Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

7 October 2021 at 8.25 p.m.

Members of the Committee present: Councillors J Furey (Chairman), A Alderson, M Adams, D Coen, R King, S Walsh and S Williams.

Members of the Committee absent: Councillors S Dennett (Vice-Chairman), S Mackay.

Councillor I Mullens also attended.

241 FIRE PRECAUTIONS

The Chairman read out the Fire Precautions.

242 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
Conservative	Councillor A Balkan	Councillor M Adams

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

243 MINUTES

The Minutes of the combined meeting of the Overview and Scrutiny Select Committee/ Crime and Disorder Committee on 8 July 2021 were confirmed and signed as a correct record.

244 TREASURY MANAGEMENT ANNUAL REPORT 2020/21

The Committee noted the treasury performance of the Council during the last financial year which was set out in the Treasury Management Annual Report 2020/21 which had been presented to the Corporate Management Committee at its meeting on 9 September 2021.

During the year 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 and a prudent approach had been taken in relation to all investment activity with priority being given to security and liquidity over yield. The economic background and the Council's borrowing activity in 2020/21 were noted.

The Council's underlying need to borrow, known as the Capital Financing Requirement, represented the level of unfinanced capital expenditure. Part of the Council's treasury activity was to address the funding requirements for this borrowing need and organise the Council's cash position to ensure that sufficient cash was available to meet its capital plans and cash flow requirements.

Last year, the Council had maintained an under-borrowed position. This meant that the borrowing need was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flows, was used as an interim measure. This was known as "internal borrowing". The use of internal borrowing meant that during last year the Council had not borrowed any new money and ended the year with borrowing of £627m. The policy of avoiding new borrowing by running down spare cash balances had served the Council well over the last few years and in the last year in particular it had made sense to use spare balances in this way as investment rates had been close to zero. At the year end the Council was £51m "under borrowed" saving the Council approximately £1m in loan interest payments over the last 12 months. However, this policy would need to be changed in the near future as the Council would need to borrow new money before rates increased.

The Council had had to revise its estimates for investment income downwards as it had not generated as many capital receipts as originally expected although slippage in the capital programme had increased the balances available. General returns on the Council's investments remained low with the Bank Base Rate remaining at 0.1%, Money Market Fund returns at, or close to, zero %, and even negative interest rates being offered by the Government during the year. The Council's interest rate performance during last year was 0.34% which compared favourably with the Council's benchmark rates and the Committee commended Finance officers on this outstanding result.

One of the reasons for last year's good performance was the decision to lend a majority of the Council's spare money for periods of 9-12 months with local authorities when the money market rates were anticipated to drop. This was a low risk policy and the rates being offered by local authorities at that time were better than those available in the general market. Another reason for this favourable rate was the Council's investment in its two Pooled Funds. Investments in these funds were long term in nature and they provided investors with strong levels of interest in the form of dividends. Investments to the value of £207m had been made during the year with a year end balance of £66m. This was £13m lower than the previous year as instead of investing the money, it had been used to pay for the Magna Square scheme in Egham rather than taking out actual borrowing.

It was noted that the Chartered Institute of Public Finance and Accountancy was in the process of updating its regulatory codes to Councils and officers would be assessing whether any changes arising from this would be needed for the Council's Treasury Management. It was also noted that the only variable investments held by the Council were with money market funds.

The Committee understood from the economic background in the report that the Bank of England's Monetary Policy Committee did not intend to increase the Bank Rate even though inflation was expected to rise in 2021/22. The Committee was advised that the Council's Treasury advisers had reissued their Bank Rate forecast which now predicted a slight increase in the Bank Rate in quarter 2 of 2022. The markets were not currently predicting any large Bank Rate increase.

It was suggested that as borrowing costs had been low the Council could have embarked on more Housing schemes financed by the Housing Revenue Account. The Committee noted that all schemes would be assessed in terms of their business case rather than low interest rates, whether they were funded through the Housing Revenue Account or the General Fund.

All 11 districts in Surrey were having to make savings in the aftermath of Covid-19. Members were informed that only an Act of Parliament could dissolve a local authority. Other measures were instigated by Central Government to resolve authorities in financial difficulties. Blackpool Council's finances were now controlled by a team from another local authority so it was possible for local authorities to lose control over their spending decisions.

It was noted that International Financial Reporting Standard 16: Leases (IFRS 16) would come into effect on 1 April 2022. All assets, including those that were leased, would need to be shown on the balance sheet. As the Council did not have many leases, it was anticipated that IFRS 16 would not have a large impact on the Council.

Taking both borrowing and investment together, overall the Council had made a £2.1m betterment on its original net debt forecast for the year. In 2020/21, investment returns and borrowing rates were better than anticipated with no additional risk to the Council. The Committee congratulated the Council's Finance officers on this excellent performance and asked the Corporate Head of Finance to convey their appreciation to his team.

(The meeting ended at 8.45.p.m.) Chairman