Executive Agenda

For enquiries regarding this agenda;
Contact: Democratic Services (01737 276182)
Email: Democratic@reigate-banstead.gov.uk

Reigate & Banstead BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

30 October 2019

To the Members of the EXECUTIVE

Councillors:	M. A. Brunt	Leader of the Council
	T. Schofield	Deputy Leader and Portfolio Holder for Finance
	T. Archer	Portfolio Holder for Investment and Companies
	R. H. Ashford	Portfolio Holder for Community Partnerships
	R. Biggs	Portfolio Holder for Planning Policy
	N. J. Bramhall	Portfolio Holder for Neighbourhood Services
	A. C. J. Horwood	Portfolio Holder for Wellbeing and Intervention
	E. Humphreys	Portfolio Holder for Place and Economic Prosperity
	G. J. Knight	Portfolio Holder for Housing and Benefits
	V. H. Lewanski	Portfolio Holder for Corporate Direction and Governance

For a meeting of the **EXECUTIVE** to be held on **THURSDAY, 7 NOVEMBER 2019** at **7.30 pm** or on the rising of the Commercial Ventures Executive Sub-Committee, if later, in the New Council Chamber - Town Hall, Reigate.

John Jory
Chief Executive

If you need this agenda in an alternative format, please refer to the information on the final page.

Notice is given of the Executive's intention to hold part of its meeting on Thursday, 7 November 2019 in private for consideration of reports containing "exempt" information

1. **MINUTES** (Pages 5 - 6)

To confirm as a correct record the Minutes of the Executive meeting held on 10 October 2019.

2. **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

3. **DECLARATIONS OF INTEREST**

To receive any declarations of interest.

4. **SERVICE AND FINANCIAL PLANNING 2020/21 - INCLUDING COUNCIL TAX POLICY CHANGE** (Pages 7 - 96)

Executive Member: Deputy Leader and Portfolio Holder for Finance

To approve the 2020/21 provisional budget proposals for consultation with the Overview and Scrutiny Committee in accordance with the Policy Framework and Budget Procedure rules within the Constitution and with the Business Community to comply with statutory requirements.

5. **HALF YEARLY TREASURY MANAGEMENT REPORT FOR 2019/20** (Pages 97 - 118)

Executive Member: Deputy Leader and Portfolio Holder for Finance

To consider the half yearly Treasury Management performance.

6. **STATEMENTS**

To receive any statements from the Leader of the Council, Members of the Cabinet or the Chief Executive.

7. **ANY OTHER URGENT BUSINESS**

To consider any item(s) which, in the opinion of the Chairman, should be considered as a matter of urgency – Local Government Act 1972, Section 100B(4)(b).

(Note: Urgent business must be submitted in writing but may be supplemented by an oral report).

8. **EXEMPT BUSINESS**

RECOMMENDED that members of the Press and public be excluded from the meeting for the following item of business under Section 100A(4) of the Local Government Act 1972 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and

(ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

WEBCASTING OF MEETINGS

The Council webcasts some of its public meetings.

Meetings are broadcast live and available to view online for six months. A copy is retained for six years after the meeting.

In attending any meeting you are recognising that you may be filmed and consenting to the webcast being broadcast online and available for others to view.

If you have any queries or concerns please contact democratic@reigate-banstead.gov.uk.

The Council's agenda and minutes are provided in English. However the Council also embraces its duty under equalities legislation to anticipate the need to provide documents in different formats such as audio, large print or other languages. The Council will only provide such formats where a need is identified prior to publication or on request.

Customers requiring either the translation facility or an alternative format should contact Customer Services: Telephone 01737 276000

BOROUGH OF REIGATE AND BANSTEAD

EXECUTIVE

Minutes of a meeting of the Executive held at the New Council Chamber - Town Hall, Reigate on 10 October 2019 at 7.30 pm.

Present: Councillors M. A. Brunt (Leader), R. H. Ashford, N. J. Bramhall, A. C. J. Horwood, E. Humphreys, G. J. Knight and V. H. Lewanski.

Also present: Councillors R. Absalom, M. S. Blacker, P. Harp, S. A. Kulka, S. McKenna, N. C. Moses and C. T. H. Whinney.

51. MINUTES

RESOLVED that the minutes of the Executive meeting held on 19 September 2019 be approved as a correct record and signed.

52. APOLOGIES FOR ABSENCE

Executive Members: Councillor T. Archer, Councillor R. Biggs and Councillor T. Schofield.

Non-Executive Members: Councillor N. Harrison and Councillor S. Sinden.

53. DECLARATIONS OF INTEREST

None.

54. SURREY HILLS AONB MANAGEMENT PLAN 2020-25

The Leader of the Council invited the Head of Planning to introduce a report concerning the Surrey Hills Area of Outstanding Natural (AONB) Management Plan for the period 2020-2025.

The Executive was informed that the Surrey Hills AONB extended from Tandridge, through the Borough of Reigate and Banstead to Mole Valley, Guildford and Waverley. It was noted that the AONB included some outstanding landscapes and it was agreed that these should be enjoyed and protected.

The following points were noted:

- Each local authority with an AONB was required by law to produce and regularly review a Management Plan.
- Since 2008 the 5 Surrey Authorities had jointly agreed for the Management Plan for the area to be prepared by the Surrey Hills AONB Board.
- The Board was made up of representatives from each authority, the County Council and partner organisations such as the National Trust and Surrey Wildlife Trust.

During the discussion a wide range of matters were considered, including issues relating to: Reigate Heath, the provision of car parking and public transport; the adoption of the Reigate and Banstead Development Plan (2018-2027); resourcing responsibilities in relation to AONB improvements; and the importance of veteran trees.

In response to questions, it was explained that the Management Plan, set out in Annex 1 to the report presented, updated the previous plan from 2014 and took account of changes in circumstances, policies and national plans. It was highlighted that changes included greater recognition of the health and well-being benefits of the AONB; an increased focus on woodlands to cover veteran trees, hedgerows and biodiversity; additional guidance relating to development impacts within AONBs; and an increased emphasis on sustainable developments.

In conclusion, the Leader of the Council confirmed that the Management Plan had undergone thorough consultation and environmental appraisal to ensure it remained an effective tool in promoting the Surrey Hills AONB as an area to be enjoyed while taking care to ensure there were no adverse environmental impacts associated with this.

RESOLVED that:

(i) The Surrey Hills Area of Outstanding Natural Beauty Management Plan for the period 2020-2025, set out in Annex 1 of the report presented, be adopted.
(ii) The Head of Planning Policy be authorised, in consultation with the Executive Member for Planning Policy, to make any necessary additional minor changes to the Management Plan before final publication.

Reason for decision: The Countryside and Rights of Way Act (2000) places a statutory duty on local authorities to prepare and review – every five years – a Management Plan for any Areas of Outstanding Natural Beauty within their boundaries.

Alternative options: To recommend changes to the Management Plan presented or to prepare and take forward a separate plan.

55. STATEMENTS

None.

56. ANY OTHER URGENT BUSINESS

None.

57. EXEMPT BUSINESS

There was no exempt business to be considered under this agenda item.

The Meeting closed at 7.43 pm

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

SIGNED OFF BY	Interim Head of Finance and Assets
AUTHOR	Sanjay Sharma, Finance Manager, Management & Commercial Accounting Pat Main Interim Head of Finance & Assets Tom Borer Policy Officer
TELEPHONE	Tel: 01737 276840 / 276063 / 276717
EMAIL	sanjay.sharma@reigate-banstead.gov.uk pat.main@reigate-banstead.gov.uk tom.borer@ reigate-banstead.gov.uk
TO	Executive
DATE	Thursday, 7 November 2019
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	**SERVICE & FINANCIAL PLANNING 2020/21, INCLUDING COUNCIL TAX POLICY CHANGE**

RECOMMENDATIONS:

(i) That the national and local service context at Annex 1 be noted.

(ii) That the service proposals set out in this report which seek to respond to this context and deliver our corporate priorities, be endorsed.

(iii) That the draft business plans for 2020/21 to 2024/25 be approved, and that Heads of Service be authorised to finalise the plans for their service areas, in consultation with the relevant Portfolio Holders.

(iv) That the following be approved for consultation under the Council's budget and policy framework:

a) Medium Term Financial Plan Summary (Annex 2)

b) Revenue Budget Savings and Additional Income proposals totalling £1.618 million (Annex 3)

c) Revenue Budget Growth proposals totalling £3.742 million (Annex 3)

d) Capital Investment Strategy Summary (Annex 4)

e) Capital Programme Growth proposals of £9.910 million (Annex 5)

(v) That the Fees & Charges Policy at Annex 6 be approved.

(vi) That the Reserves Policy at Annex 7.2 be approved.

(vii) That the Medium Term Financial Plan forecast for 2021/22 onwards and proposed action to address the forecast revenue budget gap be noted.

(viii) That the Executive recommends to the Council the adoption of a new council tax policy to apply a 100% discount to care leavers up to the age of 25.

(ix) That the Executive recommends to the Council the adoption of updated thresholds in the Local Council Tax Reduction Scheme to reflect changes in allowances and premiums in line with Government benefits.

REASONS FOR RECOMMENDATIONS:

Recommendations (i) to (vii): To ensure that the Council continues to plan and manage its resources well, deliver high standards of service and meet the aims and objectives of its current Five Year Plan and emerging Five Year Plan for 2020-2025.

Recommendation (viii) and (ix): To ensure that council tax policy supports delivery of Council objectives.

EXECUTIVE SUMMARY:

The primary objectives of the service and financial planning process are to ensure that the Council continues to be financially sustainable, and that we are able to effectively deliver our services and corporate priorities.

Reigate & Banstead Borough Council is recognised as being a leading local authority that delivers high quality services.

Our 2015-20 Five Year Plan period is drawing to a close, having driven our vision and successes across the borough in recent years. We are now transitioning to our new plan for 2020-25, which looks to build on and further develop the work we have been doing, as well as expanding our efforts to support environmental sustainability, affordable housing and the wellbeing of our residents.

As always, we are seeking to ensure that the Borough remains great place to live and work, and to maintain and improve the quality of our services, all whilst securing savings and investment to remain financially sustainable.

The Council's Medium Term Financial Plan (MTFP) was updated and reported to Executive in July 2019. It covered:

- Objectives and priorities for the 2019/20 budget
- Context to budget-setting, including updates on the national economic forecast, local government funding, Corporate Plan priorities and specific factors to be taken into account when developing budget proposals for 2020/21
- Key budget information, including the 2018/19 budget outturn position, current year budgets and forecast new budget pressures and saving opportunities
- Updates on the capital programme and treasury management

- Information about the service and financial process and budget-setting timetables
- A summary of budget risks and sensitivities and how they will be managed.

The MTFP also included draft Reserves and Fees & Charges policies for development during the service & financial planning process. The final versions are presented for approval with this report.

The Council no longer receives Revenue Support Grant from Government and 2020/21 will potentially be the final year before a reduction in retained business rates of £2.2 million, resulting in significant financial pressures.

Nevertheless, the Council remains in a relatively strong position to respond, having planned for this decline. In recent years, we have established ring-fenced revenue reserves to respond to these challenges. However, use of reserves represents a short term tactic. We need to continue to work towards becoming a more commercial organisation and generating new sources of income to secure our long-term financial stability. Our 2020/21 budget proposals recognise that we need to continue to invest in our capacity and staff to achieve this.

The Council is working to develop its commercial approach to support future commercial and investment activity around our primary Corporate Plan objectives to work for the benefit of the borough and its residents. This will consider the degree and type of investment which might be supported and the scope within which this might take place. It is expected for a developed approach to be reported for consideration by Members alongside the finalised service and financial plans for 2020/21.

Overall, we expect to be able to manage our budget challenge in 2020/21 without compromising our financial sustainability (or ability to deliver high quality services). Any residual forecast budget shortfall will be funded from reserves, as detailed in this report.

The budget proposals detailed in this report are based on analysis of a range of data and evidence, and the result of extensive discussions over recent months between the Executive and Management Team. This report provides a condensed version of those discussions, describing the national and local context and the service and budget proposals which have been put forward in response.

The provisional budget proposals set out within this report include revenue budget savings and additional income proposals of £1.618m million, and revenue budget growth proposals of £3.742 million.

Work on Central Budgets and Revenue Reserves will continue and the outcome will be presented in the final budget proposals in January. At this stage it is anticipated that there will be a requirement to call on Reserves again this year to achieve a balanced budget while new sustainable sources of income are developed.

The report also presents initial Capital Programme budget growth proposals of £9.9 million. Further work is underway to prepare full Capital Programme proposals for 2020/21 to 2024/25 which will be detailed in the January budget report.

If the Executive accepts the budget recommendations in this report, further work will be undertaken over the coming months to test and refine the proposals, including consultation with the Overview & Scrutiny Committee's Budget Scrutiny Panel. This will ensure that the Council adopts a balanced budget for 2020/21and is in the best position to prepare for

anticipated budget challenges in 2021 onwards.

The recommendation to introduce a 100% council tax discount for care leavers up to the age of 25 will contribute to a county-wide initiative, promoted by Surrey County Council.

The local Council Tax Reduction scheme will remain unchanged, other than to reflect changes in allowances and premiums in line with Government benefits.

Executive has authority to approve the recommendations (i) to (vii).
Recommendation (viii) is subject to approval by Full Council.

STATUTORY POWERS

1. The Local Government Act 1972 requires the Council to set the associated annual budget as part of proper financial management. This report is part of that process.
2. The Local Government Act 1992 requires councils to set a balanced budget and announce the Council Tax level by 11 March each year. Section 65 of the Act requires the Council to consult representatives of those subject to non-domestic rates in the Borough about its proposals for expenditure for each financial year.
3. The Chief Finance Officer has a key role to play in fulfilling the requirements of the statutory duty under the Local Government Act 2003 to keep the authority's finances under review during the year and take action if there is evidence that financial pressures will result in a budget overspend or if there is a shortfall in income.
4. Council Tax Reduction Scheme: Section 13A(2) of the Local Government Finance Act 1992 (as amended) requires billing authorities to make a reduction scheme for persons in financial need or classes of persons who the authorities considers – in general – to be in financial need. Section 13A(1)(c) of this Act gives billing authorities the power to reduce a liability to an extent that is seen fit.

SERVICE & FINANCIAL PLANNING

Service Context

5. It is important that our service plans respond to the context in which they will be implemented, in order to provide effective services that meet the needs of residents, communities and businesses. The following sub-sections set out the local, national and regional context that has informed our service plans.

Our Five Year Plan

6. Successful organisations require strong forward plans if they are to perform at the highest level. The Council has been completing delivery of its Five Year Plan for 2015-20, and is now transitioning to its new plan for 2020-25. These plans set out the organisation's vision, priorities, aims and objectives, and inform Council decisions at every level. The vision set out in our new draft five year plan is to be recognised by our residents, businesses and partners as a leading Council. This means:
   a. Delivering quality services and support
   b. Providing value for money
   c. Making the borough a great place to live, work and visit

d. Being proactive about tackling climate change and reducing our environmental impact

e. Being flexible and sustainable, responding to the needs and demands of our borough, residents, businesses; and

f. Operating as an increasingly commercial organisation

7. When finalised, the new Five Year Plan will seek to deliver against the vision, with priorities grouped around the three themes of People, Place and Organisation. These emerging new plan priorities have been taken into account in developing the 2020/21service and financial planning proposals.

National And Regional Context

8. Legislation, policies from national government, and decisions made by partner organisations (e.g. Surrey County Council), will continue to have a significant effect on our residents, and therefore on the support and services that the Council provides. Annex 1 provides a summary of the international, national and sub-national context within which this Council will need to operate in 2020/21.

9. The overarching context remains one where there is increasing demand for Council services, whilst simultaneously experiencing a reduction in funding and resources. The Council is continuing to work to respond to this challenge by increasing efficiencies and generating income, but this context presents an increasing pressure of work to meet the needs of our residents.

10. Consultations and announcements over recent months have covered the following aspects of local government funding:

Spending Review 2020

11. The government would usually be expected to conduct a multi-year spending review every two to four years. However, there has not currently been such a review since 2015, and the review in 2019 covered only the financial year 2020/21. This set out departmental spending allocations for the year. These allocations included increases in spending on schools, social care and the NHS, but no additional funding for local authorities. Even for the departments receiving increases to their allocations, real per capita spending remains significantly below pre-2008 levels.

12. Given the ongoing political focus and uncertainty, it remains unclear when the next longer term spending review will take place. Some provisional spending totals were set out in the 2018 Autumn Budget for the years up to 2023/24. These provisional totals underpin the official fiscal forecasts and therefore provide an indication of what might be expected.

Chancellor's Budget 2019 and Provisional Settlement Announcement

13. At the time of preparing this report there was uncertainty whether the Chancellors' Budget statement would go ahead as planned on 6 November 2019. Delay of the annual Budget may also have implications for the timing of the Provisional Local Government Funding Settlement Announcement which is expected in December.

Fair Funding Review

14. The Government was scheduled to complete a Fair Funding Review of Local Government funding this year, with the outcomes intended to be introduced in 2020/21. The review was intended to set new funding baselines and confirm any transitional arrangements. However, following the delay in the longer term spending review, the Fair Funding Review has also been postponed.

15. Given the Government's current primary focus on Brexit, it is unclear when this will be completed. Before its introduction, we would expect there to be an opportunity to respond to consultations on indicative allocations.

Business Rates Growth: Reset and 'Alternative' System

16. The Government's stated aim is to balance risk and reward through a system of Resets, Safety Nets, Levies, Tier Splits and Pooling. It has also stated an intent to simplify the system by looking again at appeals, while addressing income volatility and introducing more simplification. As with other items listed, it remains uncertain when this work will be completed.

New Homes Bonus

17. There remains speculation that there will be further changes to the system, for example further changes to the methodology based on a reduced funding allocation and/or the allocation of higher amounts to fewer authorities (or lower amounts to many). Again, any changes may well be delayed by other legislative priorities.

Specific Grants

18. There is still an expectation that these will be rolled into the funding system when 75% business rates retention is introduced (expected as part of the longer term Spending Review post 2020/21).

Council Tax Reform

19. There is a possibility of increased freedoms (primarily for social care precepting authorities), but this also remains uncertain.

Partner Funding

20. Surrey County Council (SCC) continues to face severe financial constraints. This is already impacting a range of statutory and non-statutory services, from social care to highways and parking, to support for socially excluded groups and the voluntary sector. The County Council implemented £82 million of cuts in 2019/20 and has forecast a budget gap of £57 million in 2020/21 rising to £134 million by 2023/24. These included reductions in funding for the Adult Social Care service and the Children, Schools and Families service.

21. SCC service reductions will impact on residents in this borough, and make it more difficult for us to deliver on our own corporate priorities within the context of our already challenging financial position. In recent years much work has been undertaken to put this Council in the best place possible to respond to SCC funding cuts, and this work will need to continue. Financial constraints at the county level mean that this Council needs to continue to work closely with the County Council and other partners to ensure that residents continue to receive the services they need, delivered in an efficient and cost effective way.

Brexit

22. The continuing uncertainty around the planned exit of the UK from the European Union and the potential implications thereof also continues to be consideration for the Council. The Council will continue to work with the government, partners (including the Surrey Local Resilience Forum), and local businesses to understand whether there will be direct effects for the local area. The potential influence upon the wider national economy will also reflect upon the borough.

SERVICE PLANNING FOR 2019/20

23. Each service within the Council has reviewed its future direction in light of the wider context in which it operates, and its role in delivering our updated Five Year Plan

priorities. These plans set out the direction of Council services, including key changes and priorities.

24. The following paragraphs highlight areas where changes to the way in which the Council carries out its business are planned, or where substantive revenue savings, income or growth is proposed.

25. Waste and Recycling: The Government's intended revision of the national Waste & Resources Strategy has the potential to increase the demand upon the Council, whilst potentially also reducing available income. This may not lead to implications for the coming year, but presents a concern in the longer term. The Council is continuing to roll out expanded recycling provision to additional flats across the borough, which provides benefits to residents and the environment, but incurs an additional cost. Recyclate prices remain potentially volatile, particularly in the context of Brexit and wider trade uncertainty, and present the risk of a potential reduction in income.

26. Housing and Homelessness: The Council continues to make positive progress in working to prevent homelessness, which includes the now established and successful 11 household emergency accommodation property. Through the new Housing Delivery Strategy the Council will strive to increase the supply of accommodation that is affordable to local people in the borough. Whilst three years' worth of ring-fenced funding has been made available to the Council by Government to assist in managing the implications of the Homelessness Reduction Act, we await news of any further funding announcements.

27. Community Partnerships: The Borough's three community centres will be coming back into direct Council management in April 2020. Work is currently being undertaken to devise our future vision, which will determine long term operation and management arrangements. In the short term, actions are underway to ensure that the centres continue to operate with no reduction in quality or interruptions to services. Following the review of the Council's Voluntary and Community Sector (VCS) Support in 2019, work is underway to facilitate and enable more effective services to support our residents through both targeted financial and in kind support to VCS providers.

28. Property and Assets and other commercial activities: The Council's emerging Five Year Corporate Plan sets out our intention to use utilise and invest in property assets to support the Council's financial sustainability and enable the continued delivery of services. In order to meet future service demand it is projected that significantly increased commercial income will be required and the Commercial Ventures Executive Sub Committee are working to develop a commercial strategy and explore potential investment opportunities.

29. Environmental Sustainability: In keeping with the motion on climate change considered by Council in February, and the Council's emerging Five Year Corporate Plan, the Council recognises that action is necessary to address environmental sustainability and climate change. The Council is therefore reviewing its existing sustainability and carbon management policies and working to a produce an updated Environmental Sustainability Strategy.

30. Developing Strategies: As identified above, a number of Council strategies are currently be developed or updated, including the Housing Delivery Strategy and Environmental Sustainability Strategy. As such, the actions associated with these strategies are not yet fully costed at the time of writing. Estimates of the required spending have been made based on the best information currently available, but

these are subject to change prior to the final approval of service and financial planning arrangements for 2020/21.

FINANCIAL CONTEXT

31. The Council continues to manage its finances well. The Council has delivered significant service improvements and priority projects despite the removal of Government Revenue Support Grant in 2017/18. The revenue budget outturn position for services in 2018/19 was a £1.6 million underspend compared to the approved budget.

Government Funding

32. In 2021/22, the Council will see further significant decline in Government funding support as our retained business rates receipts are cut from £3.2 million to £2.5 million, a reduction of £0.700 million. In addition the 'Negative RSG Grant' of £1.5 million will end in 2021/22, resulting in a total funding reduction of £2.200 million.

33. The table below summarises how Government funding has changed for the Council in recent years and forecasts for 2020/21 onwards.

Table 1: Government Funding

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	1.67	0.50	0.00	0.00	0.00	0.00	0.00
Retained Business Rates	2.16	2.18	2.22	2.29	3.10	3.20	2.50
'Negative RSG' Grant					1.50	1.50	0.00

CIPFA Financial Management (FM) Code

34. The CIPFA FM Code was introduced in October 2019 and will be applicable from 1 April 2020. Work will be undertaken as part of 2020/21 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified. Further details are provided at Annex 2.

Medium Term Financial Planning

35. The Council has been planning for the loss of Government funding, with the objective to become financially self-sufficient going forward. In order to achieve self-sufficiency the Council needs to continue to find budget efficiencies whilst also generating new sustainable sources of additional income.

36. The Council's updated Medium Term Financial Plan (MTFP), summarised at Annex 3, was approved in July 2019 and sets out the financial direction of the Council over the medium term to ensure that the Council plans and manages its resources effectively. It sets out the priorities that will be taken into account when preparing the draft budget for 2020/21:

- To ensure resources are aligned with the emerging **Corporate Plan priorities**

- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position

- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council

- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs

- To ensure a long term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams

- To maintain an adequate and prudent level of **reserves** and regularly review their planned use and allocation to support delivery of our priorities.

37. Current MTFP forecasts indicate a budget gap of £2.1 million for service budgets in 2020/21 before taking into account savings opportunities in Central Budgets and additional income from council tax. The forecast budget gap increases to £4.3 million for 2021/22 onwards, the primary cause of the increases being anticipated Government funding reductions.

38. The final position and MTFP forecasts for 2020/21 will be detailed in the January budget report when the review of Central Budgets is complete and final council tax and capital growth plans are confirmed. It is anticipated that many of the measures that will be used to balance the budget for 2020/21 will be one-off cost reductions, including calling on reserves to address any residual budget gap.

39. Going forward, sustainable solutions that reduce costs or increase income on a permanent basis will have to be identified for 2021/22 onwards. These are likely to include:

    - Pursuing commercial investments to generate new income streams – after taking into account the costs of associated borrowing
    - Considering options for asset sales to realise capital receipts and reduce or avoid new borrowing costs
    - Carrying out fees and charges benchmarking across all services
    - Planning for 2020/21 staff pay negotiations; and
    - Reviewing in-year budget monitoring forecasts to identify new opportunities for savings and efficiencies.

Commercial Strategy

40. The Commercial Ventures Executive Sub-Committee, supported by other Members, has been working to develop the Council's commercial agenda. This has included consideration of the scale and appropriate type of investments, the geographic area of any investment activities, and the opportunities for partnership working. These

questions were also considered by the Overview and Scrutiny Committee in July 2019, and the Committee provided feedback to the Sub-Committee. It is intended for a completed commercial approach to be reported for consideration by Members alongside the finalised service and financial plans for 2020/21.

41. While service efficiencies and council tax increases are important, their contribution to addressing the financial challenges faced by the Council is limited. It is therefore important that the Council also becomes an increasingly commercial organisation. This means generating new net income streams to support service delivery. This requires investment – and will have an element of commercial risk – but it will also enable the Council to develop and grow into a self-sustaining organisation. As set out above, this will be supported by the developing commercial approach and associated plans.

42. The latest Capital Investment Strategy was approved by Executive in September 2019 and sets out how the Council plans to invest to generate income. A summary of the Strategy is attached at Annex 4.

2019/20 Revenue Budget Summary

43. The table below summarises the Revenue Budget for 2019/20.

Table 2: BUDGET SUMMARY 2019/20	Budget 2019/20 £m
1. Net Cost of Services	12.078
2. Corporate Budgets	4.217
NET EXPENDITURE 2019/20	**£16.295m**
3. Net Contributions to/from Reserves:	(0.245)
4. Sources of Funding	(2.347)
5. Council Tax Requirement	(13.703)
NET SOURCES OF INCOME 2019/20	**£16.295m**

44. The Revenue Budget comprises five ‘building blocks’ as follows:

- **Net Cost of Services**: These are the direct costs incurred in delivering services through the three Directorates, net of specific income generated by them.

- **Corporate Budgets**: These are costs incurred and income received that are not service-specific, eg. Pension Fund deficit contributions and treasury management costs and income. Also included in this block is the Headroom Contingency budget.

- **Contributions to/from Reserves**: This relates to our use of Earmarked Revenue Reserves, which have been allocated to fund specific purposes. For

example the Corporate Plan Delivery Fund. The impact of the use of Reserves is a reduction in the total income demand on council taxpayers.

- **Sources of Funding**: These income budgets are general, non-service specific income sources. They include other grant funding from Central Government and our share of Non-Domestic Rate income. For 2019/20 it includes the impact (benefit) of the one-off elimination of 'Negative Revenue Support Grant' that was announced by the Government in December 2018.

- **Council Tax**: After the budgets requirement has been established for the other blocks then the amount required by their Council from council tax can be calculated; known as the 'Demand on the Collection Fund'.

Revenue Budget Outturn 2018/19

45. In February 2018 the Council set a net Revenue Budget for 2018/19 of £15.5 million. Transfers from the Corporate Plan Delivery Fund and other grants received during the year resulted in a net increase to £17.8 million.

46. Net expenditure for the year was £16.2 million for services, giving a favourable outturn position of £1.62 million (9% of the overall budget).

2020/21 Service Budget Proposals

47. Service budget proposals are summarised below:

Table 3: SERVICE BUDGET PROPOSALS	Approved Budget 2019/20 £m	Proposed Budget 2020/21 £m	Net Service Budget Increase / Decrease £m
ORGANISATION			
Organisational Development	0.63	0.83	0.20
Finance & Assets	1.75	1.78	0.02
Projects & Performance	1.74	1.86	0.12
Legal & Governance	(0.77)	(0.52)	0.25
IT	1.48	1.78	0.30
PLACE			
Planning	0.73	0.76	0.03
Economic Prosperity	0.28	0.40	0.12
Place Delivery	0.23	0.28	0.05
Neighbourhood Operations	2.86	3.11	0.25
PEOPLE			
Community Partnerships	1.26	1.58	0.32
Communications & Customer Contact	0.74	0.85	0.11
Wellbeing & Intervention	0.19	0.44	0.25
Revenues, Benefits & Fraud	0.97	1.07	0.10
TOTAL	**12.08**	**14.20**	**2.12**

48. Service savings, additional income and growth proposals are detailed at Annex 3 and result in the following net budget movements:

Table 4 : SERVICE BUDGET PROPOSALS FOR 2020/21		
	£m	£m
Budget Movements:		
Net Increase in Staff Costs	1.28	
Net Increase in Other Running Costs	0.68	
Net Reduction in Income	0.16	
NET SERVICE BUDGET GROWTH		**2.12**

Service Fees & Charges

49. Income from fees and charges contributes £15.3 million to support service delivery. A Policy on Fees & Charges was developed during the review of the Medium Term Financial Plan in July 2019 and is attached at Annex 6 for approval.

Commercial Income

50. The Medium Term Financial Plan includes the objective of:

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams.

51. Delivery of this objective will require the allocation of additional funds in the Capital Programme to purchase assets that will generate new income streams as well as supporting delivery of corporate objectives. These purchases will be financed through prudential borrowing therefore provision will have to be made in the revenue budget for the costs of repaying that debt. It will also be necessary to ensure that borrowing for this purpose complies with MHCLG and CIPFA guidance, specifically 'borrowing in advance of need'.

Example Investment Returns

52. Following the significant increase in PWLB borrowing costs, that was announced in October 2019, to generate £2.1 million additional net income to the revenue budget (for example) would require borrowing and re-investment in income-generating assets of circa £106.1 million [based on prevailing PWLB rates at the time of preparing this report].

Central Budget Proposals 2020/21

53. Central budgets are summarised in the table below. They comprise those budget items that are corporate in nature and are not associated with delivery of specific services.

Table 5 : CENTRAL BUDGETS	Budget 2019/20 £m
Budget Contingencies	1.434
New Posts Budget	0.250
Insurance	0.452

Table 5 : CENTRAL BUDGETS	Budget 2019/20 £m
External Audit Fees	0.050
Treasury Management	(0.371)
Employer Pension Contribution	2.338
Apprenticeship Levy	0.064
TOTAL	**4.217**

54. Work is in progress to review Central Budgets for inclusion in the final budget proposals in January 2020. Factors to be taken into account will include:

Budget Contingencies	• Continued requirement for central budgets for severance and redundancy costs • Continued requirement for provision in the revenue budget for contributions to the capital programme • Continued requirement for the 'Headroom Contingency' budget which was originally established during budget setting in 2012/13 to '*mitigate the reduction in Central Government revenue funding'*.
Pay Costs Inflation	• Building capacity in the budget for forecast contractual pay increases and an annual cost of living increase that is currently being negotiated.
New Posts Budget	• Continued requirement for this budget (created in 2019/20) in addition to the New Posts Reserve
Insurance	• Update for agreed premium and service fee increases
External Audit Fees	• Update for any notified contract fee increases (as notified by Public Sector Audit Appointments)
Treasury Management	• Update to reflect costs of borrowing for approved Capital programme for 2020/21 onwards and interest on forecast balances • Details to be confirmed in the Treasury Management Strategy for 2020/21
Employer Pension Contribution	• Update to reflect the outcome of the triennial revaluation of the Pension Fund in 2019
Apprenticeship Levy	• Update when final staff numbers and pay costs for 2020 are confirmed

<u>Revenue Budget Funding 2020/21</u>

55. The sources of funding for the revenue budget are set out in the table below.

Table 6: REVENUE BUDGET FUNDING	Approved Budget 2019/20 £m
Contributions To/From Reserves	0.245

Table 6: REVENUE BUDGET FUNDING	Approved Budget 2019/20 £m
Other Funding	2.347
Council Tax	13.703
TOTAL	**16.295**

56. Work is in progress to update Funding forecasts for inclusion in the final budget proposals in January 2020. Factors to be taken into account will include:

Contributions To/From Reserves	• Reserves are being reviewed for the January budget report. Details below.
Other Funding	• Includes retained Business Rates, Negative RSG Grant, Fees and Charges and Other Grants.
Council Tax	• Options for the 2020/21 council tax increase are being considered. Summarised below.

Council Tax 2020/21

57. The referendum cap is expected to be confirmed with the Provisional Local Government Funding Settlement Announcement in December. It is anticipated to be the higher of 1.99% or £5 for district councils. Initial indications are that £5 is marginally to this Council's advantage as it yields a slightly higher level of income.

58. Every 1% additional council tax income generates £0.137 million income for this Council.

59. A Council Tax increase of 1.99% would increase a Band D charge from £227.46 to £231.99, an increase of 9 pence per week.

60. Final recommendations will be included in the January Budget and Council Tax reports.

Council Tax Policy

61. In line with the other Surrey districts, for 2020/21 onwards it is recommended that a new local discount be introduced, comprising a 100% discount to care leavers up to the age of 25. This is forecast to reduce total council tax yields by £35k. The costs will be shared with the main precepting bodies.

62. Proposals to change council charges on empty homes were approved by Executive in April 2019 and will come into effect on 1 April 2020:

    - Homes that have been empty and substantially unfurnished for more than two years and less than five years will be charged a Council Tax long term empty premium equivalent to 100% of the Council Tax in addition to their current Council Tax.
    - Homes that have been empty and substantially unfurnished for five years and more will be charged a Council Tax long term empty premium equivalent to 200% of the Council Tax.

63. The local Council Tax Reduction scheme will remain unchanged, other than to reflect increases in allowances and premiums in line with national benefits.

Retained Business Rates Income

64. As explained above, in 2021/22, the Council will see further significant decline in Government funding support as retained business rates receipts are cut from £3.200 million to £2.500 million, a reduction of £0.700 million. In addition the 'Negative RSG Grant' of £1.500 million will end in 2021/22, resulting in a total funding reduction of £2.200 million. It is not yet clear how these reductions will be implemented but are assuming this will be clearer when the outcome of the Fair Funding Review and Business Rates Reset are announced during 2020.

65. A small number of Surrey authorities are once again planning to establish a voluntary Business Rates Pool for 2020/21 with Surrey County Council using the same methodology as in previous years. This Pool is once again not open to Reigate & Banstead due to the relative size of our business Rates Levy change.

Use of Reserves

66. The Council holds Reserves to provide protection against financial risks. Our current level of reserves provides a relatively secure financial base compared to many authorities; it is important to ensure an appropriate balance between securing the financial position of the Council and investing in delivery of services.

67. Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments.

68. There is an opportunity cost of holding reserves in terms of restricting capacity to invest in current service delivery but this is offset by the additional flexibility that reserves provide when manage budget risks and adverse variations.

69. Current Revenue Reserves are summarised below and detailed at Annex 7.1.

Table 7 : RESERVES SUMMARY	Balance at 31 March 2019 £m
General Fund Balance	12.547
Other Earmarked Reserves	23.042
TOTAL	**35.589**

70. A Policy on the use of Reserves was developed during the review of the Medium Term Financial Plan in July 2019. The Policy is now attached at Annex 7.2 for approval.

71. The legal requirement for the Council to agree a balanced budget means that Council may be required to draw on its reserves to address any shortfall between forecast expenditure and forecast income.

72. The Council has set a minimum level of unallocated General Fund reserves of 15% of the net revenue budget, which equates to £2.444 million (for 19/20). The unallocated balance on the General Fund at 31 March 2019 of £12.547 million, is

currently well in excess of this. The ongoing requirement to retain these surplus resources in the General Fund reserve is being reviewed.

73. Other areas that are being considered as part of the current review of Reserves include:

Table 8 : RESERVES REVIEW OPTIONS	
Reserve	**Area for Consideration**
General Fund Reserve	• Consider reducing balance to the minimum requirement of £2.444 million
Government Funding Risks and Business Rate Reduction Reserves	• Consider merging these reserves as they are both intended for use to impacts of reductions in Government Funding
Feasibility Studies (Commercial Ventures) Reserve	• Increase reserve to ensure sufficient funding is available to prepare business cases for new initiatives designed to deliver additional sources of funding
New Posts Reserve and Corporate Plan Delivery Fund Reserves	• Increase allocation of funds to these Reserves to reflect anticipated demand for resources to start to deliver new initiatives during 2020/21
Feasibility studies (Transport Initiatives) Reserves	• There are proposals contribute to creation of a new Reserve for councils in Surrey collectively to fund the development of infrastructure feasibility studies so that bids can be made for full project funding when bidding rounds become available. • This fund will ensure there are dedicated resources to develop a robust pipeline of schemes. • It is proposed that the fund will have a gearing ratio of 1:0.86. For every £1 which this Council invests in the fund we will receive £1.86 for scheme development due to investment from Surrey County Council and the LEP. • The fund will develop projects that cross boundaries both within and outside Surrey. • Final proposals will be included in the January Budget report
Economic Development Initiatives Reserve	• Creation of new earmarked Reserve funded from the resources received as a result of participating in the 2018/19 Surrey Business Rates Pool. • To date £0.200 million has been allocated to raise awareness amongst local people of quality local employment opportunities • The remaining balance (c£0.300 million) will held in the reserve to fund ongoing initiatives in this area.
Commercial Risks & Volatility Reserve	• Creation of new Reserve to address risks of failure to meet income targets from new commercial ventures while remedial action is taken.
Environmental Sustainability	• Creation of new Reserve for initiatives that will support delivery of the Council's Environmental Sustainability Strategy that is currently in development

Table 8 : RESERVES REVIEW OPTIONS	
Reserve	**Area for Consideration**
Insurance Reserve	• Review of the ongoing requirement for this Reserve.
New Homes Bonus Reserve	• Consider options for investment of these resources to support delivery of corporate priorities and/or secure financial sustainability over the medium term.

74. The outcome of the review and recommendations for any changes will be included in the January budget report.

CAPITAL PROGRAMME 2020/21 ONWARDS

75. A comprehensive review of the Programme is being undertaken as part of work on the Capital Investment Strategy that is summarised at Annex 4.

2019/29 to 2023/24 Approved Capital Programme

76. The Capital Programme that was approved in January 2019 is summarised below:

Table 9: APPROVED CAPITAL PROGRAMME	2019/20	2020/21	2021/22	2022/23	2023/24	
	Projected	Projected	Projected	Projected	Projected	TOTAL
	£m	£m	£m	£m	£m	£m
FINANCE & ORGANISATION:						
Strategic Property	0.050	0.050	0.076	0.076	0.076	**0.328**
IT Services	0.275	0.100	0.300	0.275	0.275	**1.225**
Organisational Development	0.030	0.030	0.030	0.030	0.030	**0.150**
PEOPLE SERVICES:						
Housing	1.495	1.115	1.115	1.115	1.115	**5.955**
Wellbeing & Intervention	0.145	0.145	0.145	0.145	0.145	**0.725**
Community Partnerships	0.025	0.025	0.025	0.025	0.025	**0.125**
PLACE SERVICES:						
Neighbourhood Operations	1.742	3.661	2.928	1.307	1.307	**10.945**
Place Delivery	17.165	24.984	23.983	15.100	0.0	**81.232**
CORPORATE:						
Anticipated investment in new capital schemes in 2019/20 onwards to support delivery of the Corporate Plan, Housing Strategy and Investment Strategy.	25.000	0.0	0.0	0.0	0.0	**25.000**
TOTAL CAPITAL EXPENDITURE	**45.927**	**30.110**	**28.602**	**18.074**	**2.974**	**125.685**

Capital Programme Growth 2020/21 onwards

77. Capital Programme growth proposals that have been developed as part of the service and financial process are detailed at Annex 5 and summarised below:

Table 10: CAPITAL PROGRAMME GROWTH PROPOSALS AT NOVEMBER 2019	2020/21	2021/22	2022/23	2023/24	2024/25	
	Projected	Projected	Projected	Projected	Projected	TOTAL
	£m	£m	£m	£m	£m	£m
ORGANISATION:						
Strategic Property	4.443	0.600	0.690	0.612	-	**6.345**
IT Services	0.125	0.125	0.100	0.110	0.050	**0.510**
Organisational Development	0.250	0.250	0.250	0.250	0.250	**1.250**
PEOPLE SERVICES:						
Wellbeing & Intervention	0.015	0.015	0.015	0.015	0.015	**0.075**
PLACE SERVICES:						
Place Delivery	0.100	0.530	-	-	-	**0.630**
Economic Prosperity	0.100	0.100	0.100	0.100	0.100	**0.500**
Neighbourhood Operations	0.400	0.050	0.050	0.050	0.050	**0.600**
TOTAL CAPITAL GROWTH	**5.433**	**1.670**	**1.205**	**1.137**	**0.465**	**9.910**

78. The reasons for these growth proposals include:

- Requirement to continue to invest in council-occupied buildings following condition surveys and fulfilment of landlord responsibilities for the Council's commercial properties
- Continued investment in ICT infrastructure and resilience
- Continued investment in facilities to support the development and adaptability of the Council's workforce to meet changing service needs
- Continued investment in facilities and infrastructure across the local community
- Continued investment in plant and equipment to support service delivery.

79. In addition a number of capital growth proposals are being developed, potentially for inclusion in the January Budget report:

Table 11: OTHER CAPITAL GROWTH PROPOSALS	
Service Area	**Potential Capital Growth Proposal**
ORGANISATION	
Strategic Property	• Investment in building maintenance for the Council's tenanted and commercial properties including leisure centres, pavilions and infrastructure assets – details to be

Table 11: OTHER CAPITAL GROWTH PROPOSALS	
Service Area	**Potential Capital Growth Proposal**
	confirmed following condition surveys that are being commissioned
IT Services	• Investment in systems and equipment to support the ongoing IT Digital Strategy refresh and review, to address system replacement and upgrade requirements and extend the IT Strategy from a 3-year to a 5-year cycle to align with the Capital Programme life cycle.
Organisational Development	• Confirmation of plans for continued investment in facilities to support the development and adaptability of the Council's workforce to meet changing service needs
Commercial Investment Strategy	• Proposals to allocate further capital funding for future investment in new commercial assets and activities that deliver a sustainable net income stream to the revenue budget. • Work is underway to develop the Commercial Strategy. It is expected for a developed approach to be reported for consideration by Members alongside the finalised service and financial plans for 2020/21. • Options under consideration are currently focussed on allocation of funds for additional investment of +£25m, +£50m and +£75m over the medium term period. • The implications of constraints on PWLB borrowing for purely commercial purposes will have to be taken into consideration.
PEOPLE SERVICES:	
Housing Schemes	• Confirmation of the final budget requirement for delivery of the Cromwell Road, Pitwood Park and Lee Street developments following recent tendering of works. • Confirmation of ongoing funding requirement for grants to Prevent Repossession
Housing Delivery Strategy	• Conformation of the Council's proposed funding contribution for delivery of Housing Delivery Strategy objectives. • Options for investment of £30 million over the three years 2020/21 to 2022/23 are currently being explored.
Community Partnerships	• Conformation of the capital funding allocation that will be necessary to support Community Centres transformation – the investment requirement will be confirmed as part of the review that is currently underway • Conformation of the capital funding allocation requirement for ongoing CCTV investment
Wellbeing & Intervention	• Conformation of the capital funding allocation to support future development of facilities at the Harlequin theatre – details to be confirmed as part of business plan development for the facility.
PLACE SERVICES:	

Table 11: OTHER CAPITAL GROWTH PROPOSALS	
Service Area	**Potential Capital Growth Proposal**
Place Delivery	• Preston Regeneration – confirmation of ongoing capital investment requirements – funded through a CIL allocation as part of the Strategic Infrastructure Plan (SIP). • Marketfield Way development - confirmation of the final budget requirement for delivery of the scheme following the recent programme review
Environmental Sustainability Strategy	• Confirmation of capital investment requirements through work that is underway to develop the Strategy.
Neighbourhood Services	• Confirmation of ongoing requirement for capital expenditure on depots, vehicles & plant, air quality monitoring equipment, contaminated land investigations, flood prevention works, play areas, parks and countryside maintenance, car park works.

80. For some capital schemes there may be a requirement for further reports to Executive, when the outcome of tendering is known and costs are confirmed, where there is a significant cost variance compared to the original capital allocation.

Capital Programme Funding

81. Sources of funding for the 2019/20 Capital Programme are summarised below:

Table 12: CAPITAL FUNDING	
Capital Reserves	• Previously the Council benefitted from access to significant capital reserves following the sale of its housing stock. Over recent years these reserves have been utilised to invest in the capital programme. The remaining balance was less than £0.700 million at March 2019. • No significant new capital receipts are anticipated from asset sales in the near future
Capital Receipts	• Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing
Capital Grants & Contributions	• Forecasts of the future grant funding allocation for Disabled Facilities works will be included in the January budget report
Prudential Borrowing	• The primary source of funding for the Capital Programme is now prudential borrowing from the Public Works Loans Board (PWLB). • Loans are managed through the approved Treasury Management Strategy and policies. • Interest on borrowing is paid to the PWLB and charged to the annual revenue budget along with the Minimum Revenue Provision that is necessary to set aside funds for repayment of the loan principal. These costs have to be taken into account when setting a balanced annual budget. • There are increasing restrictions on the type of capital expenditure that is eligible for prudential borrowing. Borrowing to fund investment solely for commercial gain is not permitted.

Capital Programme – Revenue Budget Implications

82. As explained above, the Council no longer has significant capital reserves, therefore, while a small number of schemes will be continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets.

83. Treasury management budgets will be updated to reflect the costs of borrowing for the approved Capital Programme for 2020/21 onwards net of interest on forecast balances. Details will be confirmed in the Treasury Management Strategy for 2020/21 that is reported to Executive and Full Council for approval in March/April each year.

BUDGET SETTING TIMETABLE

84. The timetable for approval of the 2020/21 budget is summarised below:

7 November 2019	Executive	Agree provisional service budget and Capital Programme proposals
21 November 2019	Overview and Scrutiny	Budget Scrutiny Panel review
16 January 2020	Executive	Budget Scrutiny Feedback
30 January 2020	Executive	Approve final Budget and Council Tax Proposals – including Central Budgets and final Capital Programme
13 February 2020	Full Council	Approve Final Budget and Council Tax Proposals

OPTIONS

85. Service & Financial Planning: the following options are available to the Executive:

    a) Approve the proposed budget and financial planning changes set out within the report, for consultation under the terms of the Constitution. This option is recommended for approval, to ensure that our service and financial plans are agreed in good time to adopt a balanced budget for 2020/21.

    b) Only approve some of the proposed budget and financial planning changes set out within the report, for consultation under the terms of the Constitution. This option is not recommended, as it would undermine the service plans and would present a budget gap for 2020/21.

    c) Reject the proposed budget and financial planning changes set out within the report, and request that further work be undertaken to develop new proposals for consultation under the terms of the Constitution. This option is not recommended as it would delay the budget consultation process, undermine service planning and leave the Council and risk of failing to adopt a balanced budget for 2020/21.

86. Council Care Leavers Discount: the following options are available to the Executive:

    a) To adopt the proposed discount of 100% for care leavers up to age 25.

b) To reject the proposed discount of 100% for care leavers up to age 25.

LEGAL IMPLICATIONS

87. Service & financial planning: There are no direct legal implications arising from the recommendations in this report subject to the Council adopting a balanced budget for 2020/21 by 11 March 2020 to meet the requirements of the Local Government Finance Act 1992.

88. Council Tax Care Leavers Discount: there are no direct legal implications arising from the recommendations in this report.

FINANCIAL IMPLICATIONS

89. Service & financial planning: these are addressed throughout the report.

90. Council Tax Care Leavers Discount: the forecast reduction in income receipts is not significant and will be factored into Collection Fund estimates.

EQUALITIES IMPLICATIONS

91. An Equalities Impact Assessment of service planning proposals has been undertaken and is provided as a background paper to this report.

92. This is based on the best information available at the time of writing; however it is important to note that where individual changes, projects or policies are being developed, equalities impact assessments will need to be carried out by the responsible officer(s) and considered by the decision maker(s).

93. A large proportion of the growth sought is staff costs, loss of property income and increased operating costs. Some growth is sought to progress with service reviews, changes or expansion. The Equalities Impact Assessment concludes that a number of these have the potential to deliver positive benefits for those with protected characteristics, and these opportunities should be explored further as work on these specific projects continues.

94. It will however be important that equalities considerations are properly as this work is taken forward, for example:

- Proposals for channel shift could have a negative impact for those who find it difficult to access online services. This potential negative impact can be mitigated by ensuring that that assistance or alternative forms of contact are available.

- In identifying a vision for the long term operation and maintenance of the Council's community centres and a new business plan for the Harlequin Theatre, it will be important that consultation is undertaken with user groups and those with protected characteristics, and that a detailed equalities impact assessment is carried out to ensure the needs of protected characteristic groups are properly considered.

- Changes to the physical environment due to regeneration / construction works could impact on those with mobility difficulties or physical or other disabilities. This potential negative impact can be mitigated by applying sensitive construction

practices and clear communication in advance of and during construction activities.

95. Council Tax Care Leavers Discount: the proposal provides financial benefits to care leavers through a reduction in their household costs as they establish independent living arrangements.

COMMUNICATION IMPLICATIONS

96. Service & financial planning: The Council continues to offer value for money for Council residents – in 2019/20, the average household pays just £4.37 per week to the Borough Council in Council Tax, which pays for the wide range of services that the Council delivers, including household waste and recycling collections, street cleaning, greenspaces maintenance, leisure and community centres, and statutory and regulatory services such as licencing, environmental health and planning.

97. Central to Council's communications and engagement strategy is not only to promote the good work that the Council does and the great services it provides, but also to make sure that our annual service and financial planning process reflects what our residents and businesses need. The development of the new Five Year Corporate Plan has been supported by extensive consultation with residents and other partners to ensure that our priorities remain relevant up to 2025.

98. Council Tax Care Leavers Discount: information about the discount will be made available to eligible taxpayers and published on the Council's website. It will also be publicised through the County Council teams that support care leavers.

RISK MANAGEMENT CONSIDERATIONS

99. Service & financial planning: The service and financial plans contained within this report are aimed at minimising risks and ensuring that the Council continues to deliver great services whilst managing budgets and other resources well. The Medium Term Financial Plan and Capital Investment Strategy include analyses of forecast budget risks and the mitigating action that is planned.

100. The Council has strong risk management arrangements in place to ensure that any risks are identified and managed, with regular performance reports provided to the Overview & Scrutiny Committee and the Executive.

101. The risks relating to the long term financial sustainability of the Council remain on the strategic risk register, and as such controls and mitigating actions are regularly reviewed. Property investment, which is a key aspect of securing our long term financial sustainability and can be affected by wider macro-economic circumstances, is a strategic financial risk for which controls are in place and mitigating actions being implemented.

102. Other strategic risks, which the Council recognises need to be managed relate to partner organisation's decisions in relation to future funding and recycling credits.

103. Council Tax Care Leavers Discount: there are no significant financial risks associated with this proposal.

HUMAN RESOURCE IMPLICATIONS

104. Service & financial planning: delivery of significant savings in previous years resulted in staffing reductions and a substantial reduction in the salary budget. Continuing to make these kinds of efficiencies is no longer sustainable without impacting on the

quality of service delivery. Conversely, the Council will need to grow in the future if the Council is to succeed in our ambitious approach to becoming self-sufficient. The Council will need the capacity and skills to enable the organisation to diversify and to become more commercial, whilst also expanding our service provision as outlined in the earlier sections of this report.

105. The service and financial planning proposals for 2020/21 result in a net increase in FTE of 41.5. This includes the 15.0 posts that are transferring back to the Council's workforce following the decision to bring Community Centres back in-house.

Table 13 – Staff Establishment - FTE Movements 2019/20 to 2020/21		
STAFF ESTABLISHMENT 2019/20 (including fixed term posts)		**487.5**
Posts Funded Through CPDF - Approved During 2019/20:		
Project Manager ICT	1.0	
Technical Analyst ICT	1.0	
Open Space Development Manager	1.0	
Community Centres Transformation Manager	1.0	
HR Improvement and Efficiency Recruitment Post	1.0	
		5.0
UPDATED STAFF ESTABLISHMENT 2019/20		**492.5**
Base Budget Growth Proposals 2020/21 - Transfers In/Out		
Community Partnerships - Community Centres (Staywell)	15.0	
Neighbourhood Services - Car Parking	(2.5)	
		12.5
New Posts to be Created as part of 2020/21 Service & Financial Planning Growth		
Finance Apprentice	1.0	
Property Services Manager	1.0	
ICT Posts	3.0	
Waste and Recycling New Crew	3.0	
Fleet Training Officer and Apprentices	3.0	
Communications and Customer Contact	2.0	
Project and Business Assurance	1.0	
Economic Prosperity Officer	1.0	
Human Resources Posts	2.0	
Harlequin Casual Staff	6.0	
Wellbeing and Intervention Team Leader and Refugee Co-ordinator	2.0	
Environmental Health and Licencing Posts	4.0	
		29.0
Movement in Fixed Term Roles (funded through CPDF) in 2020/21		
Economic Prosperity	(1.0)	
Human Resources	1.0	
		0.0
STAFF ESTABLISHMENT 2020/21		**534.0**
NET INCREASE		**41.5**

106. The Council's final budget proposals and Medium Term Financial Plan forecasts will includes an assumption for an annual cost of living pay award for staff. This award is subject to negotiations with staff representatives and will depend on a variety of factors, including economic conditions, inflation levels and staff recruitment and retention considerations.

CONSULTATION

107. Service & financial planning: Consultation will be carried out in line with the Council's budget and policy framework. This includes consideration by the Overview & Scrutiny Committee.

108. The Overview & Scrutiny Committee has established a Budget Scrutiny Panel to support this work. The Panel is scheduled to meet on 21 November. It is anticipated that the Panel's report will be considered by the Overview & Scrutiny Committee on 11 December. Any comments or recommendations will be reported to the Executive meeting on 16 January 2020.

109. Section 65 of the Local Government Finance Act 1992 requires the Council to consult representatives of those subject to non-domestic rates in the borough about its proposals for expenditure for each financial year. This will be done through activities coordinated by the Economic Prosperity Team, including business networking events and using the Council's business e-newsletter.

POLICY FRAMEWORK

110. Service & financial planning: The budget proposals within this report form part of the Council's budget and policy framework. The annual budget is developed to ensure that the Council can deliver the Corporate Five Year Plan and services to residents and businesses.

111. Council Tax Care Leaver Discount: The proposal supports the Council's priority of providing targeted and proactive support for our vulnerable residents.

Background Papers:

Empty Homes Policy, report to Executive on 18 April 2019

Medium Term Financial Plan Update, report to Executive on 18 July 2019

Capital Investment Strategy 2019/20, report to Executive on 19 September 2019

List of Annexes:

1 Policy Context

2 Medium Term Financial Plan Summary

3 Revenue Budget Savings, Additional Income and Growth Proposals

4 Capital Investment Strategy Summary

5 Capital Programme Growth Proposals

6 Fees & Charges Policy

7.1 Revenue Reserves at 31 March 2019

7.2 Reserves Policy

This page is intentionally left blank

POLICY CONTEXT

The international, national and sub-national context in which the Council will need to operate in 2020/21

International Context

Brexit:

1.1 Brexit represents probably the greatest international uncertainty currently facing the Council. The potential impact of Brexit on the UK and EU economy will shape the context for (and role of) Local Government. Once finalised, the any negotiated Brexit package, or lack thereof, may influence future trade patterns, foreign direct investment and the nature of the labour market. It may also result in changes to the regulatory framework for some Council services (for example in relation to waste).

1.2 At the time of writing, the precise nature of the potential Brexit impact is unknown; the current political debate leaves it uncertain how or when the UK will exit the EU. As of 28 October 2019, an in principle extension to the negotiating period, delaying the UK's formal exit from the EU until up to 31 January 2020, has been agreed. This is however a flexible extension, and the UK could therefore potentially leave at any point between 31 October and 31 January. At this stage, it is therefore remains unclear what the potential economic and policy implications will be for the borough, but we are continuing to work with government, local businesses and the local resilience forum to put the borough in the best possible situation to respond.

1.3 In addition to the future impact of Brexit; the ongoing negotiations and political challenges have diverted considerable Government/Civil Service resources, meaning that progress on other Government projects (such as the Fair Funding Review and Business Rates reform) has been slower that might otherwise have been the case. This slowdown is likely to continue until the uncertainty around Brexit is resolved, and throughout any transitional stage.

The Global Economy:

1.4 More generally, the international financial markets and the worldwide geopolitical landscape will influence future global economic conditions, oil prices, inflation rates and interest rates. These in turn impact on national economies and on the nature of the demands placed on the Local Government sector.

1.5 Following the financial crisis of 2008, the world has generally experienced a period of sustained growth. There have however been a number of recent warning signs in the global economy, which have previously correlated with impending downturns. In a global context of increasing trade tensions, constrained monetary policy, and increasingly adverse impacts of climate, a degree of caution is therefore warranted when considering the global economic outlook.

The Environment and Climate Change:

1.6 The planet continues to experience a wide range of threats to the environment, including air pollution, waste plastics, loss of habitats & biodiversity, water scarcity, and, in particular, global warming and climate change. Where these continue unaddressed, they present significant risks to the continued security and quality of

many people's lives.

1.7 Regarding global warming and climate change, there is a near-consensus that the world will need to reduce its net carbon emissions significantly in the near future, or face increasingly adverse consequences. The Paris agreement, adopted by the UK and 195 other countries in 2015, sets out an action plan to address this need and limit global temperature increases.

National Policy Context

1.8 The overarching national policy context in the past decade has been central government's programme of austerity. Whilst moderated somewhat from its initial conception, and more recently overshadowed in the public consciousness by Brexit, the underlying reduction in public spending has increased the demands upon local authorities, whilst simultaneously reducing the resources they have available. UK Government funding for local authorities is estimated to have decreased by almost 60% between 2010 and 2020.

1.9 More recent policy proposals from both the government and opposition parties have intimated a shift in attitudes and the potential for restoring some of the reduced support for public services. However, it remains to be seen when, or if, such a change might be implemented.

1.10 The 2019 government spending review delivered some minor increases in government departmental spending, but real spending remains well below pre-2008 levels. The expected longer term spending review has been repeatedly postponed and has yet to be completed. Given the current focus on Brexit and associated political concerns, any broader changes to policy may well take some time to enact.

Industrial Strategy:

1.11 The Government's Industrial Strategy recognises the importance of continued economic growth, particularly in a post-Brexit world. It focuses on promoting innovation; jobs; infrastructure; business support and building prosperous communities and will shape the Government's approach to its investment in business and enterprise, and infrastructure, including at the sub-national level (see below).

Welfare Reform:

1.12 In line with wider austerity measures, previous Governments implemented reductions to most social security payments, such as Child Tax Credit and Working Tax Credit, in both real and sometimes nominal terms. Reductions and freezes to the Benefits Cap and Local Housing allowance rates for under 35s have particularly impacted on families and young people's ability to pay rent (exacerbated by 'affordable housing' rents now being linked to market rates).

1.13 Universal Credit, combining a range of previous benefits, continues to be rolled out nationally and has been being implemented in Reigate & Banstead since October 2018. As has been the case in most areas where the scheme has been implemented, this has presented some challenges for recipients and the Council, which the Council has been working to address. As part of the actions taken to mitigate this risk, the Council has introduced a Money Support Service to advise residents and help prevent them encountering financial difficulties.

Housing and Homelessness:

1.14 The continued roll out of Universal Credit and other welfare changes continue to present affordability challenges when accessing housing that is affordable locally.

1.15 The Homelessness Reduction Act, which expanded our duties to assist those at risk of homelessness, is now in its second year. The Council received three years of ring-fenced funding from Government in 2017 towards preparing for and implementing the new legislation, although there remains a question mark over longer term funding.

1.16 More generally, housing affordability in the Borough is such that local residents and young families on even moderate incomes are unable to afford to buy their own home. Figures from Land Registry report the average house price in the borough is £513, 836; this equates to over 10 times the local average income and well above the national average of £233,181. House prices in the borough have largely plateaued in recent months, but wages would still need to increase significantly to meaningfully improve affordability for many.

1.17 To work to address these issues, the Council is developing a Housing Delivery Strategy to help enable the development of more housing that is more affordable to local people in the borough. Whilst the scale of the overall housing affordability challenge is beyond the resources available to the Council, this strategy will help drive work to improve the local housing context.

Planning:

1.18 Housing and homelessness issues are exacerbated by high house prices, a limited supply of new homes coming onto the market and a lack of genuinely affordable housing being built. The Government has clearly stated its ambition that the country should build more homes, and has introduced a range of initiatives to 'unlock housing'.

1.19 New national planning policy expects a much increased level of housing to be delivered. Unless carefully managed through the Local Plan-making process, this risks having a detrimental impact on our environment, infrastructure and local communities.

1.20 The Council's Core Strategy was reviewed earlier this year, and was deemed to continue to be up to date for the purposes of planning decision-making across the borough, and the new Development Management Plan was adopted in September 2019. Together, these form the Council's Local Plan and as such, local planning decisions will continue to be made in line with its requirements, objectives and policies.

The Property Market

1.21 The property market growth has slowed somewhat in the wake of the Brexit referendum, the 2017 General Election and ongoing Brexit preparations. With real wages relatively stagnant, and interest rates already close to record lows, the limited capacity for new buyers to borrow at greater levels may also be limiting further growth in the market.
This is notable in both house price growth plateauing and the commercial retail market slowing considerably; although the lack of supply is keeping house prices relatively high in the area and the commercial office market remains buoyant. Notwithstanding this, the property market (and thus the income generated from Council assets) remains vulnerable in light of the ongoing Brexit negotiations and

global economic circumstances. As such this is included in our strategic risk register, which is regularly reviewed and for which controls and mitigating actions are in place.

Recyclate Markets

1.22 Our recycling service generates significant income for the Council, as materials are sold to processing plants. The price for recyclates is, however, impacted by the international markets. Demand from large economies (e.g. China) drives prices for materials, so when growth in these markets falters, the price for materials also reduces. Demand for plastic materials is impacted by the international oil market. When the oil price is lower (as in recent years) it reduces demand, and thus the market price for, plastic. Given uncertainties around Brexit and wider trade tensions, this remains a potential risk area.

1.23 Our income projections for recyclate income are reviewed regularly through the Council's service & financial planning and budget monitoring process recognising that this is an external financial risk for the Council. Market fluctuations have, in the past, led to large reductions in the Council's income from recyclates. Although the market currently appears to be stable, this remains an area of uncertainty that needs to be addressed in our service and financial planning.

The Environment and Climate Change

1.24 At a national level, the UK recently amended the Climate Change Act 2008 to commit the country to a target of net-zero greenhouse gas emissions by 2050. This is supported by a range of current and emerging legislation, including a requirement for all new cars to be zero emission by 2040. There continues to be debate over whether the current targets are sufficiently ambitious, or if action to reduce emissions needs to be accelerated.

1.25 Some sustainable industries are now performing particularly well in the UK, with electricity from renewable energy overtaking that from fossil fuels for the first time in the last quarter, and power from offshore wind generation becoming available at cheaper rates than current wholesale energy prices. If this continues, there may be additional opportunities to move to more sustainable models in a range of areas.

1.26 The government has recently published a new environment bill. If adopted, it would establish a new independent watchdog, the Office for Environmental Protection. This would be intended to hold the government to account on environmental issues, particularly in the case of the UK leaving the EU and thus no longer being bound by associated commitments.

Sub-National Context

Health & Wellbeing and Social Care:

1.27 Healthcare is a national issue, but one that manifests itself at a sub-national and local level. Continuing funding and capacity issues across the National Health Service, as well as demographic change, will increase residents' call on local services, and our most vulnerable residents will remain most at risk from these changes. The Council needs to be alert to these changes as it may impact on the services this organisation needs to provide. As such, partner decisions is recognised as a strategic risk which is regularly reviewed and for which controls and mitigating actions are in place.

1.28 An increasing focus of the health community in Surrey is around the wider

determinants of health. This is reflected in the Surrey Health and Wellbeing Strategy which was approved by the Surrey Health & Wellbeing Board in 2019. This recognises that a wide range of activities carried out by the Council (and our partners) impact on and influence the wellbeing of our residents, including planning, greenspaces, leisure, community development activities, housing and family support, business support, environmental health and licensing. Current financial constraints make it more important that wellbeing is considered in a holistic way in the future. The Council is currently preparing a Wellbeing Strategy to set some parameters to this aspect of our work in line with our Corporate Plan.

Transport and Infrastructure:

1.29 Funding and delivering the transport infrastructure needed to support growth remains a challenge, and one which lies largely outside the control of the Borough Council. A sub-national transport body (SNTB) for the south east, Transport for the South East, has been established and is working to develop a strategic transport approach. Pending approval of associated funding, this body will have devolved responsibility for transport in the region.
However, the criteria for transport investment used by the government and other agencies render it challenging to justify transport spending in a relatively prosperous area such as Reigate & Banstead, presenting challenges for sustaining the required capacity and increasingly, central Government funding for infrastructure is linked to the delivery of large amounts of housing (the scale of which would be challenging in a constrained Borough such as this one). At the same time, spending on the local highways network is being reduced by Surrey County Council.

1.30 The Council now collects the Community Infrastructure Levy, with some initial priorities for spending having been agreed by the Executive. However the funds that this Levy generates will not be sufficient to plug the infrastructure gap, which the most recent Surrey Infrastructure Study estimates at £96m for Reigate & Banstead.

1.31 In terms of aviation, Gatwick Airport has now formally announced its intention to bring the existing standby runway into use for some regular flights. This will require a Development Consent Order from Secretary of State, following an enquiry by the Planning Inspectorate. The Council will be consulted at various stages in this process, and is working with other surrounding Councils to consider priorities for the area. Any expansion to the airport will have consequences for the borough in terms of increased surface transport activity and economic factors, along with the direct impacts of additional flights.

1.32 Policy support for the expansion of Heathrow Airport has now been formally agreed by Parliament, although its construction is still a considerable way off. Whilst not as near to the borough as Gatwick, we will also be responding to consultations around the potential implications to residents and the local area from overflight noise, surface transport, and other matters.

1.33 The Government is preparing a new Aviation Strategy which will set out the long term direction for aviation policy to 2050 and beyond - this will undoubtedly have some impacts for authorities in the vicinity of major international airports (such as Reigate & Banstead). In the meantime, it has confirmed that it is supportive of all airports making best use of their existing runways.

Economic prosperity:

1.34 Reigate & Banstead falls within the Coast to Capital Local Enterprise Partnership

(LEP) and sits at an important strategic location within both the LEP area, and the Gatwick Diamond. The LEP published its new Strategic Economic Plan in summer 2018, which set out its priorities for economic growth and investment in future years. This will be the basis of negotiations between the LEP and Government about a new Local Industrial Strategy for the area and associated economic development funding for the sub-region. The LEP has provided funding towards the Horley Business Park development.

1.35 It will be important that the Council continues to work in partnership with the LEP to promote the area as a place to do business, and to lobby for Government investment in the infrastructure required to support this.

The Environment and Climate Change

1.36 Surrey County Council published an environmental sustainability policy statement in 2017, and recently declared a 'climate emergency'. Other nearby local authorities have also recently made a range of commitments to address climate change and other environmental considerations. There will be opportunities to consider how this Council can best work with these partners to progress our own approach to these matters.

MEDIUM TERM FINANCIAL PLAN SUMMARY
2020/21 to 2024/25
November 2019

Introduction

This Medium Term Financial Plan (MTFP) is a summary of our key financial information, including the budget challenges that we face over the period 2020/21 to 2024/25 and our approach to addressing them.

It sets out our approach to establishing a sustainable financial base to support delivery of our policies and priorities. It also highlights the financial risks and issues which have to be tackled, including ongoing reductions in Government funding.

In July 2019 the Executive approved the latest version of the MTFP. This document refreshes and updates the key elements of the MTFP in anticipation of service & financial planning for 2020/21.

1. CIPFA Financial Management (FM) Code

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The CIPFA FM Code was therefore introduced in October 2019 and will be applicable from 1 April 2020. Work will be undertaken as part of 2020/21 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified.

CIPFA explain that reasons for introducing the Code include: '… the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely….'.

The Code has several components, comprising:

- An introduction explaining how the FM Code applies, a principles-based approach and how it relates to other statutory and good practice guidance on the subject.
- The CIPFA Statement of Principles of Good Financial Management, the benchmarks against which financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.
- The FM Code then translates these principles into financial management standards which will have different practical applications according to the circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the code, reflecting the non-prescriptive approach adopted by CIPFA.

The Principles focus determining whether, in applying standards of financial management, a local authority is financially sustainable. They cover:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The supporting financial management Standards are summarised in the table below:

Table 1: CIPFA Financial Management Standards	
FM Standard Reference	
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
E	The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

Table 1: CIPFA Financial Management Standards	
FM Standard Reference	
Section 4: The annual budget	
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
Section 7: External financial reporting	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

2. Medium Term Financial Plan Context

The Economy and Public Spending

There remains considerable uncertainty in financial and economic forecasts. In September 2019 the Office for Budget Responsibility (OBR) reported

- *Public sector net borrowing (PSNB) is estimated at £9.4 billion in September, £0.6 billion higher than a year earlier. It has risen in five out of six months so far in 2019-20.*
- *Year-to-date borrowing was up £7.2 billion (21.6 per cent) on the same period last year. In our March forecast (including our estimate at the time of the student loans methodology change), we assumed a £7.2 billion (21.8 per cent) rise in borrowing for 2019-20 as a whole. Stronger than expected spending growth is driving the faster rise in the deficit.*
- *Central government receipts (excluding PSNB-neutral transfers related to 'quantitative easing') were up 6.9 per cent in September. Year-to-date receipts*

growth of 3.6 per cent is above our March forecast of a 2.6 per cent rise in 2019-20 (on a like-for-like basis).

- *Central government spending (excluding PSNB-neutral grants to local authorities) was up 7.4 per cent in September and 5.4 per cent for the year to date, well above our March forecast of a 3.3 per cent rise in 2019-20 (on a like-for-like basis).*
- *Net debt was 1.2 per cent of GDP lower in September 2019 than a year earlier.*

In August 2019 the council's Treasury advisors (Link Asset Management) observed:

- *The risk of a UK recession was evidenced by the 0.2% q/q contraction of GDP growth in Q2 and the weak August PMIs, but economists are confident that Q3 should prove better, and recession averted.*
- *The early holiday closure of car production in April means that the usual negative impact seen in August will not be felt this year, which should provide a sufficient boost to ensure that growth does not decline. However, looking ahead, performance will be defined by Brexit.*
- *While a "no deal" may not happen at the end of October, this might still only be kicking the can down the road to January if an extension to the process is requested/granted. If a deal can be achieved then the economy will just be at the mercy of the state of the global economy, but if a "no deal" proves the only way to exit the EU then there could prove to be more serious concerns.*

Interest Rates

The base rate remains at 0.75% (October 2019). Average forecasts continue to predict a sustained increase; however Brexit continues to create uncertainty.

Table 2 **Forecast Interest Rates**	**Dec 2019** **%**	**June 2020** **%**	**Dec 2020** **%**	**June 2021** **%**
Forecast Bank Rate	0.75%	0.75%	1.00%	1.00%

Source: *Link Asset Management October 2019*

Inflation

The rate of inflation (as measured by the Consumer Price Index - CPI) currently falls within the Bank of England target of 2%.

Table 3 **Forecast Inflation (CPI)**	**2019/20** **%**	**2020/21** **%**	**2021/22** **%**	**2022/23** **%**	**2022/24** **£%**
Forecast CPI	1.9%	2.0%	2.09%	2.1%	2.1%

Source: Forecasts for the UK Economy: A Comparison of Independent Forecasts
[Compiled and published by HM Treasury August 2019]

Economic Growth

Economic growth – as measured by Gross Domestic Product (GDP) - is forecast to rise over the next five years.

Table 4 **Forecast Growth**	**2019/20** **%**	**2020/21** **%**	**2021/22** **%**	**2022/23** **%**	**2023/24** **£%**

Forecast GDP Change	1.2%	1.3%	1.6%	1.7%	1.8%

Source: Forecasts for the UK Economy: A Comparison of Independent Forecasts [Compiled and published by HM Treasury August 2019]

Service & Financial Planning: Government Funding Assumptions
For the purposes of preparing the draft 2020/21 budget the following has been assumed:

- No changes to total local government funding as a result of Spending Round19
- Funding changes delayed to 2020/21. This means that
  - Fair Funding Review will reduce our Government funding by £1.5m ('negative RSG')
  - the Reset of Business rates will reduce our funding by £0.7m
- No transitional funding arrangements
- Council taxbase growth of c1.00% per annum and council tax increases capped at a maximum of 1.99% or £5
- Funding from New Homes Bonus may not continue (and to remain outside our budget calculations)

3. Budget-Setting Priorities 2020/21

The Priorities that will be taken into account when preparing the draft budget for 2020/21 are set out below:

- To ensure resources are aligned with the emerging **Corporate Plan priorities**
- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position
- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council
- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs
- To ensure a long term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams

- To maintain an adequate and prudent level of **reserves** and regularly review their planned use and allocation to support delivery of our priorities.

Value for Money
We will assess and challenge the value for money (economy, efficiency and effectiveness) provided by each service through the service & financial planning process.

Information about our performance compared to other councils across a range of published measures is published on the LGA website at https://lginform.local.gov.uk/

4. Council Tax

Decisions around the annual council tax increase and taxbase growth are two key variables in the MTFP.

Although this is a significant funding source, it remains subject to restrictions by Government. The Localism Act included a requirement to hold a local referendum if any council tax increase is deemed 'excessive' and this level is expected to be set at 2.0%.

MTFP forecasts are currently based on an assumed council tax increase of 1.99% per annum; this will be subject to a political decision in February 2020, dependant on circumstances at that time.

The forecast amount of council tax to be collected takes into account local decisions on discounts, exemptions and reliefs and the local council tax support scheme.

Council Tax 2019/20
Reigate & Banstead's share of the council tax for 2019/20 increased by 2.99%. The respective shares of the main precepting bodies is set out below.

Table 5 **Council Tax 2019/20**	**Band D** **£**	**%**
Reigate & Banstead	227.46	12%
Surrey County Council Precept	1,481.71	75%
Surrey Police & Crime Commissioner Precept	260.57	13%
Council Tax Total	**£1,941.53**	**100%**

Council Tax Options 2020/21
Each 1% increase in Council Tax generates £137,000 additional income for this borough.

5. Business Rates (National Non-Domestic Rates)

In 2013, the Government introduced a scheme through which local authorities retain a proportion of any business rates growth above a set 'baseline'. The purpose was to give authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth.

While this scheme was broadly welcomed by the sector, there remain concerns over the potential volatility of this income stream due to the level of appeals; even a small variation in the overall revenue generated can result in a significant financial impact.

The Government is currently undertaking a review of how business rates will operate going forward and has stated its intentions to achieve 75% localisation of business rates from 2021.

The full impact of this will only become clear later during 2019/20 as proposals are developed. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

6. New Homes Bonus

The New Homes Bonus was introduced in 2011/12. Authorities are rewarded with a financial bonus, equal to the national average council tax on each additional property built which is paid for a number of years as a non-ring fenced Government grant. 80% of the Bonus is paid to the district council and 20% to the county council. here is an enhanced payment for new affordable homes.

New Homes Bonus was revised for the 2017/18 financial year with the length of time it is paid reducing from six to five years (for the 2017/18 award) and to four years from 2019/20 onwards. A new 'baseline' of +0.4% growth was also introduced before any Bonus is paid. The retained funds were used by the Government to support authorities with adult social care responsibilities.

The Government has set out its intention to end New Homes Bonus as part of the Fair Funding Review. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail remains unclear.

To date we have set aside this funding in an Earmarked Reserve which may be used for any purpose.

7. Medium Term Financial Plan Forecast 2020/21 onwards

Revenue Budget-Setting Assumptions 2020/21

The following assumptions will be used during service & financial planning over coming months when preparing the draft budget estimates for 2020/21:

Council Tax	• To increase by the referendum limit • Plus an increase due to growth in the taxbase of 1% per annum • The impacts of local discounts, exemptions and the local council tax support scheme will be taken into account when preparing income forecasts.
Government Funding	• Fair Funding Review is expected to reduce our Government funding by £1.5m ('negative RSG') in 2021/22
Retained Business Rates Income	• The Reset of Business Rates is expected to reduce our funding by £0.6m in 2021/22
Fees & Charges	• For budgeting purposes it is assumed that fees and charges will increase in line with the Fees & Charges Policy.
Investment Income and Borrowing	• Investments and borrowing will be forecast in line with forecast balances (reserves) and capital investment plans
Pay Inflation	• As a minimum all Council pay scales are now at or above the Real Living Wage • An allowance for a pay award will be included in the draft budget, in addition to forecast contractual pay increases. • This provides the option for pay rises but the specific rate of increase will be subject to established consultation processes.
Employer Pension Costs	• The latest actuarial review of the Surrey Local Government Pension Fund was as at 31 March 2016; the outcome has been profiled into the budget for the three years to 2019/20. • The 2016 valuation confirmed that the Fund's total assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of liabilities (ie. the present value of promised retirement benefits) accrued up to that date. The resulting total Fund deficit at the 2016 valuation was £679 million. • Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual

	employers' contributions for April 2017 to March 2020 were set in accordance with this requirement. For Reigate & Banstead this is based on a 15% payroll oncost charge plus a £1.963m lump sum annual deficit payment. • The next actuarial review will be at 31 March 2019 and any budget implications will be built into budgets for 2020/21 onwards. The outcome of the revaluation will be reported by the Pension Fund later this year. • National consultation is currently in progress regarding moving to a four-year revaluation cycle going forward.
Price Inflation	• The general assumption is that services should first seek to cover price inflation from their existing budgets, unless tied contractually to significant cost increases that warrant additional funding.

8. Medium Term Financial Plan Risks & Sensitivities

The Council's Strategic Risk Register contains the following risks:

- *The Council receives no Revenue Support Grant from Central Government. While council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure.*

- *The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice.*

- *The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.*

Details of the mitigating actions are set out at Appendix 5.

Operational Risk Register – Budget-Setting
The principles and assumptions contained within this MPFP are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

Individual revenue and capital budget proposals will be subject to risk assessment as part of the service & financial planning process.

The Council, in common with most local authorities, continues to be at risk from a range of financial risks. They include:

Perceived Risk	Impact	Likelihood	Preventative Action
Failure to remain up to date with changes in relevant legislation, regulations and guidance	High	Low	Ensure that all relevant information is taken into account when producing MTFP and budget forecasts.
Changes in legislation affecting the scope of services and the cost of carrying them out	Medium	Medium	Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
Local Government Financial Settlement worse than forecast	High	Medium	Model a range of MTFP and budget scenarios and strategies.
Outdated MTFP assumptions Significant variations due to economic factors	High	Low	Regularly review and update assumptions.
Inaccurate budget assumptions	High	Medium	Regularly review and update assumptions.
Unexpected financial events	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Deliverability of new income streams against forecast timescales	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Demographic and demand-led pressures	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Reduction in existing fees & charges income	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Contract risks e.g. contractor viability, non-delivery	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks. Maintain regular contact with Heads of Service regarding developments that have potential financial implications.

Sensitivity Analysis
A small change in key underlying assumptions can produce a significant change in the budget.

Table 6 **Sensitivity**	**Change**	**Estimated annual impact £000**
Business Rates Income	+/- 1%	£8k
Staff Costs	+/- 1%	£220k
Non-Pay Costs	+/- 1%	£80k
Council Tax/Taxbase	+/- 1%	£138k

APPENDICES

1. Strategic Financial Risks

ANNEX 2

APPENDIX 1

EXTRACT: STRATEGIC RISK REGISTER
STRATEGIC FINANCIAL RISKS

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
SR2	Financial Sustainability The Council receives no Revenue Support Grant from Central Government. While council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure. The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice. The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.	PM Portfolio Holder: Cllr Schofield	We will be preparing updated Medium Term Financial Plan (MTFP) Revenue Budget forecasts and a five-year Capital Programme during service & financial planning for 2020/21 onwards. These will be used to confirm the extent of the financial challenges faced and support strategic service & financial planning decisions. We will implement the actions detailed in the Outline Capital Investment Strategy that was approved by Executive in April 2019. This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives.	We will continue to ensure that strong financial management arrangements are in place and continue to invest in skills and expertise to support delivery of the council's financial and commercial objectives while managing associated risks. During 2020/21, it is anticipated that new funding arrangements for local government will be introduced, This will follow on from the Fair Funding Review, Business Rates Reset and Comprehensive Spending Review, the outcomes of which and the impacts for this Council are not yet known. The Council is therefore expecting to be increasingly reliant on other sources of income, primarily from fees and charges and from its treasury and commercial investments.	**A**	**Treat**	**17.07.19**	

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
			We will implement the Treasury Management Strategy 2019/20 that was approved by Executive in April 2019. This will ensure that treasury investments achieve target returns within approved security and liquidity limits.	This risk was previously managed as SR1 – 'Long-term financial sustainability' on the Q4 2018/19 strategic risk register.				

This page is intentionally left blank

REVENUE BUDGET

SERVICE GROWTH, INCOME AND SAVINGS PROPOSALS 2020/21

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Simon Rosser	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Housing Benefit Administration	252,000	(155,700)	96,300	The grant provided by DWP to administer housing benefit is being reduced in 2020/21. Savings against other Revs & Bens budget headings have been identified in an attempt to mitigate the level of growth funding that needs to be requested. An income budget is being proposed in one area where no previous income target existed. Additionally some expenditure budgets can be reduced to more accurately reflect current/expected levels of spend.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Duane Kirkland	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Leisure Development	54,000		54,000	A permanent post (Team Leader), currently funded from reserves is being transferred into the base budget.
Harlequin - Employee Costs	215,000	(85,000)	130,000	A permanent post (Marketing Manager) and some Casual staff are being transferred into the base budget. Additionally, corrections to the historic budget are being made.
Supporting People Programme	70,000		70,000	Senior Refugee Coordinator (Business Case being prepared) - Working Value pending portfolio holder review of three options £0/£45/£80, plus a contribution towards Surrey-wide Gypsy and Traveller Unit costs @£25k.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Justine Chatfield	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Voluntary and Community Service Funding	20,000		20,000	There is a need to increase the revenue budget in order to reflect the outcomes of the recent VCS review.
Partnerships	39,200		39,200	Restructure costs funded from New Post Reserve in 2019/20
Community Centres	144,000		144,000	Additional costs associated with bringing the Staywell Community Centre contract in-house.
Community Development	76,400		76,400	Community Development Worker & restructure costs funded from New Post Reserve.
Partnerships & Wellbeing Business Support	43,200		43,200	Restructure costs funded from New Post Reserve in 2019/20

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Andrew Benson Peter Boarder	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Planning Policy	25,000		25,000	Consultancy fees associated with ongoing development and review of local plan evidence base.
Place Delivery	45,000		45,000	Anticipated reduction in Surrey CC contribution to staff costs due to new service structure.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Morag Williams	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Domestic Refuse Bin Collections		(10,000)	(10,000)	Additional income (including from the sale of waste containers).
Domestic Recycling General	85,000		85,000	An additional new crew is required to meet service demand from new homes and the roll-out of the flats recycling programme.
Commercial Waste Collections	260,000		260,000	Adjustment to income budgets to reflect actual levels of activity.
Commercial Recycling		(173,000)	(173,000)	Expansion of service and introduction of a new charging schedule.
Recycling-Paper		(100,000)	(100,000)	Recycling income is currently higher than expected although a contract review is likely to take place.
Garden Waste		(273,100)	(273,100)	The number of subscriptions is in excess of expectations.
Domestic Mixed Recycling	23,000		23,000	Adjustment to income budgets to reflect actual levels of activity
Fleet Management	80,000		80,000	1x Training Officer & 2x Apprentices.
Borough Improvements	50,000		50,000	Growth associated with the delivery of new Environmental Sustainability Studies.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Morag Williams	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Licensing	122,600		122,600	New posts resulting from changes to legislation.
Animal Welfare Licencing Fees and Charges		(19,000)	(19,000)	Income relating to animal welfare legislation not previously budgeted.
Food	16,000		16,000	Adjustment to income budgets to reflect actual levels of activity.
Section 46 Public Funerals	15,000		15,000	Growth sought to cover the increasing cost to the Council of public funerals (e.g where deceased / relatives have no means to pay).
Air Quality Monitoring Partnership	40,000		40,000	Movement in budget to reflect actual costs.
Joint Enforcement Team	6,000		6,000	Adjustment to income budgets to reflect actual levels of activity.
Housing Standards		(22,000)	(22,000)	Income from HMO & Caravan licences.
Car Parks	115,000		115,000	Loss of income due to Marketfield Way redevelopment.
Tandridge On Street parking	36,600		36,600	Loss of TDC parking contract.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Simon Bland	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Business Engagement	120,000		120,000	Includes £80k costs related to Towns & Villages Corporate Plan, £40k for an Economic Prosperity Officer.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Doula Pont Carys Jones Darren Wray Kate Brown	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Projects and Assurance	115,000		115,000	Additional Project Manager & planned changes to the team structure.
Customer Contact	28,000		28,000	Growth to address over-estimate of savings in previous budgets.
ICT Staffing & Systems Maintenance	301,000		301,000	Growth to fund increases in the cost of software licencing, other software costs, migration to cloud hosting & other revenue budget implications of capital investment in I.T strategy. 3 additional posts associated with service delivery.
Human Resources	202,300		202,300	Two previously-approved HR posts (an additional professional HR resource to support managers through organisational change and support managers with employee relations matters plus a professional resource focusing on improving the resourcing/recruitment approach for the organisation), one fixed-term post from CPDF (HR Systems/Data expertise to review the effectiveness of our HR processes and management reporting to inform better decision making for the organisation), one HR Apprentice (a total of 4 FTEs)

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Pat Main	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Accountancy	25,000		25,000	Level 4 Finance Apprentice post.

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Caroline Waterworth	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Property Rental Income	64,500		64,500	Net impact of detailed review of income & cost budgets for the property estate.
Property & Engineers' Overheads	184,800		184,800	Previously approved Property Services Manager post being moved into base (£81k) and costs related to newly identified backlog maintenance (£103.8k).

Service Revenue Budget Growth, Income and Savings Proposals 2020/21

Doula Pont Carys Jones	Budget Growth £	Additional Income / Savings £	Total of Proposed Changes £	Narrative
Chief Executive	5,000		5,000	Coast 2 Capital LEP contribution increase.
Communications	73,000		73,000	Previously approved Communications Manager (funded from 19/20 New Posts Reserve) & Graphics & Digital Media Officer (£10k).
Residents' Insight	10,000		10,000	Residents' Insight.

ANNEX 4

INDEX

FOREWORD

The Capital Investment Strategy ('the Strategy') sets out Reigate & Banstead Council's approach to capital investment. It builds on well-established decision-making structures and policies that support our investment ambitions that underpin our draft Corporate Plan, Reigate & Banstead 2025, which explains the Council's proposed priorities for the next five years, and explains how we will deliver services to those living, working and spending time in our borough. This includes things like how we will deliver leisure and housing services, neighbourhood services (including recycling and refuse collection), our plans to tackle climate change and how we will support our towns, villages and local businesses. The draft Plan has been developed looking at resident feedback, what is likely to change in the borough over the next five years and what our partner organisations are saying.

This Strategy forms an important part of our governance arrangements and provides a mechanism for prioritising our capital investment and financing plans, ensuring that decisions take account of stewardship, value for money, prudence, sustainability and affordability.

1. SUMMARY

The Capital Investment Strategy presents an overview of:

- how we plan to invest to meet the needs of the area and local residents in a sustainable manner, as set out in the Corporate Plan and other key strategies
- how capital expenditure, capital financing and treasury management activities contribute to the provision of services
- how the associated risks are managed; and
- how the implications for our future financial sustainability are assessed.

The Strategy is an integral part of our Policy Framework and integral to service and financial planning and should be read in conjunction with the Corporate Plan and supporting strategies, Capital Programme, Medium-Term Financial Plan, Treasury Management Strategy Statement and Asset Management Plan. Next step will be to develop our Commercial Investment Strategy.

The Strategy is reported separately from the annual Treasury Management Strategy Statement. This ensures the separation of information about commercial investments and fixed assets from the treasury function which focuses on investment of cash balances and operates under the principles of security, liquidity and yield.

In relation to investment in commercial investments and fixed assets, the Strategy covers:

- The governance and decision-making arrangements
- How we will set service objectives relating to capital investments
- How we will assess expected income, costs and resulting contribution to support our budget
- The links to borrowing and financing costs and the debt payback policy (Minimum Revenue Provision Policy); and
- The risks associated with each activity.

Our approach to developing the Strategy has included:

- Taking on board the relevant guidance and regulations

- Collating information about current custom and practice relating to our investments so that it can be reviewed and made available in one place
- Calling on support from our Treasury advisors, Link Asset Services
- Briefing and consulting senior management and Executive and other Members
- Holding a workshop with a group of representative Members, facilitated by Link; and
- Adopting a two-stage reporting and approval process to reflect the fact that our investment plans will change as the new Corporate Plan and Housing Strategy are developed.

Progress over recent months includes:

- Allocation of £25 million in the Capital Programme for investment in corporate priorities in 2019/20 onwards and creation of an Earmarked Reserve of £250k that is available to fund feasibility studies. The Commercial Ventures Executive Sub-Committee has delegated authority to approve investment of these funds.

- Further progress in developing the new Corporate Plan ('Reigate & Banstead 2025') which is now open to public consultation www.reigate-banstead.gov.uk/rbbc2025

- Approval of an updated Medium Term Financial Plan for the revenue budget by Executive in July 2019. This included approval of a draft Reserves Strategy.

- Implementation of new governance and decision-making arrangements relating to capital and commercial investment – further details below.

- Development of reporting on our existing asset portfolio and an assessment matrix for new property investments.

- Continued progress towards developing a new Housing Strategy which is currently expected to be available by the end of the calendar year.

2. INFLUENCES ON CAPITAL INVESTMENT

Influences on Investment

Current capital investment plans that underpin this Strategy reflect external, partner and internal influences. We aim to take a strategic view in relation to capital investment so that it can be directed to make a real and demonstrable impact on service delivery and the local economy by:

- Ensuring that service delivery is supported by fit for purpose assets
- Regenerating the borough, building on the established investment programme, by attracting external investment to supplement Council resources and deliver an enhanced borough-wide regeneration offer. This is defined in its widest sense and will include investments in the borough that create retail, industrial, office and housing assets including working in partnership with other developers.
- Using regeneration investment to drive up gross value-added and increase the yield from business rates and commercial rents

- Working with partners, including Surrey Council and other public and private sector bodies, to take advantage of joint investment opportunities, co-location and the release of surplus assets
- Adopting transformational approaches to the delivery of services with and by local communities
- Aiming to get the basics right and drive improved business performance through investment in technology and instigating new service delivery models.

To date the Council has focussed its investments on properties and developments that located within the borough. A number of these investments over recent years (funded from capital receipts) have delivered financial returns to support our ambition to be financially self-sufficient; nevertheless a primary goal remains to focus investment to support our regeneration and community development ambitions.

Going forward, the overall investment value and range of assets acquired has to represent a mix and spread of risk, size and location across differing sectors to ensure that the portfolio is resilient to change that might lie outside our control. At the same time, it will be important that we maintain an adequate level of reserves and balances to ensure it can manage any down turn in the property market and limit the impact it will have on revenue income.

The Council may hold property assets either directly or indirectly. Direct property investment gives us full control over the property and responsibility for its management and the properties brought forward over the past year for investment are held in this way. Indirect property investment is where the asset is held through an arm's length trading company and will be necessary where the Council holds investments solely for income generation or where that is the most effective way The Council has previously acquired one property in this way, owned by its subsidiary company Greensand Holdings Limited.

Progress over recent months includes:

- Continued progress in delivery of major schemes in the current Capital Programme, including the Marketfield Way, Cromwell Road, Lee Street and Pitwood developments.

- Communications with key stakeholders and taxpayers during service and financial planning and Corporate Plan consultation to highlight areas of improvement and achievement in the Council's commercial investment approach for example, through publicising the emerging Capital Investment Strategy.

- Reviewing current asset condition surveys in order to assess the level of maintenance investment required over coming years. This will be taken into consideration in service and financial planning when developing the proposed Capital Programme for 2020/21 onwards.

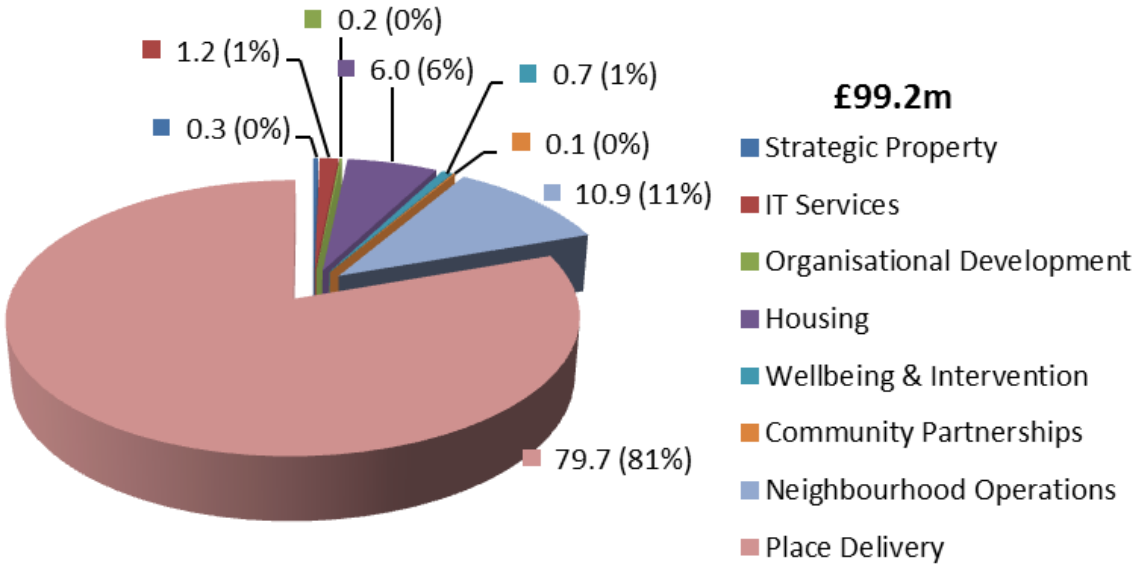
3. CURRENT CAPITAL EXPENDITURE

Capital Programme

The Capital Programme for 2019/20 to 2023/24 includes initial forecasts for capital growth during the 2019/20 year and the resources available to fund it. New investment opportunities will be reported to the Commercial Ventures Executive

sub-committee for approval during the year as our Commercial Investment Strategy priorities are confirmed.

Figure 2: Capital Programme 2019/20 to 2023/24 by Service



Source: Budget Report 2019/20, Executive 24 January 2019

Capital Programme spending plans and priorities are now being reviewed as part of service and financial planning for 2020/21 onwards.

Asset Management

For an organisation like the Council, with a diverse property portfolio, the Asset Management Plan describes the general direction that the organisation's property portfolio will take over the next 5-10 years, the approach to be adopted in getting there and the policies that will be applied to decision making. The Asset Management Plan presents such a vision and reflects the operational and business strategies of the Council. It is essential to achieving efficient use of corporate assets.

We plan to review and refresh the Asset Management Plan to help support current and future aspirations. An objective will be to ensure that the ongoing costs associated with existing assets are fully reflected in revenue and capital budgets and are taken into account when making decisions on the use and performance of assets.

Commercial Investment

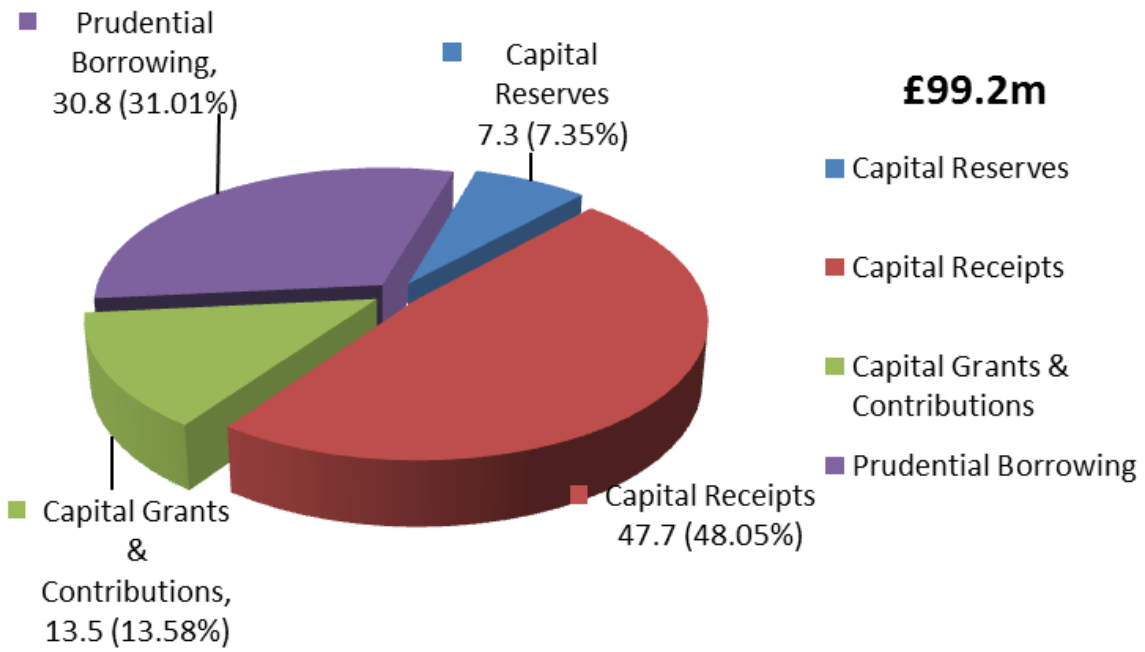
Our commercial investments comprise those activities and assets that deliver income streams to support our objective of achieving financial self-sufficiency over the medium term.

Our current approach to making commercial property investment decisions was approved by Executive in 2014 and explains how investment decisions are made, delivery approaches and how risks will be managed. This is now being updated by the Commercial Ventures Officer Board reporting to the Commercial Ventures Executive Sub-Committee which were established during 2019. A Commercial Investment Strategy is also under development, as referenced elsewhere in this document

In order to support investment decisions we rely upon the principles established in our evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to support service provision. We will continue to identify suitable property investments and to complete substantial due diligence. We will also be taking into account updated guidance from CIPFA on prudential borrowing, specifically 'borrowing in advance of need'..

Capital Funding

Figure 3: Capital Financing 2019/20 to 2023/24



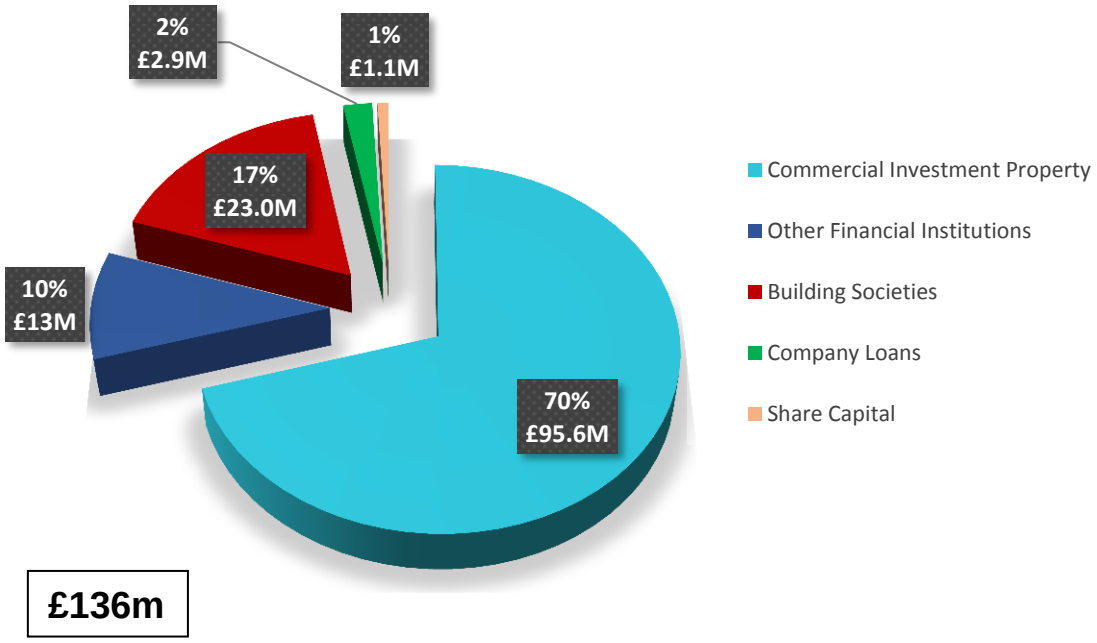
Source: Budget Report 2019/20, Executive 24 January 2019

Capital funding requirements are monitored throughout the year as part of treasury management activities and will be reviewed in detail during service and financial planning for 2020/21 onwards. At 31 March 2019 there was still no borrowing necessary to fund capital expenditure; however, this is expected to change during 2019/20 as there are now very limited capital reserves available.

Treasury Management Investments

Our Treasury Management Strategy Statement is reported each year to Executive and full Council. Treasury investments are central in providing an income stream to help fund our revenue activities.

Figure 4: Investment Portfolio Components at 31 September 2019



Our Treasury Management Framework is described in more detail at Appendix 1. The Framework and associated Treasury Management Strategy and reports cover:

- how long-term projections are prepared and managed for external debt, internal borrowing and the use of cash-backed reserves
- the authorised limit and operational boundary for external debt, internal borrowing and cash back reserves
- the liability benchmark for the authority. This is an indicator that describes the Council's debt position and its ability to cover it
- how debt will be repaid and the associated Minimum Revenue Provision (MRP) Policy which confirms compliance with the latest statutory guidance
- how treasury management decisions are made and risks are managed, along with key delegations
- arrangements for the scrutiny of treasury management activities by Overview & Scrutiny Committee and the Portfolioholder's Treasury Management Panel
- ensuring awareness of the availability of capitalisation flexibilities under circumstances (the Council has not made use of them to date)

Government regulations require authorities to consider whether each asset retains sufficient value to provide security of investment using the 'fair value' model *[International Accounting Standard 40: Investment Property (paragraph 37)].* A fair value assessment has been undertaken as part of year-end processes for 2018/19 and has confirmed that the underlying assets provide security for the capital investment. Short-term reductions in value may arise (for example if assets are being used to support delivery of regeneration developments) but no other assets are currently at risk of significant impairment. As explained in this Strategy, work is underway to carry out condition surveys and review planned maintenance budgets to ensure that appropriate levels of investment are funded going forward.

Progress over recent months includes:

- Implementation of the Commercial Governance review which resulted in recommendations to adopt a good practice Framework and Checklist to guide future working and ensure lessons from past practice are implemented to inform investment decisions

- Ensuring that policies and governance arrangements are clearly established for the approval of commercial activity through the establishment of the Commercial Ventures Executive Sub-Committee and the Commercial Ventures Officer Board.

- Reporting on the Treasury Management outturn position for 2018/19

- Commencing a review of the performance and risk profile of existing and planned capital investments in commercial properties - to help inform capital investment decision-making and investment prioritisation in future – led by the Commercial Ventures Executive Sub-Committee supported by the Commercial Ventures Officer Board.

- Commencing a review of the current Capital Programme and capital growth proposals as part of service and financial planning for 2020/21

4. COMMERCIAL INVESTMENT STRATEGY

Commercial Investment Strategy

We plan to develop a Commercial Investment Strategy which is anticipated to cover:

- Our objectives for generating sustainable future income streams to support service delivery
- The role of commercial investments acquisition in achieving that objective
- The commercial investment decision-making process
- The financial resources that will be available to facilitate commercial investments
- How commercial investment risks will be managed

Commercial Governance Framework

Commercial property investment opportunities often arise unexpectedly and it is important to be agile in order to take advantage of opportunities when they arise. The Commercial Ventures Officer Board and Executive-Sub-Committee are now responsible for identifying suitable opportunities and developing the viability appraisal and business case for the Council to invest. The Framework is important to provide a guide when identifying appropriate investment opportunities. Examples of where the Council may need to respond without delay include the traditional route of a selling agent and bidding process, through auctions and 'off market' through direct approaches from prospective sellers who want to save time and risks of abortive costs. Receivers or administrators of distressed sellers may also seek offers for commercial property assets quickly. The Framework and supporting tools will provide a systematic assessment investment opportunities so that we are able to move quickly when a compelling opportunity arises.

Asset Management

It is also important that the Council actively manages the investment portfolio. Such work includes rent collection, service charge calculation and collection, building maintenance, security, dealing with tenants, re-letting empty units, negotiating terms of rent reviews, dilapidation claims and the general miscellany of property management. The commercial Ventures Officer Board and Executive Sub-Committee are now responsible for ensuring that the portfolio is delivering the

investment returns that were envisaged and to always act in the Council's financial interest, which will also include making recommendations for appropriate disposal of investments that are underperforming or no longer meet the Council's objectives.

Progress over recent months includes:

- Implementing the Commercial Governance Framework and supporting tools for evaluating new investment opportunities – overseen by the Commercial Ventures Executive Sub-Committee.
- Monitoring the potential impacts of emerging guidance on investment and borrowing, in particular on 'borrowing in advance of need'.
- Commissioning an independent review of the Council's Property service and calling on the services of interim development management and strategic acquisitions advisors to help take key developments and investment opportunities forward.

5. FUTURE CAPITAL INVESTMENT PLANS

Capital Investment Plan 2019/20 to 2023/24

The Capital Programme includes £20.8m of investment in 2019/20, with an indicative programme for the subsequent four years of £78.4m. In addition, the Commercial Ventures Executive sub-committee has delegated authority to approve new investments funded from the £25 million allocated for investment in corporate priorities. Our intention is to develop this Programme over the coming year to include longer-term (10-year) forecasts.

How Future Capital Requirements Will Be Prioritised

We plan to assess our approach to capital expenditure and investment, and aim to avoid over-exposure to specific markets, sectors or activity. This will reflect investments made to deliver Council services and those designed for wider economic benefit.

We also recognise delivery of our ambitions will be constrained by availability of funding which then necessitates prioritisation of the use of capital resources. We are therefore developing our approach to assessing new opportunities and for prioritising capital investments.

Overall, the intention is that our portfolio will comprise an acceptable balance of risk and return, based on market conditions and the level of secured / unsecured investments. Appropriate risk management tools will be applied, tailored to individual schemes and projects.

Capital growth is considered as part of the service and financial planning process. Heads of Service submit proposals for new investments that are considered for inclusion in the five year rolling capital programme by Executive which is subject to review by Overview and Scrutiny Committee.

Proposals for investment in new commercial assets and initiatives are considered by the Commercial Ventures Executive Sub-Committee which has delegated authority

to invest. Work is under way to develop new processes for evaluating and prioritising new investment opportunities.

Option appraisals include an assessment of strategic and operational risks.

Asset Management Planning

Our Asset Management Plan will both inform, and be informed by, this Capital Investment Strategy. The overriding objective of asset management within the Council is to achieve a portfolio of property assets that is appropriate, fit for purpose and affordable. Our property portfolio consists of operational property, commercial investment property and property held for specific community or regeneration purposes.

Purchase of Shares/Provision of Loans:

We may make investments to support delivery of local public services, including making loans to and buying shares in service providers, local businesses to promote economic growth and our subsidiaries that provide services or which have been established for the purposes of trading.

During 2018/19 our Members carried out a Commercial Governance Review that focussed on our companies and Executive agreed a number of recommendations that are intended to further develop the governance arrangements relating to their operation.

Non-Specified Investments

Shares are the only investment type that we have identified that meets the definition of a non-specified investment in the government guidance.

Treasury Management Investments

Our Treasury Management Strategy Statement and Annual Investment Strategy set out our current decision-making arrangements, investment position and forward view.

Other Capital and Commercial Investments

This will be covered in our Commercial Investment Strategy

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that Executive Members are kept informed on delivery progress.

6. RISK MANAGEMENT

Our capital investment activity requires us to manage a range of risks.

This section of the Strategy provides an initial overview of known risks. An initial risk assessment has been carried out and this will continue to be monitored and developed, as referenced in the action plan below. Details at Appendix 2.

Affordability and Delivery Risks

We are exposed to a range of risks with regard to the continued affordability and delivery of the Capital Programme and Commercial Investment Strategy as follows:

- Financial risks related to the investment of our assets, cash flow and market volatility
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy
- Credit and counterparty risks related to investments, loans to public and private institutions
- Operational risks related to operational exposures within the organisation, its counterparties, partners and commercial interests
- Strategic risks related to key initiatives undertaken by we such as areas of organisational change necessary to enable the Council to meet its goals and objectives, significant capital schemes and major purchases and new ventures
- Reputational risks related to our dealings and interests, and the impact of adverse outcomes on our reputation and public perception
- Environmental and social risks related to the environmental and social impact of our Strategy and interests
- Governance risks related to ensuring that prudence and careful consideration are prominent in Council decision-making, augmented by quality independent advice and appropriate checks to ensure that we have the correct level of oversight, scrutiny and efficiency.

Progress over recent months includes:

- Producing a draft Risk Register for consideration and development

7. CAPITAL APPRAISAL PROCESS

In considering schemes for inclusion in the capital programme, regard will be had to the following principles:

Funding

- available capital funding will be optimised e.g. through surplus asset disposal, maximising use of planning gain, by pooling capital receipts and by exploring external financing sources
- the financial implications of capital investment decisions will be fully-integrated into revenue budget and medium term financial plans
- capital appraisal will promote schemes which provide a direct gain to our revenue budget position within agreed risk appetite limits, e.g. council tax and business rate growth, commercial investment return, ‘invest to save’ outcomes
- capital funding decisions will seek to minimise or mitigate the ongoing revenue implications of investment decisions

Evaluation

- investment proposals will be supported by an affordable and sustainable plan, including careful consideration of risks, value for money and options appraisal along with an appropriate level of due diligence and assurance regarding deliverability
- environmental and social sustainability issues in line with Council policy will be built into project appraisal

Deliverability

- capital schemes will adhere to corporate project management and governance arrangements, with clear responsibility for delivery and risk management
- there will be effective working relationships with partners
- projects will be reviewed on completion to ensure key learning opportunities are captured.

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that lead Members are kept informed on delivery progress.

- Adoption of the Commercial Governance Framework and development of an outline investment appraisal process for commercial investments

- Considering the latest MHCLG and CIPFA guidance on 'borrowing in advance of need'. The Council does not currently borrow for commercial investment and is aware of the additional risks that this entails.

- Commencing a review of current Capital Programme plans as part of service and financial planning

- Confirming those commercial activities that will require formal Business Plans to help map their future strategies

8. GOVERNANCE

Capital Programme

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in our Capital Programme. These processes include:

- Executive and full Council approve the Corporate Plan and supporting Strategies which set out our strategic priorities
- Full Council is ultimately responsible for approving the Capital Investment Strategy, Treasury Management Strategy Statement and Capital Programme

- The Commercial Ventures Executive Sub-Committee will receive regular capital monitoring reports, approves variations to the programme and consider new bids for inclusion in the Capital Programme
- Overview & Scrutiny Committee can call in Executive reports and routinely receive and scrutinise reports
- All projects progressing to the Capital Programme comply with the Constitution and financial procedure rules
- The Capital Programme is subject to internal and external audit.

Any new capital expenditure is subject to thorough evaluation which focuses on the key benefits that are expected in relation to Council priorities. The evaluation includes financial considerations such as the expected cost and funding sources identified. Risks to either the delivery or cost forecasts are considered as part of the evaluation.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the Chief Finance Officer. Designated budget managers monitor the delivery of individual capital schemes.

It is for the Chief Finance Officer to advise, and ultimately Members to determine, the level of borrowing the council should undertake. The principles of prudence, affordability and sustainability are a reference to revenue budget impact. The revenue costs must be fully budgeted for through either:

- Savings/efficiencies made elsewhere; or
- Net income generated (after borrowing costs) from investments – going forward these have to be robust enough to fund the debt for the lifetime of the loan.

Progress over recent months includes:

- Establishment of the Commercial Ventures Executive Sub-Committee with delegated authority to monitor existing and approve new investments. The Sub-Committee is supported by an officer Board with aligned terms of reference.

- Adoption of the Commercial Governance Framework and development of an outline investment appraisal process for commercial investments

- Development of management information to support the Sub-Committee and Board in their work so that they have oversight of how investments are being managed and reported on a routine and exception basis. This is in addition to established quarterly revenue budget monitoring and capital programme monitoring

- Establishment of People & Place Officer Board to oversee delivery of new initiatives, with associated reporting arrangements to ensure that lead Members are kept informed on delivery progress.

<u>Treasury Management</u>

Day to day decisions on investment and borrowing are delegated to the Chief Finance Officer and the Finance Team, who act in line with the Treasury

Management Strategy Statement, which is approved by full Council before the start of each financial year. The underlying framework is explained at Appendix 1.

The Overview & Scrutiny Committee is responsible for scrutiny and governance of Treasury Management. It reviews the Treasury Management policy and procedures and all Treasury Management reports. It also scrutinises the full suite of budget reports prior to their presentation to Executive and Council for final approval.

Throughout the year the Overview & Scrutiny Committee receives regular updates on performance and emerging issues and the Mid-Year Treasury Management report which is also reported to full Council. The Treasury Management function is also subject to regular internal and external audit reviews.

Progress over recent months includes:

- Reporting treasury management outturn for 2018/19 to Executive and preparing to report the mid-year position for 2019/20. These reports set out details of the current treasury investment portfolio, its risk profile and how risks are managed.

- Balance sheet and cashflow planning to ensure that treasury investments are optimised while ensuring security' liquidly and yield objectives are met.

- Drawing on support from treasury advisors on extending the range of treasury investments available to the Council

Skills and Advice

Work is underway to ensure that we have access to appropriate levels of skills and knowledge to support delivery of this Strategy. This includes the establishment of a corporate Project Management office to support capital scheme delivery while progress is monitored by the People & Place Board and Member Panels.

The Council draws on support from its Treasury Advisors (Link Asset Services) when preparing treasury management reports and plans. Officers make reference to the regular technical updates that Link provide and attend their seminars on treasury and investment topics. These are also valuable networking opportunities with other councils as well as ensuring that we are up to take with the latest thinking and guidance. Link also provide treasury management briefings for our Members. A number of treasury brokers are called upon to provide information about specific treasury investment options. We also subscribe to relevant CIPFA networks and attend their practitioner briefings and training events.

Proposals for investment in new capital assets are always supported by independent valuations and appropriate legal advice.

The appointment of external advisers is periodically tested through a tendering process to ensure that the quality of advice is benchmarked, monitored and maintained. Regular client meetings are held to consider performance.

CAPITAL PROGRAMME

SERVICE CAPITAL GROWTH PROPOSALS 2020/21 TO 2024/25

Capital Programme - Growth Proposals - 2020/21 to 2024/25

Head of Service	Growth Proposal	Growth 20/21 £M	Growth 21/22 £M	Growth 22/23 £M	Growth 23/24 £M	Growth 24/25 £M
ORGANISATION						
STRATEGIC PROPERTY						
Caroline Waterworth	Maintenance works Beech House, London Road, Reigate	3.000	0	0	0	0
	Maintenance works Forum House, 41-51 Brighton Road, Redhill, RH1 6YS.	0.500	0	0	0	0
	Maintenance works Unit 61E Albert Road North, Reigate	0.200	0	0	0	0
	Maintenance works Council-Occupied Properties	0.693	0.550	0.640	0.562	TBC
	Building Maintenance works – consultancy/capitalised staff costs for delivery of above programmes	0.050	0.050	0.050	0.050	TBC

Capital Programme - Growth Proposals - 2020/21 to 2024/25

Head of Service	Growth Proposal	Growth 20/21 £M	Growth 21/22 £M	Growth 22/23 £M	Growth 23/24 £M	Growth 24/25 £M
ORGANISATION						
IT SERVICES						
Darren Wray	IT Digital Strategy – rolling replacement programme	0.125	0.125	0.050	0.050	0.050
	Disaster Recovery Systems Upgrade	0	0	0.050	0	0
	Replacement Photocopiers/ Printers	0	0	0	0.060	0
ORGANISATION DEVELOPMENT						
Kate Brown	Workplace Facilities: Estate/Asset Development	0.250	0.250	0.250	0.250	0.250

Capital Programme - Growth Proposals – 2020/21 to 2024/25

Head of Service	Growth Proposal	Growth 20/21 £M	Growth 21/22 £M	Growth 22/23 £M	Growth 23/24 £M	Growth 24/25 £M
PEOPLE						
WELLBEING & INTERVENTION						
Duane Kirkland	Harlequin Facilities Maintenance (fixtures & fittings)	0.015	0.015	0.015	0.015	0.015

Capital Programme - Growth Proposals – 2020/21 to 2024/25

Head of Service	Growth Proposal	Growth 20/21 £M	Growth 21/22 £M	Growth 22/23 £M	Growth 23/24 £M	Growth 24/25 £M
PLACE						
PLACE DELIVERY						
Peter Boarder	Redhill Public Realm Improvements	0	0.030	0	0	0
	Horley Public Realm Improvements - Phase 4	0.100	0.500	0	0	0
ECONOMIC PROSPERITY						
Simon Bland	Economic Prosperity – vibrant towns & villages	0.100	0.100	0.100	0.100	0.100
NEIGHBOURHOOD SERVICES						
Morag Williams	Fleet vehicle wash-bay replacement	0.350	0	0	0	0
Morag Williams	Handy Person Scheme - Housing Assistance Programme	0.050	0.050	0.050	0.050	0.050
ANNUAL TOTAL		**5.433**	**1.670**	**1.205**	**1.137**	**0.465**
5 YEAR TOTAL						**£9.910M**

This page is intentionally left blank

ANNEX 6

FEES & CHARGES POLICY

Our Medium Term Financial Plan (MTFP) sets out our financial objectives to support delivery of the Corporate Plan. These plans remain challenging in the context of an uncertain economic future, on-going austerity measures, significant reductions in funding from Government and the move towards more locally-generated income streams.

In the future we will need to be financially self-sufficient and less reliant on central government funding. Maximising the potential for increased income will be integral to supporting delivery of the MTFP.

Seeking opportunities for income generation is a priority for the Council, alongside broader proposals for the trading and commercialisation of some services.

This Fees & Charges Policy outlines the key principles to be considered in charging for Council services in a transparent and consistent manner.

Scope
This Policy applies to the setting and reviewing of all fees and charges for Council services, where the Council has discretion to apply a charge and discretion over the level of charge applied.

The Policy excludes:

- Charges that are determined by Central Government
- Council Tax
- Business Rates
- Property rents
- Any charges where there are legal or contractual reasons for exclusion
- Any charges levied by Trading Companies or other third parties delivering services on behalf of the Council.

Application
Directorates should refer to this Policy when reviewing current charges or proposing new charges as part of the service & financial planning process for the forthcoming financial year, and for any other in-year consideration of service charging.

Understanding the relationship between cost and charges is vital when determining charges for services and support and advice should be sought from the Finance team when applying this Policy.

Aims and Objectives
The overarching aim of the Policy is to embed a commercial approach to setting fees and charges. An aim of commercialism is to ensure the Council thinks consistently in a business-like manner and clearly articulates the costs and benefits associated with the activities it carries out.

The objectives of the Fees & Charges Policy are:

- To promote efficiency and support the commercialisation of our business in order to support the MTFP and deliver the Corporate Plan
- To minimise the draw on local taxpayers of discretionary services and promote fairness by fostering a culture where discretionary services are supported largely by users rather than the council tax payer
- To set a clear, flexible and equitable framework of standards and procedures for applying charges and fees to relevant Council services for both individuals and organisations. The level of charge will reflect the cost plus a return where this is permissible/appropriate.
- To meet the aim of being 'business like' through service areas understanding and reviewing the costs and charges for their service areas.

Charging and Trading Legislation
The legislation and case law that governs Councils' ability to charge and generate income is complex. Specific powers to charge for services are contained in a variety of local government statutes.

These include:

- Local Authorities (Goods and Services) Act 1970 – introduced powers for councils to enter into agreement with other Local Authorities and public bodies for the supply of goods and services. Any agreement may contain such terms as to payment or otherwise as the parties consider appropriate.
- Local Government Act 2003 – added further opportunities to the above. This act enables council's to trade in activities related to their functions on a commercial basis and make a profit, which may be reinvested in services, through a trading company.
- Localism Act 2011 – the General Power of Competence (GPC) introduced a power to allow councils to do anything that an individual may do. However, for the purposes of charging, this should not exceed the cost of provision of the service in question, as operating for a commercial purpose (i.e. to make a profit) must be done through a trading company.

Standard Charging Principles
Standard principles will be applied to all fees and charges (within the scope of this Policy) set by the Council. Where a service plans deviate from these principles, the basis and reason for variation will be clearly documented and approved in accordance with the Council's Constitution/scheme of delegation.

Services that have discretion over charging are encouraged to operate more commercially in order to maximise efficiency and reduce dependence on corporate funding support. The ability of services to operate in this way is dependent on services being able to set and amend their charges with a level of flexibility, including consideration of current market rates and demand for the service. The Policy will also make decision making simpler and more timely.

This Policy enables us to apply differential charging, discounting and alternative pricing structures in order to maximise commercial benefit and target service take-up. Individual service areas can vary charge rates on a case by case basis, taking into account relevant market rates and the need to maximise income and operate efficiently.

All fees and charges will:

- Demonstrate how they contribute to the achievement of corporate and service objectives
- Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise a service
- Be subject to equality impact assessment screening and consultation where appropriate
- Minimise the costs of collection
- As a minimum be increased annually from 1 April each year in line with Consumer Price Index (CPI) inflation increases (rate published for the preceding September each year)
- Be subject to a scheduled review at least every 3-5 years.

Charging Models
When introducing or reviewing a charge the Council will follow one of three models:

Charge	Definition	Application
Full Cost recovery	Full Cost Recovery is defined in this Policy as the Chartered Institute of Public Finance and Accounts' (CIPFA's) 'total cost' model. When charging 'total cost' the Council is aiming to charge the user the full cost to the Council of providing that service. The 'total cost' to the Council is calculated following CIPFA methodology. The cost of the charge will include, in addition to the direct cost of providing the service, costs such as fair and appropriate proportion of the cost of premises, central services and other overheads	This is the Council's 'default' charging principle.

Charge	Definition	Application
Direct Cost Plus	As a minimum the Council would recover the direct cost of providing the service plus wherever possible, a contribution to overheads. The level of overhead contribution is an operational decision, and will be dependent upon the particular circumstances and objectives.	This allows flexible pricing decisions to take account of external market conditions. For instance, there are circumstances where setting changes at a level more than full cost recovery may be appropriate (e.g. when trading with other local authorities or public bodies the Council is not limited in the amounts it can charge). This charging model also allows charges to be set below full cost recovery to achieve a particular objective – for example entering into a new market or attracting new business. However, in line with the Standard Charging Principles, the aim will always be to recover the full cost of a service over time.
Subsidised	A subsidised charge requires the Council to contribute to the direct cost of the service. Where the Council is not covering the direct costs of the service, it will require a contribution from the Council. All subsidies will be subject to the approval of the Executive.	This model provides the Council with the option to provide a service with full or partial subsidy. The level of subsidy will be determined by reference to the nature of the service and the rationale for any subsidy for example: • providing a public good • encouraging service take up • the user group's ability to pay. The financial impact of subsidy decisions on the budget will be identified both individually and collectively, and actively managed and reviewed.

Authority to Set and Vary Charges

The decision on charging levels will be based on the relevant charging method: full cost recovery, direct cost plus or subsidised.

All charging decisions must be made in accordance with the Council's Constitution (Budget and Policy Framework, Scheme of Delegation and Financial Procedure Rules) and be able to demonstrate consistency with our strategic priorities, policies and statutory obligations.

The decision to vary charges for existing chargeable services which are not subsidised is an operational decision, which will be taken by the appropriate Director/Head of Service in consultation with the Chief Finance Officer.

Policy Review

This Policy will be reviewed periodically, taking into account developing Council policies and priorities and any changes in legislation.

November 2019

This page is intentionally left blank

ANNEX 7.1

REVENUE RESERVE BALANCES AT 31 MARCH 2019

	Balance at 31.3.19 £m	Purpose
General Fund Balance	**£12.547m**	Acts as a buffer against unpredicted budget pressures. The minimum level required is £2.6m

Other Revenue Reserves	Balance at 31.3.19 £m	Purpose
New Homes Bonus Reserve	**£17.086m**	Established to account separately for New Homes Bonus income. No restrictions on use.

Earmarked Revenue Reserves	Balance at 31.3.19 £m	Purpose
Government Funding Reduction Reserve	2.019	Established at the end of 2017/18 for the purpose of mitigating the planned reduction in Government funding.
Superannuation Reserve	1.507	Established to 'smooth' any sudden increases in employer pension costs.
Corporate Plan Delivery Fund (CPDF)	1.206	Provides time-limited funding to deliver key priorities, Corporate Plan objectives and invest–to–save initiatives.
Business Rates Equalisation Reserve	1.000	Established to mitigate the impact of any fluctuations in retained business rates income resulting from, for instance, a back-dated rating appeal or a major employer leaving the area.
Insurance Reserve	0.550	Provides cover against uninsured losses.
New Posts	0.500	Established at the end of 2018/19 to provide initial funding for new permanent posts created during the year to support delivery of new corporate initiatives. Thereafter the intention is to build these posts into the approved budget in 2020/21 onwards.
Homelessness Prevention	0.407	Established to account separately for the funding set aside for homelessness prevention.
Growth Points Reserve	0.286	Established to account separately for Growth Points funding.
Feasibility Studies	0.250	Established at the end of 2018/19 to set aside funds for feasibility studies, to be managed by the new Commercial Ventures Sub-Committee.
Business Support	0.147	Established to account separately for the allocation of

Earmarked Revenue Reserves	Balance at 31.3.19 £m	Purpose
Scheme		funding to help flood-affected business.
Neighbourhood Improvement Reserve	0.044	Established to account separately for the funding set aside for neighbourhood improvement projects.
High Street Innovation Reserve	0.040	Established to account separately for the funding of this initiative prior to it being used.
Total Earmarked Revenue Reserves:	**£7.956M**	

ANNNEX 7.2

RESERVES POLICY

Introduction
The establishment, monitoring and review of the levels of reserves and balances are an important element of the Council's financial management systems and financial standing.

The Chief Finance Officer (Section 151 Officer) is required by law to formally report to the Council their opinion on the adequacy of the Council's reserves. Irrespective of this, a well-managed authority is clear about the reserves it needs now and in the future to support its service aspirations, while at the same time delivering value for money within a climate of significant resource pressure and economic/social risk.

This Policy does not cover non-distributable reserves required to support financial accounting transactions e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. (Non-distributable reserves are those that cannot be used for revenue or capital purposes.)

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

Such reserves are generally referred to as Earmarked Revenue Reserves.

What are Reserves?
There is no clear definition of reserves even though reference is made to reserves in legislation. The Chartered Institute of Public Finance and Accountancy (CIPFA) states 'amounts set aside for purposes falling outside the definition of provisions should be considered as reserves.' Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Generally there are two types of reserves, those that are available to meet revenue or in some cases capital expenditure (Usable) and those that are not available to finance revenue or capital expenditure (Unusable). Useable reserves result from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled. They can be spent or earmarked at the discretion of the Council.

The Council must manage its reserves in accordance with its strategic longer term planning process.

Policy principles:

- The General Fund Balance will be maintained at a minimum of 15% of the net Revenue Budget to cover any major unforeseen expenditure.
- Earmarked revenue reserves will be maintained for specific purposes that are consistent with achieving Corporate Plan priorities and/or where they are required to account separately for Government funding streams.
- Reserves must only be used to fund one-off expenditure.
- Recurring expenses may only be funded from reserves if plans are in place to fund the ongoing costs and replenish the reserve within 12 months.
- Unplanned revenue income receipts will be held in a reserve pending future decisions as to their use.
- We aim to balance the Revenue Budget over the period of the MTFP without reliance on the use of reserves

November 2019

Reigate & Banstead
BOROUGH COUNCIL
Banstead I Horley I Redhill I Reigate

SIGNED OFF BY	Interim Head of Finance and Assets
AUTHOR	Helen Stocker, Finance Manager
TELEPHONE	Tel: 01737 276568
EMAIL	Helen.Stocker@reigate-banstead.gov.uk
TO	Executive
DATE	7 November 2019
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance

KEY DECISION REQUIRED	No
WARDS AFFECTED	(All Wards);

SUBJECT	Half Year Treasury Management Report for 2019/20

RECOMMENDATIONS

Note the Treasury Management Performance for the year to date and to note the updated prudential indicators.

REASONS FOR RECOMMENDATIONS

To comply with the requirements of the regulatory framework for treasury management and meet the Council's reporting requirements.

The Council is currently required to receive and approve, as a minimum, three treasury reports each year, which incorporate key policies, estimates and actuals. These are:

(i) **Treasury Management Strategy Statement, including the Prudential and Treasury Indicators**. This forward-looking statement for 2019/20 was reported to the Executive on 18 March 2019 and full Council on 11 April 2019.

(ii) **Half Year Treasury Management Report** (this report).This is primarily a progress report and updates Members on the capital position and any updates to prudential indicators and policies as necessary.

(iii) **Annual Treasury Report** – This is a backward-looking review document. The

2018/19 report was reported to the Executive on 20 June 2019 as Annex 3 of the Provisional Outturn report.

EXECUTIVE SUMMARY

2019/20 treasury management performance is currently forecast as better than budget. This is primarily as a result of the borrowing facility not being utilised to date.

Short-term borrowing of £12m was undertaken in February and March 2019, for cash flow purposes, and was fully repaid in May and June 2019.

There has been no further borrowing for the period 1 April to 30 September 2019. It is anticipated that borrowing of up to £41.5 million will be undertaken during second half of 2019/20 to fund delivery of the approved Capital Programme.

As the Capital Programme delivery timing and expenditure plans become more certain for the period October 2019 to March 2020, the borrowing and investment forecasts have been refreshed. Consequently, the treasury forecasts in this report now reflect the £25m that has been delegated to the Commercial Ventures Executive Sub Committee (CVESC) for commercial investment and £100k for delivery of Merstham Recreation Ground project in 2019/20.

The above recommendations are subject to approval by Full Council.

STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage its finances under the Local Government Act 2003 and associated regulations.

2. Treasury Management activities are undertaken in accordance with Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities and the Government's Investment Regulations.

3. This report meets these statutory requirements and incorporates the needs of the Prudential Code to ensure adequate monitoring of Capital Expenditure Plans and the Council's Prudential Indicators

BACKGROUND

4. The Treasury Management Strategy and Performance Indicators for 2019/20 were previously reported to the Executive on 18 March 2019 and full Council on 11 April 2019.

KEY INFORMATION

Issues

Investments

5. The underlying economic environment continues to remain challenging for the Council due to market uncertainties driven by Brexit and tariff tensions between USA and China. The approach of maintaining short-term investments with high quality counterparties has continued, which allows the Council to be responsive when allocating funding to approved projects.

6. To manage the associated risks, investments are limited to a small group of banks and some building societies where they meet the Council's Treasury Management Strategy. The returns on investment continue to be low, albeit with a marginal improvement.

7. The Council is seeking to reduce its investment counterparty risk (i.e. those institutions it is 'safe' to invest with) by further diversifying its investment portfolio.

8. Borrowing options are currently being considered in preparation for meeting the forecast cash funding requirements of the Capital Programme. The chief objective when borrowing is to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change.

Treasury Management Strategy

9. The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by Executive on 18 March 2019 and full Council on 11 April 2019. There are no policy changes to the TMSS in this report which focusses on updating the in-year position in the light of the updated economic position and budgetary allocations previously approved.

The Council's Capital Position (Prudential Indicators)

10. This part of the report is structured to update:
    - The Council's capital expenditure plans
    - How these plans are being financed
    - The impact of changes in capital expenditure plans on the prudential indicators and the underlying need to borrow; and
    - Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

11. Table 1 below sets out the latest estimates for capital expenditure and any changes since the Capital Programme original budget was approved earlier this year.

12. The Capital Programme forecast has been updated to take account of 2018/19 carry-forwards, re-profiling of projects, the £25 million that has been delegated to the Commercial Ventures Executive Sub Committee (CVESC) for commercial investment and the £0.100 million allocated for delivery of Merstham Recreation Ground project in 2019/20.

Table 1 : Capital Expenditure & Financing

	2018/19	2019/20	2019/20	2019/20	2019/20
	Actual at 31/3/2019	Budget at 1/4/2019	Budget including approved growth at 30/09/2019	Actual Capital Expenditure at 30/09/2019	Forecast including approved growth 31/03/2020
	£'000	£'000	£'000	£'000	£'000
Capital expenditure	**39,235**	**20,827**	**45,927**	**1,704**	**47,699**
Financed By:					
Capital Grants	3,966	4,065	4,065	1,704	3,578
Capital Receipts	20,133	362	362	0	627
Revenue Contribution	90	0	0	0	0
Total Finance	**24,189**	**4,427**	4,427	1,704	**4,205**
Unfinanced Capital Expenditure = Borrowing Need (Excluding MRP)	**15,046**	**16,400**	41,500	0	**43,494**

13. The borrowing element of the table increases underlying indebtedness by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue budget charges for the repayment of debt (the Minimum Revenue Provision - MRP).

Prudential Indicator: Capital Financing Requirement (CFR)

14. Table 2 below sets out the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose.

Table 2: Prudential Indicator – CFR

	2018/19	2019/20	2019/20	2019/20
	Actual at 31/3/2019	Budget at 1/4/2019	Budget including approved growth at 30/09/2019	Forecast including approved growth 31/03/2020
	£'000	£'000	£'000	£'000
Opening balance - CFR	0	20,000	15,046	15,046
Add unfinanced capital expenditure (as above)	15,046	16,400	41,500	43,494
Less MRP	0	(131)	(188)	(188)
Less PFI & finance lease repayments	0	0	0	0
Net movement in CFR	**15,046**	**16,269**	**41,312**	**43,306**
Closing balance - CFR	**15,046**	**36,269**	**56,358**	**58,352**

15. The borrowing need in 2018/19 resulted in a Capital Financing Requirement (CFR) of

£15.046m, comprising £12m of short term external borrowing, and £3.046m of internal borrowing.

16. Internal borrowing is a '…*treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash held for other purposes, such as insurance funds held in earmarked reserves*…' (source: National Audit Office) This borrowing will be repaid over time by way of the Minimum Revenue Provision.

17. The minimum revenue provision (MRP) charge is the means by which capital expenditure, which is financed by borrowing (internal & external) or credit arrangements, is paid for by council tax payers. Local authorities are required each year to set aside some of their revenue budget as provision for this debt. There will be a requirement to make a minimum revenue provision (MRP) toward the repayment of borrowing in 2019/20 of £188k.

Table 3: Comparison of borrowing parameters to actual external borrowing

	2018/19 Actual	**2019/20 Projected**	**2020/21 Projected**	**2021/22 Projected**	**2022/23 Projected**	**2023/24 Projected**
	£'000	£'000	£'000	£'000	£'000	£'000
Opening - CFR	0	15,046	56,358	63,148	70,586	69,652
In Year - CFR	15,046	41,312	6,790	7,438	(935)	(951)
Total CFR	**15,046**	**56,358**	**63,148**	**70,586**	**69,652**	**68,700**
External Borrowing	**12,000**	**41,312**	**48,102**	**55,540**	**54,605**	**53,654**
Authorised Limit	80,000	80,000	80,000	80,000	80,000	80,000
Operational Boundary	70,000	70,000	70,000	70,000	70,000	70,000

Prudential Indicator : Limits to Borrowing Activity

18. The Operational Boundary 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 and the ability to fund under-borrowing by other cash resources.

19. A key prudential indicator is to ensure that over the medium term, net borrowing, (borrowing less investments) will only be for a capital purpose. Gross external borrowing should therefore not, except in the short term, exceed the total of the CFR in the preceding year plus the estimate of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. Table 3 sets out gross borrowing not exceeding the total of the CFR over the 5-year period. The Council complies with this requirement, as shown in Table 3.

Prudential Indicator- Authorised Limit

20. The Council sets limits on borrowing activity. The Authorised Limit represents the limit beyond which borrowing is prohibited, unless further approval is obtained from Council. The Authorised Limit is unchanged and is set out in table 3 above.

Investment Portfolio 2019/20

21. A detailed commentary on the economy and interest rates, as provided by the Council's treasury advisor, Link Asset Services, can be found in Annex 1 to this report.

22. In summary, the investment market remains difficult in comparatively low interest rates and the continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its consequent impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

23. Table 4 sets out the net treasury investment position as at 30 September 2019 and the projected position at 31 March 2020.

Table 4: Treasury Investments

INVESTMENT PORTFOLIO	Actual 31 March 2019		Actual 30 Sept 2019		Forecast 31 March 2020	
	£'000	%	£'000	%	£'000	%
Treasury investments						
Banks	0	0%	10,000	28%	10,000	28%
Building Societies	40,000	83%	23,000	64%	23,000	64%
Goldman Sachs International	8,000	17%	3,000	8%	3,000	8%
Local authorities	0	0%	0	0%	0	0%
Bond funds	-	-	-	-	-	-
Property funds	-	-	-	-	-	-
TOTAL TREASURY INVESTMENTS	**48,000**	**100%**	**36,000**	**100%**	**36,000**	**100%**

24. Following repayment of the £12m short term borrowings from 2018/19, treasury investments were £36 million at 30th Sept 2019. Cash requirements will be closely monitored to assess any borrowing necessary by the end of the financial year to meet the requirements of the capital programme.

25. Table 5 sets out total investments, including non-treasury investments such as investment in property and council companies.

Table 5: Total Investments including Non-Treasury Investment Portfolio

INVESTMENT PORTFOLIO	Actual 31 March 2019		Current Position 30 Sept 2019		Forecast 31 March 2020	
	£'000	%	£'000	%	£'000	%
NON TREASURY INVESTMENTS						
Third party loans	-	-	-	-	-	-
Subsidiaries – Greensand Property Holdings Ltd	2,270	2%	2,270	2%	2,270	2%
Companies – Horley Business Park Development LLP	602	1%	602	1%	652	1%
Associate – Pathway for Care Ltd	1,100	1%	1,100	1%	1,100	1%
Investment Property	95,013	96%	95,493	96%	95,543	96%
TOTAL NON-TREASURY INVESTMENTS	**98,985**	**100%**	**99,465**	**100%**	**99,565**	**100%**
Treasury investments (Details at Table 4 above)	48,000	33%	36,000	27%	36,000	27%
Non Treasury investments (Details above)	98,985	67%	99,465	73%	99,565	73%
TOTAL INVESTMENTS	**146,985**	**100%**	**135,465**	**100%**	**135,565**	**100%**

26. The treasury investment portfolio yield for the first 6 months of the year was 1.28% which compares favourably to the benchmark of the London Interbank Bid Rate (LIBID) of 0.83%.

27. The budgeted investment return for 2019/20 is £0.480 million. Performance of £0.244 million for the half year is in line with budget.

Table 6: Investment performance at 30 September 2019

Benchmark	Benchmark Return	Investment Performance	Investment Interest Earned
12 month LIBID	0.83	1.28%	£244,385

Approval Limits

28. The Chief Financial Officer confirms that the approved limits within the Investment Strategy were not breached during the first 6 months of 2019/20.

Borrowing Strategy

29. The Borrowing Strategy has been updated to reflect the Capital Financing Requirement as set out in Table 3 above. It is anticipated that borrowing of up to £41.5 million will be undertaken during second half of 2019/20 to deliver the Capital Programme.

OPTIONS

30. The Executive has two options :

    Option 1 – accept and note the contents of the report.

    Option 2 – accept the report, but ask Officers to provide more detail on specific issues.

    The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

31. There are no direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

32. The financial impacts of this proposed strategy have already been reflected within the Council's 2019/20 Budget proposals. There are no additional direct financial implications that arise from this report or from the changes to the CIPFA Treasury Code.

EQUALITIES IMPLICATIONS

33. This report does not have any equalities implications.

COMMUNICATION IMPLICATIONS

34. The purpose of this report is to communicate the treasury performance internally. No external communication is required at present.

HUMAN RESOURCES IMPLICATIONS (if applicable)

35. There are no human resources implications relating to this report.

RISK MANAGEMENT CONSIDERATIONS

36. Key risks are managed in accordance with the Prudential code indicators and the consideration of Security, Liquidity and Yield (SLY) for investments.

OTHER IMPLICATIONS
37. There are no other implications relating to this report.
CONSULTATION
38. There is no consultation required for this report. However this report will act as a starting point for discussions, later in the year, with the Treasury Member Panel regarding the Treasury Strategy 2020/21 39. This report was presented to Overview and Scrutiny Committee on 7 October 2019.
POLICY FRAMEWORK
40. This report is submitted in accordance with the Council's Treasury Management Policy.
BACKGROUND PAPERS
41. Treasury Management Strategy 2019/20.

This page is intentionally left blank

Half Year Treasury Management Report for 2019/20

Annex 1

INDEX

1. Economics and interest rates *[Provided by Link Asset Services]*

1.1 Economics update

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, so far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in September), the whole political situation in the UK over **Brexit** is highly fluid and could change radically by the day. The vote in the Commons on 3 September looks likely to lead to a delay in the date for Brexit to 31 January 2020, but there is also likelihood that there will be an imminent general election. In such circumstances, any interest rate forecasts are subject to material change as the situation evolves. At present, if the UK does soon achieve an agreed deal on Brexit, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could falter and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by way of tax cuts and / or expenditure on infrastructure projects, to boost the economy. However, infrastructure projects generally take a long time to plan and to start up, and so to feed through into impacting the economy; tax cuts would be much quicker in impacting the level of consumption in the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. This mirrored investor confidence around the world which is now expecting a significant downturn or possibly even a recession in some developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, (July 2.1%), and is likely to shift only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the MPC at the current time.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.2% y/y), in quarter 2, employment rose by 115,000 in the same quarter: this suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment has continued near to a 44 year low, edging up from 3.8% to 3.9% on the Independent Labour Organisation measure in June; however, that was caused by a rise in the participation rate to an all-time high. Job vacancies fell for a sixth consecutive month, hitting record levels, and indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.8%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming

months. This could mean that the MPC will need to take action to raise Bank Rate if there is an agreed Brexit deal as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. Financial markets are, however, expecting another cut in September. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

BOND YIELDS. It is this souring of investor confidence that has largely contributed to the sharp fall in bond yields on government debt in mid-2019 in the major western economies as investors have switched out of risky assets - equities, fearing an impending recession, and buying into bonds, so pushing their prices up and correspondingly, pushing yields down. Investors have little confidence that the US China trade war will have a satisfactory outcome in the near future and both sides look as if they are digging in to entrenched positions. However, most domestic US economic indicators are not currently pointing to a recession in the US, only to a slowing of growth. Provided the major world economies do avoid recession, then it is likely that there will be some reversal of this flow from equities into bonds and, therefore, that bond yields will recover to a limited extent from recent truly exceptional lows. However, the near-term reality is that we have seen 10 year bond yields fall below 2 year yields in the US; this has historically been a prime indicator of impending recession in the US, though this correlation has been much weaker in the UK. All German bond yields between 2 and 30 years are actually negative while many other EZ countries have bond yields which are also negative, at least in some maturity years.

EUROZONE. Growth has been slowing from +1.9% during 2018 to +0.4% q/q (+1.2% y/y) in quarter 1 and then to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 5.2% y/y in June with car production especially being hit. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The ECB meeting in July expressed concern as to the weak outlook for growth and how low inflation was despite all the monetary stimulus the bank still has in place. The ECB is therefore expected to take action to cut its main rate of -0.4% further, but only marginally, and to look at the potential for more quantitative easing and/or other instruments of monetary policy to provide further stimulus to economic growth. On the political front, Spain and Italy are in the throes of trying to form coalition governments while the very recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. The trade war with the US does not appear to have had a significant effect on GDP growth as yet as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

1.2 Interest rate forecasts

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.
The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are currently a little below those to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise. The EU has had sharp disagreements in successive years with Italy over setting a budget within the limits of EU rules. (Early September – a new coalition government may be formed which would be less anti-EU.) The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called **'doom loop'**. Due to the Italian government's already high level of debt, it would not be able to afford to bail out the banking system. **Portugal** faces the same problem as its debt is also only one notch above junk level.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health. Early September 2019 – the results of the Saxony and Brandenburg regional elections were again very disappointing for the CDU and SPD; this will rejuvenate the tensions of October 2018 between these two parties that form the current coalition government.
- **Other minority EU governments.** Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- The increases in interest rates in the US during 2018, combined with a trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. In mid-2019, investor fears of a looming recession have again sparked moves by investors out of riskier assets i.e. equities, into safe havens of government bonds of major western countries. Some **emerging market countries** which have borrowed heavily in dollar denominated debt could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could

tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields

2. APPENDICES

2.1 Capital Expenditure & Financing and Capital Financing Requirement (CFR)

Table 1: Capital Expenditure Programme

APPROVED CAPITAL EXPENDITURE PROGRAMME	2018/19	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget £'000	Actual £'000	Budget £'000	Projected £'000	Projected £'000	Projected £'000	Projected £'000
TMSS Capital Budget 2019/20	45,715	39,235	20,827	29,410	27,902	18,074	2,974
Approved Capital Growth	0	0	25,100	700	700	0	0
Total Capital Expenditure	**45,715**	**39,235**	**45,927**	**30,110**	**28,602**	**18,074**	**2,974**

Table 2: Capital Expenditure Financing

CAPITAL EXPENDITURE FINANCING	2018/2019	2018/2019	2019/20	2020/21	2021/22	2022/23	2023/2024
	Budget	Actual	Budget	Projected	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Reserves	21,825	-	1,017	153	6,123	-	-
Capital Receipts	290	20,133	362	19,681	11,570	15,576	476
Capital Grants & Contributions	3,599	3,966	3,048	2,776	2,654	2,498	2,498
Revenue Contribution	-	90	-	-	-	-	-
Total Financing	**25,715**	**24,189**	**4,427**	**22,610**	**20,346**	**18,074**	**2,974**
Borrowing Need	20,000	15,046	41,500	7,500	8,255	0	0
Total Expenditure	**45,715**	**39,235**	**45,927**	**30,110**	**28,602**	**18,074**	**2,974**

Table 3: Projected Capital Financing Requirement

CAPITAL FINANCING REQUIREMENT	2018/19 Budget	2018/19 Actual	2019/20 Budget	2020/21 Projected	2021/22 Projected	2022/23 Projected	2023/24 Projected
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	0	0	15,046	56,358	63,148	70,586	69,652
CFR – General Fund	20,000	15,046	41,312	6,790	7,438	(935)	(951)
Total CFR	**20,000**	**15,046**	**56,358**	**63,148**	**70,586**	**69,652**	**68,700**
Movement in CFR	**20,000**	**15,046**	**41,312**	**6,790**	**7,438**	**(935)**	**(951)**

Movement in CFR represented by:							
Borrowing need for the year Details at Annex 1 table 2	20,000	15,046	41,500	7,500	8,255	0	0
Less MRP/VRP and other financing movements Basis: 1.8% PWLB Annuity rate	0	0	(188)	(710)	(817)	(935)	(951)
Movement in CFR	**20,000**	**15,046**	**41,312**	**6,790**	**7,438**	**(935)**	**(951)**

2.2 Prudential Indicators at 30 September 2019

Treasury Indicators	2019/20 Budget £'000	2019/20 Forecast £'000
Authorised limit for external debt	80,000	80,000
Operational boundary for external debt	70,000	70,000
Capital Financing Requirement	56,358	58,352
Gross External Debt (excl MRP)	41,500	43,494
Investments (Note 1)	143,280	143,380
Net Borrowing (Note 2)	**101,780**	**99,886**

Note 1 : Investments

	2019/20 Current Position £'000	2019/20 Forecast £'000
Loans to Subsidiary/Joint Venture Companies	3,972	4,022
Impairments	(185)	(185)
Investment Properties	95,493	95,543
Short Term Investments - Treasury	23,000	23,000
Long Term Investments - Treasury	13,000	13,000
Cash & Cash Equivalents	8,000	8,000
Total Investments	**143,280**	**143,380**

Note 2: Net Borrowing (defined as : External Debt less Investments)

Prudential Indicators	2019/20 Budget £'000	2019/20 Forecast £'000
Capital expenditure	45,927	47,699
Capital Financing Requirement (CFR)	56,358	58,352
Annual change in CFR	41,312	43,306
In year borrowing requirement	41,500	43,494
Ratio of financing costs to net revenue stream	2.63%	1.45%

2.3 Approved countries for investments at 30 September 2019

Link Asset Services: This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of 'green or above' in the Link Asset Services credit worthiness service.

Based on lowest available rating

AAA

Australia

Canada

Denmark

Germany

Luxembourg

Netherlands

Norway

Singapore

Sweden

Switzerland

AA+

Finland

U.S.A.

AA

Abu Dhabi (UAE)

Hong Kong

France

U.K.

AA-

Belgium

Qatar

This page is intentionally left blank