Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Thursday 6 February 2020 at 7.30pm

Council Chamber
Runnymede Civic Centre, Addlestone

Members of the Committee

Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, M Brierley, J Broadhead, R Edis, L Gillham, C Howorth and S Mackay.

In accordance with Standing Order 29.1, any Member of the Council may attend the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

AGENDA

Notes:

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

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

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

'see overleaf'

4) In the unlikely event of an alarm sounding, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate.

5) **Filming, Audio-Recording, Photography, Tweeting and Blogging of Meetings**

Members of the public are permitted to film, audio record, take photographs or make use of social media (tweet/blog) at Council and Committee meetings provided that this does not disturb the business of the meeting. If you wish to film a particular meeting, please liaise with the Council Officer listed on the front of the Agenda prior to the start of the meeting so that the Chairman is aware and those attending the meeting can be made aware of any filming taking place.

Filming should be limited to the formal meeting area and <u>not extend to those in the public seating area</u>.

The Chairman will make the final decision on all matters of dispute in regard to the use of social media audio-recording, photography and filming in the Committee meeting.

LIST OF MATTERS FOR CONSIDERATION

PART I

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

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

a) Exempt Information

9. NOTICE BY THE REGULATOR OF SOCIAL HOUSING – REVIEW (TO FOLLOW)

b) Confidential Information

(No reports to be considered under this heading)

1. **FIRE PRECAUTIONS**

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

2. **NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP**

3. **MINUTES**

To confirm and sign, as a correct record, the Minutes of the meeting of the Committee held on 28 November 2019 (at Appendix ‘A’).

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

28 November 2019 at 7.30.p.m.

Members of the Committee present:	Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, J Broadhead, R Edis, C Howorth and M Kusneraitis.
Members of the Committee absent:	Councillors M Brierley and L Gillham.

Councillor P Snow also attended.

369 FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

370 NOTIFICATION OF CHANGE TO COMMITTEE MEMBERSHIP

The Group mentioned below had notified the Chief Executive of their wish that the change listed below be made to the membership of the Committee. The change was for a fixed period ending on the day after the meeting and thereafter the Councillor removed would be reappointed.

Group	Remove from Membership	Appoint Instead
Runnymede Residents And Community	Councillor S Mackay	Councillor M Kusneraitis

The Chief Executive had given effect to this request in accordance with Section 16(2) of the Local Government and Housing Act 1989.

371 MINUTES

The Minutes of the meeting of the Committee held on 4 July 2019 were confirmed and signed as a correct record.

372 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors M Brierley and L Gillham.

373 TREASURY MANAGEMENT MID YEAR REPORT 2019/20

The Committee noted a report on the Council's treasury activity for the first six months of the 2019/20 financial year. It was noted that the economic update in the report had been written before the December General Election had been called. The Treasury and Public Works Loan Board (PWLB) had announced on 9 October 2019 that there would be an increase in the interest rates offered on new PWLB loans by 100 basis points or 1%. A possible motive for this increase was a wish by the Government to deter local authorities from investing in property. This increase had surprised local authorities and the market generally. It was anticipated that financial institutions would be devising products as an alternative source of borrowing in order to respond to the increase in PWLB loan rates.

The Council held £69.2M of investments as at 30 September 2019 and the investment activity during the first six months of the year was noted. During the financial year to date, the Council had operated within the treasury and prudential indicators set out in the

Council's Treasury Management Strategy and in compliance with the Council's Treasury Management practices. The Committee noted the position at 30 September 2019 against each of the indicators. It was noted that short term investment with other local authorities had increased. This was to an extent due to the lack of other alternatives as banks and building societies increasingly did not wish to offer investments for a short period or for the small sums needed by the Council. Local authority rates were also usually more advantageous than those offered by banks or building societies. Local authorities were safe organisations to place investments with as although only a few local authorities had a credit rating no local authorities had been liquidated or wound up.

The excellent annualised return provided by the Council's CCLA Property Fund was noted. It was agreed that further information on the CCLA Property Fund would be circulated to all Overview and Scrutiny Select Committee Members. It was noted that the Council had entered into an advance loan deal refinancing an existing loan with Phoenix Life Limited at a percentage rate of 2.88%. It was noted that this loan would part fund the Egham Gateway Development and the rate offered was more advantageous that that currently offered by the PWLB.

The Committee agreed that it would be helpful to them in their overview and scrutiny role to have management reporting so that they could track treasury activity from quarter to quarter. It was agreed that a meeting would be arranged between Council Finance Officers and the Vice-Chairman of the Committee to discuss what should be included as management information in future Treasury reports in order to allow Members of the Overview and Scrutiny Select Committee to track treasury performance over time.

374 PROJECT VIABILITY APPRAISALS IN A LOCAL GOVERNMENT SETTING

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

The Committee considered a detailed report on project viability appraisals in a local government setting. This item had been included on the agenda at the requirement of the Chairman of the Committee, under the provisions of Standing Order 27.4c. The Chairman informed the Committee that he had asked for the report to be submitted to the Committee as a number of Members had questioned how the Council calculated the viability of projects and the purpose of the item was for Members to gain a greater understanding of the Council's project viability appraisal methodology by looking at three very different projects. The Committee would also be advised of the views of a Member who had some experience of managing development projects outside a local government setting.

The report used three examples of regeneration and redevelopment projects to explain how project viability was calculated. The Committee noted that a commercial approach had been used by the Council in assessing project viability, but that there were also political and community priorities applied to redevelopment and regeneration projects and there was a requirement for the Council to follow financial and procurement rules. These rules included the Official Journal of the European Union (OJEU) procurement rules as contained in UK legislation, the Cabinet Office procurement rules and the Council's own procurement and contract rules. It was noted that political and community priorities and financial and procurement rules could reduce levels of income generated by projects.

The Committee received and noted a presentation by an independent specialist in development appraisal from the private sector who attended the Committee as an external adviser on viability appraisals. The external adviser informed the Committee that he had advised both public and private sector clients on development viability. He referred to the difference between residual valuation (which was not an appraisal) and development appraisal. He illustrated different forms of development appraisal. He emphasised that no two sites were the same and complete comparability between sites was not possible. There were many different ways of undertaking viability models and he illustrated some of these methods. He showed how total contract value was calculated. Factors to be taken into account in a local government setting were Local Plan and affordable housing requirements. Although affordable housing may be required in a project it would reduce project viability. He illustrated different ways of calculating development costs which might change over time once the project was under way. Another factor affecting project viability was client requirements and in a local government setting this would include place shaping and political priorities.

The Committee thanked the external adviser for his presentation and agreed that a more detailed version of his presentation should be circulated to the Assets and Regeneration Member Working Group and that he be invited to speak to that Working Group.

A number of Members queried the Council's project appraisal methodology in relation to figures provided for particular schemes and build costs. A Member also queried how cash flow figures had been calculated and queried why some items had not been taken into account in cash flow forecasts. That Member also considered that cash flow forecasts for projects should be provided more regularly for Members so that they could track whether projects were progressing on budget. However, not all Members of the Committee considered that it was necessary for Members to receive this level of detail.

In the view of a number of Members, the Council's figures for build costs were high and it was noted that a contributory factor to this was that the Council was required to follow the Official Journal of the European Union (OJEU) procurement route which meant that it did not have the same flexibility in procuring contractors as a private developer.

A Member questioned whether most Councillors would have the technical expertise necessary to challenge project viability appraisals and whether it was possible to have benchmarks against which schemes could be assessed. The Committee agreed that evaluation of projects was a matter that required in depth discussion in a Member Working Group setting and agreed that the Assets and Regeneration Member Working Group should review the current methodology for evaluating projects and consider whether regular cash flow forecasts tracking viability of projects over time should be made available to Members.

A Member queried the role of the company appointed by the Council in respect of Runnymede Regeneration and the payment arrangements for that company. It was agreed that a meeting be held between that Member and Finance and Commercial Services Officers to discuss and clarify these matters.

The Committee agreed that the Assets and Regeneration Member Working Group should review urgently an alternative option for one of the projects referred to in the report and consider whether to make a recommendation to the Corporate Management Committee that this alternative option be pursued.

The Committee agreed that executive summaries should be provided for lengthy reports to the Committee in the future.

375 NOTICE FROM THE HOUSING REGULATOR - REVIEW

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

The Committee received an oral report from the Chief Executive advising them of the response by the Council following a Regulatory Notice issued by the Regulator of Social Housing in October 2019 which concluded that the Council had breached the Home standard which required the registered provider (the Council) to meet all applicable statutory requirements that provided for the health and safety of Council tenants in their homes.

The Committee noted action being taken with regard to letting of contracts, recruitment of staff to drive the necessary changes in the Council's Housing business centre and the implementation of a quality management system. The stock condition survey, electrical testing arrangements and fire risk assessments were all being updated. Significant investment in information technology would be made to provide robust systems. Progress in implementing these changes would be monitored by the Housing Member Working Group and by the Housing Committee. It was agreed that a Member would be contacted to establish the information he required from Officers regarding the action being taken in respect of the Regulatory Notice.

A report would be submitted to the February 2020 meeting of the Overview and Scrutiny Select Committee on how the issues that led to the issue of the Regulatory Notice were not identified and addressed and how new working methods would prevent these issues from occurring in the future. A report would be submitted to the March 2020 meeting of the Standards and Audit Committee on the audit actions in respect of the Council's compliance with the Home standard.

(The meeting ended at 10.23.p.m.) Chairman

4. **APOLOGIES FOR ABSENCE**

5. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and hand it to the Legal Representative or Democratic Services Officer at the start of the meeting. A supply of the form will also be available from the Democratic Services Officer at the meeting.

Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.

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

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

6. **2020/21 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT (FINANCE – PAUL FRENCH)**

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2020/21.

Recommendations:

i) The proposed 2020/21 Treasury Management Strategy as set out in this report encompassing the Annual Investment Strategy at Appendix 'B' be approved;

ii) The Prudential and Treasury Management Indicators for 2020/21 set out in Appendix 'C' be approved;

iii) The authorised limit for external borrowing by the Council in 2020/21, be set at £880,998,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003); and

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

1. Context of report

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

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

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

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

1.5 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cashflows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.6 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 on Local Authority Investments. (MHCLG Investment 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 two main areas:

Capital Issues:
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues:
- Policy on the use of external service providers
- The economy and prospects for interest rates
- The current treasury position
- Borrowing strategy

- Policy on borrowing in advance of need
- Debt restructuring
- Annual investment strategy
- Treasury indicators which limit the risk and activities of the Council
- Other treasury matters (required under MHCLG Investment Guidance)

1.9 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP). The Corporate Management Committee considered this report at its meeting on 23 January 2020.

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.

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

2 Capital Strategy

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

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

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

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

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

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

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

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

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

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 MRP.

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

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

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

3.5 In December 2014 the Council set 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 and there are therefore currently no plans to amend the statement at the present time. The Council's MRP statement for 2020/21 will therefore be as follows:

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

3.6 A change introduced by the revised MHCLG Investment Guidance was the allowance that any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the Council had made no such VRP overpayments.

4 Treasury Management Strategy (TMS)

Treasury management consultants and training

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

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

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

4.4 The CIPFA Code requires the Assistant Chief Executive to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Member training was last carried out by Link to 22 Members in November 2017. Further training 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 economy (as at 20 December 2019):

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

4.6 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the General Election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged.

4.7 The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% in 2019 due to the ongoing uncertainty over Brexit and the outcome of the General Election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent".

Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate at its January 2020 meeting as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

4.8 There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

4.9 During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to do with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

4.10 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be anxious that this condition might become contagious to other western economies.

4.11 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their Government's bonds and so create a potential doom loop. A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

4.12 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

The current treasury position and prospects for investment rates

4.13 The Council's treasury portfolio position as at 31 December 2019 comprised of:

	31 Mar 19 £'000	**31 Dec 19 £'000**
Borrowing		
Fixed Rate - PWLB	571,292	577,292
Fixed Rate - Money Market	0	5,000
TOTAL BORROWING	**571,292**	**582,292**
Specified Investments		
Banking sector	22,000	15,500
Building societies	10,000	5,000
Local Authorities	4,000	36,000
Money Market Funds	12,270	8,500
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	458	457
TOTAL INVESTMENTS	**52,728**	**69,457**
NET	**518,564**	**512,835**

4.14 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings. On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 of 2023. Based on this assumption the probable investment earnings rates for returns on investments over the next few years can be expected to be as follows:

	Investment return
2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%

4.15 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.

4.16 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up following the unexpected increase of 100 bps in PWLB rates in

October. The Council's policy of avoiding new borrowing by running down spare cash balances has served us well over the last few years but this now needs a rethink given that borrowing rates are due to increase above the Council's benchmark rates.

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

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	183	181	364
Interest on loans to RBC companies	1,571	0	1,571
Dividend income	190	-	190
Interest paid on deposits and other balances	(2)	-	(2)
Net Investment Income	**1,942**	**181**	**2,123**
Debt Interest	(14,466)	(3,426)	(17,892)
Management Expenses	(100)	-	(100)
Net Investment Income / (Debt interest)	**(12,624)**	**(3,245)**	**(15,869)**

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

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

4.19 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.

4.20 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost.

Borrowing Strategy

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

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

4.23 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 2020/21 treasury operations. The Assistant Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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

<u>Sources of borrowing</u>

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

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

<u>Debt instruments</u>

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

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

4.25 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.

<u>Policy on Borrowing in Advance of Need</u>

4.26 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.

4.27 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.

4.28 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.

<u>Debt restructuring</u>

4.29 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).

4.30 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).

4.31 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.

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

Annual Investment Strategy

4.33 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 Council's Capital Strategy.

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

4.35 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.

4.36 The MHCLG Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council's strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2019/20 in March 2019 and an updated Strategy for 2020/21 is set out at Appendix 'B' attached.

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

	MRP cumulative balance at 31 March £'000
2019/20	9,140
2020/21	13,237
2021/22	18,030
2022/23	23,047

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

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

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

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

6. Prudential and Treasury Management Indicators 2020/21

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

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

7 Legal Implications

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

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. Environmental/Sustainability/Biodiversity implications

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

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

9. Conclusions

9.1 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.

9.2 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.

9.3 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.

(To recommend to Full Council on 11 February 2020)

Background Papers

None stated

Annual investment strategy
for the 2020/21 financial year

Introduction

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

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

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

Investment Policy

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

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

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

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

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

Creditworthiness Policy

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

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

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

10. The Assistant Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

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

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

Investment criteria and limits

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

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

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

Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Banks 1	16	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	364 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	364 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£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.

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

Building societies

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

Money market funds

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

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

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

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

Foreign countries

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

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

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

Non-specified investments

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

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

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

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

Supranational bonds

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

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

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

Short Dated Bond Funds / Enhanced Cash Funds

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

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council’s investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

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

Non-Treasury Investments

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

Liquidity Management

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

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

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

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

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

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

Planned Investment Strategy for 2020/21

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.

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS 2020/21

CAPITAL & AFFORDABILITY RELATED INDICATORS

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

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

Capital Expenditure	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Housing Revenue Account	4,890	6,331	9,828	9,851	7,751
General Fund	31,598	23,147	37,624	48,706	8,674
Non-Financial Investments	-	-	-	-	-
- Investment Properties	183,862	76,474	109,621	470	0
- Capital Loans	16,497	0	996	14,431	0
Total	**236,847**	**105,952**	**158,069**	**73,458**	**16,425**
Financed by:					
Capital Receipts	18,650	4,889	9,938	17,947	3,376
Earmarked Reserves	0	2,000	2,634	976	1,264
Capital Grants & Contributions	729	672	565	535	535
Revenue	4,063	4,853	7,862	8,330	6,410
Total	**23,442**	**12,414**	**20,999**	**27,788**	**11,585**
Net financing need for the year	**213,405**	**93,538**	**137,070**	**45,670**	**4,840**

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

Non-financial Investments	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Capital Expenditure	200,359	76,474	110,617	14,901	0
Financing costs met	16,497	0	996	14,431	0
Net financing need for the year	**183,862**	**76,474**	**109,621**	**470**	**0**
Percentage of total net financing need	86%	82%	80%	1%	0%

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

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

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

The Council is asked to approve the CFR projections below:

	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
CFR at start of year: – HRA	101,956	101,956	101,956	100,000	100,000
– General Fund	63,727	91,695	175,349	202,243	230,893
– Non-financial investments	216,550	398,825	404,933	512,800	524,851
Total CFR at start of the year	**382,233**	**592,476**	**682,238**	**815,043**	**855,744**
Net financing need for the year	**213,405**	**93,538**	**137,070**	**45,670**	**4,840**
Less MRP/VRP and other financing movements	(3,162)	(3,776)	(4,265)	(4,969)	(5,199)
CFR at end of year (31 March)	**592,476**	**682,238**	**815,043**	**855,744**	**855,385**

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

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

	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
General Fund (GF) Balance	3,878	5,473	6,010	3,993	3,971
HRA Balance	27,383	28,810	26,911	21,978	24,978
GF Earmarked reserves	9,590	10,805	9,923	10,401	10,727
Capital Receipts Reserve	5,151	7,331	5,324	1,718	12,749
Capital Grants Unapplied	1,610	805	0.00	0.00	0.00
Other	6,313	7,909	15,182	24,760	18,925
Expected investments at year end	**53,925**	**61,133**	**63,350**	**62,850**	**71,350**

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.

	2018/19 Actual	2019/20 Probable	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate

	%	%	%	%	%
General Fund	114.10	130.47	150.40	232.04	240.37
HRA	31.25	32.89	32.02	31.51	31.21

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

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

	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 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.

	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
External Debt					
Debt at 1 April	356,989	571,546	665,083	801,152	843,866
Expected change in debt	214,557	93,537	136,069	42,714	4,840
Actual gross debt at 31 March	**571,546**	**665,083**	**801,152**	**843,866**	**848,706**
CFR	**592,476**	**682,238**	**815,043**	**855,744**	**855,385**
Under / (over) borrowing	**20,930**	**17,155**	**13,891**	**11,878**	**6,679**

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:

	2018/19 Actual £000s	2019/20 Probable £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Non-financial investment debt at 1 April	356,989	571,546	665,083	801,152	843,866
Percentage of total external debt	61%	70%	61%	64%	62%

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

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

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

Operational Boundary	**2019/20 Probable £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
General Fund	562,873	698,942	743,612	748,452
HRA	101,956	101,956	100,000	100,000
Other / Temporary Borrowing	33,200	40,000	42,200	42,400
Total Operational Boundary	**698,029**	**840,898**	**885,812**	**890,852**

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.

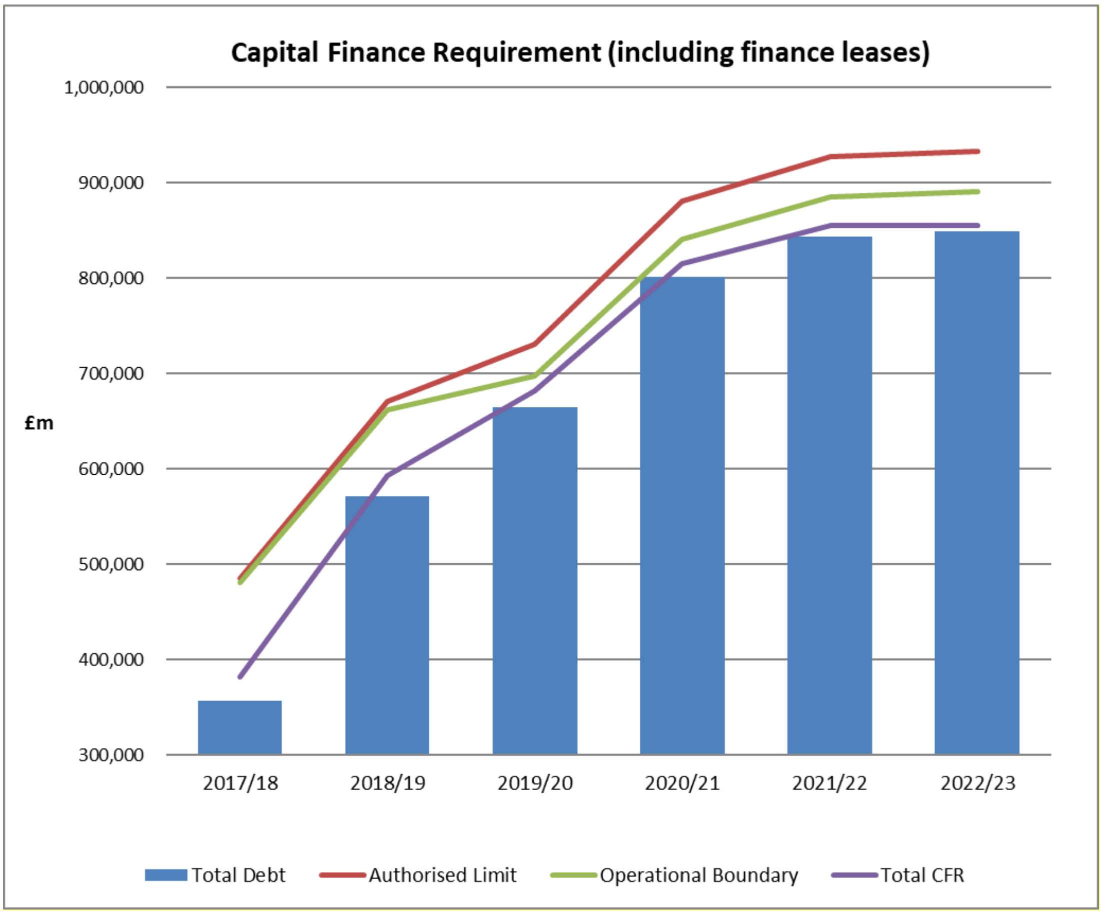
1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

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

Authorised limit	**2019/20 Probable £000s**	**2020/21 Estimate £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**
General Fund	562,873	698,942	743,612	748,452
HRA	101,956	101,956	100,000	100,000
Other / Temporary Borrowing	66,500	80,100	84,400	84,800
Total Authorised Limit	**731,329**	**880,998**	**928,012**	**933,252**

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

The following chart combines the Authorised Limit, Operational Boundary, CFR and actual debt in one table to show the predicted movement over the next few years:



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	**2019/20 £000s**	**2020/21 £000s**	**2021/22 £000s**
on fixed interest rates based on net debt	680,196	827,648	875,162
on variable interest rates based on net debt	0	0	0

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

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

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

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

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

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

GLOSSARY OF TREASURY TERMS

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

GLOSSARY OF TREASURY TERMS

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

GLOSSARY OF TREASURY TERMS

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

7. **REVIEW OF THE PLANNING SERVICE (LAW AND GOVERNANCE - PIERO IONTA ON BEHALF OF THE O&SSC ADVISORY PANEL)**

Synopsis of report:

This report is the conclusion of the Advisory Panel's work on behalf of this Committee having spent 18 months reviewing the work of the Planning Service, having sought the views of local residents and further to the Planning Advisory Service Peer Challenge Review.

The Advisory Panel make a number of recommendations within the report as set out in Appendix 'E' which, subject to this Committee's adoption and approval, are to be provided to the Planning Committee to take forward in consultation with the Planning Department.

Recommendations:

1. **That the Panel recommendations set out in Appendix 'E' attached are adopted by this Committee with its recommendation to Planning Committee to accept and adopt them.**

2. **That a report from Planning Committee be received at the scheduled meeting of this Committee on 1 October 2020 providing an update further to its receipt of this Committee's recommendations.**

1. **Context of report**

1.1 As part of this Committee's Work Programme, Members asked that this Committee conduct a scrutiny review of the Planning Service. That work commenced in April 2018 when the Terms of Reference for an Advisory Panel were established and approved by this Committee.

1.2 This report seeks to provide a final update from the Advisory Panel along with its recommendations to this Committee further to its efforts over the last several months.

1.3 Members are invited to endorse the Panel recommendations set out in Appendix 'E' attached so that the Planning Committee may receive this report and its recommendations which will then allow it to review and act upon these recommendations over the next few months.

2 Report

2.1 As this work has spanned over 18 months, and 2 Chairmen and Vice-Chairmen of this Committee, along with other changes to the membership of this Committee, before identifying the conclusion of the Advisory Panel's work, the following seeks to set out the relevant background and body of work that has gone into this task.

Background

2.2 Further to the approval of the Terms of Reference for this service review in April 2018, Members of this Committee concluded that it would be helpful to instruct the Planning Advisory Service ('PAS') to conduct a Peer Challenge Review. In light of this and having noted evidence provided by the then Corporate Director of Planning and Environmental Services (CDPES) and Mr Stephen Barker on behalf of PAS, the Chief Executive met with Cllrs Maddox and Cotty (the former Chairman and Vice-Chairman of this Committee) to review the proposed scope of instructions to PAS and to discuss the creation of an Advisory Panel to assist this Committee with the body of work required to deliver this Scrutiny Review.

2.3 Mindful of the amount of work required and the demands upon the time of Members, it was decided that an Advisory Panel consisting of 4 members of this Committee would be an effective use of this Committee's time and resources. The role of the Advisory Panel was agreed to include:

- meeting with interested parties (i.e. residents' groups, local stakeholders and developers, etc.),
- meeting with PAS (i.e. settling the Scope of their instructions, etc.), and
- meeting with Officers (i.e. CDPES and other key officers within the Planning Service).

2.4 An Advisory Panel (much like a Member Working Group) has no powers. As the role of the Advisory Panel was to go beyond what would normally be required of it, this Committee delegated any appropriate powers to the Advisory Panel.

2.5 In light of the time that the Panel has been in existence, its membership has changed. The following Members formed the Advisory Panel from 2018 until the end of that Municipal Year (May 2019):

- Mr P Taylor (Chairman) (an elected Member at the relevant time)
- Cllr Gillham
- Cllr T Gracey, and
- Cllr Dennett.

2.6 Since May 2019, the following Members form the Advisory Panel:

- Cllr Furey (Chairman)
- Cllr Gillham, and
- Cllr T Gracey.

2.7 Having settled the scope of PAS' instructions, the Peer Challenge Review took place on 12-14 September 2018. During those 3 days spent at the Council's offices, the PAS Panel (consisting of 2 external elected Members with many years' experience of Planning Committees and 2 external officers with many years' experience leading other local planning authorities) met with Members, officers and local residents, in addition to observing a Planning Committee Meeting. The focus for their Peer Challenge review was to identify and review:

- how the planning service engages with the community, other stakeholders and users through both the planning policy and development management process;
- how the planning service is perceived from within and outside of the council,
- the consistency of decision making,
- the role of officers and councillors in community engagement,
- the understanding and ownership of the emerging local plan, and
- the present and future challenges for the service.

2.8 In February 2019, the Council received PAS' Report which was positive about the Planning Service and its officers. The PAS review gave both the public and elected Members an independent view of how the Council's Planning Service is helping to deliver the Council's objectives. To that end, a number of recommendations were made by PAS which have been considered by the Advisory Panel and commented upon in its findings set out in Appendix 'E'.

2.9 With the PAS report noted and digested, the next stage of the Planning Service review was to gather evidence on the work of the Planning service and its interaction and communication with Members and customers. The Advisory Panel received written and verbal representations from local residents in respect of the service's interaction and communication with Members and customers at its meeting held on the evening of 12 March 2019. A note of this meeting was previously considered by this Committee.

2.10 The Panel then sought comments from the Planning Service regarding both the recommendations of PAS and those that flowed from its March meeting with residents. Having duly reviewed those comments, the Panel has recently finalised its recommendations at Appendix 'E'.

<u>Findings and recommendations</u>

2.11 The Panel wishes to start by extending its thanks to its former members (Mr P Taylor and Cllr Dennett) for their time and dedication to the Panel's creation and in giving of their time and effort to drive this review forward. The Panel wishes to extend those thanks also to all those witnesses whom it called upon over the course of this task and in particular to the local residents whose views were both informative and valued.

2.12 Noting that this was the first O&SSC Review that this Committee has conducted (to the best of anyone's knowledge), there are a number of valuable lessons that have been learnt which will assist with any future service review in future municipal years.

2.13 Firstly, far more time and resource (both officer time and money) was required than could be initially expected. It was never expected to take as long as it has but a number of external factors (local and national elections, changes within both the Committee and the Planning Service etc.), have delayed the conclusion of this task. It is therefore noted that this will have had an adverse impact on the morale of the Planning Service who have had this review in the background of their daily working lives for some time, and the Panel wishes to extend its appreciation of the good work and dedication of the officers who form part of the Planning Service and continue to help the Council deliver an effective and valued service in a demanding setting.

2.14 The Panel also wish it to be noted that the Planning Department, supported by the Planning Committee, have sought to address PAS' recommendations when deciding upon changes to the service and the way that the Committee conducts its business that have occurred since September 2018. It is acknowledged that the Planning Service has been through some changes since PAS visited and so the Panel have sought to reflect this within its recommendations and the deadlines for their adoption which are set out in Appendix 'E' attached.

2.15 A number of key recommendations from PAS relate to the Council's Corporate Plan. This is currently under review and the Panel takes this opportunity to support PAS' recommendation and invite both Members and officers to consider that this should amount to a review of the Corporate Vision, determining the Council's priorities which link growth with the efforts of the Planning Service through the prism of the emerging Local Plan.

2.16 In conclusion, the Panel recommendations set out in Appendix 'E' seek to build upon the existing good practice noted by PAS within the Planning Service whilst seeking to look into ways of evolving the service so that it remains fit for purpose over the coming years, noting the progress of the Council's emerging Local Plan. It is intended that the Panel's recommendations will assist the Planning Service deliver:

- strong and strategic planning for neighbourhoods and local areas
- effective development management and good decision making, and
- accountable and value for money planning services.

3. **Policy framework implications**

3.1 The recommendations touch upon the need for a review of both the Corporate Business Plan, Business Centre Plan and the Council's Statement of Community Involvement. It is the Panel's view that any current or forthcoming review of such corporate plans and policies should have due regard to this report and its recommendations.

4. **Resource implications**

4.1 In addition to the external expenditure incurred for the PAS Peer Challenge Review, these recommendations will have a number of resource implications should the Planning Committee accept and adopt the same; namely the need for an increased training budget for Member training in addition to the resources required for changes to the way communication with local residents could be carried out in future. Those particular resource implications will need to be addressed on a case by case basis as and when these redocumentations are reviewed and enacted by the Planning Service.

5. **Legal implications**

None

6. **Equality implications**

None

7. **Environmental/Sustainability/Biodiversity implications**

None

8. **Conclusion**

8.1 The Committee is invited to adopt the recommendations of its Advisory Panel which will then be recommended to the Planning Committee for its consideration and implementation.

(To recommend to the Planning Committee)

Background papers

1. PAS report dated 8 February 2019
2. Note of meeting with local residents that took place on 12 March 2019

	PAS RECOMMENDATIONS	PANEL RECOMMENDATION (XX.1.20)	DEADLINE FOR COMPLIANCE
1	Refresh the corporate plan after the next elections to set out a clear corporate vision and priorities, including a clear narrative on growth and planning	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations.	Before end of this municipal year - on or before May 2020
2	Allocate a strong councillor champion for the local plan and the delivery agenda to work within the Council, with external partners and across the region.	Further to assurances by officers of the role of the Chair of Planning Committee & Chair of the External Relations & Infrastructure Member Working Group that address PAS' concerns, no recommendations are made.	Ongoing
3	Focus and align key management responsibilities to corporate priorities including the plan examination and planning performance, including the housing delivery test.	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020

4	Ensure all councillors are effectively engaged and aware of the ongoing challenges of planning, housing and infrastructure delivery and are able to give a consistent “council” message on these key issue, supporting them to communicate the Council’s strategy and local plan and help the public to engage in the planning process as community leaders, representatives and conduits of information.	1. That the Chair of Planning Committee and Corporate Head of Planning seek sufficient funding to be secured via Corporate Management Committee to ensure that a yearly programme of suitable training (at least 4 sessions per municipal year) be established and continue until further notice. 2. That bite sized briefings on forthcomings issues/applications continue to be offered/arranged further to discussion between Chair of Planning Committee and Heads of Service in Planning on an ongoing basis. 3. That the Corporate Heads of Planning ensure Intranet access to all members (not just planning members) for all training notes to refer to throughout municipal year, and 4. That the Chair of Planning Committee meet with both Corporate Heads of Planning and the Head of Communications to ensure that all Members are effectively engaged to give a consistent council message to local residents with help of both the Planning and Comms Departments.	Before end of this municipal year - on or before May 2020
5	Consider the Council’s corporate priorities and define the Council’s role in external projects and partnerships.	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020

6	Communicate the local plan examination process to communities to facilitate constructive participation.	Further to implementing the recommendations set out below (7), that both Corporate Heads ensure that the next meeting of the CPP (when discussion as to changes to it and how to incorporate Neighbourhood Forums into or with CPP will be considered) raises PAS' recommendation with local residents and seeks their views as to whether the CPP or newsletters would be the best way of communicating the local plan examination process in future.	On or before December 2020
7	Engage communities to help them understand government policy and agree communication methods in the future.	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Head of Communications to review the current Statement of Community Involvement and identify potential improvements to the way that national planning policy and the Council's emerging Local Plan can be communicated to local residents. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those discussions and any changes identified by officers (to include the Chair and Deputy Chair of Planning Committee). 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020

8	Try to work proactively with established key residents groups and others going forward and aid their development through offers of training to help keep them informed.	1. That the composition of the Community Planning Panel be reviewed and made as open to local residents groups to join as practicable. 2. That the Corporate Head of Planning Policy review with the Head of Communications how to ensure that local residents are aware of the existing of the CPP, its works and composition throughout the municipal year. 3. That the Local Plan Member Working Group consider the current plans for review (noted above) and how new Neighbourhood Forums could be part of any new group. 4. That the Local Plan Member Working Group make any recommendations to improve the CPP to Planning Committee at its earliest opportunity in the new municipal year.	On or before December 2020
9	Work with developers to engage with communities at early and ongoing stages.	Noting good work with Design South East, seek ways of working with them (or adopting their positive approach to engage with both developers and communities) moving forward via the CPP.	On or before December 2020
10	Move forward with the production of the Council's CIL, in parallel to Section 106s process, to maximize the positives from growth and aid community buy in.	Further to assurances by officers of the report to be considered by Planning Committee as to the Council's draft Infrastructure Delivery & Prioritisation SPD that address PAS' concerns, no recommendations are made.	Completed

11	Have clear service priorities with the new delivery agenda and challenges – including a review of the service to scope areas for efficiency (time) savings and possibly deprioritising of other tasks.	That the Corporate Heads of Development Management & Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations and whether any department Plan is a requirement to implement PAS's recommendation.	Before end of this municipal year - on or before May 2020
12	Change the layout of the planning committee: public facing, clearly signed, clear introductions of the key people and the process, introduce webcasting.	Further to assurances by officers of the changes already implemented, both Corporate Heads liaise with Democratic Services and the Chair and Vice-Chair of Planning Committee to consider using name plates to be placed behind members of Planning Committee that display each members name, photograph and their electoral ward.	Ongoing

13	Review application delegation requirements – particularly if volume of major applications increase and ensure a maximum 2 hours sitting for the Planning Committee	1. That a report to the Constitutional Member Working Group be brought by the Corporate Heads of Development Management and Planning Policy setting out the findings of officer's comparison across neighbouring Surrey local planning authorities and any recommended changes, outlining the pros and cons to these changes. 2. Further to consideration of that report, that the Constitutional Member Working Group set out their recommendations to Planning Committee to consider prior to any proposed changes being considered by Corporate Management Committee in the new municipal year.	On or before December 2020
14	Develop a more supportive working relationship between councillors and planning officers	That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Chair and Deputy Chair of Planning & Chairs of the Local Plan and External Relations & Infrastructure Member Working Groups to identify and review potential improvements to the way that all members engage with Planning officers and whether the Member Working Groups can be used to build that improved relationship moving forward.	Before end of this municipal year - on or before May 2020

15	Scope with members "bite size" briefings on issues members request using local practical examples and discussions to build collective understanding and positive engagement	This is covered by Recommendation (4) above	Before end of this municipal year - on or before May 2020
16	Work with the political groups to make sure that committee members and substitutes are clearly aware of their role as a planning committee member; representing the organisation and whole council area, rather than a ward councillor.	A note to all Party leaders from the Chair of O&SSC & Chief Executive will be sent following publication of O&SSC report reminding each political group of this particular recommendation and what is expected of them to implement it.	As soon as practicable after the final O&SSC report is published and to be sent again at the beginning of the new municipal year in May 2020.
17	Give strong and consistent corporate leadership on major projects, working collaboratively with partners to shape and deliver across the sub-region, building relationships on both managerial and political levels	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee that then leads to a paper for consideration by Corporate Management Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020
18	Recognise and work effectively and actively to support critical partners that are facing resourcing challenges	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee that then leads to a paper for consideration by Corporate Management Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020

19	Improve constructive working relationship with key infrastructure providers.	Recommendation (18) above addresses this.	Before end of this municipal year - on or before May 2020
20	Plan how the authority will manage the delivery challenge; building on RBC’s present housing delivery and report housing delivery as a new performance measure.	Further to assurances by officers of the changes already implemented, no recommendations are made.	Ongoing
21	Maintain the present housing delivery data and work with key developers to collect data to predict any on-going delivery challenges in the future.	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing
22	Recognise the specific skills required to support the management of delivery that working with developers will require, building on your present development management approach and local plan engagement	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing

23	Work closely and collaboratively with external key partners around the delivery of the major projects such as the garden village of Longcross.	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing

	LOCAL RESIDENT RECOMMENDATIONS	PANEL RECOMMENDATION (XX.1.20)	DEADLINE FOR COMPLIANCE
1	Ways of Improving residents understanding of the national planning context and role of RBC in implementing planning policy at local level; * Such as providing an executive style briefing for residents before the next Local Plan is produced as well as finding better ways to engage with residents so that they understand how the Local Plan process works	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Head of Communications to review the current Statement of Community Involvement and identify potential improvements to the way that national planning policy and the Council's emerging Local Plan can be communicated to local residents. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those discussions and any changes identified by officers (to include the Chair and Deputy Chair of Planning Committee). 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020
2	Ways of securing more effective engagement/communication/responsiveness of all Councillors with local residents on planning issues	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development agree a list of suitable questions with the Chair/Deputy Chair of Planning Committee to be sent to all current Members by way of a survey to see if they are happy with the current ways of engagement and communication with the Planning Department. 2. Further to the responses received, that the Local Plan Member Working Group be invited to identify any deliverable changes and seek officer guidance as to any resourcing issues posed by such changes. 3. That the Local Plan Member Working Group make such recommendations to Planning Committee, so that the Committee may decide what to implement and how to resource any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee).	On or before December 2020
3	Ways of improving RBC communication on planning matters to residents: * particularly using hard copy methods, such as the newly instituted 'Talks' magazine, in addition to web- based methods, and * Assisting residents to understand how to set up alerts via the Planning Portal for progress on specific planning applications, * Provide a forum for updating residents on key legislative changes to ensure that they understand changes that may affect new developments that may have been previously unlawful, to ensure comprehensive engagement	Steps outlined above at Point 1 address these issues.	On or before December 2020

4	Provision of large Planning related documents in a more accessible user- friendly format and style (e.g. Executive Summaries)	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review if any other local planning authorities seek executive summaries from developers of larger schemes. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those enquiries along with any officer recommendations as to how to improve the accessibility of voluminous or complex planning applications. 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020
5	Ways of informing complainants of progress on enforcement cases and managing expectations (e.g. enforcement progress schedule on website or monthly update reports, such as those provided to local ward Members)	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review how neighbouring local planning authorities seek to keep complainants updated as to the progress of ongoing investigations. 2. Further to that review, that both Corporate Heads report back to the Chair and Deputy Chair of Planning Committee with their findings and any recommendations to change the current approach. 3. That this issue and any proposed recommendations be discussed at the earliest CPP held after steps 1&2 above are resolved in the new municipal year so that local residents may offer further comments on their concerns and if any proposed changes address them. 4. Further to any agreement reached at CPP, that recommendations be brought before the Planning Committee for review and approval as soon as practicable in the new municipal year.	On or before December 2020
6	Review composition of Community Planning Panel to reflect new boundary wards and permit greater attendance than currently permitted	1. That the composition of the Community Planning Panel be reviewed and made as open to local residents groups to join as practicable. 2. That the Corporate Head of Planning Policy review with the Head of Communications how to ensure that local residents are aware of the existing of the CPP, its works and composition throughout the municipal year. 3. That the Local Plan Member Working Group consider the current plans for review (noted above) and how new Neighbourhood Forums could be part of any new group. 4. That the Local Plan Member Working Group make any recommendations to improve the CPP to Planning Committee at its earliest opportunity in the new municipal year.	On or before December 2020

7	Review of Delegation arrangements to ensure: *proportionate amount of time is allowed for consideration of major planning applications, whilst still allowing time for consideration of some of the smaller developments which generate public interest, and * Consider reviewing what would be a reasonable trigger for residents to invite Planning Committee to consider an application rather than officers where there is sufficient public interest;	1. That a report to the Constitutional Member Working Group be brought by the Corporate Heads of Development Management and Planning Policy setting out the findings of officer's comparison across neighbouring Surrey local planning authorities and any recommended changes, outlining the pros and cons to these changes. 2. Further to consideration of that report, that the Constitutional Member Working Group set out their recommendations to Planning Committee to consider prior to any proposed changes being considered by Corporate Management Committee in the new municipal year.	On or before December 2020
8	Review RBC Policy on publicising names and addresses of objectors to planning applications to encourage community engagement free from fear of being subject to harassment and/or threatening behaviour by applicants;	Further to assurances by officers of a suitable change to the Council's policy that address residents' concerns, no recommendations are made.	On or before December 2020
9	Ways of explaining to residents the reasoning/justification for making a planning decision which they disagree with.	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review the current way officer reports are written and consider if there are ways of explaining the reasons given for or against any particular plannng application in more accessible ways. 2. That this be discussed at CPP with consideration of any changes that might help. 3. That the outcome of CPP's review of this issue be reported to the earliest Planning Committee in the new municipal year for their review and any necessary decisions required to implement any proposed changes.	On or before December 2020

8. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following report under Section 100A(4) of the Local Government Act 1972 on the grounds that the report in question would be likely to involve disclosure of exempt information of the description specified in paragraph 3 of Part I of Schedule 12A of the Act.

(To resolve)

PART II

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

a)	Exempt Information	Para
9.	NOTICE BY THE REGULATOR OF SOCIAL HOUSING – REVIEW (TO FOLLOW)	3

b) Confidential Information

(No reports to be considered under this heading).