021/22 due to supply chain difficulties experienced across the UK.

1.13 The Council's last purchase of an investment property to support its regeneration strategy was in the latter part of 2019/20. Since then no further acquisitions have been made as:

- The pandemic and the continued Brexit negotiations have caused uncertainty in the UK economy.
- The asset purchases were made to facilitate the regeneration schemes in Addlestone and Egham (including the new Leisure Centre) whereby rental income would fill the void left by additional costs during the developments and future sales.
- In October 2019 the Government increased its "certainty rate" margin from 0.8% to 1.8%. This dramatically increased the cost of borrowing to the Council making further purchases unaffordable.

1.14 In March 2020 the Government started a consultation process on the margin it added to its borrowing costs when lending to local authorities. The outcome of this consultation was published in November 2020 when the Government reduced its margin on lending to local authorities back to the pre-October 2019 levels of 0.8% but would not allow local authorities to borrow for investment property bought primarily for yield. This does not impact on the Council's regeneration strategy as the Council has no plans to invest in further commercial acquisitions.

1.15 As part of the new lending terms the Council will continue to submit to Government

- "High level description of their capital spending and financing plans for the following three years including planned use of the PWLB"
- Confirmation from the Chief Finance Officer that the Council has no intention to buy investments assets primarily for yield at any point in the next three years. As loans are not linked to specific capital projects this means if a capital plan includes investment asset purchase, that local authority cannot borrow anything from the PWLB.

- In any future borrowing the Council's Chief Finance officer must confirm that the original assurance that not buying investment assets for sale remains valid.

1.16 This Council has always been committed to the prudential system and sees no issues with complying with the regulations to be implemented from November 2020 onwards.

2. Investment Strategy

2.1 In 2014 the Council commenced a major regeneration project on land it owned in Addlestone. Construction commenced in 2015 which committed the Council to £75m of expenditure. The financial plans acknowledged that capital receipts from the sale of dwellings and rent income from dwelling and commercial premises would not start to flow until 2018/19 and not be fully online until 2020/21. The well documented problems with the retail sector in the high street and the Covid pandemic have caused the Council to revisit that strategy in the latter part of 2020/21. It is known that commercial tenants with a good quality covenant, the type the Council wanted to attract to Addlestone often demanded a contribution to the "fit out" costs and a "rent free" period. The financial plans in 2021 onwards accommodate those commercial realities.

2.2 Trading conditions in the private sector have become challenging as the value of sterling fell and uncertainty arose over trade links with the European Union, the increasing use of on-line retail and now Covid19 with the potential to increase unemployment. This has led to several well-known names either ceasing to trade or significantly reducing their asset base. The well documented slow down on the high street economy has made it difficult to fully let the commercial elements of the Addlestone One development. It is anticipated the remaining commercial units in Addlestone will be rented out slowly in 2021 onwards.

2.3 The Council also had significant aspirations around the development of Egham to improve the night-time economy and increase the number of town centre dwellings. Implementation of these plans started in January 2020.

2.4 During the construction of Egham, Addlestone One, Egham Leisure Centre and Barbara Clark House the Council planned to fund most of the costs through long term borrowing at fixed interest rates. Between the financial years 2011/12 and 2014/15 the General Fund working balance was consciously increased to pay for the cost of borrowing during construction. The General Fund working balance is being used to fund the Egham Gateway project but will remain above the £3 million prudent balance set by the Council

2.5 While there has been no change in the Council's strategy, between 2012 and March 2020, the Council has faced, with most other organisations in the UK, a number of unforeseen cost pressures. These include reduced central Government support, pension fund deficits, increases in fuel costs and general inflation which could not be completely offset by the over £6m efficiency savings made by the Council over the same period. Clearly in 2020/21 the Covid pandemic has added further cost pressures which cannot be completely offset by significant Government financial support.

2.6 By March 2020 the Council's commercial investment strategy to fund its regeneration plans had been spent.

2.7 The Council's asset portfolio is centred on the place shaping agenda in the Borough; however, some good quality commercial properties have been acquired outside of the Borough in the past to aid diversification. The portfolio includes office space – some leased to the NHS - supermarkets, hotels, light industrial / business parks, and a bonded warehouse serving most airports in the SE of England. The two business parks were developed by the Council on brownfield sites to regenerate the local area and create local jobs.

2.8 Acquisition for investment in regeneration purposes has been a natural progression for the Council in pursuit of improving services. A good example is the Egham Leisure Centre which had only “dry” facilities, had significant future maintenance liabilities and was a cost to the taxpayer. By investing in a new, energy efficient centre with a swimming pool the Council has provided new facilities for residents, removed a near term maintenance liability and exchanged a revenue cost for a revenue income. Part of this income can be set aside into a “repairs and renewals fund” to even out future year’s expenditure on the maintenance of the Council’s asset base.

2.9 Holding on to commercial property carries risks which the Council is fully aware of – property prices falling, maintenance liabilities, rent default, void property should a tenant leave. The UK commercial property market is well established, attracts global investors and is defined in the market as a “mature asset class”. As such, it has a wide range of established investors including institutions such as pension funds, specialist property companies, charities, and local authorities.

2.10 To mitigate the risks and manage the portfolio effectively, fair value assessments are made for all non-financial assets as part of the year end accounting process in accordance with International Accounting Standard 40: Investment Property. The Annual Capital Strategy will include a statement that a fair value assessment has been made within the past twelve months, and whether the underlying assets continue to provide security for the capital investment. Where this is no longer the case, details of the mitigating actions that the Council is taking or proposes to take to protect the capital invested are provided.

3. Capital Strategy

3.1 The Capital Strategy sets out the Council’s rationale as to investment in capital assets and projects. This Strategy was last approved by the Council in February 2020 and an updated Strategy for 2021/22 is set out in Appendix ‘E’ for approval in February 2021. The updated Strategy covers a ten-year period. It is hoped to extend the coverage further in the future as the UK economy recovers in 2022/23 onwards.

Schemes included in Capital Programme

3.2 The updated Capital Programme is set out at Exempt Appendix ‘1’ (circulated separately). The main changes for 2021/22 are the phasing adjustments due to the coronavirus pandemic and the inclusion of some provisional new schemes which will seek further Committee approval during the life of the Programme. Set out below are some of the material schemes included in the capital plans (subject to Committee approval):

- Provision for potential new HRA new build of dwellings for rent schemes
- Disabled facility and renovation grants
- New housing schemes in the General Fund and the HRA, including buying “street” properties
- Major works to the Council owned housing stock
- A scheme to improve facilities on the Runnymede Pleasure Grounds
- Significant investment in the Regeneration Programmes
- A £10m provision for purchases in regeneration areas to facilitate redevelopment
- Continued investment in ICT systems to improve the service we deliver to residents

3.3 The total Capital Programme costs are as follows:

Scheme details	Budget 2020/21	Budget 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
	£	£	£	£	£
Summary					
Housing Services	5,231,507	8,867,507	11,851,507	9,451,507	9,751,507
Community Services	1,229,813	665,000	4,839,312	232,000	398,000
Environment & Sustainability	3,631,348	2,150,000	1,000,000	2,000,000	386,000
Corporate and Business Services	36,644,420	78,501,633	9,789,500	30,722,500	30,722,500
	46,737,088	**90,184,140**	**27,480,319**	**42,406,007**	**41,258,007**

3.4 The programme is funded in a number of ways. In the Housing Revenue Account (HRA), tenants' rents fund the works to the Council's housing stock and, when a dwelling is sold, part of the sale proceeds are used to develop new homes. In the General Fund, revenue contributions fund some assets with a short life, and we use capital receipts from the sale of assets to fund much of the remainder. In the General Fund most of the capital receipts are generated from the sale of apartments in the Addlestone One regeneration area, and in future years these will come from the sale of apartments in the Egham Gateway regeneration project.

3.5 The Council only borrows to fund large scale regeneration schemes and property investment to fund its regeneration initiative. All the loans are for fixed rate of interest and for fixed periods to provide certainty on costs over the next 40-50 years. The Council also sets aside rent income each year to fully repay loans when they mature. The proposed method for financing the Capital Programme is set out at Exempt Appendix '2' (circulated separately).

Non-treasury Investments

3.6 The Prudential Code, TM Code and MHCLG regulations include guidance on what is termed "non-treasury" investments. For Runnymede this is our commercial and investment property portfolio, and our loans to our wholly owned companies and local community groups. These are entered into outside of normal treasury management activities, but nevertheless the Treasury Management Strategy comes into play in their financing.

3.7 The Council owns a significant investment property portfolio. Properties have been purchased in the past which generate a significant rental stream exceeding the rates the Council is able to get with its cash investments. The Council takes a proactive stance in investing in property and property development to achieve several aims including diversification of assets, facilitate regeneration schemes, potential capital appreciation and to compensate for lost income during developments.

3.9 A local authority may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be prudent if adopting a narrow definition of prioritising security and liquidity.

3.10 In 2015 the Council approved the establishment of the following three Council owned companies:

- RBC Investments (Surrey) Limited – (RBCI)
- RBC Services (Addlestone One) Limited – (RBCS)
- RBC Heat Company Limited – (RBCH)

Loan Facilities Agreements have been entered into between the Council and RBC Investments (Surrey) Limited for the purchase of property (from the Council) and working capital to be drawn down as and when required. Under accounting regulations, the development loan is classed as capital expenditure whilst the working capital loan is a cost to the General Fund.

3.11 In addition to these loans, the Council has made capital loans to the following community-based groups:

- Addlestone Canoe Club
- 1st Virginia Water Scout Group
- St Ann's Hill Trust

Any loan to an outside body brings with it a risk of non-repayment. A loan to a community group predominantly reliant on income from its users increases this risk. Therefore, where possible the Council agree a loan guarantee facility that is secured on the assets of the groups.

Capital receipts

3.12 A capital receipt is a sum received by the Council when it disposes of an asset that was originally classed as capital expenditure. Capital receipts are classed by the Council as a corporate resource and are not ring-fenced to the service committee disposing of an asset. The Council's usable general capital receipts are declining as predicted. Most short life assets are funded from capital receipts (heavy plant, equipment and vehicles) with some being funded from the revenue budget (ICT and Safer Runnymede equipment). The Council's financial strategy aspires to fund all short life assets from revenue when the resources become available.

3.13 All capital receipts generated from sales of Council dwellings are subject to special rules. A proportion of all receipts are paid over to Central Government according to a set of complex criteria. The balance of any sale that is not paid over to the Government, is then split between an amount set aside for debt repayment (i.e. the debt associated with that property) leaving the balance available for like for like (1-4-1) replacement. This latter amount is fed back into the capital programme to finance the purchase of HRA properties.

3.14 The current forecast for capital receipts, both general and set aside for housing purposes, is shown in the following table and is based on existing plans for the sale of flats in the Addlestone One and Egham developments, Marshall Place and Barbara Clark House:

Capital Receipts Summary	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£	**£**	**£**	**£**	**£**
Set Aside for Debt repayments					
Receipts at 1 April 2020	2,818,781	3,068,781	1,362,781	1,612,781	1,862,781
Add new receipts in the year	250,000	250,000	250,000	250,000	250,000
Less Applied during the year	0	(1,956,000)	0	0	0
Anticipated year end balance	**3,068,781**	**1,362,781**	**1,612,781**	**1,862,781**	**2,112,781**
Set Aside for 1-4-1 Replacements					
Receipts at 1 April 2020	1,346,053	1,338,153	444,753	0	0
Add new receipts in the year	307,100	307,100	307,100	307,100	984,200
Less Applied during the year	(315,000)	(1,200,500)	(751,853)	(307,100)	(890,000)
Anticipated year end balance	**1,338,153**	**444,753**	**0**	**0**	**94,200**
General Usable Receipts					
Receipts at 1 April 2020	2,641,785	7,809,853	8,081,846	13,725,862	18,384,183
Add new receipts in the year	9,987,500	19,119,840	12,963,835	7,094,828	623,000
Less Applied during the year	(4,819,432)	(18,847,847)	(7,319,819)	(2,436,507)	(436,507)
Anticipated year end balance	**7,809,853**	**8,081,846**	**13,725,862**	**18,384,183**	**18,570,676**

3.15 The Government published statutory guidance on the flexible use of capital receipts which allows local authorities to use capital receipts to fund transformational projects which are expected to deliver future ongoing revenue savings. Transformation costs typically include:

- Investment in the modernisation of IT systems
- Review, transformation and remodelling of service delivery of front line and back office services (major restructure costs in one year which produce ongoing savings)

To date the Council has not used this flexibility; however, it remains a financing option should the capital receipts position of the Council improve.

3.16 To fund what would normally be classed as revenue expenditure as capital, the Government would need to give a specific dispensation to the Council. As part of options to be considered by Council in February officers have approached Government seeking an approval to capitalise up to £4 million of Covid19 costs. That £4m will be financed from the MRP set aside in cash reserves to repay debt in 2063. As the General Fund recovers from the pandemic in 2023 onwards the General Fund will make revenue contributions to capital spending to repay that cash reserve.

<u>Revenue funding and other funding streams (section 106, Community Infrastructure Levy)</u>

3.17 In setting the budget for 2021/22 and future years the Council approved an ongoing revenue budget to fund ongoing ICT hardware and CCTV camera replacement as well as contributing to a Repairs and Renewals Fund. The remaining capital receipts can then be used to fund strategic investments which add to the Borough's vitality and/or generate an income to support service expenditure. In the medium term the pressure on the revenue budget is likely to mean revenue funding of ***all*** short life assets remains aspirational.

3.18 In considering an application for planning permission the Council may seek to secure benefits to an area related to the proposed developments through the negotiation of a 'planning obligation' with the developer. The obligation must be necessary to make the development acceptable in planning terms, be directly related to the development and fair and reasonable to the scale of the development.

3.19 In 2021/22 onwards the Council may be able to collect a planning charge known as Community Infrastructure Levy (CIL). CIL largely replace Section 106 contributions in delivering strategic infrastructure. However, Section 106 agreements will still be used for securing the provision of affordable housing and some developments will provide such housing and pay CIL. Contributions may also be sought via Section 278 of the Highways Act 1980 agreements where modifications are required to the highway. Councils who wish to charge CIL must produce a Charging Schedule which is supported by an evidence base including an Economic Viability Study and an Infrastructure Delivery Plan.

3.20 Some of the assets used by the Council are leased, e.g. photocopiers. With the advent of Prudential borrowing this source of finance is less attractive as leasing interest rates are usually higher. There may be instances where leasing could offer value for money and it will be considered during option appraisal. From 1 April 2022 any leased assets will be brought "on balance sheet" as the public sector adopts International Financial Reporting Standard (IFRS) 1: Leases. This will mean all assets over a predetermined limit leased by the Council will be included in the Capita Programme and in the Non-Current Assets section of the Balance Sheet.

3.21 Some Councils use the Private Finance Initiative (PFI) to fund capital schemes. At the present time the Council has no PFI schemes being considered.

4 Treasury Management Strategy (TMS)

4.1 The Treasury Management Strategy is inextricably linked to the Capital Strategy and Capital Programme. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed - particularly where Capital purchases are concerned. The capital plans set out in this report provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.2 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations.

5. Borrowing

5.1 The Council investigates opportunities to resource capital projects using prudential borrowing where schemes generate enough income to pay the interest on the loan and the principal (the Minimum Revenue Provision policy). The Capital Strategy also allows borrowing for the regeneration programme, which invests in "bricks and mortar" assets.

5.2 In November 2014 the Corporate Management Committee agreed the use of borrowing to finance new property transactions. An updated report setting out the treasury and capital consequences of this, along with a new Minimum Revenue Provision Statement was approved by the Council on 11 December 2014 and has been updated each year as part of the annual TMS report to Council. In March 2020 the Council ceased acquiring commercial property and the current portfolio covers all the interest and principal repayments

5.3 Since 2012 the Council has taken advantage of the Public Works Loans Board (PWLB) certainty rate which reduces loan rates by 20 basis points or 0.02%. The Council accessed this discount by providing Government annually with detailed information on its capital spending and borrowing plans. In November 2020 the PWLB margin over guilt rates was reduced back to 1% following an increase to 2% in October 2019, as long as certain criteria were met (see paragraph 1.14).

5.4 To date most of the borrowing has been in the form of long-term maturity loans from the PWLB. While annuity loans would be preferable, they increase the cash payments as an element of the principal sum borrowed is repaid as well as interest. As the repayment of loans for Addlestone One relied on the General Fund working balance until the commercial income came online, maturity loans were the only viable option.

5.5 However, in May 2018, following an extensive due diligence process, and in order to provide certainty of funding for the Egham Gateway regeneration scheme, the Council agreed a future annuity loan offer from Phoenix Life Ltd. In May 2021 the Council will take an annuity loan of £40 million at a fixed interest rate of 2.884%. At the time, this rate undercut the equivalent PWLB rate when uncertainty over the UK's exit from Europe was impacting on the markets. Following the PWLB change in policy in November 2020 it is unlikely that PWLB rates will increase back up to those levels as most economists expect rates to remain flat between now and the end of 2021, however this is not a given. The £40m will be used to fund the Egham project.

6. Prudential and Treasury Management Indicators

6.1 The Prudential Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key 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; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

6.2 To demonstrate that these objectives are being fulfilled the Prudential Code operates through the provision of prudential indicators which highlight aspects of capital expenditure planning. Each indicator is annually updated as part of the budget process and projected forward for the next three years. The Code requires that the Council approves as a minimum certain mandatory prudential indicator. A complete set of all indicators is included in the Treasury Management report.

6.3 In addition to the standard indicators the new CIPFA guidance advises including indicators that allow Members to assess the Council's total risk exposure in terms of non-treasury investments. In this regard a list of all loans, and investment properties (some purchased many years ago) and other non-treasury related investments is set out at Exempt Appendices '3' and '4' (circulated separately) for information.

7 Legal Implications

7.1 Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management and borrowing activities. These are set out in the following:

- CIPFA'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;
- CLG Guidance on Local Authority Investments, 3rd Edition [CLG Guidance] which requires the Council to approve an investment strategy before the start of each financial year; and
- CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition [The Prudential Code] which requires the Council to have regard to the Prudential Code when determining how much money it can afford to borrow.

7.2 The above codes require all local authorities to produce a detailed Capital Strategy. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a Capital Strategy allows flexibility to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected Members.

8. Conclusion

8.1 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken considering the Council's Strategic Business Plan, Medium Term Financial Strategy, Capital Strategy (including the Property Investment Strategy) and Treasury Management Strategy.

8.2 The Capital Strategy and Capital Programme balance the resources available to the Council and leave options open as to future funding over the life of the MTFS. The key objectives of the Capital and Treasury Management Strategies are to deliver a Capital Programme that will:

- Ensure assets of the Council are used to support the delivery of the priorities set out in the Corporate Business Plan.
- Supports the Council's specific project plans – especially economic development and regeneration
- Is affordable, financially prudent and sustainable.

8.3 The financing of the capital programme continues to be compiled on the basis that it will:

- Use revenue resources where possible to fund relatively short life assets (ICT and CCTV equipment) with a view to increasing the revenue funding when practicable.
- Use a combination of prudential borrowing or internal borrowing and/or capital receipts to finance General Fund capital expenditure and invest in the Council's existing asset base.

8.4 In preparing these strategies the Council believes the capital strategies are deliverable within existing resources, including prudential borrowing for the regeneration programme. The revenue consequences are affordable as shown in the Council's Medium Term Financial Strategy. Risks and governance of the strategies are actively monitored by officers and regularly reported to Members.

(To recommend to Full Council on 9 February 2021)

Background Papers

None stated

APPENDIX 'E'

1. Introduction

1.1 The Capital and Investment Strategy forms a key part of the Council's Corporate Planning framework. The strategy sets out the rationale for investment in capital assets and projects, including prioritisation, planning, outcomes, funding, and project management and monitoring. It is updated annually to react to the changing Council priorities, social and demographic changes and crucially the financial climate. The Capital Strategy focuses on the core principle that underpins the Councils detailed capital programme. The strategy applies to the General Fund only; the strategy for the Council's dwelling stock is contained in the Housing Revenue Account Business Plan.

1.2 Most items of capital expenditure have associated revenue implications. For that reason, most of the items included in the detailed Capital Programme will sustain an essential service, reduce running costs in the medium term or generate an income to the Council. The detailed annual report to Council in February each year shows the current position and projects where the Council will be in three years' time and how it will get there.

1.3 The Council's Medium-Term Financial Strategy aims to set a balanced budget over the life of the financial planning cycle. The Council maintains a working balance to fund unforeseen cost increases or to pump prime initiatives or fund some items of capital expenditure from revenue resources.

1.4 This strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Treasury Management Strategy, Property Investment Strategy, Medium Term Financial Strategy (MTFS) and the Corporate Business Plan. It is also consistent with the Council's housing policies and programmes. These are covered in the Council's Housing Strategy and Housing Revenue Account (HRA) Business Plan. The Capital and Investment Strategy describes how the deployment of capital resources will contribute to the achievement of these aims.

1.5 The Council has long established links with local community and voluntary groups, many of whom it supports through grant funding, and has signed a formal compact with the voluntary and community sector. In addition, the Council works with a number of other organisations including:

- Surrey County Council and neighbouring Borough Councils
- Surrey Police
- Registered Social Landlords
- North Surrey Clinical Commissioning Group, Health Trusts and the Surrey Health and Wellbeing Board.
- Runnymede Business Partnership and the universities
- Sports clubs
- Local Enterprise Partnership
- Voluntary Support North Surrey

1.6 The financial implications of the Capital Strategy are reflected in the Council's Treasury Management Strategy, Prudential Indicators, the overall Medium-Term Financial Strategy (MTFS) 2021/22 to 2025/26 and revenue budget and tax setting proposals for 2021/22. The objectives of the Prudential Code are to ensure:

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- treasury management decisions are taken in accordance with good professional practice.

1.7 The asset portfolio of the Council broadly falls into four distinct categories

- **Operational** – supporting core business and service delivery e.g. Civic centre, waste management depot
- **Investment** – to provide a financial return for the Council in order to progress regeneration plans
- **Community** – to support specific local communities. e.g., Community and day care centres
- **Regeneration** – enabling strategic place shaping and economic growth e.g. Addlestone One

1.8 The Council is ultimately accountable and has a clear and transparent framework for its decision making. These Strategies are driven by the Council's corporate plan - the key strategic planning document which articulates the Council's vision, aims and objectives.

2. Borough profile

2.1 Runnymede Borough lays in north-west Surrey some twenty miles south-west of Central London, covering an area of 7,804 hectares. Its northern and eastern edges are formed by the Rivers Thames and Wey. It has a population of 80,500 living in approximately 35,500 households. The area has an extensive Green Belt which makes it an attractive location to live and work. Development restrictions and demand for housing are reflected in high property prices. Additionally, Runnymede has a strong local economic base with many commercial enterprises in the town centres, industrial estates and business parks located in the area. As a result, more people commute into Runnymede for work than commute out. Equestrian and market gardening activities dominate in the rural areas with some traditional farming.

3. Objectives

3.1 The Council's mission is to "deliver services, enhance our environment, and improve the economy by working with local people and partners for the greater good of the community", whilst it's vision is to produce "a vibrant Borough with a high quality environment, where we maximise opportunities with partners to provide services which are highly regarded by local people".

3.2 It is recognised that we cannot achieve all the changes/developments we would like to see locally as one organisation, so the Council seeks to achieve these aims in a number of ways. The Council will act as a lead agency for delivering the Corporate Business Plan and will work with our partners in steering the vision and the delivery mechanisms.

3.3 In essence Runnymede councillors determine their programmes for capital investment that are central to the delivery of quality services. The Prudential Code plays a key role in supporting that objective. The code requires a local authority to look at its capital spending and investment plans in the light of its Corporate Plans and how these will be resourced. Decisions made now on capital spending have regard to the long-term financing implications and potential risks.

4 Capital Strategy strategic aims

4.1 The key objectives of the capital strategy are to deliver a Capital Programme that will:

- Ensure assets of the Council are used to support the delivery of the priorities set out in the Corporate Business Plan.

- Supports the Council's specific project plans – especially economic development and regeneration. This includes creating new, sustainable income streams from commercial and service driven activities.
- Spend to save – transformation projects to reduce costs and enhance the services we provide
- Addresses major infrastructure investment
- Delivers wider economic outcomes e.g. employment opportunities
- Asset Management maintenance and investment
- Is affordable, financially prudent and sustainable.

4.2 The Capital Strategy should be read in conjunction with the Treasury Management Strategy and the overarching Medium Term Financial Strategy (MTFS). These three strategic plans show where capital and revenue investment can assist the Council in delivering its priorities. The impact of these strategies is summarised in the Medium-Term Financial Strategy. This demonstrates the Council's plans to invest in the Borough not only improves the residential and commercial offering to residents, but also provides an income stream to continue delivering services the residents need/desire.

4.3 A key element of the Corporate Plan are the regeneration projects.

4.4 The regeneration schemes themselves have a total budget of £195 million which is largely funded by borrowing. During construction the schemes do not generate income, in some cases they reduce income as car parks are closed and existing Council owned income generating assets are demolished as part of the scheme. For that reason, the Council approved a Property Investment Strategy in 2014/15 which sought to acquire assets which would generate income to fund borrowing costs and replace the lost income during the developments.

4.5 The five-year Property investment Strategy ended in March 2020 and saw substantial investment in assets which generate a sustainable income stream for the Council. The pertinent sections of this former Strategy are now incorporated into this Capital Strategy.

4.6 The Council wishes to continue its regeneration strategy in other phases of Addlestone, Egham and Chertsey and will now seek alternative ways to finance them.

5 Priority areas for investment

5.1 There is increasing pressure on the availability of housing in the Borough – social housing and private sector rented accommodation. The Council has a housing strategy which accounts for a significant part of the capital programme. The figures in the programme include the Council's expenditure on its own stock. Works to the housing stock are totally financed from tenants rent. The expenditure on private sector housing includes making grants to private householders to enable them to continue living in their own home e.g. Disabled Facilities Grants. The present Housing Strategy is currently under review and this will include reviewing our approach to the provision of more affordable housing potentially through a Council sponsored vehicle, or Joint Venture agreement. The investment needed to fund this will be considered at the same time.

5.2 The Council continues to have ongoing responsibilities to maintain its assets and will keep its asset base under review and will continue to invest in its key assets which include the Civic Centre, community halls, depot and car parks.

5.3 The Council has commitments to partners as well as legal and other statutory obligations. It will continue to support capital works to discharge those commitments.

5.4 It is anticipated “invest to save” and income generation projects will continue to play a large role to assist the Council in its efficiency and business transformation agenda.

5.5 The Council’s priority areas for investment are summarised as:

- Housing investment (private and public sector)
- Asset maintenance and enhancement
- External partnerships commitments
- Invest to save
- Economic regeneration

6 Priorities and risk in property investment

6.1 The Council’s objectives have largely been met as the income from the Property Investment Strategy by funding the regeneration schemes and going some way to funding services to residents.

6.2 The Council funded the purchase by borrowing money, mainly from the Government (PWLB) and always at a fixed rate of interest for a fixed period of years. For that reason, the Council faces no risk from increased borrowing costs over and above those planned when Members approve the original business case.

6.3 The rent income from the tenant is governed by the lease agreement which includes regular, normally every five years, rent reviews. The lease agreements are upwards only. As the starting rent more than covers the loan repayments, the net income to the Council will increase as rents are reviewed upwards. The long-term impact of the pandemic may change that.

6.4 Whilst the Council has not been investing to make a capital gain, historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns a property for say 15 years, and the property is well managed and maintained, the Council can expect to see an increase in the value of the property as well as an annual income.

6.5 Acquisition for investment and treasury management purposes was linked to asset acquisition for regeneration and service delivery priorities. For example, the new leisure centre in Egham is an integral part of the regeneration scheme but replaces an old asset with considerable maintenance liabilities with a net cost to the council with a new facility which generates income.

7 Approach to investment

7.1 The existing Capital Programme for 2020/21 was approved by the Council in February 2020 and will be amended during the year to reflect changing circumstances. Future capital programmes are driven by the budget and business planning process. The size of the programme is determined by:

- Any requirement to incur expenditure
- Affordability and available resources
- Revenue implications from capital expenditure

7.2 The de-minimis for schemes to be included in the programme is £10,000 unless wholly funded from external sources. Schemes below this threshold are funded from revenue sources.

7.3 The Council identifies programmes and prioritises investment and funding via a robust business case and project management methodology. Business cases must be approved by the relevant Service Committee and Corporate Management Committee before being included in the draft strategy for Council to consider in February.

8 Specific funding of schemes

8.1 Funding of capital schemes can originate from a number of sources and in some cases a variety of sources. Irrespective of the source of funding all capital schemes are included in the Council's approved programme. The main sources of funding are likely to be the following:

- **Revenue funding** - There may be instances where a revenue contribution in part or wholly is used to fund the capital expenditure. Items would include CCTV cameras, vehicles and ICT equipment. Invest to save schemes or income generation schemes could provide funding to "pay back" the initial investment.

- **External funding** - Funding may in part or wholly come from external bodies. This includes government capital grant, contributions from other public sector bodies or via negotiated agreements.

- **Capital receipts** - The Council on occasion sells a capital asset which is surplus to requirements. The sales proceeds are used to fund future capital schemes. The receipts are treated as a corporate resource to be used to invest in the Council's priorities. This means an individual service is not solely reliant on its ability to generate capital receipts.

- **Borrowing** - The Council may take out loans to fund capital expenditure. The Treasury Management Strategy approved by Council in February each year sets out the acceptable counterparties and the Council's borrowing limits which comply with the Prudential Code (see below). Borrowing is restricted to funding assets which generate enough income to repay the loan completely.

9 Capital finance

9.1 The main source of the Council's capital resources has traditionally been capital receipts derived from land sales. This source of finance will continue for a number of years as major regeneration schemes in Addlestone and Egham are forecast to produce homes for sale as well as social housing and apartments for rent

9.2 The Council's overall financial position is formally reviewed at least two times per year. Every quarter the Corporate Management Committee receives an update on projected spending for the remainder of the financial year and the likely level of available capital receipts for the following year.

9.3 The Local Government Act 2003 introduced the Prudential Regime. The Prudential regime requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long-term financial implications and potential risks to the authority. The key 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; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

9.4 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Strategic Business Plan, Medium Term Financial Strategy, this Capital Strategy and the Treasury Management Strategy.

9.5 One important Council policy is in relation to prudential borrowing. The Council will only borrow to fund capital projects where a robust business case has been developed and the Prudential Indicators prove that the project is affordable. This will include consideration of past borrowing, maintenance requirements and planned disposals, not just in the medium term but over the life of the asset base or underlying debt. The Council will only borrow:

- For assets which will generate sufficient income to cover the borrowing costs – both interest and capital repayment
- Where maturity loans have been taken out then each year the Council will set aside income to fully repay the loan when it matures via a Minimum Revenue Provision (MRP).

10 Prioritisation, governance and agreement of capital project proposals

10.1 All new schemes are subject to a business case being prepared to be submitted to Members for approval via Service Committees. This gives Service Committees the opportunity to introduce new schemes, vary the specifications and defer others as operational needs develop over time. Following a review of the business case the Corporate Management Committee releases the capital budget. Every quarter the Corporate Management Committee receives an update of the projected outturn via the Financial Monitoring report or updated strategies.

10.2 Each proposed scheme includes a financial appraisal using a whole life costing approach for the capital and revenue implications, pay back periods etc.

10.3 The Corporate Management Committee consider the impact on the overall Capital Programme and make the final recommendation to Council in February each year on the size and schemes to be included in the Capital Programme. The housing capital programme (HRA) is evaluated separately in accordance with the Council's Housing Strategy by the Housing Committee who makes recommendations to full Council as part of HRA rent and budget setting.

10.4 The financial strategy includes projections of capital resources likely to be available within the period of the plan and provides the framework within which the forward Capital Programme has been developed based on existing and expected resources. The Capital Programme is reviewed throughout the year with only those schemes which have undergone detailed scrutiny being included in the programme.

10.5 In order to make their way into the Capital Programme during the year any new capital projects are brought forward in the first instance to the appropriate Committee, having been appraised in consultation with the Corporate Head of Finance and the Corporate Leadership Team using a full business case, prepared using the Council's project management and procurement methodology.

10.6 Once agreed, the service Committee will make an appropriate recommendation to the Corporate Management Committee to include the scheme in the Capital Programme. It will be for the Corporate Management Committee to approve the method of financing the scheme.

10.7 When necessary, schemes are then prioritised and evaluated according to the agreed corporate criteria by the Corporate Leadership Team (CLT). Potential schemes are evaluated in terms of the following categories to give an order of priority. Within each priority ranking each "bullet point" ranks higher than the one below it.

Priority 1
- Schemes essential and to the extent necessary to comply with statutory obligations, including Health and Safety
- Schemes for which there is a contractual commitment to another party
- Schemes necessary to avoid a service breakdown
- Schemes which a business plan demonstrates to be self-financing
- Schemes which will permit future savings or increased efficiency

Priority 2
- Schemes necessary to maintain an existing asset
- Schemes necessary to maintain required standards of service
- Schemes to meet urgent established need

Priority 3
- Schemes to permit the development of services in accordance with approved policies

Priority 4
- Schemes representing other desirable developments within services
- Schemes to meet emerging needs and/or demands emanating from consultation, benchmarking or Best Value exercises.

11 Prioritisation, governance and agreement of property purchase proposals

11.1 The Council had a Property Investment Strategy in place that ended in 2019/20. Full Council approved three progressive versions of the Strategy in 2014, 2015 and most recently at Full Council on 9 February 2019. The aim of the strategy was to:

- To invest resources that regenerate the main towns in Runnymede and which secure place shaping improvements and the creation of economically and socially sustainable communities.
- To develop a balanced property portfolio that produces sustainable and increasing revenue income streams that financially support the regeneration and place shaping of the Borough.

11.2 This Strategy came to a natural conclusion on 30 March 2020. Any future acquisitions will be integral to a regeneration scheme.

12 Capital Loans

12.1 The Council may make loans to third parties to generate income or to meet a strategic priority. In doing so it may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

12.2 The Council may also from time to time make Soft Loans (Loans charged at interest rates at less than market value). Before such loans are undertaken, the implied subsidy will be clearly identified and quantified as part of the decision-making process.

12.3 Any loans to a third party will only be undertaken if there is an acceptable level of risk. This will be assessed against the overall sustainability of the Council and will include considerations such as:

- The level to which the budget is dependent upon income from the loan and the certainty of the income moving forward
- The amount of the capital invested and the potential volatility of the fair value of the loan compared to the initial investment
- How the investment is to be financed and its affordability
- The liquidity of the investment compared to the longer-term cash flow requirements of the Council
- The cumulative impact of all the loans made by the Council

13 Value for money

13.1 Value for money is delivered through two separate mechanisms. The first is efficient procurement of goods and services through competitive processes and partnerships. These are established mechanisms and are set out in the Procurement Strategy. The other means is through careful scrutiny of possible projects at the assessment stage and prioritising them according to the extent to which the outcomes they promise to deliver match the priorities of the Council.

13.2 Value for money will also be assessed via the regular reporting of property investments and capital loan portfolios so that any material increase in risk or threat to ongoing yield can be assessed.

14 Risk management

14.1 Risk appetite can be defined as “the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time”. The Council is very aware that risk always exists in some measure and can never be totally removed. In order to regenerate the Borough in the way the Council plans, some risk has to be accepted. It is worth noting the Public Accounts Select Committee supports risk taking across government, recognising that innovation and opportunity to improve public services requires risk taking - provided that the ability, skills, knowledge and training to manage those risks will exist within the organisation or can be brought to bear. In general, the Council’s risk appetite is expressed through its tolerance to risk in terms of capital preservation (level of capital receipts etc.), meaningful liquidity (General Fund working balance) and income volatility (e.g. business rates equalisation fund, provision for bad debts etc.). These risks are reported to Members annually in February.

14.2 The Council recognises that the investment in other financial assets and property primarily for financial return, taken for non-treasury purposes, requires careful investment management. Such capital expenditure includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios. The Council fully recognises that the risk appetite for these activities may differ from that for treasury management and a full appraisal will be undertaken to mitigate any such risks.

14.3 The Council has a number of Risk Management mechanisms in place when implementing the strategies. All are regularly reported to and approved by Members of the following Committees - Standards and Audit, Overview and Scrutiny and Corporate Management Committee with Full Council taking on responsibility following reports from those committees. The risk management arrangements detailed below, especially release of funds are contained in the standing orders and financial regulations of the Council.

14.4 Each project on the capital programme is subjected to a capital appraisal process. The Council operates a "whole life costing process" and evaluates overall financial costs using discounted cash flow and other appropriate techniques to aid decision making.

14.5 The financial risk assessment takes into account the likelihood of a budget variance, the consequence of any potential variance, and the significance of these two factors for the budget assumptions.

14.6 Every report to members from officers which includes references to any of the above strategies must be approved by the Chief Executive and include Resource, legal and risk management implications as a minimum.

Capital Strategy Risk management

14.7 Items can be included in the draft Capital Strategy which is approved by Council in February each year. However before a scheme can commence a full business case, prepared using the Council's project management and procurement methodology must be agreed by relevant service committee and the release of capital funds agreed by Corporate management Committee. Members receive reports on any potential variation to the project before officers are authorised to amend the project plan.

Property management risks

14.8 Property risks include loss of income during void periods, the risk the tenants cannot pay the rent, overall property market risk and the risk of falling property values. The Council mitigates these by having a diverse investment property portfolio, a review of tenant covenant strength for prospective tenants prior to them becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate.

14.9 At 31 March the Council's balance sheet shows the value of each commercial asset. Clearly a risk going forward is that assets may fall in value as world economic conditions change, however, this is not an issue if there is no intention to sell the asset in question. However, to accommodate the risk of fluctuating values the Council:

- Has a balanced portfolio between asset types;
- Diversifies the location where properties are owned within the Borough and where relevant outside the Borough to create some geographic diversity;
- To ensure the diversification of tenants, such that for example the Council owns hotel and supermarket assets with a range of operators;
- To keep commercial assets in good repair with planned preventative maintenance regimes and where relevant complete refurbishment plans in place and where relevant commercially attractive but realistic service charge regimes that protect the assets.

14.10 The Council ensures that it provides fully resourced, proactive and professional management in the handling of its commercial assets portfolio to optimise the value of the investments over time.

14.14 The Council's Assets and Regeneration Team monitor and support commercial tenant(s) by undertaking effective rent reviews, re-gearing leases where appropriate or remarketing the lease opportunity in a timely and market focussed manner. Furthermore, the Council ensures tenants fulfil their repair and maintenance obligations of their leases including dilapidation remediation on termination. But as the landlord, the Council ensures its commercial buildings remain attractive to tenants for letting both to preserve income levels but also to ensure the asset is attractive for re-letting or for future sale.

14.15 The Council also maintains significant earmarked reserves to mitigate risk of rent loss or delapidations costs.

Treasury Management Risks

14.16 Treasury management activity involves risks which cannot be eliminated but need to be managed. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk. The key treasury risks are set out in detail in the Council's Treasury Management Practices (TMPs) and in the Council's Statement of Accounts both of which can be found on the Council's website.

14.17 The Treasury Management Strategy details the Councils approach to borrowing. Risk mitigation in this regard can be summarised as:

- Only fixed interest rate loans can be taken out.
- Loans can only be taken out to fund tangible asset acquisition
- Since 2014 the Council has focused borrowing on assets which repay debt and contribute to balances to allow regeneration projects to be undertaken. (To mitigate the risk of void rent loss, bad debts etc. the Council makes a provision for these sums in the budget each year).

15 Asset management planning and disposals

15.1 Asset disposals should meet specified criteria to ensure proper consideration and terms and also compliance with Section 123 Local Government Act 1972 as amended by The Local Government Act 1972: General Disposal Consent 2003.

15.2 Regular reviews are undertaken to identify assets that could be used as part of one of the Council's regeneration projects; redeveloped or their use changed to generate additional income; or in the absence of adding value or to contain the cost of asset ownership, to declare the asset surplus and maximises the selling price. Furthermore, as part of reviewing the property portfolio the Council may determine to dispose of a commercial asset to reduce its exposure in a particular market sector, geographic location or simply to release capital that can be reapplied to regeneration projects or to acquire new or redevelop old commercial property assets.

15.3 The Council's reviews also involve challenging all property assets and an options appraisal judged against the value and contribution that assets can make to service delivery and corporate objectives. For example, building utilisation can be improved by a combination of agile working and improved work scheduling techniques. Assuming the released space is marketable, the same services can be delivered using less space and therefore securing additional revenue income from the released space.

15.4 The asset challenge process will therefore determine which of the following five categories the asset will fall into:

- **Fit for Purpose** - these should be retained and maintained through a programme of planned and reactive maintenance; or
- **Enhanced Utilisation** – These should be retained; however, utilisation should be re-considered to improve the financial and/or service delivery performance (for example through shared services); or
- **Major Investment** – The future direction of the building needs to be determined as major works are required; or

- **Vision Property** – These assets should be retained, undertaking minimum maintenance pending investigation of the development potential of the site. The asset should be developed or disposed when its potential can be maximised; or
- **Surplus** - Develop or dispose of the asset immediately, in accordance with the Investment Strategy

15.5 Where a disposal is considered the following criteria must be satisfied:

- **Market Testing** - Any sale of an asset should be subject to an open market test where reasonable steps have been taken to identify all interests in acquiring the asset and so to have sought to optimise the value of the sale;
- **Valuation** – Where there is a substantial value to the asset an independent valuation should be sought. For property sales, an independent Royal Institute of Chartered Surveyors' Red Book" valuation should be undertaken which confirms the value of the sale is at or above the independent valuation;
- **Optimising Value** - The Council should seek to optimise the price paid through considering current and future value and, for property sales for example, applying overage clauses in the sale agreement, where there is a potential for increasing the number of residential units to be built / increased value of the units / land assembly with increased marriage value / etc.

16. Consultation

16.1 The Council consults on its strategies and provides feedback with the community and a wide variety of interested groups. This is undertaken through, special interest groups (e.g. Disability Liaison Group, Tenants Associations and Allotment Users), the Runnymede Business Partnership, other local authorities, other strategic partners, and a Citizens' Panel. This two-way process is informed using relevant performance indicators, benchmarks and detailed outcome reports.

16.2 The views obtained inform the development of service strategies and the Corporate Business Plan, which in turn inform the Capital Strategy.

16.3 Major capital investment will be in response to evidence-based work, covering need, demographic trends and the appropriate local or user group consultation. Effective ward networks provide an important source of policy and service aspirations.

8. **COUNCIL TAX BASE AND COLLECTION FUND DEFICIT (ASSISTANT CHIEF EXECUTIVE - PETER MCKENZIE)**

Synopsis of report:

To provide Council with the statutory details on the 2021/22 Council tax base for approval and the projected Collection Fund Deficit for the year ending 31 March 2021.

Recommendations:

1. **That the Council tax base (showing the Band D equivalent dwellings for tax setting purposes for the Borough for the financial year 2021/22) be approved as 33,404.**

2. **The estimated deficit on the collection fund for 2020/21 be declared at £1,527,947 and split among the precepting authorities as reported below in sections and it be noted that Runnymede Borough Council's proportion after the spreading adjustment is £44,258.**

1. Tax base

1.1 The Council is required to undertake a formal calculation of the 2021/22 council tax base , in accordance with the requirements of the Local Government Finance Act 1992. The precepting authorities are to be provided details by 31 January 2021 to allow them to set their precept.

1.2 The legislation requires that the calculations must be based on the actual numbers as at 30 November 2020 and the same tax base will be used by each precepting authority in setting their 2021/22 council tax rates in February 2021.

1.3 The tax base is calculated by taking the actual number of properties in each property band from A to H. This then gives us the Band D equivalent numbers. The Council then makes statutory allowances, discounts and other statutory adjustments which then gives the legal Band D requirement.

1.4 The Council has to make a judgement on the level of council tax support and the collection rate. In normal years the number of households claiming council support has remained fairly constant and the collection rate a constant over 98% collected within the financial year. Due to the ongoing impact of Covid 19 on the collection rate the estimated collection rate for 2021/22 has been reduced from 98% to 96%. At this time it has been assumed there will be no net increase in dwellings due to new build or demolition of properties in the borough. The increase in council tax support claimants and the reduced collection rate has reduced the tax base by 2%

	2020/21	2021/22	Change
Number of dwellings	37,044	37,299	255
Council Tax Support	(2,184)	(2,373)	(189)
	34,860	34,926	66
Band D equivilent	34,748	34,750	
Collection rate	98%	96%	
	34,053	33,360	(693)
Add military houses	46	44	
	34,099	33,404	

1.5 Given the tax base is estimating events effecting tax collection up to 16 months in advance the assumptions made above appear reasonable in setting the tax base.

2 Formal disclosure of the collection fund deficit

2.1 Any surplus, or deficit, on the collection fund account is to be paid over or collected by the preceptors in proportion to their precepts set for the year.

2.2 The table below shows the collection fund estimated deficit for the year ending 31 March 2021 using the most reliable data. With over three months to go to the financial year end and with the country in national lockdown the table below shows a range of estimates for the collection rate. The best estimate from Runnymede finance officers is a deficit of just over £1.5m – Members will note that each 0.5% variation alters the surplus or deficit by almost £337,000.

Deficit 2020/21			
Due to collect	67,379,125	67,379,125	67,379,125
Assumed collection rate	97.0%	96.5%	96.0%
	65,357,751	65,020,856	64,683,960
Precepts	£	£	£
Surrey CC	51,539,637	51,539,637	51,539,637
Police	9,226,166	9,226,166	9,226,166
Runnymede	5,783,000	5,783,000	5,783,000
	66,548,803	66,548,803	66,548,803
Deficit	1,191,052	1,527,947	1,864,843

Deficit to be apportioned	1,527,947	
	£	
Surrey CC	1,183,341	77.4%
Police	211,833	13.9%
Runnymede	132,774	8.7%
	1,527,947	100.0%

2.3 Each individual precepting authority will include the deficits shown above in their precepts for the next three years. In December 2020 the Government changed the legislation to require the deficit to be spread. So for Runnymede Borough Council the deficit will be £44,258 spread over 2021/22 to 2023/24.

3. Resource implications

3.1 The reduction in the Band D equivalent tax base from 34,099 to 33,404 will reduce the expected council tax income to the Council in 2021/22 from the amount the Council originally anticipated. The table below shows that Runnymede will now receive less than £50k, not the £170k originally anticipated.

	2020/21	2021/22	
		Original	Dec-20
Tax base	34,099	34,099	33,404
Tax rate - band D	169.59	174.59	174.59
Tax income	5,782,890	5,953,386	5,832,039
Increase		170,496	49,149

4. **Legal implications**

4.1 The Council is legally obliged to calculate the Council Tax Base for 2021-2022 by 31 January 2021.

4.2 Section 31B of the Local Government Finance Act 1992, as inserted by the Localism Act 2011, imposes a duty on Runnymede Borough Council, as a billing authority, to calculate its Council Tax by applying a formula laid down in that Section. The formula involves a figure for the Council Tax Base for the year, which must itself be calculated.

4.3 The Local Authority (Calculation of Council Tax Base) (England) Regulations 2012 (the Regulations), require a billing authority to use a given formula to calculate the Council Tax Base.

4.4 Legislation also imposes a duty on Runnymede Borough Council to calculate the Council Tax Base within a prescribed period which is laid down in the Regulations as between 1 December and 31 January. The Regulations state that the calculation of the Tax Base must be based on the Valuation list produced by the Listing Officer of HM Revenue & Customs as it stands on 30 November in the year preceding that for which the relevant amount is calculated (i.e. at 30 November 2020 for the financial year 2021-2022). It must show actual numbers of properties at that date and allow for the effects of council tax discounts and exemptions including the council tax support scheme discount (CTS). It must also show likely changes to bands, new properties, properties taken off the valuation list and likely changes to discounts, empty properties and exemptions for 2021-2022.

(To resolve)

Background Papers

Budget working papers held in Accountancy

9. **BUDGET AND COUNCIL TAX 2021/22**
(ASSISTANT CHIEF EXECUTIVE - PETER MCKENZIE)

Synopsis of report:

The Council has received reports on the effect of the pandemic on the Council's finances for the current financial year 2020/21. This report sets out the longer-term financial implications for the Council and how it will balance the capital and revenue budget over the next three financial years.

Recommendation to Full Council on 9 February 2021:-

1. **The Council capitalises up to £4 million of transformation and Covid-19 related costs in 2020/21 and 2021/22, subject to Secretary of State approval**

2. **The £4 million is funded from cash set aside in previous years to repay debt in 2063 totalling £14 million which is accounting treatment of capital financing and will not increase the Council's borrowing requirement or the cash balances of the Council.**

3. **The Medium Term Financial Strategy attached at Appendix 'F' be approved.**

4. **The Band D council tax rate is increased by £5 a year, in line with the Government's referendum limits.**

5. **Proposals be produced for the Council to consider which produce £1 million of efficiency savings to be implemented in 2021/22.**

6. **Plans be produced to reduce the base budget in 2022/23 by a further £1 million .**

1. Context of report

1.1 For almost a decade the Council has set a balanced budget and funded significant capital investment projects in Addlestone and Egham, which includes a purpose-built leisure centre and swimming pool. It has achieved this while setting the lowest tax rates in Surrey. While a number of Councils have been forced to cut services over the last ten years this Council has expanded the services it delivers to residents, especially the discretionary services.

1.2 The remainder of this report details how the Council will continue balance its revenue budget over the next three years and fund a significant capital programme.

2. Medium Term Financial Strategy

Introduction

2.1 The budget monitoring and management information systems are projecting a deficit of £5.6m in 2020/21. When the Council set the budget, it anticipated a budget surplus of £0.5m. The deficit is a mixture of increased costs and reduced income. For example, to maintain Egham Orbit operational, the Council has provided a grant facility and released grant to cover operational running costs. A significant proportion of the losses are covered by significant one off Government grants. However, it is unlikely this level of support will continue in 2021/22. In September, officers forecast a budget deficit of over £7.5 million. This has been reduced by officers reducing and deferring expenditure where possible to protect the Council's financial position.

2.2 The Council receives less than 9% of the council tax it collects and 4% of the business rates collected and receives very little Government funding in an ordinary year. The income collected from car parks, planning, trade waste and rents pays for services like street cleansing, refuse collection, parks and open spaces and keeping our communities safe and more. A significant part of the costs of providing services comes from the commercial income that the Council receives.

2.3 By tightly controlling our expenditure, cancelling all non-essential expenditure and additional specific Government grant support, the Council has reduced the original deficit from £7.5m to £5.6m. The Medium Term Financial Strategy anticipates that the reserves will continue to be depleted over the next two financial years. The income lost from all existing income streams is over £8m and it is not totally clear if some of the debt may force the Council to increase its provision for bad debts significantly.

2.4 Most economic forecasts anticipate the pandemic to create major economic disruption and the impact will be felt on the Council's finances, other local authorities, business, charities and individuals to 2023. However, this may change as the latest lockdown may have significant adverse effects on the economy. For Runnymede Borough Council the lockdown is likely to change the estimates we have made on:

- Council tax support payments -any increase in unemployment rates or residents furloughed will reduce the council tax receipts

- Working age claimants must pay at least 20% of the council tax due, more if they are in a band E or above property. The liability for a Band F property and above is 100% of the tax due. This could adversely effect collection rates.
- The financial plans of the Council assume income from all sources, commercial rents, car parks, planning etc. returning to normal between 2021 and 2023.
- The Council's regeneration plans include committed schemes at Ashdene (Barbara Clark) House and Egham Gateway. The capital strategy is focused on short life asset purchase to support service delivery.
- Permanent changes to the way we live such as increased on-line shopping may mean the Council's car parking and retail rent income is unlikely to fully recover. In early December several high street brand names ceased trading. It is likely that high streets will look very different in 2021 onwards.
- Increased costs in the short term, e.g. IT costs of additional unplanned and remote home working, PPE, shielding vulnerable residents etc.

Spending review.

2.5 The Government plans to support Councils in 2021/22 by continuing to cover the cost of some income lost for the first three months of the year. It is likely most Government support will be directed at adult social care and children and family costs, so as the longer term "Fair Funding "and "Business rates retention" will be undertaken in 2021/22. The Council's financial plans are not anticipating any significant change in Government long term funding from that which has already been agreed. The Spending Review has announced numerous examples of increased Government spending including PPE, homelessness and rough sleepers. Any increase in resources will be reported to Council in the regular budget monitoring updates. The full details of the Local Government Finance Settlement announced in late December 2020 are a one year settlement.

Referendum Limits – Council tax

2.7 On the 25 November 2020, the Government announced referendum limits for council tax increases with 2% for general council tax increases and a further 3% for those Councils with specific adult social care responsibilities. Runnymede Borough Council can increase their Band D rate by £5 a year.

Capitalisation of Revenue costs.

2.8 Capital expenditure is generally where the Council spends on the acquisition of an asset or creates or adds to an existing asset. Capital expenditure can be paid for in a number of ways including selling an asset to provide a capital receipt, a charge to the General Fund revenue account or borrowing. All the above ultimately lead to a charge to the council taxpayer unless the cost is paid for by a third party (Section 106 planning gain, government grant etc.). Ultimately most capital expenditure is totally funded from revenue.

2.9 Revenue expenditure is the spend on day to day running costs such as salaries, fuel and building running costs and the debt charges if the Council borrows to fund its capital spend. For this Council the debt charges are interest on the loans and Minimum Revenue Provision to repay the sum borrowed when it becomes due if the loan is a maturity loan.

2.10 Government legislation, for at least thirty years has prohibited Councils from charging revenue expenditure to capital. If it could be done, then some local authorities may borrow to pay day to day running costs. In the late 1970s some Councils sold assets to reduce local taxes or increase revenue spending forcing Government to legislate.

2.11 A Council may capitalise revenue spending with the express consent of the Government. Any final conditions and the fine detail imposed by Government will be agreed by Members before any capitalisation is implemented at the financial year end.

2.12 The current pandemic is viewed as a “once in a hundred years” event, similar to the Spanish flu pandemic of 1918/19. The Council has spent a decade developing its service provision, only committing to growth when the Members felt the growth was sustainable with existing resources. The services the Council provides will be required by residents during and after the pandemic. The view of the Council is that cutting services to make up for a short term loss of income to rebuild again in 2023 would not be a good use of public money.

2.13 The Council has a very strong balance sheet and a number of specific earmarked revenue reserves. These reserves relate to specific risks and it is the view of the Council’s Section 151 officer that depleting those reserves during 2020/21 and 2021/22 will expose the Council to financial and service delivery risk, including the potential for a Section 114 notice.

2.14 It would make operational and financial sense to capitalise the Covid-19 losses for 2020/21 and potentially 2021/22 of up to £4m and use the Council’s capital reserves to cover that cost. To date the Council has set aside over £14m to repay debt when it becomes due. The Council’s cash investments are in excess of £70m. These reserves can be used to fund Covid losses and the Medium Term Financial Strategy for 2023/24 onwards will make additional contributions to replenish that provision. Members have been clear they wish all loans to be fully repaid when due with no risk of re-financing loans at high interest rates.

2.15 This solution offers choices to the Council in March 2021, by capitlising £4m of the £5.6m deficit to protect the Council’s financial resilience and its service delivery. This will give Members the timescale to evaluate officers’ efficiency savings and other changes to the base budget in 2021.

2.16 While the UK economy should be well into a recovery by 2023 the Council policy is to:

- Continue to make efficiency savings to make resources available to fully fund and enhance front line services.
- Seek Government authority to capitalise up to £4m of income loss and increased costs in 2020/21 to 2021/22.
- Make revenue contributions to capital expenditure in 2023/24 onwards as the Council’s financial position improves. To be clear, there is no increase in the Council’s external borrowing need.

The Government have given blanket approval for any transformation costs, including redundancy costs, to be capitalised. Any such costs are not included in the £4m above.

2.17 The Council has consistently produced coherent corporate plans backed by a robust financial strategy which has focused on regeneration schemes to enhance the local economy. Covid 19 has forced almost every organisation in the UK to focus on the in-year financial position only. The Appendices attached are focused on 2021/22 and give Members an indication of the Council’s financial position in 2022 onwards. This is more of a tactical “holding” budget than a financial strategy. The Appendices attached are as follows:-

Appendix F – the updated Medium Term Financial Strategy (MTFS)
Appendix G – General Fund Summary revenue account and budget
Appendix H - MTFS summary 2020/21 to 2023/24

Appendix I which shows detailed changes by Committee to the budget 2020/21 to 2023/24 is separately circulated with this agenda.

3. Resource implications

3.1 The Government continues to provide ongoing support to this Council, the county council, residents and businesses through a wide variety of reliefs, grants and income compensation schemes which will continue into 2021.

3.2 The Council is committed to significant regeneration schemes in Egham Town and Barbara Clark House and completing Addlestone One commercial and residential lettings. These are pre-commitments on the Council’s capital and revenue budgets between 2020/21 and 2022/23. The General Fund working balance has always been maintained well above the minimum to account for delays in construction and delays in generating capital and revenue receipts

3.3 The Council’s earmarked reserves are part of its risk management strategy in relation to business rates retained, commercial income and dilapidations. It is the Section 151 officer’s view that those earmarked reserves are much more, not less, likely to be called upon for the purpose intended and should not be used to cover the cost of the pandemic.

3,4 The Council’s significant investments of over £70m and a strong balance sheet allow the Council to fund the capitalisation of the Covid costs from future revenue resources without increasing the Council’s external borrowing.

(To recommend to Full Council on 9 February 2021)

Background papers

Budget working papers held in Finance section

Medium Term Financial Strategy 2021/22 to 2025/26.

Introduction

1. For several years, the Council has invested significant resources in regeneration projects in the towns of Addlestone and Egham. By the end of 2021/22 the Council will have invested over £150 million in building new dwellings, enhancing the local economy and creating new sustainable employment opportunities. The new dwellings are all a mix of affordable housing, owner occupier and private rental accommodation.

2. The Council has also invested £17m in replacing a 30-year-old leisure centre in Egham with a new purpose-built leisure centre which includes a swimming pool.

3. To fund these projects the Council has borrowed sums from Government to fund the construction. The payment of interest on those loans depleted the Council's reserves until the income from rents and sale of some dwellings could be used to replenish reserves and fund the next project on a rolling program. At the same time the Council bought assets to generate a rental income to help pay some of the borrowing costs during construction.

4. The decade 2010 to 2020 has been one where national Government has reduced public spending to rebalance the national economy. The Council, in real terms, has lost around £7.5 m in government Revenue Support Grant. During that period, it has not cut any service provision, indeed it has been able to develop services over the last decade by implementing:

    - An efficiency programme to reduce the employee costs by 16% through redesign of services, implementing a new Customer Services function and developing its ability for residents to transact with the Council electronically 24 hours a day. These efficiency savings have been used to offset reductions in Government funding.
    - Selling services relating to elderly care to individuals, Surrey police and other local authorities. These include Community transport, care-line, CCTV services etc.
    - A commercial asset portfolio where commercial rents supported the Councils regeneration programme with a long-term rental stream.

5. Clearly the Coronavirus (Covid 19) pandemic has caused most organisations serious financial difficulties, in both the private and public sectors, including Runnymede Borough Council. This iteration of the financial strategy is focused on stabilising the Council's financial position as the UK moves into economic recovery hopefully in the summer of 2021.

The UK economy

6. In early October 2020 the UK sovereign credit rating was downgraded from AA2 to AA3. The following week several UK banks saw their credit rating downgraded. It remains to be seen if this will cause difficulties with the local economy and the Council's investment strategy.

7. Generally, inflation remains low. However, some inflation rates are running at high levels due to Covid-19 e.g. second-hand car inflation at 8.9% as some people move from public transport to increased car usage. Shortages of printers, webcams etc has led to a 10.9% increase in data processing equipment inflation. Some prices, including petrol, fell in 2020. Inflation is expected to average 2% in 2021/22. The Council's budgets make sufficient provision for inflation going forward and this can be enhanced with the General Fund working balance.

8. Various areas close to Runnymede were in lockdown before the second national lockdown in November 2020. While is it difficult to know how this may affect the income of individual Runnymede residents in the future, between October 2019 and October 2020 the number of households claiming council tax support rose by 8.7% from 2,184 to 2,373 claimants. This will impact on the local economy as residents have less disposable income to spend and council tax collection rates have fallen. Those problems continued in late 2020 as Runnymede was in tier 4. As of January 4, 2021, we are in the national lockdown 3.

9. A year ago, one of the major economic risks was the effect of Brexit on the local economy. That risk still needs to be taken into consideration on the economic outlook as we approach the financial year 2021/22.

10. While interest rates are low for investment income and are likely to remain low for the foreseeable future, this has resulted in a significant loss of income to the Council that is likely to continue into the next few years. While base rates are low at 0.1%, borrowing costs for long term loans are around 1.5%.

11. A prevailing view, prior to the third lockdown, appears to be the UK economy will start to recover in late 2021 which gains momentum in through 2022 and into 2023.

Council finances 2020/21

12. The outlook for the current financial year has changed considerably since the Council set its budget in February 2020. The original budget showed a surplus of £500k to fund services. Covid-19 has changed this to a projected deficit by March 2021 of £7.2 million which then reduced to £5.6m as Government support continued and the Council instigated a policy in summer of 2020 to restrict spending to essential front-line service costs. A swing of £6 million seriously depletes the General Fund reserves. The main reason is loss of income which is likely to persist into 2021 and 2022. Some economists are looking at the economy returning to near normal levels in the second half of 2022 or early 2023. The table on the next page shows the assumptions made on income shortfalls prior to the third national lockdown.

	2020/21		2021/22	2022/23
	Budget £000	Variance £000	Variance £000	Variance £000
Community services / transport	119	60	30	0
Day centres	276	180	90	0
Community halls	183	110	55	0
Meals at home	180	(25)	(25)	0
Museum	32	15	15	0
Parks and open spaces	204	70	35	0
Domestic and trade waste	619	370	185	0
Car parks - off and on-street	1,052	620	496	248
Planning and development control	836	120	60	0
Building control	344	104	52	0
Council tax costs not recovered	177	71	35	0
Local land charges	247	150	75	0
	4,269	1,845	1,103	248
Commercial income	24,467	4,000	3,200	640
	28,736	5,845	4,303	888

13. As a planning assumption the Council is assuming that income continues to slowly improve from the spring of 2021. However increased costs and reduced income of at least £11m over a three-year period makes the Council's financial position unsustainable and long-term solutions to bridge the budget gap need to be implemented in 2021 to protect services

<u>Business rates Retained</u>

14. Local authorities retain only some of the business rates they collect. In Surrey the districts collect business rates and the total collected is split 50% to government, 40% to Runnymede and 10% to Surrey CC. However, the Government then applies a "needs based" levy to adjust income for relative need. The Government top slices £25m to redistribute to other part of the UK, leaving Runnymede with a starting position of just under £25m.

15. From this a "tariff" of just under £20m is applied. Since the introduction of the scheme all the Surrey councils have increased their business rates tax base and the income collected. To minimise the loss of income to Government, districts can choose to "pool" resources with other districts and the County Council. Since the outset various districts have formed a pool with the County Council to maximise rates retained. The "Surrey pool" is created from the best mix of districts working with the County Council to reduce resources paid to Government and maximise those kept in the county.

16. The "Surrey pool" which provides the highest forecast gains cannot include all the districts as the pool itself is required to pay a levy on the gains. All the districts work together with the County Council to choose a pool that maximises the gains. The pool composition can therefore change every year, but most years it advantages the pool if Runnymede joins.

17. The table below demonstrates that for the financial year 2020/21 the pre-Covid estimate of business rates to be retained in Runnymede increased by £0.8m to just under £4.5m.

2020/21 pooling gain estimates	Share of rates collected	Less (Tariff) or top up	Less levy on growth	Add multiplier grant	TOTAL	Pooling gain	TOTAL RESOURCES
	£m	£m	£m	£m	£m	£m	£m
Elmbridge	28.191	-23.108	-1.362	0.204	3.925		3.925
Epsom & Ewell	11.03	-8.939	-0.336	0.084	1.839	0.168	2.007
Guildford	36.486	-31.844	-0.857	0.186	3.971		3.971
Mole Valley	19.118	-16.205	-0.813	0.117	2.217		2.217
Reigate and Banstead	22.232	-19.494	-0.176	0.11	2.672		2.672
Runnymede	**24.956**	**-19.899**	**-1.602**	**0.203**	**3.658**	**0.801**	**4.459**
Spelthorne	20.303	-16.047	-1.164	0.171	3.263	0.582	3.845
Surrey Heath	16.049	-12.578	-0.952	0.139	2.658		2.658
Tandridge	10.27	-7.952	-0.43	0.093	1.981		1.981
Waverley	16.898	-14.402	-0.246	0.1	2.35		2.35
Woking	20.321	-16.417	-0.885	0.156	3.175	0.442	3.617
	225.854	**-186.885**	**-8.823**	**1.563**	**31.709**	**1.993**	**33.702**
Surrey CC	56.463	63.088	0	4.792	124.343	1.993	126.336
	282.317	-123.797	-8.823	6.355	156.052	3.986	160.038

18. Clearly during Covid the main risk to the Surrey Councils is the income from business rates falling dramatically. That risk is mainly mitigated by the Governments "Expanded Relief Scheme". While this reduced to zero the tax liability of business in the Borough by around £14m, the Government compensated the districts, boroughs and the County Council for the reduced income. While collection rates have fallen the table above anticipates £4.459m being the resources to be received in the collection fund by March 2021. It is estimated Runnymede would need to lose 15.5% of its business rates income before the Government safety net would apply. The other districts in the Surrey pool have a similar risk profile which benefits all pool members and the County Council.

19. All the Surrey Finance Officers have taken the view that a significant drop in business rates that would not be supported by the Government's rate relief scheme is not likely, so provisionally a new Surrey pool can be formed in 2021/22.

20. Using a similar risk methodology to capture risk and reward, the pool composition for 2021/22 would be the County Council, Spelthorne, Runnymede, Surrey Health and either Elmbridge or Tandridge– Tandridge have agreed to be included

21. The table below shows the makeup of the Surrey pool over the last three years. In each of the three years Surrey County Council led the pool and for one year the London Borough of Croydon joined the pool to reduce the levy paid to Government

2019/20		2020/21		2021/22
Runnymede		Runnymede		Runnymede
Spelthorne		Spelthorne		Spelthorne
Surrey Heath		Epsom & Ewell		Epsom & Ewell
Mole Valley		Woking		Tandridge

22. The 2021/22 proposed pool is predicted to reduce sums paid to Government by £4.2m, of which Runnymede would retain an additional £0.7m, giving total resources of £4.1m. The slightly lower yield accounts for some collection difficulty in future years. For budgeting purposes, a significant loss of income of up to 15% would still mean the pool gains. However, the Runnymede share is reduced to £2.9m from £4.1m. In the section below the Council has set up several earmarked reserves as part of its risk management strategy including a “Business Rates equalisation” reserve to mitigate this type of risk which will be used in 2021/22.

23. On 22 December 2020 an additional risk arose. Rating agencies approach organisations and offer to try to reduce their rates liability on a no win/ no fee basis. The Government’s valuation office has confirmed that it is in early discussions regarding a “Material Change of Circumstances”, an MCC, of a significant number of premises due to Covid 19, including office premises. The Valuation Office (VOA) have confirmed to the Council that:

- No decisions have been taken on reductions to the rateable value due to the pandemic.

- The valuation office is still gathering evidence, but it is too early to speculate on outcomes. It is a complex legal and valuation issue.

- Not all property types have been affected to the same degree and there are also regional differences to consider.

24. Runnymede finance officers historically have taken a cautious approach to the set aside to pay appeals. The fact that the VOA are in discussions would suggest an increased likelihood of some reduction due to Covid. The sums involved are significant. The RV nationally for office space is £12 billion and £9 billion in London. Included in the projected outturn it is assumed the income retained will not fall below £1.5m in 2020/21.

25. Any betterment can be held in the reserves as the Government has not announced any extension to the Retail Discount scheme it funded in 2020/21 totalling £17 million for Runnymede businesses alone. If this is not continued to the same extent, then the Council will be collecting around £17m more from businesses who have not paid rates for some time. At the end of December 2020 property with a rateable value of £2.5 million was void. The Council created an “earmarked reserve” some years ago to protect the budget from the potential extreme swings in business rates income retained. In March 2021, if several of these risks are still present, then income above the £1.5 m assumed can be held in reserve to protect any future liability the Council may have to make appeals refunds in future years.

Government grants

26. The Government has not been able to provide local authorities with more than a one-year spending settlement. The Comprehensive spending review, including a revised business rates retention system, was due to be implemented in 2021/22. A review of the business rates retention scheme, levels of taxation, New Homes Bonus etc. are now deferred until 2021/22. This continued uncertainty and the potential for reductions in Government support add weight to the Council's strategy of becoming self-sufficient as soon as practicable.

27. The Council's financial plans for the last three years have assumed Government funding continues to reduce year on year and this continues into the next financial year.

Council tax

28. Runnymede BC has one of the lowest council tax rates in England, an average Band D home pays £164.59 a year or £3.17 a week for the Council's services. Council tax rises are limited by Government policy to a maximum of either £5 a year or 2%. The proposed tax rate increase is £5 a year giving a tax rate of £3.26 a week. The tax the Council collects is dependent on three main variables as shown in the table below.

29. While the number of dwellings in the borough has increased the number of households claiming council tax support has increased by almost 9% in the year to October 2020 and that figure is expected to increase. The tax base must be confirmed to the preceptors in October each year by law. The main fall in yield is from the in-year collection rate which has fallen from over 98% to 96%. At a collection rate of 98% the Council could expect income of £5.783m as shown below. The actual yield will be £120,000 lower than anticipated which adds further pressure to the budget.

	2020/21	2021/22	Change
Number of dwellings	37,044	37,299	255
Council Tax Support	(2,184)	(2,373)	(189)
	34,860	34,926	66
Band D equivilent	34,748	34,750	
Collection rate	98%	96%	
	34,053	33,360	(693)
Add military houses	46	44	
	34,099	33,404	
	169.59	174.59	
	5,782,890	5,832,039	49,149
Tax collected at 98%		5,953,379	170,489

Commercial income

30. During 2020 the Council has seen its income from commercial rents decrease by around £4m or 15%.

31. In preparing its financial and operational strategies the Council anticipates some loss of income as tenants recover from the pandemic. The Council has always been aware of the risks associated with its regeneration strategy which has required significant capital investment. The difficulty across the UK is that a significant number of businesses continue to have trouble in payment of rent, rates, salaries, wages and general running costs despite significant Government support including cash grants, rates reductions and the furlough scheme.

32. The Council's financial plans have always recognised the commercial income it generates is vulnerable to market forces and have mitigated those risks in the following ways.

- From the outset the Council has set aside part of the rent income in a reserve to repay the loans to Government in full when they become due – the Council's Minimum Revenue Provision (MRP) policy. Currently around £14m is held in a cash reserve.

- Each year the Council budgets for 2% of its income as potential bad debts on the basis that in each year some businesses will fail, and some debts will be written off.

- Two specific earmarked reserves have been created:

    - one for any potential costs relating to the fabric of the buildings. £1.5m is estimated to be held.at 31 March 2021.
    - The second reserve acknowledges that rent income can vary between years if a lease expires and a tenant leaves or the lease is re-negotiated. Both may require a rent free or reduced rent period. £3.8m is estimated to be held at 31 March 2021.

Covid Support

33. Between April 2020 and October 2020, the Government provided financial support to local authorities of over £4.6 billion. Runnymede Borough Council received £2.469 million which it used to cover increased costs, support for Achieve Lifestyle and support the Runnymede Food Bank.

34. The Government has also proposed to reimburse local authorities for some of the income it has lost from reduced car park income, trade waste income etc. However commercial rent income is not included in that scheme. A sum of just over £1million is estimated to be claimed by the year end.

Council tax and council tax support

35. Due to the ongoing restrictions on business and social contact, many of our residents have been furloughed or been made redundant, and the self-employed have seen their income reduced. Residents are concerned about their ability to pay rent and council tax and so the Council stopped all

recovery action for the first half of the year and helped more residents claim council tax support. The number of claimants in the borough increased by 9% to 2,373 prior to the second national lockdown. Most of these claimants are likely to be on other forms of benefit including Universal Credit. It is accepted many residents will not fully pay council tax due and arrears will increase by March 2021.

36. In April the Government funded a scheme to further reduce a council tax bill by £150 for all residents claiming working age Council Tax Support. The Council has spent £281,000 of the £337,380 allocated and anticipates spending the full allocation by March 2021.

37. In a similar way the Council is making “Test and trace “isolation payments of £500 to support those on low incomes who cannot work from home following a positive test – so far less than 15 residents fall into this category. However, any resident told to isolate by the NHS is entitled to claim benefits which include Universal Credit, Working Tax Credit, Income Support and Housing Benefit. It is anticipated those numbers will increase significantly from January 2021. The Government provided £18,800 to fund the scheme initially and a further £30,000 has been received in December 2020. Finance officers anticipate processing claims for some time to come.

38. For similar reasons some businesses struggled to pay rent and business rates. The Government has therefore required the Council to administer several Covid-19 relief schemes on their behalf. The main ones include:

Discretionary housing payments

Government have provided a fund of £192k and the Council have added a further £30k – the fund is used to support complex residents’ issues so we can keep residents in their homes, or if necessary, help them move to more suitable accommodation. In the half year to September the Council spent £100k and it anticipates spending the full allocation for the year.

Covid-19 hardship payments.

The Council has also set up an emergency assistance fund. Residents who are struggling to pay for essential items and are unable to get support from Government can receive a one-off grant of up to £2,000 from the Council.

Business rates

Government funding allowed the Council to make grants totalling over £12.8 million to 1,020 local businesses.

The Government also expanded the retail relief scheme and reduced the rates to be collected by £17m in the Borough – the sums due to this Council and the County Council will be reimbursed by Government.

Should the Council ever move into tier 3, following the November / December 2020 national lockdown, then additional Government support will be made available.

39. In April the Runnymede food bank had an outbreak of Covid-19 and it became apparent the premises could not cope with demand and provide space for social distancing requirements. The Council provided a large warehouse rent free and several Councillors worked full time in the food bank organising deliveries and arranging internet and digital services. Some shielded residents wished to pay for their shopping, so the Council worked with volunteers and shielded residents to undertake “personal shopping”.

40. For first half of the financial year 2020/21, the Council’s finance department moved from collecting over £100 million in council tax and business rates to administering government emergency funding and supporting vulnerable residents. Staff from every department moved into “welfare cells”, contacting vulnerable residents to arrange several services including providing hot meal delivery, medicines and essential supplies to be delivered.

Treasury management

41. In 2018 the Council entered into an advance borrowing agreement for £40m to be drawn down in May 2021 to fund the Egham Gateway project. The loan is a straightforward annuity loan over 40 years at 2.88%. That does mean another £35 to £40m remains to be funded over 2021/22 and 2022/23 to complete the project. The Council only borrows to fund its regeneration strategy, including building the new leisure centre, Egham Orbit.

42. A similar loan from Government (PWLB or Public Works Loans Board) would be at a rate of between 2.70% and 2.76% until recently when the PWLB reduced the margin they add to the cost of borrowing by 1%. In May 2021 it is anticipated a 40-year maturity loan will be now around 1.75%.

43. However short-term rates are considerably lower at the present time and PWLB rates have fallen in 2021. The Council has delayed borrowing to fund capital projects which has made considerable revenue savings in the expectation long term borrowing rates will fall. In addition, the credit rating for the UK and some UK banks has been downgraded from AA2 to AA3. While this is not causing any immediate change to the Council’s investment strategy it will be kept under review as the Council has around £70m invested. As there is a significant margin between borrowing and investment rates the Council has maintained a significant under borrowed position of between £13m and £22m, using cash flows rather than long term borrowing to reduce costs by an average of £250k to £300k a year. This under borrowed position does advantage the Council if interest rates remain low and the Council borrows long term at rates of around 1.7% fixed for 50 years.

44. The base rate for investment purposes has been low for some time at 0.1%, and it is forecast to stay that way for some time. It is even possible that negative interest rates may apply in the future. As it is unlikely long-term investment rates will increase it makes sense to reduce investments which are currently producing very low returns, reduce the credit risk and leave options around locking into long term deals fluid should rates reduce further in the medium term. Maintaining this under borrowed position also reduces costs to the General Fund.

45. The PWLB now restricts local authority borrowing to regeneration and housing schemes. A quote from HM Treasury is “The government intends to cut the interest on all new loans from the PWLB, subject to market conditions, following the development and implementation of a robust lending framework co-designed with local authorities through this consultation.” The Government position is that it will not lend to any Council which borrows, from any source, money to invest for commercial purposes. This does not affect Runnymede Borough Council as the last commercial acquisition was in March 2020. The Treasury Management report elsewhere on this agenda explains this further.

<u>Capital plans</u>

46. For several years now the Council’s capital strategy has had a number of interlinked objectives.

    i. Regeneration of the Borough’s towns commencing with Addlestone and income to enhance the night-time economy, provide employment opportunities, create a significant number of new homes, take pressure off the student accommodation in Egham and increase the commercial and residential tax base

    ii. Provide capital receipts to invest in subsidised services such as play areas, parks, elderly day centres etc.

    iii. The developments do contain commercial premises. The rental stream covers the repayment of the loans taken out from Government.

    iv. As the Council’s financial position has improved since 2012 there has been and continues to be a significant investment in digital services to replace some very old legacy systems and to improve the customer experience.

47. A summary table on the next page shows the main areas of spending to 2030. The Council has been seeking to move as much funding as possible on short life assets from capital receipts to revenue, using the Repairs and Renewals Fund. The main reasons are:

    i. Council policy is to borrow only for regeneration schemes where the income will at least cover the borrowing costs.

    ii. By March 2021 capital receipts available will be reduced to £7.8m. These will be increased subject to sales of apartments in Addlestone, Egham, and Barbara Clark House. But these are the last significant capital receipts planned for some time.

    iii. For that reason, the capital spending is focused on essential service delivery and transformation to make savings from 2022 onwards.

General Fund - summary plans to 2030					
	2020/21	2021/22	2022/23	2023/2030	
	£'000	£'000	£'000	£'000	
Housing General Fund					
Disabled facility grant etc.	652	652	652	4,564	
Grants to partner organisations	300	300	300	2,100	
	952	952	952	6,664	
Environment & Sustainability					
Depot vehicle fleet	1,611	0	0	2,420	
River Thames scheme	2,000	2,000	1,000		
A320 Road improvement				2,000	
N Thames cycleway	20	150			
	3,631	2,150	1,000	4,420	
Community Services					
Community transport	322	61	288	477	
CCTV	100	100	100	700	
Runnymede Pleasure Grounds			4,313		
Egham Orbit	399				
Securing sites	79				
Parks equipment, play areas etc	275	384	138	954	
Youth café		120			
1st Chertsey scout hut	55				
	1,230	665	4,839	2,131	
Corporate services					
General asset management	345	350	500	10,900	Funded by future revenue contributions
RBCI - Egham flats		14,431			Repayable loan to Council owned company
Misc. asset management	100	350			
Digital service refresh	1,426	722	1,513	1,558	
Digital service transformation	576	1,011	280		
Property related					
Addlestone One	1,000	1,967			
Egham gateway west	24,919	42,300	4,840		
Egham gateway east				70,000	
Barbara Clarke/ Ashdene	100	6,900			
Chertsey Business park	6,866	470			
Misc.	1,314				
Future regeneration schemes		10,000	2,657		
	36,645	78,501	9,790	82,458	
Total General Fund plan	42,458	82,268	16,581	95,673	

Financial Strategy 2021/22

48. For several years, the Council's overarching strategy has been to make efficiency savings and generate new income streams to reduce reliance on government funding. During that time the Council has not cut any services to residents. As savings have been made it has been able to increase spending on service delivery every year since 2013. The Council has plans to make efficiency savings of £1million in the next 12 months in addition to the £1.3 million already found from removing previously agreed growth items from the budget.

49. Most economists believe Covid-19 is a once in a hundred-year event with economic recovery starting to take hold in late 2021 and continuing in 2022 and 2023. The regular reports to Council show that the loss on income from car parks, trade waste and commercial rents together with the increased

costs of fighting the pandemic seriously deplete the Council's reserves to an unacceptably low level.

50. The Council has always set a budget with some sustainable growth when safe to do so. As Covid-19 is a "once in a century" event and the services provided by the Council are all essential to the health and wellbeing of the Runnymede communities, especially our senior citizens, depleting the balances as shown above is considered to be not only high risk but will still require significant reductions in service.

51. The Council's financial strategy for 2021/22 is to:

- Continue to make efficiency savings through its project management, service review process and its digital services transformation programme.

- Continue with the assumption that the delayed long-term spending review of local government finance will not increase resources in the medium term.

- Commercial income will decline in 2020/21 to 2023/24. The Council will use some of its commercial income earmarked reserves to cushion the impact until the local economy recovers.

52. The Council will seek permission to capitalise some of its budget deficit as shown below. But as cash investments total around £70m the Council will not borrow from external sources. It has already set aside over £14m in capital reserves to repay debt in 2063. In the table below as a fallback position the Council could take a short-term loan at 1.5% interest to protect services until the local economy recovers. It is highly unlikely an external loan would be needed.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Projected income loss	5,845	4,303	888				11,036
Capitalisation requirement		4,000					4,000
Additional revenue charge			-500	-1,000	-1,000	-1,500	-4,000
Balance outstanding		4,000	3,500	2,500	1,500	0	0

53. The Council has significant cash reserves to fund the capitalisation of the Covid19 costs in 2020/21 or 2021/22.

54. The Council's treasury management strategy is very clear that investments are prioritised according to security, liquidity and lastly yield. As previously mentioned, as credit ratings have fallen, borrowing internally and reducing investments would be a lower risk option.

55. Council tenants are also taxpayers, so investing the Council's reserves with the Council, has the following advantages:

- Security – as mentioned earlier credit ratings in the UK have fallen. While there appears to be little risk the Council's General Fund is a low risk investment.

- Liquidity – The Council would prefer not to borrow from the Government as this would increase costs and loans taken would be for fixed periods. The timing of making a revenue contribution to fund the capital costs of Covid-19 is without penalty and would be at the complete discretion of elected Members

- Yield – investment rates are below 1%

56. The Council believes this is the correct strategy as it is not clear how long the economy will take to recover.

<u>General fund working balance and earmarked reserves.</u>

57. For several years, the Council has placed less reliance on Government funding and has generated funds from the services it sells to residents, business and other Councils. It has maintained a deliberate policy of growing reserves to fund those regeneration strategies and to mitigate the risks involved in major capital projects. The Council has invested around £150m in the towns of Addlestone and Egham. The Egham scheme commenced around the same time as the Covid-19 pandemic took hold. Construction has continued and the project is broadly on track to be delivered on time and within budget. But borrowing at long term rates of over 2.5% and funding the costs of Covid-19 will seriously deplete the Council's reserves to a dangerously low level. The strategy outlined above protects all the reserves, especially the one linked to regeneration and the commercial portfolio.

58. The earmarked reserves have been set up by the Council to mitigate specific risks and the onset of the pandemic does not remove those risks, in many ways the likelihood of those risks crystallising is more acute.

59. The Council has chosen the financial strategy that does not run down the General Fund or the earmarked reserves which will be needed for their explicit purpose:

    - The risk of further falls in commercial income for several reasons is more acute. e.g. Voluntary arrangements via the courts to have debt written off.

    - Tenants not able to pay existing rents and seeking reductions in future years

    - Government "expanded retail relief" scheme expires in March 2021 – the Council may be expected to collect an additional £17m of rates over and above the 2020/21 target

    - New rent agreements based on turnover of profit not a fixed sum per Sq. Metre

- The business cases for Addlestone and Egham may not realise the original income projections.

- Any delays due to Covid on the Egham project may incur penalty costs, delayed rent income and capital receipts

- While house prices have increased much of the increase has been in existing homeowners going for larger properties with gardens, moving to rural areas etc. It remains to be seen if the dwellings in Egham produce the planned capital receipts originally envisaged as the housing market returns to normal

- The Egham regeneration project includes student accommodation – the income projections for student rents need to be re-worked in light of post Covid student numbers.

60. The table below shows the General Fund working balance, even after capitalising £4m of Covid costs, falls to £7.661m, without capitalisation the balance in March 2022 would be at the minimum level set by Council. The table also shows the earmarked reserves being retained for the purpose originally set by Council, not to support general revenue spending for the risks outlined above. Members could however choose to deplete these reserves but would need firm plans to generate an additional £2m by the end of 2021/22.

	Balance at March 2020	(use of) or addition	Balance march 2021	(use of) or addition	Balance march 2022	(use of) or addition	Balance march 2023	(use of) or addition	Balance march 2024
	£'000	£'000	£'000	£'000	£'000	£'000			
General fund working balance	12,368	(5,635)		(3,572)		(3,465)		(2,240)	
Capitalisation request		4,000							
Capitalisation request repayment				0		(500)		(500)	
Net efficenct savings				500		1,000		1,000	
Additional savings requirement								1,000	
	12,368	(1,635)	10,733	(3,072)	7,661	(2,965)	4,696	(740)	3,956
Earmarked reserves									
Business rates equalisation	2,880	1,000	3,880	0	3,880	0	3,880	0	3,880
Equipment repair and renewal	1,201	(1,201)	0	0	0	0	0	0	0
Investment Property income equalisation	3,750		3,750	0	3,750	0	3,750	0	3,750
Property repairs and renewals	2,750	(1,250)	1,500	0	1,500	0	1,500	0	1,500
	35,317	(4,721)	19,863	(6,144)	16,791	(5,930)	13,826	(1,480)	13,086

Conclusion

61. While the Council expects to make significant savings in 2020/21 and 2021/22 from its transformation agenda these will not cover the costs or income losses from Covid. The Council has also started on a process of further transforming the way some services are delivered which will probably incur set up costs including some redundancy costs.

62. The Government's fundamental review of how local authorities are funded has also been delayed and is not likely to be implemented before 2022/23.

63. The Council anticipates the local economy will recover, some sections faster than others. The timeframe remains uncertain, but the services provided are likely to be more necessary as we move into Covid recovery.

64. For that reason, the Council wishes to maintain its services at the present level and use its capital reserves to fund the General Fund revenue deficits which require Government approval.

65. There will be no increase in borrowing, the Council has over £70m in investments which can be used in the short term. To be clear, there is no external borrowing, this is more the accounting treatment of capital financing in the future.

66. Appendix ‘G’ attached shows a summary of the General Fund budget for 2021/22. The spending on services in 2019/20 was a surplus of over £10m due entirely to the Council’s approach to regeneration and selling services to residents, local businesses, the private sector and other councils. For 2021/22 that income has reduced by over £8m. The current tax rate of less than £170 a year for a band D property means that, after inflation, the proceeds from council tax of £5.8m can never balance the council’s budget where the main service providing committees spend £13.4 million.

67. Appendix ‘H’ attached is a summary of the Council’s financial plans to March 2024.The report above articulates the risks faced and solutions to balance the budget. Without the measures recommended above – around £2m of savings and capitalising £4 million of Covid costs the Council’s working balance is reduced to just over the minimum set by council of £3.16m by March 2022

68. Appendix ‘I’ which is separately circulated shows readers all the adjustments made to the base budget taken but also operational and finance officers’ view of adjustments in future years. As the Council has not been able to invest the £100m planned to generate up to £2m additional income, £1.3 million of planned growth has been removed from the Council’s Corporate plan – these are exclusively service improvements mainly on the environment and planning enforcement.

General Fund Summary Revenue Account

Council Budget for the Year Ending 31 March 2022

	2019/20 Actual £	2020/21 Estimate £	2020/21 Probable £	2021/22 Estimate £
Expenditure on Services				
Housing Committee	1,748,459	2,109,081	2,006,319	2,050,009
Community Services Committee	4,697,651	5,281,243	5,345,118	5,507,175
Environmental and Sustainability Committee	3,276,524	3,886,811	4,103,690	4,067,145
Licensing Committee	7,978	16,045	25,657	30,885
Regulatory Committee	64,766	70,941	91,795	97,873
Planning Committee	1,952,921	1,562,327	2,080,210	1,645,277
Corporate Management Committee	(21,880,172)	(18,825,044)	(11,671,156)	(15,712,263)
Estimates in the MTFS yet to be agreed	0	1,278,000	0	0
Efficiencies and revenue reductions	0	(1,200,000)	0	0
Net Expenditure on Services	**(10,131,873)**	**(5,820,596)**	**1,981,633**	**(2,313,899)**
Transfers and Financing Adjustments				
Accounting and Other Adjustments:				
Reversal of Depreciation Charge	(2,174,278)	(2,640,428)	(2,181,422)	(2,736,854)
Cost of Capital Charge to HRA	(43,000)	(43,000)	(43,000)	(43,000)
Other accounting adjustments	109,673	0	0	0
Transfer to/(from) Reserves:				
Business Rates Equalisation Reserve	0	0	1,000,000	(3,880,000)
Equipment repairs and renewals reserve	1,000,000	1,000,000	1,286,000	750,000
Property repairs and renewals reserve	1,750,000	750,000	445,000	500,000
Investment Property income equalisation reserve	1,750,000	750,000	0	0
Infrastructure Feasibility Study Reserve	100,000	0	0	0
Financing and Investment Income:				
Investment Income	(358,135)	(373,000)	(271,000)	(209,000)
Interest on loans to RBC companies	(1,414,228)	(1,571,000)	(1,460,000)	(1,477,000)
Capital financing costs	10,923,929	14,466,000	12,467,000	15,097,000
Minimum Revenue Provision	3,288,804	4,097,000	3,820,000	3,973,000
Taxation and Non-Specific Grant Income:				
Council Tax income	(5,498,935)	(5,783,000)	(5,783,000)	(5,832,000)
Business Rates Retention	(6,735,816)	(3,700,000)	(1,500,000)	(2,900,000)
Transfer (from)/to the Collection Fund	140,000	0	0	4,044,000
New Homes Bonus	(1,145,690)	(1,657,919)	(1,657,919)	(599,418)
Covid related grants	0	0	(2,469,000)	0
Lower Teir Services Grant	0	0	0	(800,000)
Other Grants	(52,566)	0	0	0
Use of / (Contribution to) Working Balance	**(8,492,115)**	**(525,943)**	**5,634,292**	**3,572,829**

Council Tax Income Calculation

Council Tax Base (note 1)	33,410	34,099	34,099	33,404
Basic Amount of Council Tax (note 2)	£164.59	£169.59	£169.59	£174.59

Notes

1. This represents the number of properties adjusted for discounts, exemptions and bandings.
2. Calculated by dividing the net demand by the Council Tax base.

Medium Term Financial Strategy 2020/21 to 2023/24 - General Fund Summary

	Estimate 2020/21	Probable 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Base Budget 2020/21 agreed by Council Feb 2019	(5,822)	(5,822)	(5,822)	(5,822)	(5,822)
Budget Adjustments		8,263	3,412	888	(1,271)
Adjusted base budget A	**(5,822)**	**2,441**	**(2,410)**	**(4,934)**	**(7,093)**
Accounting adjustments:					
- Reversal of depreciation charges	(2,640)	(2,640)	(2,640)	(2,640)	(2,640)
- Capital charge to HRA	(43)	(43)	(43)	(43)	(43)
Transfers to/from reserves:					
- Insurance reserve	0	0	0	0	0
- Business Rates Equalisation reserve	0	1,000	(3,880)	0	0
- Equipment repairs and renewals reserve	1,000	1,286	750	750	750
- Property repairs and renewals reserve	750	445	500	500	500
- Investment Property income equalisation reserve	750	0	0	0	0
- Surrey Infrastructure Feasibilty Fund	0	0	0	0	0
Treasury and Financing					
- Investment & Dividend Income	(373)	(271)	(209)	(207)	(210)
- Interest on loans to RBC companies	(1,571)	(1,460)	(1,477)	(2,198)	(2,198)
- Capital Financing	14,466	12,467	15,097	16,052	16,155
- Minimum Revenue Provision (MRP)	4,097	3,820	3,973	4,132	4,297
- Voluntary Revenue Provision (VRP)	0	0	0	0	0
Government Grants (Non-Service Specific)					
- New Homes Bonus	(1,657)	(1,658)	(599)	(564)	0
- Other grants - Covid19	0	(1,222)	0	0	0
- Other grants - Covid19 - new burdens (Business Grants)	0	(130)	0	0	0
- Other grants - Covid19 - Compliance & Enforcement	0	(37)	0	0	0
- Other grants - Covid19 - sales, fees & charges	0	(1,080)	0	0	0
- Lower Teir Services Grant	0	0	(800)	0	0
Budget requirement B	**8,957**	**12,918**	**8,260**	**10,847**	**9,517**
Funded by:					
- Business rates retention scheme	(3,700)	(1,500)	(2,900)	(1,400)	(1,100)
- Share of Council Tax (surplus)/deficit for prior years	0	0	44	44	44
- Share of Business Rates (surplus)/deficit for prior years	0	0	4,000	0	0
Sub total of government funding C	(3,700)	(1,500)	1,144	(1,356)	(1,056)
Net demand (B less C)	**5,257**	**11,418**	**9,404**	**9,491**	**8,461**
Tax base - Band D equivilent numbers	34,099	34,099	33,404	33,554	33,704
Band D tax per year	169.59	0.00	0.00	0.00	0.00
Council tax income D	**(5,783)**	**0**	**0**	**0**	**0**
Use of / (contribution to) Working Balance	**(526)**	**11,418**	**9,404**	**9,491**	**8,461**
General Fund Balance	**(6,103)**	**(950)**	**8,454**	**17,945**	**26,407**
Over / (Under) minimum balance level of £2.969m	3,134	(2,019)	(11,423)	(20,914)	(29,376)

10. **RUNNYMEDE CYCLING AND WALKING INFRASTRUCTURE PLANS – STAGE ONE (PLANNING POLICY AND ECONOMIC DEVELOPMENT – RACHEL RAYNAUD)**

Synopsis of report:
This report presents the proposed Runnymede Local Cycling and Walking Infrastructure Plans (LCWIP) project feasibility work for review for funding.

Recommendations:

1. That Members of the Corporate Management Committee approve £20,000 revenue funding as match funding to enable commencement of phase 1 of a Local Cycling and Walking Infrastructure Plan feasibility work for Runnymede Borough to commence in the financial year 2020/2021 with withdrawal of funding required in 2021/22.

2. The £20,000 revenue funding referred to at 1. above be met from the Council's contribution to the Surrey Infrastructure Feasibility Fund and be released only when Surrey County Council's contribution of £40,000 is confirmed.

3. Members agree in principle to match fund stage 2 of the plan development, but that on completion of phase 1 a report is brought to Members to provide an update on the phase 1 work, and to seek approval for the Council to release funds for stage 2 feasibility work.

4. Members note that the stage 2 payment would fully deplete the earmarked Infrastructure Feasibility Fund Reserve placing the Council in the same position as it was when the fund was set up. There would therefore be a requirement to replenish the reserve with a further growth bid before any future schemes could be entertained.

1. **Context of report**

1.1 Following unprecedented levels of walking and cycling across the UK during the pandemic, the development of Local Cycling and Walking Infrastructure Plans (LCWIP) and their delivery, will help encourage more people to choose alternatives to private car use when they need to travel, making healthier habits easier and helping make sure the road, bus and rail networks are ready to respond to future increases in demand.

1.2 An updated Cycling and Walking Investment Strategy was launched in the summer, outlining the government's ambition to make cycling and walking a natural choice for shorter journeys, or as part of longer journeys by 2040. Measures to transform cycling and walking to deliver the government's aims to double cycling and increase walking by 2025 – included:

- the creation of a national cycling and walking commissioner and inspectorate
- higher standards for permanent infrastructure across England
- getting GPs to prescribe cycling and exercise
- creating a long-term budget for cycling and walking similar to that for roads.

1.3 Over £1 billion of Government funding has been made available to local bodies that may be invested in cycling and walking over the next five years. In order to be in a position to bid for funding, local authorities will need to have up to date feasibility studies in place which identify appropriate costed schemes.

2. **Local Cycling and Walking Infrastructure Plans (LCWIP) Feasibility Project from Surrey County Council for review**

2.1 LCWIP's are blue-prints of walking and cycling routes within an area that have been assessed as meeting Department of Transport (DfT) standards. They are due to be rolled out for all areas within the county. Surrey County Council has appointed consultants to undertake the work which has been divided up into tranches of three LCWIPs at a time. Runnymede was not originally identified to be included in the first tranche of studies, however given that Elmbridge have agreed to commence work on their LCWIP, Spelthorne have been invited to match fund a study in their boundary and SCC have been approached by the local community in Egham regarding development of cycle provision, Runnymede have now been asked by SCC if they would like to participate in this first tranche of studies.

2.2 The study will focus on a cluster and corridor approach to prioritise areas where there is a natural desire line for walking and cycling and where take-up is likely to be higher. The work is split into two phases:

Stage 1:
Cost: approx. total cost £60k. SCC would contribute £40K and RBC are requested to contribute £20K. The work will commence in 2020/21. This revenue funding would be required in 2021/22.

Timeline: the components necessary to complete the DfT approved LCWIP will take approximately 9 months to complete. Approximate start date Jan/Feb 2021.

Output: this produces schemes that have been consulted with stakeholders, and concepts with high level costings, but it does not include the specific details required to successfully secure funding for delivery of the plan. This is required in stage 2.

Stage 2:
Cost: SCC have indicated that the estimated total cost of Phase 2 is approximately 300k for the feasibility work, economic assessment and business case development. This would be split between SCC and RBC on the basis agreed in the Surrey Future Feasibility Fund, with the gearing ratio of 1:0.86 (the council contributes £1 with SCC contributing £0.86). The total cost of phase 2 depends to some extent on the number/complexity of the schemes identified in phase 1. Given a potential start date of approx. Oct/Nov 2021 for this phase of work, RBC's indicative spend in 2021/22 for phase 2 would be approx. up to £160k.

Timeline: A further estimate of 6 - 9 months is required to complete the additional stage 2 feasibility design work.

Output: Work in phase 2 which is additional work beyond the initial DfT LCWIP methodology is required to produce the preliminary designs, detailed costings, value for money and wider economic assessment needed to create a robust business case to enable the plan to be bid ready, to fund the LCWIP scheme packages identified across the borough. This phase will also need to factor in the design standards and aspirations in the Gear change: a bold vision for cycling and walking Government paper published in July 2020.

2.3 Following completion of phase 1 and 2 works, RBC/SCC would be in a position to jointly bid for government funding to deliver on the schemes identified, depending on availability of partner match funding. SCC would expect that 1 to 2 packages would be identified with a total cost of up to £5million each for potential future implementation, although packages can be scaled. The main source of funding for implementation of schemes is DfT funding, which usually requires 25% match (capital) funding from partners. It is likely therefore that if a bid for funding were submitted, SCC would request from RBC a 50% contribution to the 25% partner match funding. Other possible funding streams might also be available. Between 20-30% of the feasibility costs may be able to be capitalised where they contribute to the permanent works. The timing of delivery of identified schemes will thus be dependent on the availability of Government funding and RBC and SCC's ability to provide match funding.

3. Policy framework implications

3.1 The Government's recently launched 10 point plan for a green industrial revolution sets out the approach it will take to build back better, support green jobs and accelerate our path to net zero in order for the country to achieve its legal obligation to achieve net zero carbon emissions. Part 5 of the plan focuses on green public transport, cycling and walking and includes a commitment to provide over 1,000 miles of safe and direct cycling and walking networks to be delivered by 2025 with network plans developed and being built out in every town and city in England with the aim of doubling cycling rates from 2013 levels to 1.6 billion stages per year. This project will enable the Council to be in a position to bid for some of this funding to implement schemes within the Borough.

3.2 This project supports the Corporate Business Plan priorities:

- Supporting Local People
- Enhancing our environment
- Enhancing our economy

3.3 Policy SD3 of the Runnymede 2030 Local Plan states that the Council, working with stakeholders will support schemes and development proposals which enhance the accessibility and connectivity between people and places and sustainable forms of travel.

3.4 Development of an LCWIP for Runnymede will also provide a key element of a future Climate Change Strategy for the Borough.

4. Resource implications (where applicable)

4.1 In 2019/20 the Council set up an earmarked reserve of £100,000 for initial infrastructure feasibility works in response to concerns that Surrey was missing out on wider infrastructure funding opportunities. This was intended to be used for feasibility work for infrastructure projects and would be matched by contributions from Surrey County Council in the ratio of 1:0.86 (RBC contributes £1 with SCC partner funding of £0.86).

4.2 The initial £20,000 for stage 1 of this project can be drawn from this earmarked pot of money. In December 2020 RBC invoiced SCC for approximately £80,000 to cover historical costs incurred in developing the A320 project, from the HIF grant. This money, together with the £100,000 earmarked reserve is sufficient to cover the cost of the estimated stage 2 payment of £160,000. . If the stage 2 payment of £160,000 is drawn from this fund - once additional contributions have been received - this would fully deplete the reserve placing the Council in the same position as it was when the fund was set up.

4.3 Any allocation of these funds would be dependent on Surrey County Council/partners also making their funding contributions toward the project based on the terms that have been set out in section 2.

4.4 Given the scale and approximate nature of the costs for phase 2 of the project, it is proposed that ,on completion of phase 1, a report will be made to Committee to update on the findings of phase 1 and to seek approval for match funding for phase 2.

4.5 The key risks for the Council associated with not approving funding for the LCWIP development is that this would lead to a lack of prioritisation by SCC for the development of a Runnymede LCWIP, which might hinder the Borough's ability to access Government funding available over the next five years to deliver schemes, which in turn could pose a reputational risk to the council of not supporting the development of sustainable infrastructure.

4.5 Some internal staff resource will be required from the Planning Policy and Economic Development Business Unit to input into the plan development, especially the public consultation elements, however the management of the consultant contract will be the responsibility of SCC.

4.6 With the earmarked Infrastructure Feasibility Fund Reserve being fully depleted from the stage 1 and stage 2 payments, there would be a requirement to replenish the reserve with a growth bid before any future schemes could be entertained. This would be contrary to the Council's current need to reduce its underlying budget deficit as set out elsewhere on this agenda.

5. **Legal implications**

None for the purpose of this report.

6. **Equality implications**

None for the purpose of this report.

7. Environmental/Sustainability/Biodiversity implications

7.1 Development of improved cycle infrastructure in the Borough will have significant environmental benefits and is key to developing sustainable neighbourhoods. This infrastructure will also have a key benefit in improving the health and wellbeing of residents and visitors.

8. **Conclusions**

8.1 Members of the Corporate Management Committee are recommended to approve £20,000 revenue funding as match funding to enable commencement of phase 1 of a Local Cycling and Walking Infrastructure Plan for Runnymede Borough to commence in the financial year 2020/2021 with withdrawal of funding required in 2021/22.

8.2 It is also recommended that Members agree in principle to match fund stage 2 of the plan development, but that on completion of phase 1 a report is brought to Members to provide an update on the phase 1 work, and to seek approval for the Council to release funds for stage 2.

(To resolve)

Background papers

None

11. **CARER'S POLICY (HUMAN RESOURCES – FIONA SKENE)**

Synopsis of report: To consider a proposed Carer's Policy.

Recommendation: that the proposed Carer's Policy attached at Appendix 'J' be approved.

1. Context of report

1.1 Due to advancements in medicine and quality of life in the C20th century, life expectancy for the majority of the population has tended to increase leading to a situation where caring responsibilities towards elderly relatives has become a bigger issue for many employees than it used to be. There are also a number of people who look after a disabled relative or child. In addition, there have been some prominent cases on the rights of employees as carer's of disabled children, for example.

1.2 As an employer we need to consider how we respond to these trends. This has led to the drafting of a Carer's Policy which is attached at Appendix 'J'.

2. Report.

<u>How do we define Carer's under the policy?</u>

2.1 In essence, a carer is defined under the proposed policy as 'employees with caring responsibilities towards a dependant that has a substantial impact on their working life'. The dependent is someone who is heavily dependent on the employee for their personal care on a daily or almost daily basis. The activities a carer might undertake are listed in the policy but can be as wide-ranging as help with mobility and personal care, managing medication, doing practical household tasks, to helping the dependent to apply for benefits and other entitlements. Although it is anticipated that carers would normally be responsible for a close family member, the policy has also included an employee who is a registered carer for someone who is not a close family member but may be a friend or neighbour. The scope of who should be classed as a carer was a topic of conversation when this matter was considered by the HR Member Working Party and following consultation on the policy with UNISON, the compromise that someone who looked after a non-family member should be classified as a registered carer was reached.

<u>What is the policy designed to do?</u>

2.2 The policy is designed to explain the support the organisation proposes to give to assist employees who are carers so they can more easily combine this role with their employment role. This includes keeping a Carer's Register in HR so we know which employees are carers and having a Carer passport so that if an employee moves to a different team their line manager knows what the carer's needs at work are and what the solutions are to those needs. The Health and Safety Officer would act as Carer's champion in the authority.

2.3 Under this policy, it is recommended that carers may have up to 2 days paid carer's leave per annum. In addition, the different ways in which the organisation can support the carer through flexibility in their working arrangements are also set out. This includes the right to request alternative working patterns on a temporary basis or on a permanent basis under the Flexible Working Scheme; or simply to support them in having time off to accompany a dependent to a medical appointment.

2.4 UNISON have been consulted on this policy and some amendments included in the policy as a result.

(To resolve)

Background Papers

None stated

APPENDIX 'J'

Carer's Policy

January 2021

Department	HR
Document name	Carer's Policy

1. Introduction

This policy sets out the organisation's commitment to supporting employees who are carers and the support that the organisation offers them to combine work with care.

2. Commitment to supporting carers

Employees may have caring responsibilities and may need the organisation's support to combine work with care. The organisation has adopted this policy to demonstrate its support for employees who are carers, and to set out what support is available.

The organisation aims to give carers the same recruitment and career opportunities as everyone else. It will give carers as much support as is reasonably practicable to achieve this objective.

(The Council has also signed up to Surrey County Council's Carer's Memorandum of Understanding through the Community Services Committee)

3. Definition of carers

When defining carers, the organisation aims to strike a balance between recognising the special circumstances of caring, and not classifying carers as a rigid or separate group.

The organisation defines carers as employees with direct caring responsibilities towards a dependant that have a substantial impact on their working life. This may mean requiring time off at short notice or some flexibility at times in their working hours to accommodate the needs of the person they are caring for. A dependant is someone who is heavily dependent on the employee to assist with their personal care on a daily or almost daily basis and would be unable to cope with their personal care without significant assistance from the employee concerned. The dependant would normally be a close family member (e.g. a spouse, partner, child, or parent.) However an employee who was a registered carer for someone who was not a family member such as a friend or neighbour would also be covered by this policy). The activities that carers undertake are wide ranging, including:

- Help with personal care;
- Help with mobility;
- Managing medication;
- Accompanying to medical appointments
- Practical household tasks;
- Emotional support;
- Help with financial, housing and other related matters or administration
- Being a careline responder for emergencies; and
- Help with applying for benefits and other entitlements.

A carer would normally undertake a combination of such tasks but may also be applying for themselves for a Carer’s allowance, Disability Living Allowance etc.

4. Carers' circumstances

Carers' needs are different from the needs of employees with mainstream childcare responsibilities, and the circumstances and milestones of caring are different from those of mainstream childcare.

Caring can be time-consuming, expensive, unpredictable and emotionally upsetting. An employee may acquire caring responsibilities overnight, for example where the employee's parent has a stroke, or caring responsibilities may develop over time, for example where the employee's partner has a debilitating long-term health condition. With childcare, the child's journey is often predictable as he/she grows older, goes to school and becomes more independent. The milestones of caring may go in the opposite direction, for example an elderly parent may become more frail and dependent over time, and a disabled child may continue to have significant support needs when he/she become an adult.

5. Identification and disclosure

Employees are not required to disclose to their line manager that they are caring for someone, but are encouraged to do so. This will help the organisation provide appropriate support to the employee. Line managers will respect the confidentiality of any information provided to them in this regard.

When an employee discloses to his/her line manager that he/she is a carer, the organisation will process any personal data collected in accordance with its data protection policy. Data collected from the point at which an employee informs the organisation of his/her caring responsibilities is held securely and accessed by, and disclosed to, individuals only for the purposes of supporting the employee in his/her caring responsibilities (e.g. when dealing with requests for flexible working.)

Where a manager knows that an employee in his/her team has caring responsibilities, the manager should inform the employee about the support that the organisation offers carers and encourage him/her to access the support offered.

The Council proposes to introduce a Carers Register to be held in HR. This would be an informal list of employees who have identified themselves as a carer. Its purpose would be to help ensure that the organisation gives carers appropriate information and support. The organisation recognises that caring can be unpredictable and that caring circumstances vary. The register would be flexible to allow employees to join or leave the list as their circumstances change.

The Council also proposes to introduce a carer’s passport scheme. This passport would document the carer's needs at work and identify solutions to those needs, and enable this information to travel with the carer if his/her job or line manager changes.

It would set out the contact arrangements between the employee and his/her manager during emergencies.

6. Flexible working

The law grants the right to request flexible working to employees who have a minimum of 26 weeks' continuous service. For further information on flexible working requests, please refer to the Council's policy entitled ‘Right to Request Flexible Working’.

The organisation offers various types of flexible working

Flexitime: The organisation operates a Flexible Working Hours scheme in most service areas. Time off is subject to business needs and adequate coverage in the service area concerned. Employees must work certain core hours, but outside these hours they have some flexibility over the hours that they work. For example, they may be able to work extra hours and use these to take time off work when they need it. Employees should refer to the Council’s policy on Flexitime.

Homeworking: Employees may request some working from home up to a maximum of two days per week, where practical, and where business needs can still be fulfilled. These requests will need to be submitted to and reviewed by their line manager.

Job-sharing/Part Time Working: Employees may request a job-sharing arrangement in their existing role. Alternatively, they may request to perform their role on a part-time basis, either by working shorter days or fewer days per week. Any such request must be submitted to their line manager, who will discuss this request with them and consider if it can be approved.

Compressed hours: Employees may ask to work full-time hours over fewer working days.

Other changes to working patterns: Employees may ask to work the same hours but at different times, for example

7. Crisis situations

Employees with caring responsibilities cannot always plan ahead for time off. The ability to take leave in an emergency is important for carers, who may be called on at short notice.

Employees have the right to take a reasonable amount of unpaid time off work to assist or make arrangements for the care of their dependants regardless of their length of service. This is normally 2 days unpaid Dependency Leave per annum. However, under this policy the Council is proposing to turn this into 2 days paid Dependency Leave per annum. Employees who wish to take time off for dependants should contact their line manager to explain the circumstances where this situation occurs and request this dependency leave. If they need more time off, they need to consult their line manager to discuss what arrangements can be made for additional leave. This can be a mixture of annual leave or flexi-leave. In some cases, compassionate leave may be appropriate.

The Council also offers employees the opportunity to request to work reduced hours for a temporary period to deal with a crisis.

8. Flexible leave arrangements

Employees with caring commitments may need time off work to meet their caring responsibilities, in addition to the 2 days paid dependency leave per annum which may be given, where needed. For example, they may need to attend medical appointments with a dependant or deal with a dependant's discharge from hospital. In such circumstances, they should seek the prior consent of their line manager.

Employees should discuss with their line manager any known leave needs relating to their caring commitments. This will help the manager and the other members of the team to plan work and other leave arrangements. Line managers will, where possible, approve annual leave requests from employees who wish to take time off to meet their caring responsibilities.

Where possible, carers should book appointments that they need to attend with a dependant at the start or end of the working day or outside core hours to minimise disruption to work. However it is recognised that this is not always within the Carer’s control, particularly with medical appointments and operations.

Carers may benefit from flexible leave arrangements (in addition to flexible working arrangements) to manage all aspects of their caring role. The organisation offers carers the following special leave options

- Flexitime
- Annual leave
- Compassionate leave – If dependant become seriously ill

The organisation may grant carers the ability to make up time off that they have taken to meet their caring responsibilities at another time. This needs to be approved by the line manager, and employees should discuss any such requirements with their manager.

The organisation may grant employees the ability to take **up to 5 days** paid compassionate leave with the Corporate Head’s Approval.

The organisation also operates a system whereby employees can buy annual leave. This scheme may also be used. For details, please refer to the organisation's **LEAVE POLICY.**

Employees may also request a career break which is an unpaid break where the employee retains their continuity of employment. Employees should send a request to their Corporate Head who will consider the request carefully taking into account the feasibility for the service area concerned as well as the circumstances of the employee before making a decision.

9. Other support for carers

Employees with caring responsibilities, together with their line manager, should also consider whether or not the following adjustments and support mechanisms would help to combine work with caring responsibilities:-

- The ability to make or receive calls in connection with his/her caring responsibilities and access to a private space to make/receive calls. Quiet rooms may be used for this purpose.
- information about external sources of support for carers and their dependants on the staff intranet.
- the Council's provision of a maximum of five free counselling sessions for staff who need welfare support.

The Council's Health and Safety Adviser acts as a Carer's Champion. Her role is to raise awareness about caring, promote the take up of carer-friendly policies and ensure equal treatment for carers across the organisation. Employees may contact the Carers Champion if they have any issues regarding combining work with care that they do not wish to discuss with their line manager. Employersforcarers.org can also provide support and advice.

10. Line managers

Line managers are key to implementing this policy. Each carer's situation requires a different response from the manager, so managers should take into account the whole range of organisational support available when putting in place support for carers.

Employees need to be confident that they will not be treated less favourably if they take up the organisation's support for carers. Managers should create a workplace culture that is supportive of carers, by encouraging employees to make use of the support offered to carers and encouraging discussion around carers' issues.

Managers with a carer in their team can also approach HR to receive organisational advice with supporting the carer. All managers will be provided a briefing of this policy.

This policy will be kept under review and updated as necessary.

11. Further resources

- **CarersUk** - Information, advice and campaigning.
- **Carersnet** - A wide range of information for carers in Surrey including local groups, initiatives and national debates.
- **Carers Assessments** - Advice from Surrey County Council on getting a formal assessment of a carer's needs
- **Directgov** - Government advice for carers on services and rights.
- **Employers for Carers** - National network of employers promoting the benefits of supporting carers in the workplace.
- **Surrey Young Carers** - If a child or children take on extra responsibilities to help with caring, they are young carers. SYC offers information, advocacy, support and activities. Tel: 01737 248111
- **NHS Choices - Carers Direct**
- Surrey County Council Contact Centre - for community based help phone: Adult Social Care: 0300 200 1005; Children's Social Care: 0300 200 1006

12. **PRELIMINARY CONSIDERATION OF MAYORAL SELECTION (LAW AND GOVERNANCE – MARIO LEO)**

Synopsis of report: **To recommend a nomination for the office of Mayor for the Municipal Year 2021/22 to the next Ordinary Meeting of the Council on 4 March 2021.**

Recommendation: **That Councillor E Gill be nominated for the office of Mayor for the Municipal Year 2021/22 in acknowledgement of the fact that due to the impact of Covid 19 she was unable to take up this office in May 2020.**

1. Report

1. In accordance with Standing Order 7, the following procedures apply for the selection of the Mayor.

   i) consideration of candidates for the office of Mayor will be undertaken by the Corporate Management Committee before the end of February in each calendar year;

   ii) the Corporate Management Committee will recommend one Member of the Council to be nominated as Mayor for the following Municipal Year to the first Ordinary meeting of the Council after that Committee meeting; and

   iii) if the Council approves the recommendation of the Committee, the nominee will be put forward as a candidate for the office of Mayor at the Annual Meeting in the next Municipal Year, provided that they are still a Member of the Council.

2. The Committee is therefore asked to consider candidates for the office of Mayor and recommend a nomination for this office for 2021/2022 to the next Ordinary meeting of the Council.

3. Members will recollect that because of the Covid pandemic, the Government in April 2020 enacted the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020. Those regulations allowed the continuation in office of any Mayor who had been appointed to office in May 2019.

4. Councillor P Sohi, who had been appointed as Mayor in 2019 and was scheduled to leave office in May 2020 agreed to remain in office to assist the Council and avoid the need to hold an Annual Meeting at a time when the country was in lockdown.

5. In October 2020, when the use of remote meeting technology had been developed, Councillor Sohi resigned from the office of Mayor. Councillor E Gill was appointed by Full Council to take over the office of Mayor until May 2021 and Councillor M Harnden was appointed to the office of Deputy Mayor for the same period.

6. Councillors Gill and Harden had been nominated to take on the offices of Mayor and Deputy Mayor in May 2020 but due to the Covid pandemic were unable to do so. Members indicated prior to the Full Council meeting in October 2020 that they would support the nomination of Councillors Gill and Harnden for the offices of Mayor and Deputy Mayor for the Municipal Year 2021/22 in acknowledgement of the fact that

due to the impact of Covid 19 they were unable to take up those offices in May 2020.

(To recommend to Full Council on 4 March 2021)

Background papers

None

13. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following reports under Section 100A(4) of the Local Government Act 1972 on the grounds that the reports in question would be likely to involve disclosure of exempt information of the description specified in paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act.

(To resolve)

PART II

Matters involving Exempt or Confidential information in respect of which reports have not been made available for public inspection

Exempt Information		**Paras**
14.	LETTING OF UNITS AT EGHAM BUSINESS PARK	3
15.	REFERENCE FROM COMMUNITY SERVICES COMMITTEE - AVIATOR PARK SKATE PARK	3
16.	REFERENCE FROM COMMUNITY SERVICES COMMITTEE – INTEGRATED CARE PARTNERSHIP FUNDING AND CHANGES TO STAFF ESTABLISHMENT	1 and 3
17.	COMMUNITY ALARM MONITORING SOFTWARE – PROPOSED PROCUREMENT	1 and 3
18.	ENFORCEMENT OF PROCEEDS OF CRIME ORDERS – PADD FARM (TO FOLLOW)	3
19.	ACHIEVE LIFESTYLE GRANT FACILITY - FURTHER RELEASE OF FUNDS (TO FOLLOW)	3

Confidential Information

(No reports to be considered under this heading)