4 February 2019

Dear Councillor

SUMMONS TO A MEETING OF THE COUNCIL

I hereby summon you to attend the meeting of the Council to be held on **Tuesday 12 February 2019 at 7.30pm** in the Council Chamber at the Civic Centre, Addlestone.

PAUL TURRELL
Chief Executive

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A G E N D A

1. **FIRE PRECAUTIONS**

   The Mayor will read the Fire Precautions which set out the procedures to be followed in the event of fire or other emergency.

2. **MINUTES**

   To approve and sign, as a correct record, the Minutes of the Meeting of the Council held on 6 December 2018 (Appendix 'A' – blue pages)

3. **MAYOR'S ANNOUNCEMENTS**

4. **APOLOGIES FOR ABSENCE**

5. DECLARATIONS OF INTEREST

If Members have an interest in an agenda item please record the interest on the orange coloured form circulated with this Agenda and hand it to the Democratic Services Manager at the start of the meeting. A supply of the form will also be available at the meeting.

Members are advised that Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with any arrears of Council Tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.

6. PETITIONS

To receive Petitions under Standing Order No. 19.

7. QUESTIONS

To answer questions asked under Standing Order No. 13.

8. CORPORATE FRAUD AND FINANCIAL INVESTIGATIONS – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019

The Committee's endorsement was sought of a recommendation from the Standards and Audit Committee of a proposal to work in partnership with Reigate and Banstead Borough Council on fraud investigation to enhance resources available for an increasing need to work on fraud investigation.

Members noted that in 2014 the responsibility for the investigation of Housing Benefit fraud transferred to the Department for Works and Pensions (DWP). At that time, recognising the need to investigate fraud in other areas, the Fraud Investigator's post had been retained and funded by the Council. The background to the current proposal was explained; namely an increase in potential fraud across Resources and Housing related matters and that the current post holder had been very successful at identifying potential fraud at an early stage, undertaking the investigation work, through to securing a significant number of positive outcomes for the Council and the County Council, although Officers confirmed that the new arrangements would remain outcome focussed on raising income for the Council.

As well as investigation the work involved fraud prevention, reactive fraud referrals and financial investigations all of which were undertaken using clear frameworks and software systems.

Officers had discussed the potential for partnership working with Reigate and Banstead Borough Council, whose staffing resources were greater and an indication of their success rate was noted. By entering into a more formal relationship, for which a service level agreement would be required, there would be support for the current post holder and estimated additional income of £290k in 2019/20

If approved, Runnymede's investment in the proposed future arrangements would require a new budget for 2019/20 of £43,400. If the Council pursued this new partnership with RBBC, a cautious estimate of the increased income in terms of tax collected and retained by Runnymede for 2019/20 was £290,000 and the costs that would be saved in the HRA and avoided in the General Fund Homelessness budget for 2019/20 was £29,300.Therefore the post would be self-financing.

The proposal was endorsed by the Committee who were pleased to recommend its approval by Full Council

RECOMMEND to Full Council on 12 February 2019 that-

i) the Council works in partnership with Reigate and Banstead Borough Council with regard to fraud investigation and provision be made in the Resources Directorate for a budget of £43,400 for 2019/20 to meet the cost of entering into a Service Level Agreement with Reigate and Banstead Borough Council for this purpose; and

ii) the estimate of the increased General Fund income and Housing Revenue Account (HRA) savings that would result from the partnership be noted.

9 2019/20 TREASURY MANAGEMENT STRATEGY,ANNUAL INVESTMENT STRATEGY,PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019

The Committee considered a report on the Treasury Management Strategy (Appendix 'B' – green pages), Annual Investment Strategy (Appendix ' C '-pink pages), Prudential and Treasury Management Indicators (Appendix ' D '- maize pages), and Minimum Revenue Provision Statement for 2019/20. It was noted that the Overview and Scrutiny Select Committee would be considering the report at its meeting on 6 February.

The Director of Resources reported that there had been no change to the strategic direction Members had set out in 2012 and 2013, and recommended a continuation of existing Policies and Strategies. The emphasis of the Strategy continued to be on risk management.

There had been changes in the reporting requirements set down by Government and the Codes of Practice required to be followed. CIPFA now required all local authorities to produce a Capital Strategy, something which Runnymede had done for many years.

In the Capital Strategy, the CIPFA codes required the Council to be more specific to the electorate and separate out core treasury functions on investments under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The new sections in the Strategy focus on commercial investments including the Council's regeneration plans.

Three years ago Members had approved a budget of £400m to acquire assets and £60m of that sum remained uncommitted. In December 2018 the Chief Executive, Leader, Deputy Leader and Director of Resources agreed to suspend any further acquisitions until after June pending clarity on Brexit and events in the wider world economy. Members commented that whilst they agreed with this course of action it could have been better communicated and this would be addressed for the future. In view of the pause in further acquisitions, there was no refreshed Property Investment Strategy before Members at this stage.

With regard to the Borrowing Strategy, the Council was currently maintaining an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), had not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow had been used as a temporary measure. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered. Overall, this had made a significant saving to the General Fund and was a prudent Strategy.

With regard to the Annual Investment Strategy, there were two changes to the proposed Strategy for next year. The first was the removal of the requirement to limit investments in Building Societies to 50% of total funds invested. This was introduced at a time when the Council used unrated Building Societies, however with only four Building Societies now on the Council's counterparty list, all of which were rated the same way as banks, this requirement was now surplus to requirements.

The second change was to clarify the Council's use of Money Market Funds following the introduction of the European Money Market Fund Reforms. Money Market Funds had now been separated into three fund types:

- Government Constant Net Asset Value (CNAV)
- Low Volatility Net Asset Value (LNAV) - NEW
- Variable Net Asset Value (VNAV)

The current Investment Strategy did not distinguish between these types of funds so clarification was required. The Strategy had been amended to state that the Council would only use Constant and Low Net Asset Value Money Market Funds (CNAV/LVNAV). All of the Council's existing Money Market Funds fell under the new LVNAV category.

The statutory guidance from Government and CIPFA placed much more reliance on risk management. Apart from increased earmarked reserves to cover long term potential variations in commercial income, as regards capital investment, both asset acquisitions and regeneration, risk was managed in many ways, namely

- All financing from loans was at fixed interest, fixed period of around 50 years;

- Income was set aside every year to repay debt, and it was proposed to continue with that policy. Therefore, no change was recommended to the Minimum Revenue Provision and the Committee agreed to recommend the Statement in part (v) of the recommendation below;and

- Business cases were prepared assuming a pool rate of 3% and the Council borrowed all the purchase price, the actual rate was lower and the Council under borrow so generally there was a surplus of income compared to the budget.

There had been other changes in the operations which had to be reported. UK banks separated out retail from investment banking. There had been no debt restructuring and the Director of Resources considered the Council's approach to risk management was as low risk as possible in its use of banks and money market funds. Triple A ratings were required for the Council's investments.

In accordance with the Treasury Management Code, the key treasury risks were reported and set out in detail in the Council's Treasury Management Practices (Appendix'.E'- grey pages). The Practices were recommended for approval to Full Council.

As regards Prudential and Treasury Management Indicators, a complete set of all indicators, which were a mix of estimated and actual figures, ratios, and limits, (Appendix 'D') were reported. The operational and authorised limits for debt which Council were being asked to approve were included in the Indicators and the debt levels increased only for the Council's regeneration projects. The Committee recommended to Full Council for approval the Indicators and the limit for external borrowing in 2019/20 of £720,939,000.

RECOMMEND to Full Council on 12 February 2019 that

i) the proposed 2019/20 Treasury Management Strategy report (Appendix 'B') encompassing the Annual Investment Strategy (Appendix 'C') be approved;

ii) the Prudential and Treasury Management Indicators for 2019/20 set out in (Appendix ' D ') be approved;

iii) the revised Treasury Management Practices in (Appendix ' E ') be approved;

iv) the authorised limit for external borrowing by the Council in 2019/20, be set at £720,939,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003; and

v) there be no change to the previously adopted MRP policy as set out below:

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*.**

10. CAPITAL STRATEGY AND GENERAL FUND CAPITAL PROGRAMME – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019

The Committee considered a draft Capital Strategy and Capital Programme for 2019/20 to 2022/23.

The updated Capital Strategy set out the Council's rationale on investment in capital assets and projects which would cover an extended period of 10 years. Details of some of the material schemes in the Capital Programme and method of financing the Capital Programme were noted.

The Director of Resources reported that the Capital Strategy was a continuation of that approved by Members some years ago. There had 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 Ashdene House. All of these place shaping projects committed considerable capital sums which would 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. The income from rents supported the Council's expenditure on service delivery.

The Council had invested significant sums in its Housing stock totally funded by rents of £8.7m. Other notable investment plans included the vehicle fleet renewal plan which needed a commitment of £2.2m and a £5m loan to the RPG Trust for improvements to the Runnymede Pleasure Grounds.

The current forecast for capital receipts was noted. The Council relied on capital receipts from major regeneration projects. The projected use of capital receipts to fund short life assets would reduce by 2022/23, and the Budget proposed funding an increasing proportion from revenue each year.

In addition to the standard prudential indicators, new CIPFA guidance advised including indicators that allowed 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 was reported for information.

The Council's Investment Strategy had been considered earlier in the meeting. No further commercial acquisitions would be made until after June. £60m of the uncommitted budget for acquisitions would be held in reserve until the risks to the UK economy were clearer and Members could review the Property Investment Strategy at that time.

Officers believed the Capital Strategy and Programme were deliverable within existing resources, including prudential borrowing for the regeneration programme. The revenue consequences were affordable as shown in the Council's Medium Term Financial Plan. Risks and governance of the strategies were actively monitored by officers and regularly reported to Members.

The Committee recommended Full Council to approve the Capital Strategy (Appendix 'F'-gold pages) and Capital Programme (confidential Appendix 'A' separately circulated).In line with established practice, individual detailed capital schemes would still require Member approval of Business Cases.

RECOMMEND to Full Council on 12 February 2019 that-

i) the Capital Strategy (Appendix ' F ') and the Capital Programme (Confidential Appendix ' A ') be approved; and

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

11. CORPORATE BUSINESS PLANNING 2019/20 – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019

The Committee considered approval of the 2019/20 Business Centre/Team Plans, the 2019/20 Corporate Action Plan, and the growth requests to be included in the proposed 2019/20 budget for approval at Full Council in February.

The Committee was informed that Officers had accelerated the business planning cycle this year in order to align it with the budget setting process. This ensured that the organisation was strategically aligned operationally as well as financially. One small disadvantage of this approach was that the proposed 2019/20 Corporate Key Performance Indicators and their associated targets in the business plans had been set after knowing only two quarters of results and so might subsequently need to be revised later.

Corporate Support Business Centre/Team Plans were approved by the Committee. Each of the non-corporate front-line service (Housing, Community Development, Community Services, Environmental Services, and Planning) had their business plans presented to their relevant committees and these had been approved.

Due to the need to submit the non-corporate Business Centre Plans to the relevant committees in advance of finalising the proposed budget (in order to complete the full business planning cycle by January), there was subsequently a need to defer some of the work activities proposed in the Community Services and Community Development approved Business Centre Plans. This was because the growth requests which would be necessary for their delivery were not currently affordable. Officers still aspired to deliver these activities in the forthcoming year if funding became available.

All Business Plans would be published on the Council's website and sent to Members. Members were invited to contact Officers if they wished to raise specific points on the content of the Plans. In response to a Member query, Officers would consider clarification of the wording of the 'Outcome' of CD22 (Thorpe Village Hall).

The proposed 2019/20 Corporate Action Plan was approved by Committee. It reflected the proposed work areas for the forthcoming year, excluding business as usual, and excluding any work areas that needed to be added at the end of the year that were outstanding from the 2018/19 Corporate Action Plan. Whilst some work areas had passed the initial Officer vetting process to be recommended to Members for a growth request, due to the pull on revenue balances with the regeneration programme, particularly Egham Gateway, they were not currently affordable.

Officers still aspired to deliver these work activities in the forthcoming year should further funding become available.

It was also noted that the deadlines currently proposed for the projects may be subject to amendment following an in-depth review of resource capacity by the Project Management Office.

The Committee received the growth requests (Table 1 below) in the business plans which had had full business cases considered by an Officer vetting process, or the Chief Executive had agreed full business cases were not required because they were de minimis. Copies of the business cases were also considered. Members supported these growth requests for inclusion in the Medium Term Financial Strategy and the Capital Strategy where appropriate, to be formally approved at Full Council in February.

The Committee further received growth requests (Table 2 below) in the Resources Business Plan which were yet to have a full business case considered by Officers due to an ongoing ICT review which would be brought to Members separately. Members supported these requests and their addition to the Medium Term Financial Strategy and Capital Strategy where appropriate in principle, subject to a full business case being presented through the Officer vetting process before being recommended to Members.

The growth requests (Table 3 below) in the Housing Business Centre Plan which were applicable to the HRA were also being recommended to Members for inclusion in the Medium Term Financial Strategy and Capital Strategy where appropriate, to be formally approved at Full Council in February.

Table 1: Growth requests being recommended following an Officer vetting process				
Growth description	**Amount in 2019/20 (ongoing unless * = one-off)**		**Business case available?**	**Key benefit(s) – see business case for fuller information**
	Revenue £	**Capital £**		
Homelessness Prevention Fund	20,000 (20,000)	-	Yes	Potential saving in resources if a household loses their accommodation. *(It is expected to be cost-neutral after receiving a grant but approval is still needed as it is additional expenditure)*
FUSE Emergency Shelter	5,000 (5,000)	-	Yes	It supports people who are financially and socially excluded and without a home because of this, are supported to access our services and when they do we are able to provide them with housing options. *(It is expected to be cost-neutral after receiving a grant but approval is still needed as it is additional expenditure)*
Provision of shower facilities at Salvation Army in Addlestone	-	10,000	Yes	Homeless people will be able to access safe washing facilities, with the additional advantages this brings. A 'good news' story for the Council
Securing sites from unauthorised encampments (Community Development)		250,000*	Yes	Reduces the risk of additional expenditure to manage unauthorised encampments
Grounds maintenance retender (Community Development)	260,000 (220,000)	150,000*	Yes	There would be an opportunity to identify some economies of scale in particular with relation to having a more flexible workforce under one service area. Should the costs be brought in-house this would be offset by the saving paying the contractors externally.
Major Projects Delivery and Compliance Team (Planning)	257,000 (207,000)	-	Yes	The dedicated delivery function and major housing project management provided in the Major Projects Team is already identified as a significant reputational enhancement. By combining these with the necessary additional resources to deliver CIL, support housing delivery and work to enhance planning enforcement and application services efficiencies can be achieved to deal with the increased workload being placed on the Planning Service. (It is expected that approximately £210,000 will be received in a grant to offset this. A net growth of £50,000 is therefore requested).
Web forms/server cost (Corporate Office)	5,000	0	Yes	We continue to be able to offer self-serve forms on the website for the benefit of our customers.

Corporate fraud expansion (Resources)	43,400 (13,400)	-	No – see report on this agenda	Provides required capacity to expand as reported to Standards and Audit Committee in December 2018. £14,000 expected to be charged to the HRA with additional Council Tax and Business Rate income to follow in future years
Additional Accountant (Resources)	35,000		Yes	Provides required capacity
Payment to PRS estate agents for admin costs associated with social tenants (Housing)	3,000	-	Yes	The Council requests an electrical certificate from Private Rented Sector properties (which isn't require by law, but is in the interest of our tenants). This pot will therefore ensure Private Rented Sector estate agents/landlords can be adequately compensated so they are not disincentivised to accept a social tenant, and it makes the best use of local housing stock whether social or private. *(It is expected to be cost-neutral after receiving a grant but approval is still needed as it is additional expenditure)*
New polling booths	2,000 (2,000)	-	No - deminimus	To help deliver a successful election (It is expected to be cost neutral through a grant *but approval is still needed as it is additional expenditure*)
Net total in 2019/20	**163,000**	**410,000**		

Table 2: Growth requests for 2019/20 requiring future approval (business case/report not yet available)			
Growth description	**Revenue £**	**Capital £**	**Benefits**
Corporate restructure	300,000	-	*To be confirmed following the review.*
New Community Services Manager post	63,000	-	*To be confirmed following discussions with SHBC*
ICT restructure (Resources)	104,000	-	*To be confirmed following the review.*
Consultancy for ICT specification writing for Northgate and Civica systems (Resources)	20,000*	-	*To be confirmed following the review.*
Northgate system review (Resources)	-	150,000	*To be confirmed following the review. Expected to be spread over several years with £150,000 required in 2019/20*
Member allowances	90,000		*Report to follow*
Total in 2019/20	**577,000**	**150,000**	

Table 3: Growth requests being recommended following an Officer vetting process for the HRA				
Growth description	**Amount in 2019/20 (ongoing unless * = one-off)**		**Business case available?**	**Key benefit(s) – see business case for fuller information**
	Revenue £	**Capital £**		
Consultancy support to prepare IT tender documentation	25,000*	-	Yes	Fit for purpose software system to support the service
Conversion of 3 bedroom home to 2 x 2 bed property in New Haw	-	150,000	Yes	This will increase the Council's housing stock
Review of Independent Retirement Living staffing	48,000	-	Yes	Higher level of staff presence within the schemes, existing staff to undertake more tenancy management activity through a regrade which will release other staff to deal with Universal Credit.
Additional Caretaking post	28,000 (28,000)	-	Yes	Positive benefits to estates and tenants. *(It is expected to be cost neutral through a grant but approval is still needed as it is additional expenditure and it could also potentially result in savings on B&B expenditure.)*
Conversion of 18 garages to nine units of temporary accommodation	- (43,200)	900,000*	Yes	This will reduce future expenditure on B&Bs, increase the Temporary Accommodation stock, and generates an income for HRA
Additional Tenancy Management post	47,700	-	Yes	Proactive rent collection, less strain on staff during a very difficult period supporting tenants with the transition to Universal Credit
Internal upgrade of Independent Retirement Living	-	80,000	Yes	Increased income and release of family properties.
Net total in 2019/20	**77,500**	**1,130,000**		

The financial implications of the growth requests were noted and the requests had been added to the 2019/20 budget, Medium Term Financial Strategy and Capital Strategy as appropriate.

RESOLVED that:

i) the corporate support Business Centre/Team Plans (Resources, Law & Governance, Corporate Office, Projects and Procurement and Human Resources) be approved;

ii) the subsequent changes made in Community Development's and Community Services' Business Centre/Team Plans which had previously been approved by the Community Services Committee be noted;

iii) the 2019/20 Corporate Action Plan be approved.

RECOMMEND to full Council on 12 February 2019 that-

iv) the associated growth requests in Table 1 be approved and added to the 2019/20 budget; and

v) the remaining associated growth requests shown in Table 2 be approved and added to the 2019/20 budget, subject to each request having a completed business case and being considered by the Officer vetting process.

12. **HOUSING REVENUE ACCOUNT ESTIMATES FOR 2019/20**

Council is asked to note that the Housing Committee undertook a review of the HRA Estimates 2019/20 at its meeting on 9 January 2019 and the Minute of that review is set out below in italics. Council is therefore recommended to adopt Resolutions (i) and (ii) in respect of these Estimates.

Minute of Housing Committee 9th January 2019

The Committee's approval was sought of the draft HRA Revenue Estimates for 2019/20 including proposed rents and charges.

The Committee reviewed the operational and financial position of the Housing Business Centre, noting that 2018/19 had been challenging in a number of ways owing to the loss of several senior managers and two restructures within the Business Centre. There had been a number of other staffing changes and some upheaval due to the way contracts were being organised and delivered. Members noted the net impact on the current year's budgets had been offset by a lower than planned transfer from the MRR. Another significant change related to the annual depreciation charge. On a positive note, Members were pleased that the provision of replacement houses at Farm Close had already started and 9 new units at St George's Road were scheduled to commence shortly.

Officers confirmed that the estimates for 2019/20 contained a number of growth bids that were approved at the last meeting of the Committee in October 2018. Officers had taken into account some key factors; including a reduction in RTB sales and additions to the Council's Housing stock in Englefield Green. Members noted from the previous item that a full stock condition survey would be undertaken in 2019, at the same time a review of the Council's Asbestos survey would inform a detailed and ongoing planned maintenance programme commencing in 2020. Officers would also be carrying out the essential maintenance of the Council's existing stock and some high profile projects, for example to address fire safety issues and other property improvements and enhancements.

Officers reported little change in the Council's long term loan portfolio and Members noted the summary of the movement in the MRR. In respect of the annual bad debt provision the Committee was advised that as at the end of March 2018, the Housing (HRA) rent arrears was approximately £1/3m, representing less than 2% of the annual rent debit. This would be reviewed at the end of the financial year so that an appropriate provision was set. Members also considered the capital programme for 2019/20, noting that some projects would be submitted for approval later in the year. Officers confirmed that in the forthcoming year the average HRA rent would reduce by 1% as enforced by the Government. Thereafter it was anticipated that in line with legislation rents would revert to annual increases with effect from April 2020. The impact of this was noted.

The Committee considered the proposed rents and other charges on Council tenants. It was pleasing to note a reduction in the Sheltered Housing heating and hot water charges as a result of the revised fuel costs of operating the communal heating supplies at the respective schemes. Members were advised that the Council had been over recovering costs which necessitated the proposed reduction. Officers confirmed that HMO fees would be reviewed in 2020 as currently they were deemed to be high in comparison with neighbouring authorities.

Members noted the major potential risks to the HRA, arising from Universal Credit (the impact as yet unknown as its introduction had been deferred), the Homelessness Reduction Act, inflation, debt repayment and any major insurance incident.

The Committee was satisfied with the draft estimates which were approved accordingly.

RESOLVED that –

i) ***the draft revenue estimates for 2019/20, be approved as submitted, and Full Council be requested to make provision accordingly; and***

ii) ***the proposed changes in rents and charges (including those for Housing General Fund services) for 2019/20, as set out in pages of the Estimates, be approved to be effective either from the first rent week of April 2019, or 1 April 2019 as appropriate.***

13. BUDGET AND COUNCIL TAX 2019/20 – SECTION 25 REPORT – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019

The Committee considered the Section 25 report (Appendix 'G '- green pages) from the Council's Section 151 Officer (the Director of Resources) on the robustness of the estimates included in the Budget and the adequacy of reserves to fund new or unforeseen cost pressures. The Authority had to have regard to this report when making decisions on its budget.

The Director of Resources highlighted the main risks to the Council's finances namely: -

- Impact of Brexit and pressures from the wider world economy on the UK and Surrey economy. In March 2019 the UK were due to leave the EU. The terms of the withdrawal and the impact on the UK economy – employment, interest rates, inflation etc. was uncertain. It was difficult to quantify risk at this stage, but was a reason to maintain General Working Fund Balance higher than the minimum £2.5m;

- Interest rates would almost certainly increase in 2019/20. However, in early December 2018 the Council suspended the Property Investment Strategy, As all the Council's loans were fixed period, fixed interest loans, borrowing costs were fixed and viewed as low risk;

- The next regeneration scheme was in Egham which should start this year. The anticipated capital cost was around £90M. The Council had secured £40M of private sector funding. The loan was again fixed interest and fixed period giving certainty on revenue costs. However, the final scheme cost was unknown and the final viability model had not been seen yet;

- It had been assumed the P.W.L.B would be allowed to make loans to Councils to progress major regeneration schemes. The risk around future funding of the Council's major capital programme and the level of capital receipts remained a cause of concern. The Council's proposed budget detailed the way the Council would continue to fund its sizable capital programme;

- Further reductions in Government funding from the possible removal of New Homes Bonus Grant or reductions in Business rates income retained by the Council following the "Fair Funding review". Runnymede had borne the 19th highest cuts in Government funding across boroughs and districts and had benefitted from New Homes Bonus Grant by increasing its tax base and reducing long term empty dwellings. Business Rates was a significant concern with some Councils assuming they would retain no Business Rates by the middle of the next decade. Whilst the Director of Resources did not consider this likely, he had flat lined Business Rates income in the Budget, but the MTFS did factor in a planned reduction;

- The major risk faced by the Council was the ongoing provision for successful business rate appeals going back to 2010. There were around 220 appeals awaiting decision by the Government's valuation office. In addition, the NHS trusts in England had lodged a case in the High Court to be rated as if they were a registered charity. This would entitle them to 80% mandatory rate relief. In the Council's accounts a provision had been made in the tax collection fund of £17m to March 2018 to mitigate this risk. The case had yet to be heard and £8m of tax income was being held in reserves not being used. In view of the latest information on the strength of the NHS case and timescale for its hearing the Corporate Director of Resources considered it reasonable to release £8m of the £17m. Runnymede's share of the funds would be transferred into a Business Rates Equalisation reserve to smooth out fluctuations in the transfer from Collection Fund to General Fund in future years.

The Council's Section 151 Officer had conducted a detailed risk assessment of the Council's proposed Budget for 2019/20. The main risks highlighted were for 2020/21 onwards. As a cautious approach, the MTFS modelled further reductions in Government funding from 2020/21 onwards .The Section 151 Officer was of the opinion that the Council's Budget was realistic and robust and that significant risks could be mitigated with earmarked reserves and the General Fund Working Balance. In his view the Council's General Fund Reserve was adequate

RECOMMEND to full Council on 12 February 2019 that:

the Council has regard to the report of the Section 151 Officer (Appendix 'G ') in making the decision on the 2019/20 budget.

14. **BUDGET AND COUNCIL TAX 2019/20 – RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019**

The Committee considered a report (Appendix ‘ H‘- white pages) on the updated MTFS 2019/20 and detailed revenue budget and Council Tax for 2019/20, including the proposed General Fund Budget for 2019/20 and the setting of the Council Tax for 2019/20. The Committee had regard to the Section 25 report from the Council’s Chief Financial Officer. The Housing Revenue Account Budget had been recommended to Council by the Housing Committee who had discussed it on 9 January 2019.

The report on the Budget and Council Tax 2019/20 set out the approach taken in establishing the base budget, the planned expenditure for 2019/20, the amount of resources available to fund those activities and the actions required to bridge any potential gap between income and planned spending in order to deliver a balanced budget for the Council in the medium term. The Medium Term Financial Strategy 2018/19 to 2022/23 General Fund Summary at (Appendix ‘I ‘- pink page) and Council Tax 2019/20 report forecasted to 2022/23 the costs of current policies (including estimates of inflation) to ensure the Council’s policies were affordable in the medium term.

The Director of Resources in his detailed report and presentation on the Budget, MTFS and General Fund Working Balance summarised the Council’s financial strategy and made the following points:

- The Government’s review of local government funding would be implemented in April 2020. In 2021 the business rates “baselines” would also be reset. All of these events had the potential to significantly alter the Council’s funding. Whilst the potential for negative RSG (Surrey council tax proceeds being re-distributed to other parts of England) had been removed there would still be a distribution of rates income out of the county according to the Government’s assessment of need. The fair funding review did carry risk as the Surrey Councils had already borne a large share of the Government funding reductions. The Director of Resources had shown a reduction in income retained from Business rates from £1.9m to £1m over the three years of the next spending review period. The Government review would confirm how much business rates income the Council retained and also the future of the New Homes Bonus Grant;

- The Director of Resources had reviewed the current position regarding the Surrey wide “pilot” as part of Government planning on business rates retention. At the end of October 2018, it appeared the growth in the Surrey wide business rates could benefit Runnymede by at least £500k;

- In view of the latest information on the risks from the NHS Business Rates High Court action, the Director of Resources recommended the release of £8m of the £17 m provision set aside to deal with this which would be shared across Surrey Councils, and Runnymede would benefit in the sum of £2.7m;

- The overall MTFS had not changed significantly over the last year. The Council’s priority still included providing a full range of discretionary and statutory services which residents enjoy for one of the lowest tax rates in the UK;

- The resources available from Government had changed radically, and would probably continue to reduce until the end of this decade, which would require the Council to re-visit priorities for investment to replace government funding with a long term sustainable income stream. New cost pressures would arise mainly related to refuse collection, recycling, the commercial strategy, welfare benefit reforms and new duties related to the Homelessness Reduction Act amongst others. The Council had made considerable savings from the centralisation of the customer services function, business transformation projects and providing services which generated income streams such as “Safer Runnymede and “Meals at Home”;

- The proposals for changes to the Council’s budget (Appendix ’J ’- blue page) and the summary MTFS were outlined. The changes included a net additional spend of £30k to expand the work of the fraud unit. This would be more than offset by an additional £290k of council tax income from the detection of fraud. The Director of Resources commented that the Council was in a position to fund growth when many other local authorities were cutting budgets and services;

- With regard to the General Fund Working Balance, the budget for 2019/20 showed a surplus of income over expenditure. However the long-term effect of reducing government funding and maintaining services would reduce the General Fund working balance slightly below the minimum recommended level in 2020/21 and 2021/22. The main cause was borrowing around £90m to fund the Egham Gateway project and the loss of rental income from the properties to be demolished during construction;

- A new Income Equalisation Reserve had been established to cushion against any fluctuations in commercial income such as rent free periods on lease extensions;

- An Equipment Repairs and Renewals Fund had been established in the sum of £1m to reflect Members wishes to fund more short- life assets from revenue to protect capital receipts;

- A Property Repairs and Renewals Reserve Fund had also been proposed to fund any works to commercial properties. This Fund would grow each year with a view to protecting General Fund Working balances; and

- The Council had made efficiency savings in each of the last six financial years. While no target was set for Officers, it was not unreasonable to assume this would continue so efficiencies of £300k were shown for next year and £200k every year thereafter.

The Committee commended the 2019/20 budget and MTFS, and growth items to Full Council. Members asked that attention be drawn to the possible future risk to NHB Grant when the MTFS was reported to Full Council. The changes to General Fund Working Balance over the next 3 years were noted.

Regarding Council Tax, Runnymede was allowed to increase its Council Tax by £5 a year in 2019/20 for a Band D tax payer. The Committee agreed to recommend this increase for 2019/20 which would take the Band D Tax from £159.59 in 2018/19 to £164.59 for 2019/20 (£3.16 a week). Runnymede would still have one of the lowest tax rates in the UK.

The Committee also agreed to recommend that a staff pay award be included at 2% from 1 July 2019.

RECOMMEND to full Council on 12 February 2019 that

i) a contribution to the working balance set out in the report for 2019/20 in the sum of £1,037,000 be approved;

ii) the growth and savings proposals shown at Appendix ’J‘ be agreed;

iii) **the Council Tax be increased by £5 (band D equivalent) for 2019/20; and**

iv) **the cost of living contingency pay award to staff be set at 2% in July 2019**

15. **REVIEW AND REPLACEMENT RUNNYMEDE COUNCIL TAX SUPPORT SCHEME - RECOMMENDATION FROM CORPORATE MANAGEMENT COMMITTEE OF 24 JANUARY 2019**

The Committee was informed of the outcome of consultation on a replacement Council Tax Support Scheme and considered approval of a revised Scheme, one for those of working age and one for those of pensionable age.

Five models or options for change to the Council Tax Support scheme were reported to the Corporate Management Committee on 20 September 2018 along with a number of other more general revisions to the CTS scheme. Of the five, two were supported by Committee as preferred options (Options 3 and 4). The preferred options were seen to be those that balanced the need for savings, so that the financial burden of the scheme would not fall on all residents of the borough, against the desire to continue to provide financial support to as many residents as possible. In addition to having had regard to other local authorities CTS schemes, two additional important considerations had been borne in mind when looking at options for the future, namely composition of current caseload and potential for savings therefrom and potential impact on Council Tax collection rates as a result of any future reduction in Council Tax support.

Following that meeting, consultation on the options was undertaken with our precepting authorities and residents of the borough. The consultation deliberately sought the views of a cross section of residents. The report of the independent market research company, engaged to seek the views of residents was circulated to Members.

Following the consultation, Option 3 had been identified as the preferred option. This was on the basis that it provided savings sufficient to off-set the likely increase in CTS expenditure, over and above the original Government 10% funding cut whilst at the same time not being overly harsh. Option 3 was selected over option 4 as it was the more generous of the two options to residents of Runnymede. The points raised by residents in response to the consultation had been largely addressed in the proposed replacement scheme.

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Preferred Option 3 would ensure:

- Pensioners were fully protected in that they would receive 100% support
- working age vulnerable residents would still be protected, but would need to pay a minimum of 10% of the Council Tax due;
- all other working age recipients would still need to pay a minimum of 20% of the Council Tax;
- the minimum weekly award (below which entitlement is not paid) would be increased from £5.00 to £10.00 for everyone except pensioners and the working age vulnerable;
- the maximum level of CTS would be capped at the Band D charge for all except pensioners;
- the capital limit would be reduced from £16,000 to £10,000 for everyone except pensioners and the working age vulnerable.
- The scheme would be directly funded from Council Tax collected with no Government support.

In addition there were a number of other revisions that officers recommended that could not be modelled for and details of these were noted and agreed by Committee, namely:

1. set the non-dependent deductions levels so that they equal the rates in the 2019-20 prescribed scheme as detailed in Statutory Instrument 1346/2018

2. remove all CTS support for those working age residents in properties in Bands F, G and H – a total of 27 CTS recipients (Band H = 1, Band G = 8 and Band F = 18) saving potentially £45,760 per year

3. use of a 'minimum income floor' for the self-employed that equates to 35 hours work per week (20 hours for lone parents) at the appropriate national minimum wage and allow for a 'start-up' period of twelve months

4. update the scheme to mirror changes to temporary absence rules made within the national Housing Benefit scheme

5. reduce earned income disregards by £5.00 to mirror the national Housing Benefit scheme

6. clarify the treatment of Universal Credit within the CTS scheme

7. restriction of entitlement to the Family Premium from 1 April 2019 to mirror the national Housing Benefit scheme

Aligning the CTS scheme with Housing Benefit regulations would simplify the administration of CTS. This would, in turn, make it easier for joint claimants to understand how their financial assistance was calculated. In addition, it would not adversely affect those claimants moving onto Universal Credit. By using a minimum income floor for those who are self- employed, the CTS scheme would mirror similar provisions within Universal credit.

The preferred option and the other suggested revisions maintained a significant level of protection for a high number of vulnerable applicants whilst ensuring that the Council did not overspend against the CTS budget and at the same time provided valuable savings with which to support front line services. The preferred option plus the other revisions were comparable to other Surrey schemes and did not appear to have adversely affected collection rates.

The Scheme would be kept under review in order to respond to developments on Universal Credit and Benefit reform.

An updated EIA for the proposed 2019-20 scheme was circulated.

The Committee recommended Full Council approve the preferred option for Runnymede's Council Tax Support scheme and agree the implementation of the revised scheme from 1 April 2019.

RECOMMENDATION to Full Council on 12 February 2019 that-

the preferred option (Option 3) for Runnymede's Council Tax Support scheme be approved and the implementation of the revised scheme from 1 April 2019 be agreed.

16. **PRESS AND PUBLIC TO BE EXCLUDED BY RESOLUTION**

To consider any items so resolved at the meeting.

Appendix 'A'

MEETING OF THE COUNCIL

6 December 2018 at 7.30pm

The Worshipful the Mayor (Councillor Mrs D V Clarke) in the chair.

Members of the Council present	Councillors A Alderson, D E Anderson-Bassey, J R Ashmore, J Broadhead, I A Chaudhri, Mrs D V Clarke, D A Cotty, M D Cressey, S Dennett, Ms F Dent, R J Edis, Mrs L M Gillham, Mrs E Gill, Mrs J Gracey, T Gracey, Mrs M T Harnden, N M King, Mrs G M Kingerley, D J Knight, Mrs Y P Lay, S Lewis, M J Maddox, D W Parr, N.Rubidge, Ms A Shepperdson, Ms C Simmons, Miss J Sohi, P S Sohi, P J Taylor, A Tollett, P J Waddell, Mrs G Warner and N Wase-Rogers
Members of the Council absent:	Councillors, J R Furey Miss M N Heath, M T Kusneraitis, S Mackay Mrs C S S Manduca, M Nuti, N Prescot, P Snow, and M L Willingale

394 FIRE PRECAUTIONS

The Mayor read out the Fire Precautions.

395 MINUTES

The Minutes of the meeting of Council held on 18 October 2018 were confirmed and signed as a correct record.

396 MAYOR'S ANNOUNCEMENTS

The Mayor wished all Members compliments of the season.

At the invitation of the Mayor ,Councillor Chaudhri invited all Members to the 'Charity Walk for Peace' dinner which would be held on 7 December .The Charity Walk had been undertaken during Councillor Chaudhri's Mayoral Year and had raised £1m for UK charities and many charities in the Runnymede borough would also benefit. A cheque for the funds raised would be presented at the dinner.

397 APOLOGIES FOR ABSENCE

Apologies were received from Councillors Furey, Miss Heath, Kusneraitis, Mrs Manduca, Nuti, Prescot, Snow and Willingale.

398 GAMBLING POLICY - THREE YEARLY REVIEW

Council considered a recommendation from the Regulatory Committee held on 13 November, 2018 that the revised Gambling Policy 2019 – 2022 be adopted and that delegated authority be given to the Environmental Health and Licensing Manager and the Senior Licensing Officer to make any non-substantive administrative amendments to the Policy without recourse to the Regulatory Committee.

Council was also asked to give authority for approval of the Gambling Policy in future to be delegated to Regulatory Committee, in line with other Policies relating to regulatory matters. This would require a minor amendment to the Council's Constitution.

[redacted]

RESOLVED that –

i) the revised Gambling Policy 2019 – 2022 be approved;

ii) the Environmental Health and Licensing Manager and Senior Licensing Officer be authorised to make any subsequent non-substantive administrative amendments to the Policy; and

iii) authority for approval of the Gambling Policy in future be delegated to the Regulatory Committee and the Constitution be amended accordingly.

399 RUNNYMEDE BOROUGH COUNCIL'S POSITION WITH REGARDS TO AIRPORT EXPANSION

Following the Government's announcement in June 2018 to proceed with the North West Runway expansion scheme at Heathrow Airport, the Council's Heathrow Airport Expansion Member Working Group had recommended that the Council reconsiders its current position, agreed in 2015, which supported an expansion of Gatwick Airport.

The Working Group proposed that the Council adopted a new position statement which regretfully acknowledged the Government's decision, but looked to refocus on achieving the best possible outcomes for the Borough of Runnymede with regards to the Heathrow Airport expansion plans. The Group also recommended that this process should include submission of a proposed 'Expectations List' of measures to Government, Heathrow Airport Limited, the Civil Aviation Authority and other relevant agencies in order to mitigate/compensate against the negative impacts of Heathrow's expansion for the communities of Runnymede.

The 'Expectations List' was presented to Members. It was noted that the views of Englefield Green Action Group (EGAG) and other groups had assisted the Member Working Group in formulation of the 'Expectations List'

It was moved by Councillor Taylor, seconded by Councillor Mrs Gillham that-

i) Full Council approves the proposed 'Expectations List' in Appendix 'A' being shared with Government, Heathrow Airport Limited, the Civil Aviation Authority and other relevant agencies with the request that they respectfully accept and deliver all the principles and items in order to mitigate against the negative impacts of expansion and compensate the communities of Runnymede; and

ii) The Council regretfully adopts the following new Position statement:

The Council acknowledges the decision made by Government in June 2018 that its intended airport expansion option in the South East is a North West Runway at Heathrow Airport. We will now refocus to achieve the best possible outcomes for the Borough of Runnymede with regards to the Heathrow Airport expansion plans, and respectfully request that Government, Heathrow Airport Limited, the Civil Aviation Authority and other relevant agencies accept and deliver the requests on our 'Expectations List'.

A small number of Members expressed concern that the new position might give the impression that this Council's preference for Gatwick had changed and that it now supported expansion at Heathrow. The mover and seconder of the Motion commented that this was not the case, but as the Government had confirmed its preferred approach for Heathrow the proposed Motion was a pragmatic approach as it was important to work with various bodies to secure the mitigation measures on noise and air pollution, and provision of infrastructure to benefit the residents of the borough .

[redacted]

Council duly supported the Motion which represented a pragmatic approach to the expansion of Heathrow, and it was

RESOLVED that-

i) **the proposed ‘Expectations List’ as shown in Appendix A be shared with Government, Heathrow Airport Limited, the Civil Aviation Authority and other relevant agencies with the request that they respectfully accept and deliver all the principles and items in order to mitigate against the negative impacts of expansion and compensate the communities of Runnymede; and**

ii) **the Council regretfully adopts the following new position statement:**

“The Council acknowledges the decision made by Government in June 2018 that its intended airport expansion option in the South East is a North West Runway at Heathrow Airport. We will now refocus to achieve the best possible outcomes for the Borough of Runnymede with regards to the Heathrow Airport expansion plans, and respectfully request that Government, Heathrow Airport Limited, the Civil Aviation Authority and other relevant agencies accept and deliver the requests on our ‘Expectations List’.”

400 PROPERTY RELATED MATTER

The confidential property report had been withdrawn from the agenda and was not considered.

(The meeting ended at 7.55pm) Mayor

[redacted]

Appendix A

Expectations List with regards to Heathrow Airport expansion plans

Runnymede Borough Council respectfully requests that Government, Heathrow Airport Ltd, the Civil Aviation Authority and other relevant agencies consider and deliver all the principles and items listed below in order to mitigate against the negative impacts of expansion and compensate the communities of Runnymede, and to take advantage of mutually beneficial opportunities.

Principle 1: Consultation feedback regarding the "Reduce the number of people newly overflown" Airspace Modernisation principle is publically shared for transparency reasons, with a subsequent reconsideration for a wide dispersal of the flight paths rather than an increased concentration, in order to more fairly share the impact of noise across communities.

Principle 2: There are effective monitoring regimes implemented with strong independent enforcement measures on environmental controls including:

- Heathrow Airport Ltd to fund an improved air quality monitoring system within Runnymede, similar to that implemented for the Manchester Airport expansion;
- an air quality plan is implemented to ensure air quality is no worse than it is now at key sites on the M25 motorway as well as within local towns in Runnymede, with measures to ensure transparent continuous improvement;
- noise is no worse than it is now in Runnymede with a plan of measures to ensure transparent continuous improvement, with sanctions for breaches above this threshold;
- a night flight respite period between 11:30pm-6am is agreed (as proposed by the Airport Commission); and
- continuous monitoring of flight paths in order to ensure the impact of noise is shared across communities and the evidence is made transparent.

Principle 3: We request that Heathrow Airport Limited and the Civil Aviation Authority further explore modelling with regards to the ascent and descent angles of aircraft in order to minimise the noise impact on local communities.

Principle 4: Heathrow Airport Ltd takes deliverable steps to support the employment of the local workforce from Runnymede both for construction and operation for an expanded airport.

Principle 5: Heathrow Airport Ltd ensures that Runnymede residents can access the Heathrow Academy (which supports recruitment and retention of local residents across the retail, construction, aviation and logistics sectors), and can apply for apprenticeships at the airport, in its supply chain and airport related businesses *(10,000 apprenticeships have been publically committed by Heathrow Airport Ltd before 2030).*

Principle 6: There is no increase in level crossing down time in the Borough.

Principle 7: Heathrow Airport Ltd supports a Southern Rail Scheme through Surrey with improved access from within Runnymede to the Staines and Woking station stops, and includes direct access train services from the Windsor Line (Chertsey, Addlestone, etc) to Woking. The Council would also welcome the opportunity to engage in further dialogue regarding the pros and cons of having a station stop within the Borough before a final decision is made on the station stop locations.

Principle 8: Heathrow Airport Ltd fund other forms of enhanced public transport i.e. buses and cycle lanes, from the north of Runnymede to the airport following more detailed discussions with RBC through the Transport Sub-group of HSPG.

Principle 9: Heathrow Airport Ltd and the final preferred supplier responsible to deliver a Southern Rail Access scheme collectively support the delivery of the River Thames Scheme.

2019/20 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION (RESOURCES)

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 service 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 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance Accountants (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. **The capital strategy is being reported elsewhere on this agenda and should be read in conjunction with this report**.

1.5 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.

1.6 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.

1.7 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

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

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)

1.9 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 Corporate Director of Resources, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.10 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 6 February 2018

1.11 A glossary of treasury terms is included in the Annual Investment Strategy to assist Members with some of the terms covered in this report.

2. Capital Strategy

2.1 Both the CIPFA Codes and the MHCLG Guidance recognise that authorities may make investments for policy reasons outside of normal treasury management activity i.e. service investments (held in the course of normal operations – including regeneration), or commercial investments taken for financial reasons (i.e. shares and loans in subsidiaries and Investment Properties).

2.2 Runnymede has for some time, produced an annual Capital Strategy. In order to address a growing concern over the number of service and commercial investments, the revised CIPFA Codes now make the production of a Capital Strategy a requirement for all local authorities. The aim of this is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite associated with the capital plans of the Council.

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 commercialism 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 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.

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

3 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 principle on any borrowing undertaken. There isn't 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 a minimum revenue provision.

3.4 Revised statutory guidance has been issued by the MHCLG which local authorities are required to have regard to which require the full Council to approve an MRP Statement in advance of each year. The aim of the MHCLG 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)

Opitons 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 a new MRP Statement to reflect impending property transactions. As the new proposals essentially 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 currently no plans to amend the statement at the present time. The Council's MRP statement for 2019/20 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 Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (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 2019 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 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 Corporate Director of Resources assessing the quality of advice offered and other services provided by Link. In particular, the Corporate Director of Resources 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 Corporate Director of Resources 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 Asset Services to 22 Members on 29 November 2017. Further training will be arranged as required.

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:

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

4.6 The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter of 2018. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

4.7 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment.

4.8 Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed funds rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year Treasury yields rise above 3.2% during October 2018 and also saw investors causing a sharp fall in equity prices as they sold riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

4.9 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crises, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

4.10 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

4.11 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years. Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have back tracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

The current treasury position and prospects for investment

4.12 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.

4.13 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 of 2022. With increasing rates, money will be kept in short term investments and as a result, the probable investment earnings rates for returns on investments placed for periods up to about three months during each financial year can be expected to be as follows:

	Base Rate	Investment return
2018/19	0.75%	0.85%
2019/20	1.25%	1.10%
2020/21	1.50%	1.60%
2021/22	2.00%	1.75%
2022/23	2.00%	2.00%

4.14 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 2019/20 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	252	232	484
Interest on loans to RBC companies	1,414	-	1,414
Interest paid on deposits and other balances	(6)	-	(6)
Net Investment Income	**1,660**	**232**	**1,892**
Debt Interest	(14,535)	(3,426)	(17,961)
Management Expenses	(35)	-	(35)
Net Investment Income / (Debt interest)	**(12,910)**	**(3,194)**	**(16,104)**

4.15 The estimate is based on achieving the assumed investment returns set out in paragraph 4.11, using the level of revenue and capital reserves for 2019/20 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)

4.16 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.

4.17 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 and cannot be applied to the HRA.

Borrowing Strategy

4.18 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.

4.19 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 which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised.

4.20 The Council's strategy for long term borrowing is 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 (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 indicator, below*
- *lender's option borrower's option (LOBO) loans, subject to a maximum of £10 million*
- *bonds*

4.21 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

4.22 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.

4.23 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.

4.24 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

4.25 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).

4.26 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).

4.27 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.

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

Annual Investment Strategy

4.29 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).

4.30 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 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.

4.31 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.

4.32 The MHCLG 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 2018/19 in March 2018 and an updated Strategy for 2019/20 is set out at Appendix 'C'.

4.33 There are two changes to the proposed strategy for next year. The first is the removal of the requirement to limit investments in Building Societies to 50% of total funds invested. This was introduced at a time when the Council used unrated Building Societies, however with only four Building Societies now on the Council's counterparty list, all of which are rated the same way as banks, this requirement is now surplus to requirements.

4.34 The second change is to clarify the Council's use of Money Market Funds following the introduction of the European Money Market Fund Reforms. Money Market funds have now been separated into three fund types:

- Government Constant Net Asset Value (CNAV)
- Low Volatility Net Asset Value (LNAV) - NEW
- Variable Net Asset Value (VNAV)

The regulation changes revolve around structure, composition, valuation, liquidity requirements, liquidity fees/redemption gates, understanding investor behaviour and information reporting. CNAV funds must have at least 99.5% of their assets in public debt, secured with government debt or cash so their dealing price will not change (i.e. it will be constant). LVNAV funds are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points. All other funds are VNAV funds whose prices can change, so the principal sum could fluctuate on a regular basis.

4.35 The current Investment Strategy does not distinguish between these types of funds so clarification is required. The strategy has been amended to state that the Council will only use Constant and Low Net Asset Value Money Market Funds (CNAV / LVNAV). All of the Council's existing Money Market Funds fall under the new LVNAV category.

5 Treasury Management Risks

5.1 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.

5.2 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.

5.3 The MHCLG issued revised statutory guidance on Local Government Investments in 2018 (the Guidance), and this forms the structure of the Council's policies. The key intention of the 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 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). The Council adopted the Code in March 2018 and applies its principles to all investment activity.

5.4 In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) which are set out at Appendix 'E' 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

UK banks – ring fencing

5.5 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up at any time. Several banks are very close to the threshold already and so may come into scope in the future regardless.

5.6 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

5.7 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities, and any others choosing to opt up in the future, in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

6. Prudential and Treasury Management Indicators 2019/20

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 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.

6.3 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.

6.4 To demonstrate that these objectives are being fulfilled the Prudential 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.

6.5 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.

6.6 Both the Prudential and Treasury Management Codes 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 'D'.

7 Legal Implications

7.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2013) 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 Investments Guidance when carrying out their treasury management functions.

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

7.3 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.

7.4 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.

7.5 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.

7.6 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."*

8. Conclusions

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 in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

8.2 We remain in a very difficult investment environment. 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. However, we also have a very accommodating monetary policy - reflected in a 0.75% Bank Rate. As a consequence, The Council is not getting a material return from deposits but is benefitting from low borrowing rates.

8.3 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.

Annual investment strategy
for the 2019/20 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. External managers must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2018/19 in March 2018.

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 Corporate Director of Resources 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. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use.

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)		AAA	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	364 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£6.0m	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.

[redacted]

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.

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 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. 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 2019/20

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.

GLOSSARY OF TREASURY TERMS

Term	Definition
Basis Point	$1/100^{th}$ 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).

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS 2019/20

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.
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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	**2017/18 Actual £000s**	**2018/19 Probable £000s**	**2019/20 Estimate £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**
HRA	5,395	3,704	7,771	7,300	1,300
Housing Services	331	934	951	951	951
Environment & Sustainability	482	701	2,205	2,222	2,000
Community Development	8,910	9,432	6,132	1,155	255
Corporate & Business					
- Non Financial Investments	153,984	290,678	11,084	308	0
- Other	488	11,717	47,036	47,550	5,523
Total	**169,590**	**317,166**	**75,179**	**59,486**	**10,029**
Financed by:					
Capital Receipts	25,641	20,106	11,882	8,989	2,826
Earmarked Reserves	0	0	1,500	1,147	1,000
Capital Grants & Contributions	787	957	545	535	535
Revenue	4,620	2,692	5,711	1,168	1,168
Net financing need for the year	**138,542**	**293,411**	**55,541**	**47,647**	**4,500**

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Non-financial investments	**2017/18 Actual £000s**	**2018/19 Probable £000s**	**2019/20 Estimate £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**
Capital Expenditure	153,984	290,678	11,884	308	0
Financing costs met	24,014	10,463	1,509	63	0
Net financing need for the year	**129,970**	**280,215**	**9,575**	**245**	**0**
Percentage of total net financing need	93.8%	95.5%	17.2%	0.5%	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.

[redacted]

[redacted]

[redacted]

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:

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
CFR: – HRA	101,956	101,956	101,956	101,956	100,000
– Non HRA	8,571	14,665	60,631	108,033	112,532
– non-financial investments	134,930	265,849	509,610	513,173	553,517
CFR at 1 April	**245,457**	**382,470**	**672,197**	**723,162**	**766,049**
Net financing need for the year (from above)	138,542	293,411	55,541	47,647	4,500
Less MRP/VRP and other financing movements	(1,529)	(3,684)	(4,576)	(4,759)	(4,950)
CFR at 31 March	**382,470**	**672,197**	**723,162**	**766,049**	**765,599**

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 investment balances based on assumed cash movements in the MTFS and Capital Programmes.

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA Balances	19,424	25,405	21,561	18,075	15,075
General Fund (GF) Balance	5,848	3,223	4,260	2,317	2,234
GF Earmarked reserves	4,960	5,960	3,664	2,185	1,593
Capital receipts	5,783	5,895	11,858	11,882	14,712
Other	5,837	4,492	0	0	0
Expected investments	**41,852**	**44,975**	**41,343**	**34,459**	**33,614**

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.

	2017/18 Actual %	2018/19 Probable %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
HRA	39.27	32.18	32.05	31.67	31.43
Non-HRA	51.39	149.44	277.67	257.52	274.81

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.

TREASURY RELATED INDICATORS

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:

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 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.

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
External Debt					
Debt at 1 April	232,792	356,989	660,400	710,941	758,588
Expected change in debt	124,197	303,411	50,541	47,647	2,544
Actual gross debt at 31 March	**356,989**	**660,400**	**710,941**	**758,588**	**761,132**
CFR	382,470	672,197	723,162	766,049	765,599
Under / (over) borrowing	**25,481**	**11,797**	**12,221**	**7,461**	**4,467**

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:

	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
Debt at 1 April	246,462	546,064	555,638	555,884	555,884
Percentage of total external debt	69.04%	82.69%	78.16%	73.28%	73.03%

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 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Corporate Director of Resources 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	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA	101,956	101,956	101,956	101,956	100,000
Non HRA	8,623	14,665	60,630	108,033	112,533
Non-financial investments	246,213	543,778	548,353	548,599	548,599
Other long term liabilities	-	2,000	2,000	2,000	2,000
Total Operational Boundary	**356,792**	**662,399**	**712,939**	**760,588**	**763,132**

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	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA	101,956	101,956	101,956	101,956	100,000
Non-HRA	8,623	14,665	60,630	108,033	112,533
Non-Financial Investments	246,213	543,778	548,353	548,599	548,599
Other long term liabilities	-	10,000	10,000	10,000	10,000
Total Authorised Limit	**356,792**	**670,399**	**720,939**	**768,588**	**771,132**

Separately, the Council was limited to a maximum HRA CFR through the HRA self-financing regime – known as the HRA debt cap. In October 2018 the Prime Minister announced a policy change of the abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date for the abolition was 29.10.18. The former capped limit has been reproduced below:

HRA Debt Limit	2017/18 Actual £000s	2018/19 Probable £000s	2019/20 Estimate £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
HRA debt cap*	103,647	103,647	103,647	103,647	103,647
HRA CFR	101,956	101,956	101,956	101,956	100,000
HRA headroom	1,691	1,691	1,691	1,691	3,647

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	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**
on fixed interest rates based on net debt	660,400	710,940	758,588
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 year end balances only £10m will be invested in 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 2019/20				
	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.

RUNNYMEDE BOROUGH COUNCIL
TREASURY MANAGEMENT PRACTICES

Practice	Title
TMP1	Risk Management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council’s treasury functions

Version updated January 2019.

TMP 1
Risk Management

General Statement

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Corporate Director of Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Corporate Director of Resources will report at least annually on the suitability of these arrangements and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information systems*. In respect of each of the following risks, the arrangements will seek to ensure compliance with these objectives.

The investment and risk management criteria for any material non-treasury investments will be clearly set out in the Capital Strategy as appropriate.

1. Credit and counterparty risk management

Credit and Counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods, and techniques referred to in TMP4 Approved instruments methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organizations from which it may borrow, or with whom it may enter into other financing arrangements.

In assessing Credit and counterparty risk the Council will use the lowest common denominator approach which uses the lowest minimum acceptable credit rating from any of the three rating agencies (Fitch, Moodys and Standard & Poors). Full details of how we use these ratings and what other processes we use to assess and limit these risks (e.g. diversification, sector limits, country limits etc) are set out in our Annual Investment Strategy.

2. Liquidity Risk Management

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business objectives will therefore compromised.

The Corporate Director of Resources will ensure that the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives. The use callable deposits, including Money Market Funds, will be used for short term cash requirements in the first instance.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

3. Interest Rate Risk Management

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information systems*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a significant degree of flexibility to take advantage of the unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy. Consideration will also be given to dealing from forward periods dependent upon market conditions.

4. Exchange Rate Risk Management

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

6. Refinancing Risk Management

Refinancing risk is the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at that time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Corporate Management Committee in the annual Review Report.

7. Legal and Regulatory Risk Management

This is the risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The monitoring officer (the Corporate Head of Law and Governance) has the duty to ensure that the treasury management activities of the Council are lawful. The Chief Financial Officer (the Corporate Director of Resources) has the duty to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position

8. Fraud, error and corruption, and contingency management

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

a) seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

9. Price / Market risk management

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2
Performance measurement

The Council is committed to the pursuit of Value for Money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the Schedule to this document.

The methodology and criteria for assessing the performance and success of non-treasury investments will be clearly set out in the Capital Strategy as appropriate.

TMP 3
Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Management Schedule.

TMP 4
Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Schedule and Annual Investment Strategy, and within the limits and parameters defined in TMP1 *Risk management*.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under the Markets In Financial Instruments Directive 2014 (MIFID II) and has set out in its Annual Treasury Management Strategy those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5
Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this is based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Corporate Director of Resources will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Corporate Director of Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Corporate Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the Treasury Management Schedule.

The Corporate Director of Resources will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Treasury Management Schedule.

The delegations to the Corporate Director of Resources in respect of treasury management are set out in the Treasury Management Schedule. The Corporate Director of Resources will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

The governance requirements for decision making and arrangements to make sure that appropriate due diligence is carried out to support the decision making in relation to non-treasury investments will be clearly set out in the Capital Strategy as appropriate.

TMP 6
Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

The Corporate Management Committee will receive regular monitoring reports on treasury management activities and risks.

The Overview and Scrutiny Select Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Council will receive a report on the treasury management indicators set out in the CIPFA Code and associated guidance.

The present arrangements and the form of these reports are detailed in the Treasury Management Schedule.

The reporting and management information requirements for non-treasury investments will be clearly set out in the Capital Strategy as appropriate, along with where and how often monitoring reports are taken.

TMP 7
Budgeting, accounting and audit arrangements

The Corporate Director of Resources will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management which will bring together the costs of running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 P*erformance management*, and TMP4 *Approved instruments, methods and techniques*. The Corporate Director of Resources will exercise effective controls over the budget, and will report on changes required in accordance with TMP6 *Reporting requirements and management information arrangements.*

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8
Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Corporate Director of Resources and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Corporate Director of Resources will ensure that they are adequate for the purposes of monitoring liquidity in compliance with TMP1*(2) Liquidity* r*isk management*. The present arrangements for preparing cash flow projections are set out in the Treasury Management Schedule.

TMP 9
Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Treasury Management Schedule.

TMP 10
Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Corporate Director of Resources will recommend and implement the necessary arrangements.

The Corporate Director of Resources will ensure that Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance (Councillors) should recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are set out in the Treasury Management Schedule.

Training and qualification requirements, including how relevant knowledge and skills in relation to how non-treasury investments will be arranged will be clearly set out in the Capital Strategy as appropriate.

TMP 11
Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers it will ensure it does so for reasons which have been submitted to a full evaluation of costs and benefits. It will also ensure that the terms of appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Corporate Director of Resources and details of the current arrangements are set out in the Treasury Management Schedule.

TMP 12
Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management functions and activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Schedules, are considered vital to the achievement of proper corporate governance in treasury management and the Corporate Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

CAPITAL STRATEGY 2019/20 to 2022/2023

1. Introduction

1.1 The Capital and Investment Strategy forms a key part of the Councils 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 a majority 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 for 2019/20 to 2022/23 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) 2019/20 to 2023/24 and revenue budget and tax setting proposals for 2019/20. 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 it 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 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 is the regeneration projects. This includes major schemes in Addlestone due to be completed in early 2019 and Egham Gateway due to commence in 2019/20. A new leisure centre, including a swimming pool, will open in spring 2019.

4.4 Property investment over the five years ending March 2019 has seen £400 million investment in assets which generate a sustainable income stream for the Council. This investment was done under a separate Property Investment Strategy which has been discontinued in 2019/20 following the final purchase. The primary objective has been to fund the major regeneration schemes in Addlestone and Egham (including a new Leisure Centre). The pertinent sections of the former Property Investment Strategy have now been incorporated into the Capital Strategy.

4.5 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 new Property Investment strategy in 2016/17 (updating the previous 2014/15 version) which sought to acquire assets which would generate income to fund borrowing costs.

4.6 Whilst that initiative has largely come to an end. The Council does wish to continue its regeneration strategy in other phases of Addlestone, Egham and Chertsey. For that reason the Council will continue to acquire assets that become available in the Borough, should they have:

- the potential to be included in a future regeneration scheme, and
- ongoing income that at least covers the capital financing charges until such time as the property is required for redevelopment.

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, leisure centres, 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. Such areas include providing CCTV equipment to aid Surrey Police and others.

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 are funding the regeneration schemes and going some way to replacing lost government grant.

6.2 The Council funds 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 for.

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.

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 is 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.

6.6 The Council manages risk in its property portfolio in the following ways:

- the Council looks at the long term financial health of the tenant and judges the ability to pay rent for a number of years in the future. This includes the subsidiaries and/or the ultimate parent company. The better the covenant, the more secure the rental income, the better the investment capital value. A tenant with a strong covenant and a long lease with no break clause and the tenant having responsibility for repairing and maintaining the property is the best type of investment. These are the type of acquisitions the Council has made.

- All out-of-borough acquisitions have been geographically close to Runnymede, in areas where the economy is performing well. The UK and SE England in particular has a well-established property market which attracts global investors and is defined as a "mature asset class". In addition most of the assets are either new, or have had significant sums spent on refurbishment, normally by the tenant.

- The Council also spreads risk through the type of property it owns. A mix of office, light industrial, warehouse, leisure, hotels, supermarkets etc. So while the Council is targeting tenants who are classed as "blue chip" on long leases with few, if any, break clauses. In essence the Council is buying an income stream from the investment.

- The rate of return needs to be greater than the return the Council would receive from alternative investments. This has been achieved consistently since 2016.

6.7 In summary the strategy has been to seek property let to tenants who have a strong covenant, good credit rating, sound financial standing with at least five years remaining on the lease.

7 Approach to investment

7.1 The existing Capital Programme for 2019/20 was approved by the Council in February 2019 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 sufficient 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 rent 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.

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 Director of Resources and the Corporate Leadership Team using the Capital Project Appraisal Form.

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 2018/19. Full Council approved three progressive versions of the Strategy in 2014, 2015 and most recently at Full Council on 9 February 2017. 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.

Whilst this strategy has now finished, the fundamental principles behind it still apply to any future potential property purchases the Council may choose to make. Therefore the main characteristics of the strategy have been replicated in this Capital Strategy.

11.2 In considering any future property purchases, the lifetime ownership costs of the asset will be taken into account and priority will be given for security and liquidity over yield. Where any such investment does not give priority for security and liquidity over yield, whether because of the nature if the assets themselves or for service reasons (i.e. redevelopment potential), any such decision will be explicitly explained and the additional risks set out clearly with the impact on financial sustainability identified and reported.

11.3 The prioritisation and governance surrounding the acquisition process for properties includes the following stages:

Stage 1
- The Commercial Services section identify a suitable property investment and obtain full particulars;

Stage 2
- To negotiate and agree a conditional purchase price, agree Heads of Terms and complete the Property Acquisition Template. The conditions will normally include:
  - i) Council approval of the purchase and terms;
  - ii) Building survey;
  - iii) The legal due diligence process (title, lease terms of tenants, collateral warranties for new buildings, appropriate surveys (environmental, asbestos, etc.) EPC Certification, etc.;
  - iv) An independent valuation – A valuation is obtained to inform the negotiations to purchase, but post purchase a formal independent valuation is obtained. For large or difficult to value purchases the valuation obtained will be using the Royal Institute of Chartered Surveyors' Red Book" valuation methodology, but for all other purchases an independent market valuation is preferred.

Stage 3
- Proposed purchase considered by the Property and Acquisitions Member Working Group who are provided with the following as a minimum:
  - i) Location of asset, including photographs, scale drawings / plans etc.
  - ii) Length of remaining lease and any break clauses
  - iii) Stock condition survey and valuation
  - iv) Credit rating and covenant evaluation of the tenant

v) Gross yield normally 5% or more

Stage 4

- Proposed purchase considered by the Corporate Management Committee or Full Council who determine how to proceed (all property transactions are approved by the Corporate Management Committee unless no borrowing approval is in place when the decision has to be made by Full Council). If it is not possible to obtain Full Council or committee approval, Standing Order 42 (delegated decision-making in cases of urgency) may be used for acquisitions where the acquisition is in accordance with Property Investment Strategy and the value of acquisition is no greater than £1m excluding associated costs e.g. stamp duty, agent’s fees)

Stage 5

- Detailed due diligence process and legal report and if the purchase remains appropriate, to exchange and complete the purchase, but having allowed a minimum of 5 working days before exchange to provide for the call in of a Corporate Management Committee decision by the Overview & Scrutiny Committee

11.4 In the event of properties for sale by auction, either the Director or Deputy Director of Commercial services will attend the auction, but having first sought the agreement to purchase by following Stages 1-5 above including an agreed purchase price range.

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, 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 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 Councils 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 Investments

14.8 The Council takes a proactive stance in investing in property and property development to achieve a number of aims including diversification of assets, potential capital appreciation and higher returns than can be achieved through cash investments. In doing so, it recognises that such investments need greater financial risk assessment other than those set out in the Council Treasury Management Practices.

14.9 It is important to the Council that commercial property acquisitions will provide the stability of income required to fund the Council’s place shaping and regeneration work. But the income created must also be sufficient to pay the interest cost of borrowing the capital and to set aside adequate funds that will accumulate to be able to repay the capital element of the loan upon maturity.

14.10 In general terms, the expected yield from a commercial asset should reflect the risk associated with the asset (income stability, responsibility for maintenance – tenant(s) or landlord, property condition and the attractiveness of the property to new tenants, etc.). Therefore, highly speculative acquisitions of buildings without tenants, in need of development / conversion, short period unexpired leases, etc. should attract lower selling prices and therefore higher expected gross yields. To protect against the risk associated with speculative investments, the Council has avoided such investments unless their purchase can be offset by a back-to-back agreement with a new tenant, but with a selling price that reflects the asset is vacant.

14.11 Additional 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 prior to becoming a tenant, including a review of the company finances and credit checks. The Council will also request rent deposits where appropriate.

14.12 At 31 March the Council's balance sheet shows the value of each commercial asset. While the strategies are focused on place shaping and income generation, apart from those assets earmarked for redevelopment, most assets have increased in value. 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.

14.13 The Council ensures that the ownership of commercial assets has proactive and professional management to optimise the value of the investments over time. As the Council has added both the outcome of regeneration projects and also property acquisitions, the Council has also increased the resources available for commercial property management. The Commercial Services Team have all worked in the private sector and the property surveyors have an extensive and successful private sector career before joining the Council to manage its property assets.

14.14 The Commercial Services 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

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 income generating assets which repay debt and make a contribution 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 by the use of 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.

‘Appendix 'G’

Section 25 Report – Robustness of the budget, reserves and balances

Introduction

The Local Government Act 2003 (the 2003 Act) section 25(1) (b) requires a report from the officer the Council has made responsible for administering their financial affairs (the section 151 officer) on the adequacy of reserves. Runnymede Borough Council (the Council) has appointed the Corporate Director of Resources as their section 151 officer. This is a specific personal duty for the section 151 officer to make a report to the Council when it considers its budget and council tax. This section deals with the **robustness of the estimates** included in the budget and the **adequacy of reserves.**

There are a range of other legislative measures in Local Government Acts which are in place to ensure local authorities do not over-commit themselves financially. These include:

- The Chief Finance Officer’s section 114 power and duty, which requires a report to all members of the Council if there is, or likely to be, unlawful expenditure or an unbalanced budget.
- The prudential code which guides local authorities on the affordability of their capital program.

The 2003 Act requires Members to have regard to this report in making their decisions.

The 2003 Act does not provide any specific guidance on how to evaluate the robustness of the estimates. However it does identify the need to allow for risks and uncertainties that might lead to expenditure exceeding budget by:

- Making prudent allowance in the estimates for inflation, known cost increases or reductions in income and in addition
- Ensuring that there are adequate reserves to draw on if the estimates are insufficient.

It is stressed that the advice contained in this report on the appropriate level of reserves is *not* based on a percentage of spend, but on an assessment of all the circumstances likely to effect the Council.

Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) states the following factors should be taken into account by the section 151 officer in undertaking an assessment on the overall level of reserves and balances:

- Assumptions regarding inflation
- Treatment of demand led pressures
- Treatment of savings
- Risks inherent in new partnerships etc.
- Financial standing of the authority (i.e. level of borrowing, debt outstanding etc)
- The Authority's track record in budget management
- The Authority's capacity to manage in year budget pressures
- The Authority's virements and year end procedures in relation to under and overspends
- Estimates of the level and timing of capital receipts.

The Council's section 151 officer has considered and followed those guidelines. The Council is obliged to take these views into consideration when setting the Council Tax and budget for 2018/19.

In coming to a view on the adequacy of reserves it is necessary to take a number of issues into account including:

- The purpose for which the Council holds a specific reserve and general fund working balance
- The risks and uncertainties the Council faces that may have financial consequences
- The likelihood of those risks arising

Issues considered when evaluating the robustness of the estimates and the adequacy of the reserves is set out below.

Context

Since 2013/14 the Council has set aside sums in the working balance to fund the regeneration plans. The Council increased the General Fund working balance from £2.9m in March 2011 to £9.4m in March 2015

The Council planned to borrow to fund the Addlestone One development and has used the General Fund working balances to fund the interest payments on borrowings. Cost pressures identified in the current financial year have been factored into the 2019/20 budget and future years plans. It remains the Council policy to set a balanced budget in the medium term and maintain sufficient reserves to meet cash flow needs. The Business Rates Equalisation reserve is one example where the Council has taken a measured and prudent approach to its financial management, the reserve has been created to avoid fluctuations in the Councils income budgets.

Officers have been encouraged to identify one off savings in year to further reduce spending by March 2019. Potential overspends have been managed by officers and members as far as possible in year. The Corporate Management Committee and officers begin work on preparing the Medium Term Financial Strategy and detailed budget for 2019/20 in the summer of 2018.

Members have been clear that the purpose of the working balance is to fund discreet projects, including some capital items, or to fund spending that has arisen mid-year where neither could be forecast when the budget was set. Other principles agreed by members relating specifically to the robustness of the budget and use of reserves are -

- Any call on the General Fund working balance must be approved by Members before officers commit the Council to expenditure not included in their budget.

- The Council maintains specific reserves to fund known items of expenditure which are likely to be required in the future.

- The General Fund working balance may be used to fund income generating schemes where the costs are incurred some time before the income can be generated. This mainly applies to the capital investment in regeneration schemes such as the Addlestone One and Egham Gateway projects.

Reserves have also been appropriately used for a number of years to support “invest to save” activities and to support the Council in the modernisation process it is undertaking. This has involved a considerable reduction in the staff base to create a customer services section to improve services to residents and also to invest in new systems to allow residents to use electronic trading and communication with the Council. For example in 2017 and 2018 the Council approved a revised staff structure that will reduce costs in the Resources section , and improve services to residents by reducing the number of senior manager posts while at the same time investing resources in an improved Customer Services function and the introduction of new systems.

The budget and future Medium Term Financial Strategy (M T F S) assumes the Council will agree with the Corporate Management Committee that we continue, as far as possible, with the recommended policy of balancing the budget each year without relying on any significant use of the General Fund working balance.

The local government finance settlement for 2019/20 is the final year of a four year certainty settlement which has reduced resources from Government. This, with a significant number of Supplementary Revenue Estimates has seen an unplanned reduction in the projected level of the General Fund working balance at March 2019 by around £2.7 million. These new cost pressures have reported to Council in budget monitoring and have been built into the MTFS.

Government are due to consult and publish any details regarding the upcoming Fair Funding Review in late summer 2019. This includes how the Business rates retention scheme will operate from 2020 onwards.

Clearly government funding is a significant risk to the Councils finances and the Corporate Director of Resources is recommending a cautious approach to funding. The MTFS models more reductions in Governemtn funding and how the Council could meet that challenge

The Councils MTFS is focused on a number of strands.

- Investing in the built environment of Runnymede through significant regeneration projects.
- Increasing some services to residents and business which not only provide a service welcomed by residents, it also generates an income stream. These services include, Safer Runnymede, Community Transport, and Meals at Home to name a few.
- Income from investment properties mainly in the borough and significant projects in Addlestone and Egham.
- A sustainable fees and charges strategy
- Reviewing service provision, including shared services, to maintain service delivery and reduce costs.
- Continuing to make efficiency savings though electronic processing, less reliance on paper based systems etc.

The Medium Term Financial Strategy (MTFS) clearly shows the savings targets the Council may need to meet in 2020/21 and future years. The Councils strategy is to invest in income generating assets within the Borough to both regenerate some of our towns and to generate sustainable income rather than reduce spending on the services residents enjoy.

Pension Fund Deficit

Every three years the pension fund is valued by an independent actuary. More details can be found in the Councils “Statement of Accounts” relating to the operation of the pension fund. The valuation has shown that the gap between the funds’ assets (investment income and the value of the assets) and the liabilities (the likely cost of pensions to be paid in the future) has narrowed. The MTFS has assumed that there will be no increase, or decrease in the sums paid by the Council as an employer.

At this stage it is assumed that the actuary will not require will not require contributions over and above the additional £904k included in the Councils budget.

Financial plans

The Council has made savings, mainly in support services, and reduced the number of employees by 75 full time equivalents' (a reduction of 16.3%). It has also increased the number of transaction residents can make electronically which has also reduced costs.

The Council continues to make efficiency gains whenever possible, including a management restructure which reduced costs and enabled investment in other services. At the same time the Council restructured the Finance division to include the Customer Services function which has produced a better service for customers and reduced costs. To continue to replace reduced government income with efficiency savings and an increase in its very low tax rate is not practical, for this reason a major plank of the Councils financial plans includes its desire to improve the built environment of the borough which provides the Council with investment opportunities to both "place shape" and generate commercial rent income.

The Council continues to follow the following main principles in preparing its MTFS and detailed budgets.

The MTFS makes it clear the Council has in place robust plans to at least maintain its base budget expenditure over the next four years by:

- Focusing resources on the services the members see as a priority.
- Continuing to support frontline services
- Working with other local authority partners and others on a shared service program which reduces back office costs and maintains service delivery. These include building maintenance, debt recovery, emergency planning, IT, CCTV and community transport.
- Progress a "business transformation" project to drive out efficiency savings, mainly through e-enabling transactions across the Council to improve the service and reduce transaction costs. A key part of the strategy is to improve the way customers can communicate and transact with the Council, especially in Customer Services, which will be further developed in 2019/20.

Any additional income or savings made in 2019 onwards will be transferred to reserves, Members may then decide on other funding options e.g. to fund some of the capital programme from revenue thus maintaining capital receipts. The Council has previously agreed that the recommended minimum level of reserves should be £2.5m. Although this is a considerable sum the Council's turnover is over £50m. The size of our budgets together with the range of services we provide requires the Council to maintain a prudent reserve. At

£2.5m this provides a strong working balance to meet the day to day cash flow requirements of the Council. Significant sums are also held as earmarked reserves to pay for known or likely future costs

In February 2019 each year the Council sets a budget which must provide sufficient resources to take it to March 2020. We take a view of likely inflation, likely income from car parking and other fee paying areas, known new items of expenditure etc but the reserves and balances are a prudent way of ensuring continuity of service provision if adverse conditions decrease income or increase expenditure. For example, the severe flooding experienced in February 2014 meant reserves where used to fund emergency expenditure and compensate for lost income. The reserves are all invested securely to gain interest for the Council’s benefit using the Councils approved Treasury Management Strategy.

From 2013/14 onwards we have adopted a more risk based approach to the level of balances – some authorities set balances at between 1% and 5% of the gross expenditure. Our gross expenditure is around £50 million. If we used this approach our reserves would be between £0.5 and £2.5 million. In creating a reserve the Council is aware we must raise that sum from our tax payers. This Council has chosen to define the risks we face over the year, set realistic budgets to manage those risks and maintain the balances at a prudent level. The current level of reserves is likely to be around £3.2m at 31st March 2019. In considering the use of the reserves, it is important that the ongoing economic difficulties are considered and that any use supports the sustainability of the Council. Extraordinary cost pressures such as an increase in energy prices or high fuel costs will continue to put pressure on the Council and it will need to increase flexibility to manage events such as these. We also anticipate a gradual increase in interest rates during 2019/20. While this may increase borrowing costs, these have been factored into the budget. The Council invests significant sums which will benefit investment income

The 2019/20 budget includes a number of new and spending and also savings proposals. The Corporate Management Committee, chaired by the Leader of the Council, supported by Chairs of Committees and senior officers have formulated and challenged growth and savings proposals commencing early in the summer of 2018. As in previous years there have been a number of Member seminars and presentations, including the Runnymede Business Partnership, which continues to make this an inclusive and robust budget.

The treatment of inflation

Many of the sensitive budgets have been “zero based” – for salaries we prepared post by post budgets for salaried staff and included an allowance for a pay award 2% for 2019/20 and future years. To reduce risk all posts are fully funded with a 2% assumed vacancy factor. While this target may be challenging in some areas it reflects the historic turnover of staff employed.

Other non pay budgets have been increased by between 2% and 3.0%. This is viewed as low risk; RPI and CPI are forecast to remain at around 2.5% for much of 2019.

I have based income budgets on current forecasts, together with a review of 2017/18 outturn and projected outturn for 2018/19. Realistic forecasts have been applied and the budget adjusted to reflect the reality of the situation and agreed with the individual budget manager. Fees and charges have been agreed to take effect mainly from 1st April 2019. The increase has been based on Members and operational officer's views of their markets.

In my view the treatment of inflation represents a low risk to the Councils budget

Treatment of demand led pressures

All Heads of Service have reviewed their budgets including the provision for demand led pressures. This has been informed by the budget monitoring systems in place from 2012/13 and developed each year which provides Members with early warning of any reductions in income or increased unavoidable costs. These systems are continually reviewed and improved upon.

In 2019/20 we again face some expenditure uncertainty in three main areas outside the Council's main control:-

- The national economy and level of interest rates does affect our income and borrowing costs to fund the Councils regeneration strategy. Clearly in 2019 the UK's relationship with the EU is not clear. Interest rates also affect the housing market which in turn impacts on development control and land charges income. While interest rates remain reletivley low we continue to lose investment income – this has been factored into the budget for 2019/20 projected and looking forward into future years. To increase income the Council is using other investment strategies which improve yield without significantly increasing risk, as set out in the Treasury Management Strategy. Any increase in the level of cash reserves increases the investment income the Council enjoys.
- We are assuming no worsening of the local economy, inflation does not rise significantly above 3.0% in the long term and the local employment market remains buoyant.
- The Council administers the national housing benefit system on behalf of central government until the full implementation of Universal Credit between

2020 and 2022. The budget has been prepared assuming the current number of claimants does not fall. If there is a rise in council tax support claimants in 2019/20 this will have a marginal impact on the collection fund for Runnymede BC, mainly as our tax rate is very low. I am not anticipating any significant change in the number of claimants however the Council tax support scheme is being reviewed for 2019 following changes to Universal Credit. Those risks are now viewed as minimal and low risk in my view.

The government is likely to announce future changes to the Housing Benefit system and the implementation of Universal Credit over the next year or so. Any impact on the Councils finances and on residents will be reported to members when those announcements are made.

Any significant increase in homeless approaches represents a medium risk to the Council, mitigated by adequate budget provision.

Financial systems and records

• Quality of financial systems and processes –. The Council's budget monitoring systems are mature and are embedded in the culture of the Council. This has been bolstered by periodic financial skills training for all budget managers.

The development of the budget management processes together with a monthly report to the Corporate Leadership Team and a quarterly report to the Corporate Management Committee clearly demonstrates budget management is a high priority for members and officers. Pro-active management by all managers does mitigate risks of unidentified overspend in the future. As spending pressures or reduced income is identified this allows us to suggest compensating savings for Members to consider, strengthening Member involvement.

• Quality of financial management– Operational officers have a dedicated finance officer to advise and support them in looking at forecast income and expenditure levels. We profile sensitive income and expenditure budgets and revise projections monthly using the latest information available
• Cash flow forecasting – Systems are developed and imbedded and regularly reported to the Members. Again this reduces the risk of unplanned overdraft facilities being used and maximises investment income
• Overall accuracy of budgets –The budget process for 2019/20 has been robust and inclusive.

Budget managers are explicitly responsible for managing the budgets set by the Council and the Corporate Management Committee. These are formally appraised at least annually for all managers

In my view the financial systems have been improved and are judged by internal audit to be robust. For that reason they remain low risk.

Treatment of savings

No unidentified savings have been proposed within the budget report by the officers who are responsible for ensuring delivery. Budget management and responsibility is a key function of all managers.

Any individual savings projects have been allocated to a Head of Service to deliver. The Corporate Leadership Team meets every month to specifically monitor the overall financial position of the Council, take corrective action and then report to Members for decision.

In my view the achievement of savings, in light of the Council's recent track record, represents a low risk to the Council.

The Councils virement and year end procedures in relation to under spend

The Corporate Management Committee has agreed that all virements will be approved by them in budget monitoring reports. When the accounts are closed any under spend will be used to replenish balances. Officers may recommend a carry forward which may be agreed to complete projects. Currently the Councils constitution delegates project carry forward authority to the section 151 officer. All project carry forwards are reported to the Corporate Management Committee as part of the year end reporting to Members

In my view the systems for controlling virements and carry forward is robust and low risk

Estimate on the timing and level of capital receipts

The capital programme does assume significant assets are sold and capital receipts are generated in 2018/19 and beyond from the Addlestone One regeneration project. In three years time significant receipts are assumed following the completion of Egham Gateway which also generates a significant income stream. If the Housing market is slow, the Council can decide to use the dwellings to generate rental streams rather than a capital receipt. The long term capital strategy is to fund short life assets from revenue rather than capital receipts. This has been factored into the budget for 2019 /20 as commercial income receipts grow.

In my view the level of capital receipts to be generated this represents a medium risk, mainly due to the prevailing conditions in the housing market, to the funding of the capital programme. Future strategies do include a borrowing requirement to fund part of the General Fund capital programme

Earmarked reserves

The Council uses the General Fund working balance to cover future unknown liabilities such as maintenance, insurance liability etc. The Council wishes to see sustainable growth and sees reserves as a prudent way of putting money aside now to pay for future known costs. We also have some projects which are budgeted to be completed before 31st March. For various reason they sometimes slip into the following year and we create an earmarked reserve to pay for them on completion.

When the financial statements are prepared for 2018/19 the Members will review any officer request for an earmarked reserve

Conclusion

The budget for 2019/20 has been challenged by Members and officers and is realistic and robust. We have factored all known risks into our budgets as far as possible.

In my view the Council's General Fund reserve is adequate. However due to the risks contained in this report, all the measures outlined below will be implemented to maintain strong reserves.

To summarise the actions agreed:
1 .All savings proposals will be project managed to inform the budget monitoring of the Councils overall financial position in 2019/20.
2 We will start the process of identifying further savings for 2020/21 onwards in summer 2019. (A process commenced successfully in 2013/14).
3. Any unplanned income received by the Council will be used to increase the General Fund reserve rather than fund new expenditure.
4. The main uncertainty in the Councils budget is the Governments plans to reform the business rates retention scheme. As Government plans are confirmed members will be updated.
5 The Chief Executive and Members have confirmed that supplementary revenue estimates will be a last resort in 2019/20. Corresponding savings will be sought for overspends in the first instance

In my view the Council's existing policy of maintaining reserves at no less than £2.5m should continue.
Members are asked to consider this report and to have due regard to it in making their decision on the 2019/20 budget.

10. **BUDGET AND COUNCIL TAX 2019/20 (RESOURCES)**

1. Executive summary – The Councils Financial Strategy

1.1 The Government's Revenue Support Grant (RSG) for the year 2009/10 was £5.6m. Now Runnymede BC receives no RSG at all. Members instructed that they did not want to cut services and so the Council embarked on an efficiency drive and transformation programme which saved the Council £6.5m. The workforce was reduced by 16% and some services such as the management of leisure centres was outsourced to a Trust. By 2012, it was clear that if the Council was to continue to have a critical mass, it also had to produce more income. The Council was debt free at that time but this changed when the Council bought itself out of the National Housing Subsidy System at a cost of £103.4m.

1.2 The Council embarked upon an ambitious regeneration programme which has resulted in Addlestone One, a new leisure centre in Egham, an outline scheme for phase one of Egham town centre (Egham Gateway West) and a second scheme which will start once the Egham Gateway project has been completed in the eastern half of the town. There have been a number of smaller projects too including:

a) The conversion of St Judes cottage into 6 flats;

b) The closure of Ashdene as a sub-standard homeless hostel and it's redevelopment for private housing;

c) The development of Marshall Place to provide low cost housing opportunities in 2 bed units.

1.3 Over £200m has been spent on regeneration but this must be funded. To do this, the Council has committed around £350m to acquire property; 58% of which is in borough. This has been done carefully and methodically. The way in which the Council has gone about developing its commercial approach is set out in the Property Investment Strategy. The main principles are:

a) All acquisitions are worked out on a 5% gross yield but Minimum Revenue Provision is included so that there is an allowance for all debt to be paid back. Calculations are based on a 3% borrowing rate but the average cost of borrowing is currently around 2.3%. All the Council's loans are fixed period of between 40 to 50 years and fixed interest. Risk of increased interest rates in future years is completely removed.

b) Internal expertise (largely drawn from the private sector) has been supplemented with advice on each acquisition from an independent leading company in the property market (e.g. Colliers or Savills).

c) Our portfolio is broad based covering the office market, retail, housing, light industrial, warehousing, nationally known supermarkets and hotels etc.

d) Tenants are carefully vetted and selected.

e) There is a detailed 3 stage Member process before an acquisition can be made.

f) Provision is made for voids and bad debts, the portfolio shows a significant increase in value.

1.4 The finance settlement announced in December 2018 from Government showed clearly that government resources allocated to local government are focused on Adult Social Care and Children's services. Government are proposing a significant and wide-ranging review of local government finance in 2019 to be implemented in 2020/21, the "Fair Funding Review". As part of the Business rates retention pilot all the Surrey Councils worked with Government officials to improve their understanding of how future schemes may look. In 2018/19 all the Surrey Councils are in the Pilot scheme – we retain 100% of the growth above a set baseline. The Surrey bid to continue as a pilot was unfortunately not successful, but Runnymede can pool business rates income with three other districts and the County Council in 2019/20. This will increase the business rates each council keeps and reduce the sums paid to Government. However, in 2019/20 the 100% will reduce to 75% and most Surrey districts and boroughs are expecting a reduction in business rates retained over the next few years as government seek to address the funding of adult social care.

1.5 Historically the shire districts in Surrey have faced the largest reduction in Government grant as shown below. While it is not clear how the "fair funding" review will change Government funding in 2020 onwards, the financial strategies of the Council are placing more emphasis on generating a sustainable income stream from the regeneration strategies, community transport, CCTV services etc. which it sells to customers on a commercial basis.

1.6 A Runnymede BC annual Band D council tax is one of the lowest in England at £159.59 and generates £5.3 million per year. An increase of 3% would generate an income of £209,000. Clearly council tax alone could never replace the reductions in Government Grant.

<u>Changes in Government funding 2017/18 to 2018/19</u>

UK ranking		Biggest reductions	UK ranking		Lowest reducion , or increase
1	Brentwood	-32.7%	1	Daventry	4.5%
8	Epsom & Ewell	-25.3%	2	Chelmsford	2.7%
12	Mole Valley	-24.5%	3	Greater London Authority	2.3%
14	Tandridge	-23.8%	7	Isles of Scilly	0.0%
16	Richmond upon Thames	-23.5%	20	Kingston upon Hull	-2.8%
19	**Runnymede**	**-22.8%**			
20	Guildford	-22.6%			

Source – MHCLG core spending power- supporting information

1.7 This has set the context for Runnymede BC commencing in 2012 with two major regeneration schemes in Addlestone and Egham. Both schemes increase the number of homes in the Borough, including affordable homes, a night time economy from cinema's and restaurants as well as an increase in the tax base.

1.8 Investing £80m capital in Addlestone, financed mainly from borrowing, meant the Council had to increase its General Fund working balance significantly to pay interest charges as income would not be generated until Addlestone One was completed.

1.9 While the Council has made significant efficiency savings of over £6.5 million it has also faced increasing cost pressures from fuel increases for heavy vehicles, employers National Insurance rates, pension fund deficit etc.

1.10 To continue to fund services and the regeneration schemes in 2015 the Council developed a Property Investment Strategy to acquire commercial property, mainly in the Borough, to both generate a sustainable income and acquire premises that would aid future regeneration and place shaping schemes. The Council agreed a programme of £400 million over the four years 2016/17 to 2019/20 at £100m a year. The final years programme was brought forward to 2018/19 as delays in the Addlestone One project, the difficulty in finding suitable tenants etc. meant that new rental schemes had to be found to fund the capital expenditure on the project. However, in December 2018 the Council suspended all property investment activity over concerns the effect Brexit may have on the national economy. Council feels the risks on property acquisitions have escalated and will remain high for the foreseeable future.

2. 2019/20 Budget

2.1 This report details the Council's budget proposals for 2019/20 and updated Financial Strategy. The report covers the Council's General Fund (expenditure to be financed from council tax). The budget for the Housing Revenue Account is recommended to Council by the Housing Committee.

2.2 The General Fund budget is the Council's annual budget which needs to be approved by Council prior to the end of February each year. It is the financial representation of the Council's policies and activities for the following year and legally must be a balanced budget over the medium term. i.e. the plan for resources expended must be matched by income available, including drawing upon General Fund reserves and balances. It is high profile in that the activities are funded by fees and charges, retained business rates and council tax. Government Grants are now not a significant income stream to the Council. The setting of the council tax is a key component of the General Fund budget. Members have made it clear they wish to maintain balances above the level judged to be a minimum for cash flow and contingency purposes.

2.3 In 2014 the Council set a policy of significantly increasing the working balance to fund an £80million regeneration scheme in Addlestone which will be complete in 2019/20. Earmarked reserves are created to fund specific known or likely future costs.

2.4 This report concentrates on the General Fund Revenue Budget and seeks to set out the approach taken in establishing the base budget, the planned expenditure for 2019/20 and the amount of resources available to fund those activities. This also covers actions required in the future to bridge any potential gap between income and planned spending to deliver a balanced budget in the medium term.

2.5 The Medium Term Financial Strategy also forecasts to 2022/23 the costs of current policies (including estimates of inflation) to ensure the Council's policies are affordable in the medium term. As mentioned earlier, the Government's review of local government funding will be implemented in April 2020. In 2021 the business rates "baselines" will also be reset. All of these events have the potential to significantly alter the Council's funding. The potential for negative RSG (Surrey council tax proceeds being re-distributed to other parts of England) has been removed. However, this would increase government spending by £152.9 million which was unacceptable to Government. These sums have been, and will continue to be funded, from the income retained by the Council from the business rates it collects.

2.6 It should be noted that there will be separate reports on other components of the 2019/20 budget which will have some overlap with the General Fund Revenue Budget. These are the Capital Strategy & Programme, the Council's Borrowing and Investment Strategy and section 25 risk management report on the robustness of the budget and adequacy on reserves.

2.7 The Government has committed that local authorities will retain most of the business rates collected by 2020/21. However, this does not mean all the business rates collected in Surrey will remain in the county; there will still be a distribution of rates income according to the government's assessment of need.

3. Medium Term Financial Strategy

3.1 The overall MTFS has not changed significantly over the last year, the Council's priority still includes providing a full range of discretionary and statutory services which residents enjoy for one of the lowest tax rates in the UK.

3.2 The resource available from Government has changed radically, and will probably continue to reduce until the end of this decade, which does require the Council to re-visit priorities for investment to replace government funding with a long term sustainable income stream. Also new cost pressures will arise mainly related to refuse collection, recycling, the commercial strategy, welfare benefit reforms and new duties related to the Homelessness Reduction Act amongst others. The Council has made considerable savings from the centralisation of the customer services function, business transformation projects and providing services which generate income streams such as "Safer Runnymede and "Meals at Home". Members overarching continuing strategy is one which;

- Ensures an adequate level of working balances to fund unexpected or unknown expenditure in the following year and leave an uncommitted balance of at least £2.5m.

- The budget for 2019/20 contains efficiency savings but this has been more than offset by unavoidable growth to fund service delivery. The MTFS is showing a contribution to the General Fund working balance of just over £1m, largely due to increased commercial income and lower borrowing costs. Each year elected Members, mainly committee chairmen and vice chairmen, begin preparing policy initiatives for the following year which maintains sustainable service delivery within resources available. This process will continue during the summer of 2019.

- The Capital Strategy shows the receipts available. Prudential borrowing will only be used to fund assets which generate a revenue income to support the Council's priorities. The strategy also demonstrates resources are available to fund short life assets (heavy plant and equipment, CCTV renewal etc.). The Council is expecting to receive significant capital receipts in 2019/20 from the Addlestone One development which will be retained to fund unforeseen capital expenditure over the next four years.

- The replacement of short life assets such as refuse collection vehicles, CCTV equipment has traditionally been funded from capital receipts. In 2019/20 the MTFS contains a revenue provision of £1million per year to replace these assets and rely less on capital receipts.

- An investment strategy which maintains a low risk environment but seeks to maximise the yield on the Councils investments and cash flows.

- Robust financial monitoring and reporting procedures to allow an adequate planning horizon to adjust the budget in an orderly fashion.

3.3 The proposals for changes to the Council's budget are shown in Appendix 'J' and the summary MTFS in Appendix 'I'.

3.4 In Appendix 'J' the changes include a net additional spend of £30k to expand the work of the fraud unit. This will be more than offset by an additional £290k of council tax income from the detection of fraud. There are further non-cash releasing savings from prevention of fraudulent tenancy applications, homelessness," blue badge" etc.

4. Government Grants

4.1 While government grants have been declining for a number of years the Council has increased the number of dwellings in the borough (e.g. the apartments in Addlestone One) and also reduced the number of empty dwellings. For that reason, it has increased the New Homes Bonus reward grant significantly as shown below. Including potential council tax increases, the income from taxation will rise by £562k in 2019/20. The Government review will confirm how much business rates income the Council retains and also the future of the New Homes Bonus grant.

	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL CHANGE
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Support grant	1,322	750	290	1	0	(1,322)
New Homes Bonus	1,504	2,011	313	792	1,146	(358)
Retained Business Rates	2,491	2,233	1,902	1,963	1,963	(528)
	5,317	4,994	2,505	2,756	3,109	(2,208)
Council tax income	4,637	4,914	5,101	5,290	5,499	862
	9,954	9,908	7,606	8,046	8,608	(1,346)

5. Council tax

5.1 Runnymede BC has one of the lowest tax rates in the UK; a Band D tax rate is £159.59 a year or £3.06 a week.

5.2 The government has maintained the referendum threshold at below 3% for 2019/20 or £5 a year, whichever is higher. An increase of 2.99% would give a band D tax of £164.36. A £5 a year increase is £164.59 or £3.16 a week.

			Forecast	Forecast	Forecast	Forecast
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Council tax base (band "D" equivilent numbers)	32,997	33,147	33,410	33,560	33,710	33,860
	£	£	£	£		
Tax Rate (Band D council tax)	154.59	159.59	164.59	169.59	174.66	179.88
Incease £	154.59	5.00	5.00	5.00	5.07	5.22
Incease %		3.2%	3.1%	3.04%	2.99%	2.99%
Council tax income	5,101,006	5,289,930	5,498,952	5,691,440	5,887,814	6,090,842
Increase		188,924	209,022	192,489	196,373	203,028

5.3 Over the last two years, while collection costs have increased slightly, collection rates have been maintained at around 98%.

6. General Fund working balance

6.1 The budget for 2019/20 shows a surplus of income over expenditure, however the long-term effect of reducing government funding and maintaining services does reduce the General Fund working balance slightly below the minimum recommended level in 2020/21 and 2021/22. The main cause is borrowing around £90m to fund the Egham Gateway project and the loss of rental income from the properties to be demolished during construction.

6.2 This is before any potential reduction in business rates income which is a risk. However the Director of Resources has reviewed the current position regarding the

Surrey wide “pilot” as part of Government planning on business rates retention. At the end of October 2018, it appears the growth in the Surrey wide business rates could benefit Runnymede by at least £500k as shown in the table below” Potential changes to the General Fund Working balance”.

6.3 In March 2018 the Director of Resources became aware that the NHS Trusts in England may start a High Court action to be classed as registered charities. This would enable them to reclaim 80% of the rates paid backdated to 2010. By March 2019 it is anticipated the case will not come before the courts. Should the NHS eventually lose the provision will be returned to the collection fund. Should the NHS win the effect on local authorities with an NHS Trust in the area will be profound. The Corporate Director of Resources understands that the District and County Council networks will mount an appeal in the same way government has lodged an appeal against a recent court decision to de-rate “hole in the wall “ type cash machines. It is therefore unlikely this will be resolved before 2020/21. As the appeals provision is now over £17 million at March 2019 it is very likely the Corporate Director of Resources, when preparing the Council’s Statement of Accounts, will release around £9m of the £17m provision. As all the Councils in Surrey are in the pilot in this current year, the £9m will be shared as follows

			£ million
			9.00
Runnymede BC		30%	2.70
Surrey County Council		58%	5.22
All district and boroughs		12%	1.08

6.4 Early discussions with other Surrey finance officers, including the County Council, is that this course of action benefits the surrey councils the most. The individual Councils can hold the funds they receive in an earmarked reserve pending the outcome of the court case.

6.5 The sum of £1.08m shown above will be shared between all the districts and boroughs only. At the end of Quarter 2 the business rates growth in Surrey was quite encouraging and potentially this Council could receive an additional £0.5m.

6.6 While it is too early to build these sums into the revised budget for 2018/19 the Corporate Director of Resources will brief Council in May 2019 as part of the Statement of Accounts. The potential adjustments to the General fund working balance are detailed below.

6.7 The Council has made efficiency savings in each of the last six financial years. While not included in the budget as a target, it is not unreasonable to assume this will continue.

6.8 If the fair funding review reduces the business rates income we retain could be reduced. The table below shows a reduction in income to £1m over 3 years.

<u>Potential changes to the General Fund working balance</u>

	2018/19	2019/20	2020/21	2021/22	2022/23
GF balance as at 10 January 2019	3,223	4,260	2,317	2,234	3,260
Changes - potential					
Balance 31 March each year	3,223	4,523	5,860	4,117	4,134
MTFS (use) / contribution		1,037	(1,943)	(83)	1,026
NHS appeal	2,700				
less transfer to rates reserve	(1,900)				
Growth in Business Rates and pilot benefit	500				
Reduction of 900k in business rates over 3 years			(300)	(600)	(900)
Efficiency target 300k year 1 , then each year 200k		300	500	700	900
	4,523	5,860	4,117	4,134	5,160

7. Policy framework implications

7.1 The 2018/19 budget and MTFS to 2019/20 are based on the Corporate Plan approved by Council.

8. Resource implications

8.1 These are contained in the report. As Government announcements are made regarding the Fair Funding Review, changes to new Homes Bonus, Business rates retention and pilot schemes, Members can consider revised financial plans.

9. Legal implications

Contained in the report.

Medium Term Financial Strategy 2018/19 to 2022/23 - General Fund Summary

	Estimate 2018/19 £'000	Probable 2018/19 £'000	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Base Budget 2018/19 agreed by Council Feb 2018	(3,037)	(3,037)	(3,037)	(3,037)	(3,037)	(3,037)
Estimates in 2018/19 MTFS subject to further approval	554	0	0	0	0	0
Budget Adjustments	0	3,488	(6,668)	(5,214)	(8,670)	(9,625)
Estimates in 2019/20 MTFS subject to further approval	0	0	740	680	680	680
Adjusted base budget A	(2,483)	451	(8,965)	(7,571)	(11,027)	(11,982)
Accounting adjustments:						
- Reversal of depreciation charges	(2,452)	(2,452)	(2,452)	(2,452)	(2,452)	(2,452)
- Capital charge to HRA	(43)	(43)	(43)	(43)	(43)	(43)
- Revenue contributions to Capital expenditure	235	235	235	235	235	235
Transfers to/from reserves:						
- Insurance reserve	0	0	0	0	0	0
- Business Rates Equalisation reserve	0	0	(2,296)	0	0	0
- Equipment repairs and renewals reserve	0	0	1,000	1,000	1,000	1,000
- Property repairs and renewals reserve	0	0	500	500	500	500
- Investment Property income equalisation reserve	0	1,000	0	0	0	0
Treasury and Financing						
- Investment Income	(217)	(229)	(246)	(335)	(513)	(607)
- Interest on loans to RBC companies	(1,355)	(1,084)	(1,414)	(1,431)	(1,431)	(1,431)
- Dividend income	0	(3)	(6)	(6)	(6)	(6)
- Capital Financing	11,234	10,213	14,535	16,033	17,935	18,008
- Minimum Revenue Provision (MRP)	3,034	3,684	4,576	4,759	4,950	5,148
- Voluntary Revenue Provision (VRP)	0	0	0	0	0	0
Government Grants (Non-Service Specific)						
- New Homes Bonus	(792)	(792)	(1,146)	(802)	(924)	(1,055)
- Other grants	0	0	0	0	0	0
Budget requirement B	**7,161**	**10,980**	**4,279**	**9,887**	**8,224**	**7,315**
Funded by:						
- Revenue support grant	(10)	(10)	0	0	0	0
- Business rates retention scheme	(1,902)	(1,902)	(1,963)	(1,963)	(1,963)	(1,963)
- Business rates retention scheme - Pilot scheme	0	(1,098)	0	0	0	0
- Business rates & Council Tax income from Fraud	0	0	(290)	(290)	(290)	(290)
- Share of Council Tax surplus for prior years	0	0	140	0	0	0
- Share of Business Rates surplus for prior years	0	0	2,296	0	0	0
Sub total of government funding C	**(1,912)**	**(3,010)**	**183**	**(2,253)**	**(2,253)**	**(2,253)**
Net demand (B less C)	**5,249**	**7,970**	**4,462**	**7,634**	**5,971**	**5,062**
Tax base - Band D equivilent numbers	33,490	33,490	33,410	33,560	33,710	33,860
Band D tax per year (£)	159.59	159.59	164.59	169.59	174.66	179.81
Council tax income D	(5,345)	(5,345)	(5,499)	(5,691)	(5,888)	(6,088)
Use of / (contribution to) Working Balance	**(96)**	**2,625**	**(1,037)**	**1,943**	**83**	**(1,026)**
General Fund Balance		3,223	4,260	2,317	2,234	3,260
Over / (Under) minimum balance level of £2.522m			1,738	(205)	(288)	738

[redacted]

Growth and savings

Category 1	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	
Community services					
Older people service administration	63	63	63	63	New Community Services Manager Role deferred until outcome of SHBC decision known (CMC 11 Oct 2018). Will only go ahead if SHBC Contract proceeds
Grounds maintenance contract retender comencing	40				Potential cost increase and new capital requirement if brought in house.
	103	63	63	63	
Planning					
major projects delivery and compliance team	50	50	50	50	Total cost £260k - to be funded from CIL and planning fees (6 officers) continues Major projects team
Housing General Fund					
Single homeless - FUSE funding	5	5	5	5	Winter shelter and faith group fupport
Single homeless - Homeless grant funding	-5	-5	-5	-5	Flexable homelessness grant allocation
"Entitled software" - benefit maximisation and affordability assessments	20	20	20	20	
Single homeless - Homeless grant funding	-20	-20	-20	-20	
Payment to estate agents, admin costs	3	3	3	3	Facilitate private sector tenancy to Universal credit claimants
	3	3	3	3	
Corporate Management Committee					
Corporate office					
Server costs of council website	5	5	5	5	Increased costs
Members Allowances	90	90	90	90	Increased allowances
Comercial services / Corporate stucture & capacity	300	300	300	300	Full business case to be approved by members
	395	395	395	395	
Resources					
Expand Corporate fraud unit - expenditure	44	44	44	44	The Corporate fraud initiative - brings in £290k of new council tax receipts
Expand Corporate fraud unit - recharge to HRA	-14	-14	-14	-14	Work on HRA fraud
Expand Corporate fraud unit - income					Potential income of £250,000 shown under Taxation income
Accountancy staffing to meet new closing deadlines etc.	35	35	35	35	Also £400million of assets to account for, expanded accounts, capital plan. See business case
ICT strategy - significant change management plan	104	104	104	104	See business case
ICT - Spec writing consultancy	20				Planning Northgate & EH Civica systems
	189	169	169	169	
Corporate Management Committee	584	564	564	564	
TOTAL category 1	**740**	**680**	**680**	**680**	

[redacted]