Overview and Scrutiny Select Committee

Thursday, 7 July 2022 at 7.30 pm

Council Chamber, Runnymede Civic Centre, Addlestone

Members of the Committee

Councillors: J Furey (Chairman), S Lewis (Vice-Chairman), M Darby, R Davies, L Gillham, N Prescot, S Ringham, S Saise-Marshall and S Williams

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.

(N.B PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING WHICH COMMENCES AT 7.30.PM.)

AGENDA

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

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr Andrew Finch, Democratic Services Section, Law and Governance Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425623). (Email: Andrew.Finch@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.

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

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

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.

Runnymede Borough Council

Overview and Scrutiny Select Committee

Thursday, 3 February 2022 at 8.32 pm

Members of the Committee present:	Councillors J Furey (Chairman), S Dennett (Vice-Chairman), A Balkan, D Coen, R King, S Williams and L Gillham (Substitute, in place of A Alderson).
Members of the Committee absent:	Councillors S Mackay and S Walsh.

438 **Minutes**

The Minutes of the meeting of the Overview and Scrutiny Select Committee on 2 December 2021 were confirmed and signed as a correct record.

439 **Apologies for Absence**

Apologies for absence were received from Councillor S Walsh.

440 **Declarations of Interest**

None declared.

441 **2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement**

The Committee considered a report on the 2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement. The four recommendations in the report had been recommended to Full Council on 10 February 2022 by the Corporate Management Committee at its meeting on 20 January 2022.

The Treasury Management (TM) Strategy was one of the ways in which the Council managed its financial planning, risk management, and governance processes. The TM Strategy placed controls over where, and in what, the Council could invest and borrow and ensured adequate planning for the cash flow requirements of the capital and revenue plans agreed by Members. The TM Strategy set out the framework each year for the Council's treasury operations and had to cover capital issues and treasury management issues. The Committee agreed to recommend the Council's Treasury Management Strategy as set out in the report and the Annual Investment Strategy at Appendix 'A' to the report which maintained the principle of prudent investment with regard to protecting security and liquidity before making returns or yield.

The Council had adopted both the CIPFA Treasury Management and Prudential Codes and new versions of these Codes had been published just before Christmas 2021 and the Committee noted the implications for the Council of those Codes. The key objectives of the Prudential Code were to ensure, within a clear framework, that the capital investment plans of local authorities were affordable, prudent and sustainable; that treasury management decisions were taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal were supported. The new Code added that decisions must also be proportionate.

The new Prudential Code applied immediately, with the exception of the reporting requirements which did not take effect until the 2023/24 financial year, although early adoption was recommended. Officers had incorporated some of the new requirements in the Council's Capital and Treasury Management Strategies and would look to enhance all future reports with the new reporting requirements once the associated guidance notes had been received.

The Council's Treasury advisors had provided a section in the report on the economy and prospects for interest rates. The projections in the report showed that the Base Rate would climb to 0.75% by the end of the next financial year and the Council's financial plans and Medium Term Financial Strategy had been based upon these projections. The 2022/23 estimate for investment income and debt interest based upon these projections was noted.

The Council's Treasury advisors had predicted a first rise in the Base Rate in June 2022. However, the Bank of England Monetary Policy Committtee (MPC) had agreed to raise the Base Rate by one quarter of one per cent to 0.5% on 3 February 2022. Furthermore 4 of the 9 MPC members had wanted to increase the Base Rate by one half of one per cent as inflation was now predicted to peak at 7.25 % in April 2022. This suggested that the next Base Rate rise would probably be implemented sooner rather than later. Any increase in the Base Rate would not affect the Council's borrowing costs as they were all at fixed rates but it would make any future borrowing by the Council more costly. However, any new investments made as existing investments matured would benefit from a higher Base Rate which would result in more investment income for the Council. There were no proposed changes to the Council's borrowing strategy for next year. In general the Council would borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term.

The new Prudential Code stated that an authority must not borrow to invest for the primary purpose of commercial return. The Committee queried why the Government had imposed this prohibition. It was noted that local authorities had acquired commercial properties to provide an income stream at a time when they no longer received Governement grant. This had inflated the market, the private sector had not been able to obtain loans at the low interest rates which had been available to local authorites and the UK economy had been loaded with debt. These consequences had led the Government to prohibit local authorities from borrowing to invest for the primary purpose of commercial return.

In order to gain access to Public Works Loan Board funding, local authority Chief Finance Officers now had to certify that their Council's capital spending plans did not include the acquisition of assets primarily for yield. The Government's current requirement for local authorities holding commercial assets was that local authorities should seek to divest themselves of these assets where appropriate. It was not feasible for the Council to sell its commercial assets in the short term as it required the income generated by these assets for its General Fund. Asset swaps were not allowed under the new Code. The Council could not sell a commercial property and then buy another commercial property.

The Committee agreed to recommend the Prudential and Treasury Management Indicators for 2022/23 as set out in Appendix 'B' to the report. This included a total authorised limit for external borrowing by the Council in 2022/23 (the statutory limit determined under Section 3 (1) of the Local Government Act 2003) of £720,710,000, which was recommendation iii) in the report. These indicators were designed to support and record local decision making. They were not performance indicators and were not comparable between authorities. All of the indicators for next year included a provision for the effects of the introduction of a new Reporting Standard on Leases (IFRS 16). This standard would come into effect on 1 April 2022 and brought all leases onto the Council's Balance Sheet as a debt liability for the first time. The inclusion of a provision in the indicators to account for leases was important as from 1 April 2022 it would be unlawful to enter into a lease if there was no headroom in the authorised limit for the new lease liability.

The Council was limited in its ability to invest in environmentally friendly and/or ethical deposits. A majority of the Council's investments were in fixed term deposits rather than investment funds. The few sustainable and/or ethical deposits that were available either did not meet the Council's credit criteria or required higher or longer deposits than the Council's investment strategy would allow. Altering the strategy to meet these requirements would then mean that the Council could not maintain its overriding principle of prudent investment with regard to protecting security and liquidity before making returns or yield.

The Council was required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement – CFR) through Minimum Revenue Provision (MRP) which was a charge to revenue in order to have sufficient monies set aside to meet the future repayment of principal on any borrowing undertaken. The Council was required to approve an MRP statement in advance of each year. In November 2021, the Government had begun a consultation exercise on proposed amendments to the MRP regulations to take effect from 1 April 2023. Whilst it was not something that the Council had ever done, there was a sentence in the Council's current MRP Policy which stated that "*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".* This course of action appeared to be contrary to the amendments which were the subject of the consultation exercise. As it would have no effect on the Council's current operations or plans, therefore the Committee agreed to recommend the MRP Policy for 2022/23 as set out in recommendation iv) to the agenda report which did not include this sentence.

The Committee noted that the last Member training on treasury management had been carried out in November 2017. Plans for further training in June 2020 had to be delayed as a result of the pandemic and had been planned to take place in November 2021. However, CIPFA had now proposed a "Treasury Management Knowledge and Skills Framework" for officers and Members, including a learning needs analysis to support it, so this training had been deferred again until later in 2022 in order to ensure that the new requirements were met.
The Committee noted the reasons for the current delay in the Member training on treasury management and was advised that Member training on treasury management had previously been held every three years. It was noted that the training would consist of one session provided by officers and one session provided by the Council's treasury advisers.
It was suggested that officers might consider sending Members a package of key points on treasury management which Members could refer to when they had the time to do so. The Committee considered that Member training on treasury management should be held more frequently and agreed to recommend that it be held every two years as set out in recommendation ii) below. It was suggested that this training might be considered as part of any Constitution Member Working Party discussions on Member training and that it should be referred to in any induction packages sent to new Members of the Council.

Recommendation to Full Council on 10 February 2022:

i) Council notes that the Committee concurs with recommendations i) to iv) in the report; and
ii) Member training on Treasury Management be held every two years.

Councillor R King requested a recorded vote on the above recommendations and the voting was as follows: -

For (6): Councillors Furey, Dennett, Balkan, Coen, Gillham and Williams.
Against (1): Councillor R King.

(The meeting ended at 9.08 pm.)

Chairman

Treasury Management Annual Report 2021/22 (Corporate Head of Finance – Paul French)

Synopsis of report: **This is the annual report on treasury management activity and performance for the 2021/22 financial year**

Recommendations: **For information**

1. Background Information

1.1 The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy*)* Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

1.2 The Council's Treasury Management Strategy for 2021/22 was approved by this Committee at its meeting on 21 January 2021 and was subsequently approved at Full Council on 9 February 2021. This report sets out the Council's performance against the criteria in these reports for 2021/22.

1.3 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 No treasury management activity is without risk; The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.5 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members

1.6 In its oversight role, this Committee considers this report and, if necessary, refers any observations to the Corporate Management Committee who will consider this report on 14 July.

2. Prudential and Treasury Indicators and Compliance

2.1 In compliance with the requirements of the Code this report provides members with a summary report of the treasury management activity during 2021/22. Officers can confirm that during the year, the Council complied with all its legislative and regulatory requirements and its Treasury Management Statement and Treasury Management Practices.

2.2 During the year the Council 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 was taken in relation to all investment activity with priority being given to security and liquidity over yield.

2.3 A full set of prudential and treasury indicators for 2021/22 are set out in Appendix A

3. Risk management

3.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

Credit risk
Counterparty credit quality is assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

Liquidity risk
In keeping with the DLUHC Guidance on Investments, the Council maintains a sufficient level of liquidity through the use of Money Market Funds and call accounts.

Yield
The Council seeks to optimise returns commensurate with its objectives of security and liquidity.

4 Economic Background

4.1 The following section was provided by the Council's Treasury Advisors, Link Asset Services and reflects the market position in April 2022:

4.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

4.3 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

4.4 Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

4.5 Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

4.6 Average inflation targeting was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

4.7. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the US Federal Reserve and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

5. Borrowing Activity in 2021/22

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

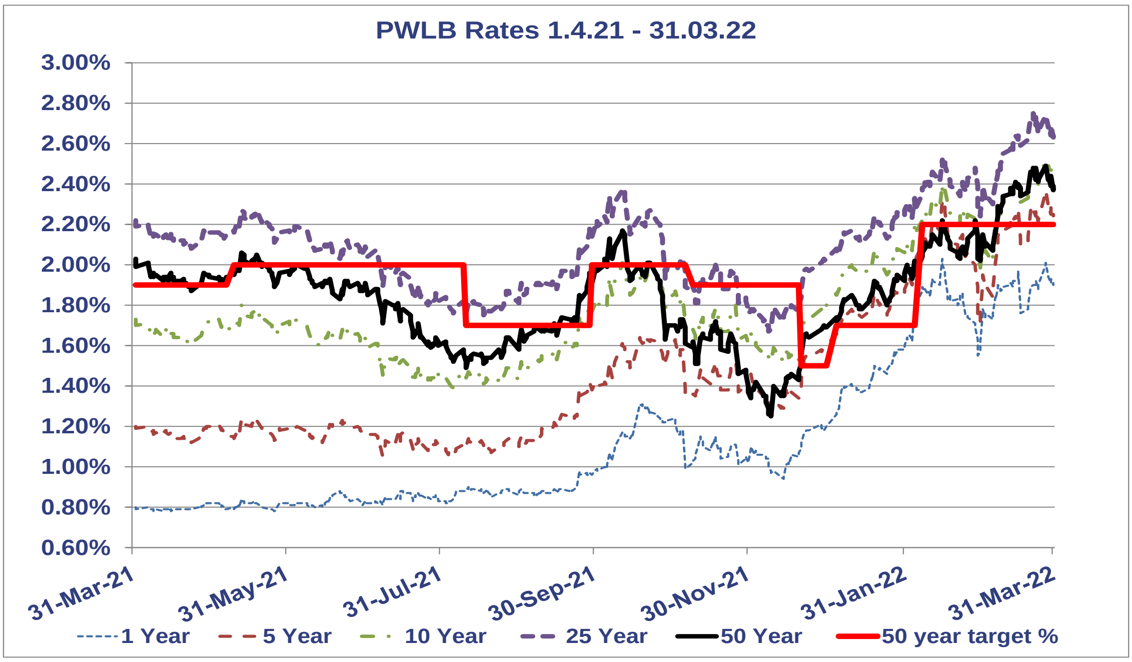
5.3 During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.4 Table 1 sets out the borrowing activity for the year.

Table 1 – Borrowing activity in 2021/22				
	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA - PWLB	101,956	0	1,956	100,000
General Fund - PWLB	520,336	20,000	41,336	499,000
General Fund - Other	5,000	50,000	269	54,731
	627,292	**70,000**	**43,561**	**653,731**

5.5 During the year the Council repaid a £40million loan to the PWLB and replaced it with the prearranged £40million annuity loan with Phoenix Life as agreed by the Corporate Management Committee in 2018. This represents the Council's first and only Annuity loan which repays an element of the principal sum borrowed each year and in 2021/22 £269,000 was repaid as can be seen in the above table.

5.6 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22. The actual PWLB rates during the year were as follows:



5.7 There are strict criteria set out that forbid councils from borrowing more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. The Council has undertaken no such borrowing.

5.8 The Council operates two "loans pools", one for the HRA and one for the General Fund to comply with the HRA ring fence requirements. The HRA average interest rate for the year was 3.38% and the General Fund was 2.31%. A schedule of the outstanding loans at the end of the year is set out at Appendix B.

6. Interest rates in 2021/22

6.1 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

6.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

6.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

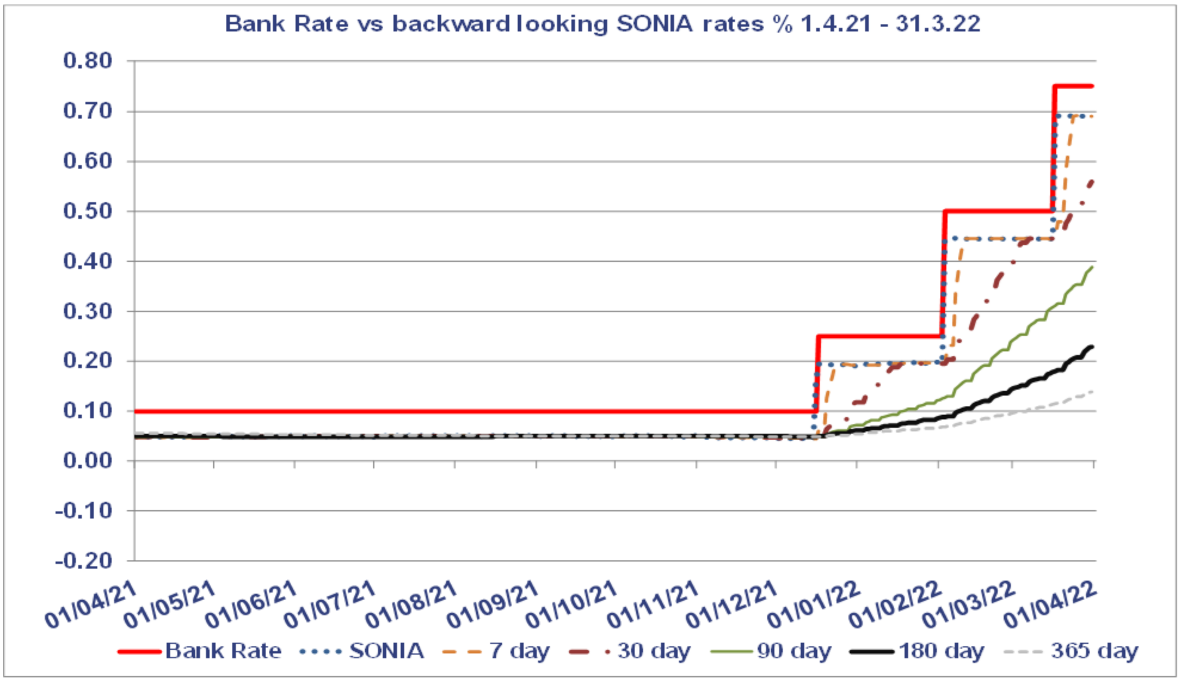
6.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

Change to interest rate benchmarks

6.5 LIBOR (the London Inter-bank Offered Rate) a globally accepted key benchmark interest rate for over 35 years, was replaced by the reformed sterling overnight index average (SONIA) from 31 December 2021. LIBOR was a forward looking rate where you can borrow today for a three-month (or other) period and know how much interest you will need to pay at the end of that period. It was therefore vulnerable to manipulation because it is calculated using forecasts submitted by selected banks.

6.6 SONIA is published daily and measures the cost of overnight borrowing on a backward looking basis. If you borrow today for a three-month period you will not know your interest costs upfront but, at the end of the period, your interest will be calculated by reference to each daily SONIA rate during that period. As such, SONIA and LIBOR are not readily comparable as LIBOR was forward looking and SONIA backward looking, but as a tool for measuring performance, SONIA is a more accurate measure of the market conditions at the time of our investments.

6.7 The new SONIA rates during the period were as follows:



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	0.75	0.69	0.69	0.56	0.39	0.23	0.14
High Date	17/03/2022	18/03/2022	25/03/2022	31/03/2022	31/03/2022	31/03/2022	31/03/2022
Low	0.10	0.05	0.05	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	16/12/2021	16/12/2021	16/12/2021	07/06/2021	13/12/2021
Average	0.19	0.14	0.13	0.12	0.09	0.07	0.06
Spread	0.65	0.65	0.65	0.51	0.34	0.18	0.09

6.8 The Council's actual interest rate performance during the year was 0.36%. The Council's overall performance compares favourably with the new average SONIA rates as can be seen in the above table.

6.9 The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The resulting interest rate applicable to the HRA during 2021/22 was 0.24%.

6.10 One reason for the Council's favourable interest rate was due to the investment in two Pooled Funds (operated by CCLA (Churches, Charities and Local Authorities) Investment Management Limited). These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with strong levels of interest (in the form of dividends) relative to other forms of investment. However past performance has also shown that the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames.

6.11 The movement of the Council's two CCLA pooled funds is as follows:

Table 2 – Pooled Funds in 2021/22				
	Original Investment £	**Value 31 March 2021 £**	**Value 31 March 2022 £**	**Annual Return %**
CCLA Property Fund	2,000,000	2,305,553	2,710,240	3.8
CCLA Diversified Income Fund	2,000,000	1,987,139	2,079,266	2.2

The differences between the Original Sums invested and the Values at 31 March 2022 are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

6.12 Another good performer for the Council has been its investment with the Funding Circle, a platform for lending to small businesses based throughout the UK. This investment vehicle has averaged a 5% return over the life of the investments for the Council. Unfortunately, in March 2022 the Council received the following confirmation from The Funding Circle:

> "After two years of the platform being paused for new investment from retail investors as we navigated and adapted to the Covid pandemic, we have taken the decision to permanently close the retail platform for new investments. This includes buying and selling loans through the Secondary Market. We will continue to manage your loan portfolio on an ongoing basis until all your remaining loans have been repaid or recovered"

During the pandemic the Council had been slowly withdrawing its investment in The Funding Circle as loans and interest were repaid and will keep doing so until all loans have matured.

7. Investment Outturn for 2021/22

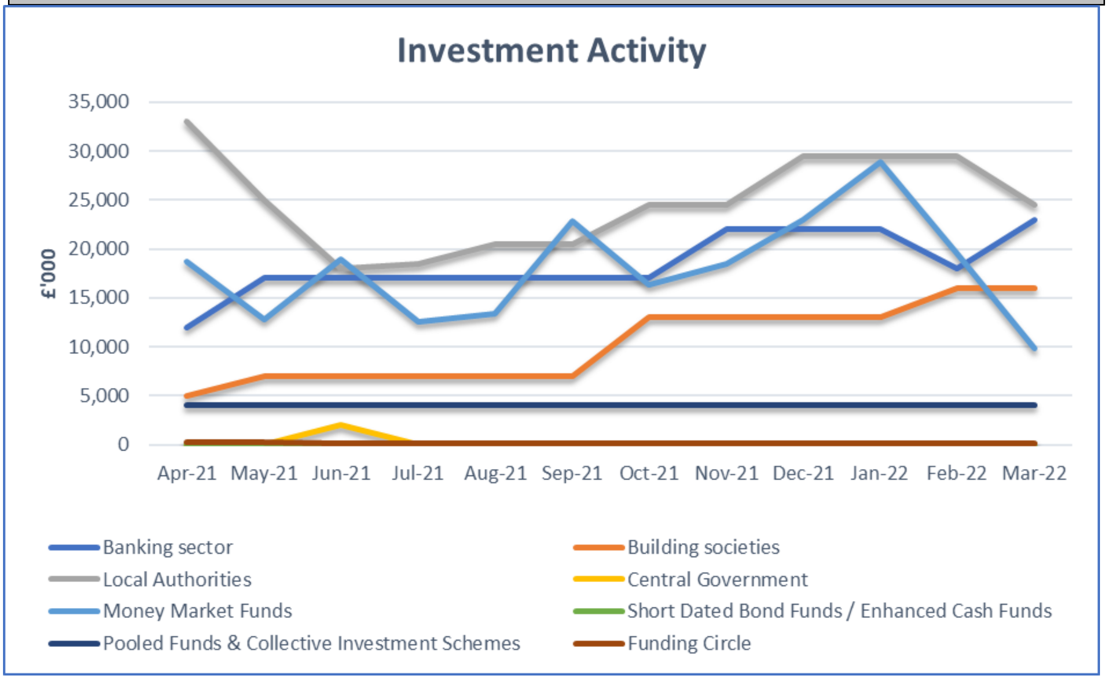
7.1 The Council's investment policy is governed by DLUHC investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.2 Investments of £77.424million were held by the Council at 31 March 2022 with investment turnover principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Table 3 summarises investment activity during the course of the year, split between the sectors of the counterparties that the funds were invested with.

Table 3 - Investment activity in 2021/22	Opening Balance	New Investments	Investments Recalled	Closing Balance
	£000	£000	£000	£000
Specified Investments				
Banking sector	12,000	32,000	21,000	23,000
Building societies	5,000	42,000	31,000	16,000
Local Authorities	33,000	29,500	38,000	24,500
Central Government	0	2,000	2,000	0
Money Market Funds	12,490	124,135	126,805	9,820
Unspecified Investments				
Short Dated Bond Funds / Enhanced Cash Funds	0	0	0	0
Pooled Funds & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	206	0	102	104
	66,696	229,635	218,907	77,424

7.4 The monthly movement in balances between these categories is set out in Table 4 and reflects the available counterparties and investment rates at that time.

Table 4 - Movement between investments during 2021/22



7.5 A full list of investments held at 31 March 2022 is set out in Appendix C.

7.6 In addition to the normal money markets, the Council also invests in its own companies by way of loans provided to them for the purchase of assets from the Council (that the Council cannot hold itself) and via working capital loans. All such Loan Agreements have been approved by Full Council at rates set in accordance with European Commission competition rules. The table below sets out these loans and the income to the Council.

Loan Type	Original Investment £	Annual Interest £	Interest Rate %
Development Loans - AddlestoneOne	25,326,000	1,276,433	5.04
Development Loans - Other	1,000,000	48,600	4.86
Working Capital Loans	445,000	33,553	7.54

Working Capital Loans	300,000	22,080	7.36
Working Capital Loans	1,500,000	103,600	7.40
Totals	**28,571,000**	**1,484,266**	

7.7 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc). Interest earned on these balances is derived from in-house managed investments. The table below shows gross investment income achieved in 2021/22 alongside the interest paid on borrowings:

Table 7 – Net investment income / Debt interest 2021/22			
	Original Estimate £'000	Revised Estimate £'000	Outturn £'000
Investment income earned	91	213	126
Dividend income earned	120	120	152
Interest on loans to RBC companies	1,477	1,484	1,484
Gross investment income	**1,688**	**1,817**	**1,762**
Management expenses	(50)	(36)	(37)
Interest paid on deposits and other balances	(2)	(1)	(2)
Debt interest	(18,523)	(16,642)	(16,174)
Net Investment Income / (Debt interest)	**(16,877)**	**(14,562)**	**(14,451)**

This is broken down between services as follows:

General Fund	(13,461)	(11,171)	(11,111)
Housing Revenue Account	(3,246)	(3,391)	(3,340)
Net Investment Income / (Debt interest)	**(16,877)**	**(14,562)**	**(14,451)**

7.8 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales and timing of capital projects – also has a significant impact on cash flows.

8. Legal Implications

8.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 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, the Government Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

9. Council Policy

9.1 This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

9.2 The Council's treasury management policy statement states:

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

9.3 It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield.

10. Conclusions

10.1 The financial year continued the challenging investment environment of previous years. The management of counterparty risk remains our primary treasury management priority. The criteria in the Annual Investment Strategy are continuously reviewed to minimise risk as far as reasonably possible whilst retaining the ability to invest with secure institutions.

(For Information)

Background Papers
None

Treasury Indicators 2021/22

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2020/21 Actual £000s**	**2021/22 Estimate £000s**	**2021/22 Revised £000s**	**2021/22 Actual £000s**
HRA	3,271	7,916	10,156	5,696
General Fund	35,489	67,367	62,508	29,688
Non-Financial Investments				
- Investment Properties	8,143	470	442	0
- Capital Loans	150	14,431	6,445	0
Total	**47,053**	**90,184**	**46,737**	**35,384**
Financed by:				
Capital Receipts	1,799	20,049	15,606	2,279
Earmarked Reserves	2,847	1,238	3,430	331
Capital Grants & Contributions	199	545	4,986	1,203
Revenue	3,259	6,716	9,331	5,029
Total	**8,104**	**28,548**	**33,353**	**8,842**
Net financing need for the year	**38,949**	**61,636**	**46,198**	**26,542**

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

	2020/21 Actual £000s	**2021/22 Estimate £000s**	**2021/22 Revised £000s**	**2021/22 Actual £000s**
Capital expenditure	8,293	14,091	6,887	0
Financing costs met	150	14,431	6,445	0
Net financing need for the year	**8,143**	**470**	**442**	**0**
Percentage of total net financing need	21%	1%	1%	0%

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, which has not immediately been paid for, will increase the CFR.

	2020/21 Actual £000s	**2021/22 Estimate £000s**	**2021/22 Revised £000s**	**2021/22 Actual £000s**
CFR: - HRA	101,956	101,956	101,956	101,956
- General Fund	100,684	124.380	143,881	144,322
- Non-Financial Investments	441,171	446.537	433,102	432,661
CFR at 1 April	**643,811**	**672,876**	**678,939**	**678,939**
Net financing need for the year	38,948	61,636	46,198	26,542

Less MRP/VRP and other financing movements	(3,820)	(3,973)	(4,275)	(4,275)
CFR at 31 March	**678,939**	**730,539**	**720,862**	**701,206**

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 asset's 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.

Current Portfolio Position - The Council's treasury portfolio position is summarised below. 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.

	2020/21 Actual £000s	**2021/22 Estimate £000s**	**2021/22 Revised £000s**	**2021/22 Actual £000s**
External Debt at 1 April	-	660,431	627,629	-
Expected change in Debt	-	59,680	46,198	-
Actual gross debt at 31 March	**627,629**	**720,111**	**673,827**	**654,084**
Capital Financing Requirement	678,939	730,539	720,862	701,206
Under / (over) borrowing	**51,310**	**10,428**	**47,035**	**47,122**

The under borrowed position is due to internal borrowing. This is temporary funding of capital expenditure using positive cash flows and internal balances. A small part of this difference (approximately £450,000) represents the value of balances held on behalf of local trusts (e.g. Cabrera Recreation Ground Trust, Runnymede Pleasure Ground Trust etc). This gives the Trusts certainty of income and quick access if needed.

Within the Actual gross debt at 31 March figures shown above, the level of debt relating to non-financial investments is:

	2020/21 Actual £000s	**2021/22 Estimate £000s**	**2021/22 Revised £000s**	**2021/22 Actual £000s**
Debt at 31 March	432,661	489,675	464,940	442,178
Percentage of total external debt	69%	68%	69%	68%

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. **The authorised limit for external borrowing.** – 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. 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.

	2021/22 £000s
Operational Boundary	737,857
Authorised Limit	759,704
Actual Borrowings	**653,731**

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). This was not required during the year.

Interest Rate exposure - The upper limits on variable interest rate exposure indicator is set to control the Council’s net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget.

	2020/21 Actual £000s	2021/22 Estimate £000s	2021/22 Revised £000s	2021/22 Actual £000s
Upper limits on **fixed** interest rates based on net debt	573,250	690,907	669,744	586.309
Upper limits on **variable** interest rates based on net debt	0	0	0	0

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit/Actual borrowing) less Fixed Term investments.

As the Council does not borrow at variable rates of interest, the Upper limits on variable interest rates are zero.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 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.

	2020/21 Actual £000s	2021/22 Estimate £000s	2021/22 Revised £000s	2021/22 Actual £000s
Upper limits on Principal sums invested for over 364 days	0	3,000	1,000	0

There were no investments made for a period of greater than 364 days at the 31 March 2022.

Maturity structure of fixed interest rate borrowing (Upper Limit)

	2020/21 Actual %	2021/22 Estimate %	2021/22 Revised %	2021/22 Actual %
Under 12 months	0	25	25	2
12 months to 2 years	1	25	25	2
2 years to 5 years	9	25	25	5
5 years to 10 years	8	50	50	12
10 years to 20 years	13	100	100	12
20 years to 30 years	7	100	100	3
30 years to 40 years	0	100	100	8
40 years to 50 years	62	100	100	56

As the Council does not borrow at variable rates of interest, the upper limit on this type of debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

APPENDIX B

Borrowings as at 31 March 2022

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	100,000		**3,379,000**	**Average Rate:**	**3.38%**
General Fund					
London Borough of Sutton	5,000	1	7,500	18 Oct 2022	0.15%
London Borough of Barking & Dagenham	5,000	3	90,000	20 Dec 2022	1.80%
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
Sheffield Combined Authority	5,000	2	25,000	19 Oct 2023	0.50%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 507919	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 410351	10,000	11	167,000	28 Sep 2032	1.67%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
Phonenix Life Limited	39,731	40	1,149,646	02 May 2061	2.88%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
PWLB - 434500	10,000	50	167,000	09 Nov 2071	1.67%
	553,731		**12,794,346**	**Average Rate:**	**2.31%**
Total Borrowings	**653,731**		**16,173,346**	**Annual Interest**	

Investments as at 31 March 2022

	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Access Accounts					
Santander Business Reserve Account	4,000		**** 95 Day Notice A/C ****		0.400
Lloyds Bank PLC	4,000		**** 95 Day Notice A/C ****		0.050
Term Deposits					
Landesbank Hessen Thuringen Girozentrale - London	1,000		6 mth	19 Apr 2022	0.350
National Bank of Kuwait	4,000		2 mth	23 May 2022	0.850
DBS Bank	1,000		6 mth	20 Jul 2022	0.470
Goldman Sachs Imternational Bank	5,000		6 mth	10 Oct 2022	1.305
Certificates of Deposit					
Nat West Bank	1,000		1 yr	18 May 2022	0.120
Nat West Bank	2,000		1 yr	01 Jul 2022	0.120
Credit Suisse	1,000		6 mth	30 Sep 2022	1.470
Total Banks	**23,000**	**30%**			
Building Societies					
Skipton BS	3,000		3 mth	08 Apr 2022	0.070
Coventry BS	3,000		3 mth	08 Apr 2022	0.130
Yorkshire BS	3,000		3 mth	04 May 2022	0.430
Leeds BS	3,000		3 mth	20 Jun 2022	0.640
Nationwide BS	4,000		6 mth	09 Sep 2022	0.790
Total Building Society	**16,000**	**21%**	(50% Limit)		
Local Authorities					
Thurrock Council	5,000		5 mth	20 May 2021	0.120
London Fire Commisioner	5,000		1 yr	10 Jun 2022	0.100
Monmouthshire CC	2,000		8 mth	10 Jun 2022	0.060
Blackpool Borough Council	2,000		1 yr	10 Jun 2022	0.050
Mid- Suffolk District Council	2,500		1 yr	29 Jun 2022	0.100
Plymouth City Council	5,000		11 mth	14 Jul 2022	0.100
Chesterfield Borough Council	3,000		1 yr	15 Jul 2022	0.090
Total Local Authorities	**24,500**	**32%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	-		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	-		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Insight Liquidity Fund PLC	7,820		********** On Call **********		Variable
Total Money Market Funds	**9,820**	**13%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 3 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 3 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**5%**			
Funding Circle					
Lending to small and medium sized companies	104		**** up to 5 years ****		Variable
Total Other Investments	**104**	**0%**	(with the ability to sell loans)		
Total Investments	**77,424**				

Overview and Scrutiny Function – Annual Report – 2021/22 (Law and Governance, Andrew Finch)

Synopsis of report: **To present the Annual Report of the Overview and Scrutiny function for the Municipal Year 2021/22 at Appendix A for submission to the Council meeting on 21 July 2022.**

Recommendations: **The Committee is asked to confirm if it is content for the report at Appendix A to be submitted to full Council in July or if it wishes to make any amendments.**

1. Report

1.1 Sub-paragraph 6.03 (d) of the Council's Constitution states:- "(d) Annual Report. The Overview and Scrutiny Select Committee must report annually to full Council on its workings and make recommendations for future work programmes and amended working methods if appropriate."

1.2 The Committee is asked to confirm if it is content for the report at Appendix 'N' to be submitted to full Council in July, or if it wishes to make any amendments.

(To Recommend)

Background Papers
None

Appendix A

Overview and Scrutiny Function – Annual Report – 2021/22

1. Introduction

1.1 The Overview and Scrutiny function in Runnymede is undertaken by the Overview and Scrutiny Select Committee. The Committee's Terms of Reference are set out in Article 6 of the Council's Constitution, which is attached at Appendix A. This report summarises the areas of the Overview and Scrutiny Select Committee's activities for the Municipal Year 2021/22.

1.2 The Overview & Scrutiny Select Committee has overseen the following items at its four meetings in 2021/22:

Item	Date
Call in of Decisions:	
• Public Space Protection Orders, Egham Hythe	8 July 2021
• Appointments to Outside Bodies	8 July 2021
Treasury Management Annual Report 2020/21	7 October 2021
Progress Towards Savings	2 December 2021
Treasury Management Mid-Year Report	2 December 2021
2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement	3 February 2022

2. Call in of Decisions

2.1 Call-in of a decision is a procedure available to the Overview and Scrutiny Select Committee which prevents implementation of a decision of a Policy Committee until it has been considered further. Two such items were considered during 2021/22.

2.2 **Public Space Protection Order, Egham Hythe**

2.3 A call-in was received on 23 June 2021 from Councillor Robert King and supported by Councillor Furey as Chairman of Overview & Scrutiny Select Committee. It related to the decision of the Community Services Committee on 17 June 2021 that a Public Spaces Protection Order (PSPO) for the Egham Hythe area was not proportionate but would be kept under review.

2.4 The matter was considered by Overview & Scrutiny Select Committee on 8 July 2021.

2.5 The Committee noted that the issue of a PSPO for Egham Hythe had been raised by former Councillor Neathey and had been discussed at the meetings of the Community Services Committee on 12 November 2020, 11 March 2021 and 17 June 2021.

2.6 The Committee noted the response of officers to the call-in. Many of the behaviours reported to the Council's Community Safety Co-Ordinator by former Councillor Neathey were criminal matters and were already subject to various enforcement routes. The behaviours referred to in the evidence in support of the call-in confirmed further that the behaviours of most concern were linked to criminal matters or those which had enforcement options already available.

2.7 The Committee further noted that at the Community Services Committee meeting on 17 June 2021, some Members also reported that residents were not reporting as much as they could due to a lack of feedback from the police on previous occasions. The need for residents to feel they were being listened to was noted at that meeting, as well as focussing on positive activities which would distract those from engaging in anti-social behaviour.

2.8 The Committee agreed not to refer the decision back to the Community Services Committee for reconsideration. However, the Committee agreed to recommend to the Community Services Committee that it should agree to receive a future agenda item that investigated the manner in which anti-social behaviour and criminal behaviour was reported to enable it to be better informed when considering the making of PSPOs.

2.9 Subsequently, at its meeting on 16 September 2021 Community Services Committee resolved that a future agenda item be brought to Committee that investigated the manner in which anti-social behaviour and criminal behaviour was reported to enable it to be better informed when considering the making of Public Space Protection Orders.

2.10 This was then considered at the Community Services Committee on 1 February 2022 as part of a detailed report on aspects of the Community Safety Co-ordinator’s work around Public Space Protection Orders, including a recommendation that the Councillor representation on the Community Safety Partnership be increased from one to two.

2.11 Members noted all the different reporting channels that had to be used for evidence to be officially recorded and count as evidence to justify consideration of a PSPO. It was agreed these needed to be promoted widely in order to be effective as there was a perception that residents did not feel ‘heard’ by the official channels. Officers assured the Committee that reports into Community Safety were logged and acknowledged.

2.12 Members noted the process for making a PSPO from building up an evidence base through the various official reporting lines to its recommendation by the relevant multi-agency organisations for Officers to make the order under delegated authority following consultation. A helpful flowchart was appended for information. Members asked Officers to consider whether the reporting process could be made into simple guidance and promoted on the Council’s website as well as stressing that only reports made in this way counted as evidence.

2.13 Officers described other developments that might be possible following the merger of Community Development and Community Services. These were that the process for deploying CCTV be prioritised during 2022/2023, with the Communities Safety Partnership, now chaired by the Safer Communities Manager, being able to authorise their placement and chosen locations in the borough. In addition, it was considered that further partnership working and information sharing would be beneficial to promote Community Safety and more effective working between agencies.

2.14 **Appointments to Outside Bodies**

2.15 A call-in was received on 1 June 2021 from Councillor Alderson and Councillor Williams. The terms of the call-in request related to appointments made to outside bodies by Corporate Management Committee on 27 May 2021, as Councillors Alderson and Williams did not consider that there had been a proper opportunity at that meeting for Councillors to make the case for alternative nominations for some of the outside body appointments.

2.16 The matter was considered by Overview & Scrutiny Select Committee on 8 July 2021.

2.17 The Committee discussed the way in which contested appointments had been considered at the Corporate Management Committee meeting on 27 May 2021. It was confirmed that advice had been given at the meeting that if a Member who had been nominated for an external appointment wished to speak in support of their own nomination for an appointment to an outside body they could **not** do so. Members had interpreted the advice to mean that no speech whatsoever could be made in support of a nomination to an outside body. However, the Overview and Scrutiny Select Committee noted that a speech could be made by another Member who was proposing the nomination, but not by the Member who was nominated.

2.18 Overview and Scrutiny Select Committee made the following recommendations to Corporate Management Committee:

i) ***the contested outside body appointments at the Corporate Management Committee meeting on 27 May 2021 be determined in accordance with Standing Order 39.6 on pages 161 and 162 of the May 2021 Constitution of the Council;***

ii) ***for future outside body appointments an External Appointments Sub-Group be convened which would make recommendations on the appointments to the Corporate Management Committee for decision; and***

iii) ***for future outside body appointments, Council representatives on outside bodies be required to report back to the Council on their attendance and on the activity of the outside bodies to which they were appointed by the Council.***

2.19 Recommendation (i) was determined in accordance with Standing Order 39.6 on pages 161 and 162 of the May 2021 Constitution of the Council and a number of appointments to outside bodies were made at Corporate Management Committee on 22 July 2021.

2.20 Recommendations (ii) and (iii) were deferred for consideration by the Constitution Member Working Party, which discussed the matter at its meetings in September and November 2021 and worked up a recommendation for a new process to Corporate Management Committee in January 2022.

2.21 Corporate Management Committee supported the revised process, which would require nomination forms to be completed justifying why that person considered that they were the best person for that appointment. These nomination forms would be circulated to all Councillors.

3. Treasury Management Annual Report 2020/21

3.1 At its meeting on 7 October 2021 the Committee noted the treasury performance of the Council during the last financial year as set out in the Treasury Management Annual Report 2020/21. This report had also been presented to the Corporate Management Committee at its meeting on 9 September 2021.

3.2 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.

3.3 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.

3.4 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.

4. Progress Towards Savings

4.1 Upon the request of the Chairman of the Overview and Scrutiny Select Committee the Committee received an update on progress towards the Council's savings target at its meeting on 2 December 2021.

4.2 It was noted that the Council hopes to be in a position by May 2022 to align strategies on climate change, health and wellbeing, economic prosperity and the Local Plan, all of which would be underpinned by the Medium-Term Financial Strategy (MTFS). The Committee noted that capital expenditure consisted of resources spent on long term assets such as buildings or vehicles. Capital resources arose from items such as capital receipts, borrowing or grants. Revenue expenditure was all of the rest of the Council's expenditure that was not capital. Housing was funded through the Housing Revenue Account which was a separate account from the General Fund.

4.3 The MTFS approved in February 2021 had included a £2m savings target. In February 2021 the Council had approved a target to identify £1m savings in 2021/22 and a further £1m in 2022/23. Additional income received in late February/March 2021, removal of uncommitted growth, freezes on recruitment and on all non-essential expenditure, delays in borrowing to finance the Magna Square development and a betterment in the commercial property debt provision, had all been factors which had resulted in the Council having increased balances at the end of 2021/22 which meant that the £2m savings target could be found over 3 to 4 years rather than the 2 envisioned.

4.4 The Committee noted progress towards savings identified and included in the MTFS. The 2021/22 budget included provision for savings of £500,000. The savings identified so far had effectively met the current year's savings target. In June 2021 a Voluntary Redundancy Programme (VRP) had been approved which saved £720,000 and £340,000 of this sum had been reinvested in new posts in the areas of climate change, bid writing, procurement, human resources and parking enforcement. This produced a net saving of £380,000. Other savings or income generation items that had been identified were an increase in income from Automatic Number Plate Recognition installation in car parks, a reduced contribution to the Surrey travellers site, removal of the Essential User Car Allowance scheme, careline income, rough sleeping accommodation and out of hours contracts. The total produced by all of these items, including the VRP net saving, was £587,000.

4.5 The Committee noted potential longer term income opportunities which had been identified by officers totalling £400,000. In summary, the Council had identified approximately £1.7m of potential new income against its target of £2m. However, although the Council had identified savings it had also identified new unavoidable growth and new cost pressures. As an illustration of the cost pressures that the Council faced, if inflation was at the Government's 2% target, the cost to the Council would be £450,000. A flat rate £5 increase in Council Tax only generated an additional £175,000 in income which meant that the Council had to generate an extra £275,000 in income to break even in respect of a 2% inflation rate. Furthermore, inflation was predicted to rise in 2022.

4.6 The Committee noted the paramount importance of addressing the ongoing General Fund deficit in order to maintain an adequate level of reserves. There was a need to build up balances in the property repairs and renewals reserve and the investment property income equalisation reserve but this could only be done by taking money from the General Fund Working Balance.

4.7 The Committee noted that Runnymede was in a better financial position and had a smaller budget gap than some of its peers. However, there was still a need to address a predicted ongoing deficit.

4.8 One way of saving money which was advocated sometimes by the public was for Councils to only deliver those services which were required by statute and to cut back their discretionary services. However, this was not an acceptable course of action for Runnymede as the discretionary services that it provided were often the most valued by local residents. Furthermore, discretionary services also provided Runnymede with the potential to generate income.

4.9 Members agreed that the report had provided a valuable insight into the financial planning process of the Council. The Committee agreed to receive a report on progress towards savings twice yearly in order to review this matter on a regular basis.

5. Treasury Management Mid-Year Report

5.1 At its meeting on 2 December 2021 the Committee noted a report on the treasury activity undertaken during the first six months of the financial year, which had also been reported to the Corporate Management Committee at its meeting on 25 November 2021.

5.2 The Committee noted a full list of the Council's borrowings held at 30 September 2021. Officers had borrowed externally recently to crystalise some of the Council's £50m of under, or internal, borrowing whilst rates were still low. The Council had borrowed £10m from the Public Works Loan Board at the end of September 2021 and had since borrowed a further £20m, including £10m for 50 years at 1.67%, which was lower than the Council's 1.75% target rate.

5.3 The Committee noted the investment activity during the first six months of the year. £129,645m of new investments had been made and the Council ended the period with £71.454m invested in the markets. This had temporarily increased to £82m at the end of November 2021 with the recent external borrowings, but this would start to reduce again after the New Year. These investments generated an average interest rate for the period of 0.29% which exceeded the target of 0.20% for the year. However, with rates set to rise from their historic lows over the next few years, future in-house performance was unlikely to be as favourable as investments started to move in line with the rising market. In addition to the money markets, the Council also invested in its own companies by making loans, at commercial rates, to Runnymede Borough Council Investments (Surrey) Ltd. This produced a valuable source of income for the General Fund.

5.4 The Council had been able to obtain a particularly good rate of interest of 0.4% in its investment with the Santander Business Reserve Account. The Committee commended Finance officers for the good treasury performance in the first six months of 2021/22.

6. 2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement

6.1 At its meeting on 3 February 2022 the Committee considered a report on the 2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement. The four recommendations in the report had been recommended to Full Council on 10 February 2022 by the Corporate Management Committee at its meeting on 20 January 2022 and were as follows:

i) The proposed 2022/23 Treasury Management Strategy encompassing the Annual Investment Strategy be approved.

ii) The Prudential and Treasury Management Indicators for 2022/23 be approved.

iii) The authorised limit for external borrowing by the Council in 2022/23, be set at £720,710,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003).

iv) The Council's MRP statement for 2022/23 be agreed 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".

6.2 The Committee concurred with the recommendations, and added a fifth to stipulate that Member training on Treasury Management should take place every two years.

6.3 The report was recommended to full Council on 10 February 2022, where all five recommendations were approved.