Agenda

Executive

Thursday, 16 December 2021 at 7.30 pm

New Council Chamber, Town Hall, Reigate

This meeting will take place in accordance with Government guidance. The Executive will assemble at the Town Hall, Reigate. Members of the public, Officers and Visiting Members should attend remotely.

Please wear a face covering at all times in the chamber, except when you are speaking, or, if you are seated at least 2 metres distance from others.

Members of the public may observe the proceedings live on the Council's website.

Members:	
M. A. Brunt (Leader)	
T. Schofield	E. Humphreys
T. Archer	V. H. Lewanski
R. H. Ashford	C. M. Neame
R. Biggs	K. Sachdeva
N. J. Bramhall	

Mari Roberts-Wood
Head of Paid Service

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Published 08 December 2021

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

1. **Apologies for absence**

To receive any apologies for absence.

2. **Minutes** (Pages 5 - 12)

To approve the minutes of the meeting of the Executive held on 18 November 2021.

3. **Declarations of interest**

To receive any declarations of interest.

4. **Observations of the Overview and Scrutiny Committee on the Budget Proposals for 2022/23** (To Follow)

To receive the observations of the Overview and Scrutiny Committee.

5. **Commercial Strategy - Part 2** (Pages 13 - 62)

Executive Member for Investment and Companies.

6. **Treasury Management Mid-Year Report 2021/22** (Pages 63 - 102)

Deputy Leader and Executive Member for Finance and Governance.

7. **Quarter 2 Performance Report 2021/22** (Pages 103 - 134)

Deputy Leader and Executive Member for Finance and Governance and Executive Member for Corporate Policy and Resources.

8. **Risk Management - Quarter 2 2021/22** (Pages 135 - 158)

Executive Member for Corporate Policy and Resources.

9. **Statements**

To receive any statements from the Leader of the Council, Members of the Executive or the Head of Paid Service.

10. **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).

11. 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.

Exempt Annex 2 of the Risk Management – Quarter 2 2021/22 Report.

Our meetings
As we would all appreciate, our meetings will be conducted in a spirit of mutual respect and trust, working together for the benefit of our Community and the Council, and in accordance with our Member Code of Conduct. Courtesy will be shown to all those taking part.

Streaming of meetings
Meetings are broadcast live on the internet and are available to view online for six months. A recording is retained for six years after the meeting. In attending any meeting, you are recognising that you may be filmed and consent to the live stream being broadcast online, and available for others to view.

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

Notice is given of the intention to hold any part of this meeting in private for consideration of any reports containing “exempt” information, which will be marked accordingly.

BOROUGH OF REIGATE AND BANSTEAD

EXECUTIVE

Minutes of a meeting of the Executive held at the New Council Chamber - Town Hall, Reigate on 18 November 2021 at 7.30 pm.

Present: Councillors M. A. Brunt (Leader), T. Schofield (Deputy Leader), T. Archer, R. H. Ashford, N. J. Bramhall, E. Humphreys, V. H. Lewanski and C. M. Neame.

Also present: Councillors R. Biggs, J. Booton, P. Chandler, J. C. S. Essex, P. Harp, N. D. Harrison, S. A. Kulka and S. Sinden.

35. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Sachdeva. Councillor Biggs attended the meeting remotely and did not vote.

36. MINUTES

RESOLVED that the minutes of the meeting of the Executive held on 16 September 2021 be approved.

37. DECLARATIONS OF INTEREST

Councillor Bramhall declared a non-pecuniary interest in item 6, Draft Horley Business Park Supplementary Planning Document for Consultation, by virtue of her position as the Cabinet Member for Property at Surrey County Council, which was a landowner.

Councillor Biggs declared a non-pecuniary interest in item 6, Draft Horley Business Park Supplementary Planning Document for Consultation, due to the proximity of the site to his residence.

38. ENVIRONMENTAL SUSTAINABILITY: PROGRESS UPDATE

The Executive Member for Corporate Policy and Resources, Councillor Lewanski, introduced the report which provided an update on the Council's progress in delivering the Council's Environmental Sustainability Strategy and proposed new actions to include in the Council's Environmental Sustainability Action Plan.

In line with the first area of focus in the Sustainability Strategy; change within the Council, the Council had:

- Switched energy tariffs so more electricity came from renewable sources and offset the remaining purchased energy emissions
- Continued to replace aging fleet vehicles with local carbon electric alternatives
- Purchased green products, reduced printing and single use plastics, and provided training and advice to staff and members, to tackle the Council's indirect environmental impact.

The next step was to develop and implement plans to improve the energy efficiency of Council buildings and introduce on-site renewable technologies.

In line with the second area of focus in the Strategy; to support residents and businesses to move towards a more sustainable borough and work to the national target of net zero by 2050, the Council had:

- Adopted new planning guidance to help make new developments more sustainable
- Continued to work with partners to improve the energy efficiency of homes in the borough and provided information to residents about how to make their homes more sustainable
- Provided advice and run workshops to help communities plant trees in their local areas, and planted trees and native plans on Council land.
- Installed new electric vehicle charging points in Horley and Banstead
- Provided advice and information to local businesses, including the Reigate Business Guild.

These actions were on top of the day to day work undertaken by the Waste & Recycling team to educate and improve recycling and the Environmental Health team in relation to air quality and privately rented housing.

Councillor Lewanski explained that it was proposed to introduce new actions in the Council's Action Plan covering topics like domestic retrofit, climate change adaption and carbon dioxide emissions. In addition, working with partner organisations would put the Council in the best position to make a positive difference.

The annexes to the report had been considered by the Cross Party Member Sustainability Group and the Overview & Scrutiny Committee and Councillor Lewanski explained that he would be happy to incorporate suggestions from the Overview & Scrutiny Committee into the Council's future area of work.

Councillor Harrison, Chairman of the Overview and Scrutiny Committee, reported that the Committee had considered the progress update at the Committee's meeting on 21 October. The Committee focused on the improvements needed to Council assets and had requested supplementary information on the Council's carbon offsetting measures. The Committee also considered engagement with young people, publicising the Action Plan and planting new forestry, and requested a future update on the comments made by the Committee. The Committee were supportive of the work that had been undertaken.

In response to questions from Visiting Members, it was confirmed that:

- The Council would continue to work with Surrey County Council and Action Surrey as they rolled out energy efficiency programs in relation to retrofitting of homes, and would continue to work to bring local businesses together to identify new opportunities.
- The Action Plan would be updated to identify key actions, in line with the comments received from the Overview and Scrutiny Committee.

RESOLVED:

1. To agree the annual Environmental Sustainability progress report (Annex 1) for publication on the Council website.

2. To agree the proposed additions to the Environmental Sustainability Action Plan (Annex 2)

3. To reassert the Executive's commitment to working in partnership with Surrey County Council and other Surrey districts and boroughs to achieve county-wide climate objectives.

39. MERSTHAM RECREATION GROUND REFURBISHMENT

The Executive Member for Neighbourhood Services explained that the report was seeking approval to bring forward the Council's ambitions for the refurbishment of Merstham Recreation Ground.

A thorough process of engagement with residents and stakeholders had taken place. This included public events, newsletters, online engagement and a focus group. The Council had developed a Master Plan for the recreation ground based on the engagement process. The Master Plan had received strong public support. The next step was to submit a planning application and appoint a contractor to bring forward the improvements.

Councillor Bramhall explained that the Master Plan would be delivered over time, as and when funding was secured. Phase 1 would include a new pavilion, new footpaths, a play area, youth area, outdoor gym and planted trees, woodland, and orchard. Councillor Bramhall explained the Council was working with Surrey County Council as the local drainage authority as the refurbishment was seen as an exemplar project on how to deliver and manage sustainable drainage. The Council was also working with local community groups to identify community funding opportunities for smaller components.

The refurbishment would meet a key objective of the Council's Reigate & Banstead 2025 Plan to invest in Council owned parks and recreational facilities, as well as improving the lives of those who live in Merstham.

In response to questions from Visiting Members it was confirmed that:

- An integrated approach was planned for the provision of equipment which would allow further upgrades in time once funding was available.
- Security would be achieved by design principles such as wide-open views and lighting, along with increased activity.

RESOLVED that the Executive:

1. Approve the Merstham Recreation Ground Master Plan as set out in Annex 1 of the report.

2. Approve the phased implementation of the refurbishment as set out in the report.

3. Authorise the Head of Finance to make the necessary arrangements to allocate funds to the first phase of the project in accordance with the exempt information outlined in the report and the approved Capital Programme.

4. Authorise the Head of Place Delivery in consultation with the Executive Member for Neighbourhood Services and the Executive Member for Planning and Place Delivery to make a Planning Application for the refurbishment of

Merstham Recreation Ground and any other planning applications on other sites that may be required to bring the project forward as necessary.

5. Authorise the Head of Place Delivery in consultation with the Executive Member for Neighbourhood Services and the Executive Member for Planning and Place Delivery to procure and make any necessary consultancy and contractor appointments for the project, to prepare the necessary documentation and to obtain competitive tenders for the design and build as set out in the report.

6. Authorise the Head of Place Delivery in consultation with the Executive Member for Neighbourhood Services and the Executive Member for Planning and Place Delivery to award, finalise, agree, sign and execute construction contracts relating to the project.

7. Authorise the Head of Place Delivery in consultation with the Executive Member for Neighbourhood Services and the Executive Member for Planning and Place Delivery to alter the scope of works as necessary, should further project funding be secured or if necessary, to ensure that expenditure remains within the budget set out in the exempt part of the report.

40. DRAFT HORLEY BUSINESS PARK SUPPLEMENTARY PLANNING DOCUMENT FOR CONSULTATION

The Executive Member for Planning Policy and Place Delivery, Councillor Biggs, introduced the report by explaining that the Executive was asked to approve the draft Horley Business Park Development Brief Supplementary Planning Document (SPD) for consultation. Following consultation, the draft SPD would be updated, and the responses received summarised in the final Consultation Statement. The Executive would be asked to adopt the final SPD following this process.

Councillors Biggs explained that the Development Management Plan (DMP), adopted in September 2019, allocated this site for development with complementary uses to serve the business park, and a large new public open space of at least 5 hectares. The DMP required the Borough Council to have prepared an SPD to assist with the proper planning and on-going functioning of the site. Once adopted, the site promoter would use the SPD to inform its masterplan which it must prepare in consultation with the Council as local planning authority. That masterplan must be submitted alongside the outline planning application which needs to align with the masterplan. The SPD would also help other interested organisations and consultees to have a comprehensive appreciation of the issues.

The draft SPD:

- provided guidance, to assist the planning, delivery, and function of the Horley Strategic Business Park.
- had been informed by desktop analysis of the site, its surrounding context, and relevant issues, as well as by correspondence and a series of workshops with representatives of interested organisations.
- had also been informed by two key consultants studies commissioned by the Planning Policy team and completed this year and was also discussed at a meeting of DMAG and been updated to reflect the points raised.
- addressed issues as summarised in the initial Consultation Statement.

In response to questions from a Visiting Member it was confirmed:

- That the wording in paragraph 1.21 of the draft SPD would be amended prior to consultation to reflect the need for all relevant elements of the Climate Change and Sustainable Construction SPD to be complied with.
- That the draft SPD would set ambitious targets for sustainable travel, with specifics dependent on schemes brought forward in the future.
- That a Tree Protection Order (TPO) had been issued to protect the trees around the boundary of the site following felling of woodland in 2020.
- That the draft SPD needed to be clear around the need for replacement tree planting in response to the woodland removed before the TPO had been issued.

Following discussion, the Executive **RESOLVED to DEFER** approval for the SPD for public consultation to allow further consideration as to how the SPD would relate to existing and future development on the site.

41. SERVICE & FINANCIAL PLANNING 2022/23

The Deputy Leader and Executive Member for Finance and Governance introduced a report setting out the service and financial planning proposals for 2022/23.

Councillor Schofield explained that preparation for the proposals had presented challenges and difficult decisions in relation to cost savings and some discretionary support offerings because of the pandemic. Councillor Schofield expressed his appreciation for the hard work undertaken by officers and members during the development of the proposals.

The revenue budget for 2022/23 was based on a full and robust assessment of what the Council does and how it does it. The Council was mindful of potential impacts and would consult widely on the proposals in the report before making a final decision in January.

There had been significant drops in income as a legacy of the pandemic. Shortfalls would have to be filled from Reserves, savings, or new sources of income. It was forecast that over £700,000 would be drawn from Reserves to balance the budget. In addition, there was a requirement to invest in IT resilience and, if no further equivalent savings were found, the forecast budget gap would total £0.987 million in 2022/23.

Councillor Schofield explained that an amendment to the report and an additional recommendation had been published as an addendum as a result of identifying the required IT investment.

The final budget position would depend on the outcome of the Spending Review and the Provisional Local Government Settlement and would be confirmed in the next two months. Despite the continued impacts of the pandemic, the Revenue budget remained sound due to substantial Reserves, the Council's Financial Sustainability Plan and the Commercial Strategy.

In terms of the Medium-Term Financial Plan, Councillor Schofield explained that the report included updated five-year forecasts to reflect work that had been undertaken to map the potential impact of increased costs and reductions in government funding. The Plan provided a solid framework for future financial planning.

The Revenue Reserves remained sufficient to support the budget and mitigate post-pandemic risks. Approval was sought for the Reserves Policy.

Councillor Schofield explained that the proposal was to increase the Council's element of the average Band D charge by 9.5p a week, subject to confirmation of the Government's referendum limit in December and approval at Council in February.

Councillor Schofield explained that the report did not propose changes to the approved Capital Programme. Significant increases had been made in 2020/21 and therefore 2022/23 would continue the subsequent period of consolidation where focus would remain of the delivery of schemes that were in progress.

It was recommended that the Local Council Tax Support Scheme be reviewed in 2022/23. This would ensure that the Scheme remained up to date and would continue to support households who need assistance in paying council tax bills.

The Leader of the Council, Councillor Brunt, expressed his thanks to members and officers for the hard work undertaken to reduce the budget gap.

The Chairman of the Overview and Scrutiny Committee, Councillor Harrison, reported that the proposals were going to the Budget Scrutiny Review Panel. In response to a question from Councillor Harrison, Councillor Schofield confirmed that the IT strategy and commercial strategy would be consolidated into the budget prior to the final proposals being put before Council in February.

RESOLVED:

1. That the national and local policy context (Annex 1) and significant financial uncertainties at this stage in the budget-setting process be noted.

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

3. That the draft service business plans for 2022/23 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.

4. 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 £0.566 million (Annex 3);
   c) Revenue Budget Growth proposals totalling £0.567 million (Annex 3) ;
   d) Forecast ongoing income budget pressures in 2022/23 as a consequence of the COVID-19 pandemic totalling £1.300 million (Annex 2);
   e) Revenue Reserve Balances at 1 April 2021 of £41.738 million (Annex 6.1);

f) A forecast Revenue budget gap for 2022/23 of £0.718 million after taking account of the Service and Central budget growth and savings proposals in this report, plus the additional requirement to invest £0.269 million in IT Resilience, resulting in a total forecast gap at this point in the budget-setting process of 0.987 million for 2022/23.

5. That the Fees & Charges Policy (Annex 5) be approved.

6. That the Reserves Policy (Annex 6.2) be approved.

7. That the Medium Term Financial Plan forecast for 2023/24 onwards (Annex 2) and proposed actions to address the forecast revenue budget gap be noted.

8. That the Local Council Tax Support Scheme be reviewed during 2022/23 and the outcome reported as part of Service & Financial Planning for 2023/24.

42. APPOINTMENT TO THE BOARD OF THE BANSTEAD COMMONS CONSERVATORS (CASUAL VACANCY)

The Executive Member for Neighbourhood Services, Councillor Bramhall, introduced the report by explaining that the Banstead Common Conservators maintained and protected the integrity of the Banstead Commons, a strategic part of the green belt in Reigate and Banstead. Following the resignation of one Conservator, Dr Bellenger, a vacancy existed on the Board.

Expressions of interest to fill the vacancy were received from Mr Mockford and Mr Mollett and were set out in the exempt information of the agenda pack.

RESOLVED that Mr Mockford be appointed as the representative, for the period until March 2022, to fill the vacant position on the Banstead Commons Conservators, after consideration of the applications under exempt business.

43. STATEMENTS

There were none.

44. ANY OTHER URGENT BUSINESS

There was none.

45. EXEMPT BUSINESS - ITEM 5 - MERSTHAM RECREATION GROUND REFURBISHMENT

The Executive considered Merstham Recreation Ground Refurbishment in open session (minute 39 refers).

46. EXEMPT BUSINESS - ITEM 8 - APPOINTMENT TO THE BOARD OF THE BANSTEAD COMMONS CONSERVATORS (CASUAL VACANCY)

RESOLVED 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 1 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.

The Executive considered the exempt annexe to agenda item 8.

The Meeting closed at 8.47 pm

Reigate & Banstead
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SIGNED OFF BY	Head of Paid Service
AUTHOR	Catherine Rose, Head of Corporate Policy
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TO	Overview and Scrutiny Committee Executive
DATE	Thursday, 9 December 2021 Thursday, 16 December 2021
EXECUTIVE MEMBER	Councillor Tim Archer

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards);

SUBJECT	Commercial Strategy - Part 2

RECOMMENDATIONS

Overview & Scrutiny Committee:

(i) That the Committee notes the report and the Commercial Strategy Part 2 and provides any observations for consideration by the Executive

Executive:

(i) That the Executive approves the Commercial Strategy Part 2.

REASONS FOR RECOMMENDATIONS

Having an approved Commercial Strategy will ensure that the Council takes commercial decisions in a clear, consistent and effective way, and in a manner consistent with corporate objectives and its statutory responsibility to promote economic, environmental and social wellbeing in the borough.

EXECUTIVE SUMMARY

The Council's Corporate Plan, Reigate & Banstead 2025, explains that to remain a financially sustainable Council we need to generate income to reinvest into providing frontline services for our residents.

In recognition of this fact, the Executive agreed a Part 1 Commercial Strategy in November 2020. This set out the overarching direction and parameters for the Council's commercial activity, including guiding principles and the categories of commercial activity that the Council will focus on. At the time, it was agreed that a Part 2 of the Strategy would be developed which would provide more detail about the implementation of commercial activity, in particular investment activity.

The Service & Financial Planning 2022/23 papers presented to the Executive in November 2021 underscore the continuing scale of the financial challenge that the Council faces, particularly in the face of an unanticipated decline in existing income sources (primarily parking income) as a result of the pandemic.

At the same time, the regulations and guidance in relation to local authority borrowing are changing, introducing more restrictive parameters within which the Council is able to carry out investment activity.

The Part 2 Commercial Strategy at Annex 1 takes into account the Council's current financial position, the latest borrowing rules and our experiences with commercial activity to date (as well as that of other local authorities). It focuses on:

- Investing in commercial assets; and
- Investing in commercial services.

It explains the approach that will be taken in relation to activity in both these areas, including the need for an evidence-based approach and robust financial business cases, risk management and mitigation and the need to balance risk and financial reward. It also explains the processes that will be applied for decision-making on commercial projects and how progress and performance will be reported.

As a subsidiary strategy to the Corporate Plan, providing more detail as to how objectives within the Corporate Plan will be implemented, the Executive has the authority to approve the Commercial Strategy. The Strategy has been developed in consultation with Commercial Ventures Executive Sub Committee (CVESC) members and informed by comments from the Commercial Scrutiny Panel.

The O&S Committee and the Executive have authority to approve the above recommendations.

STATUTORY POWERS

1. The Localism Act 2011 introduced the General Power of Competence, which allows local authorities to do anything that individuals generally may do as long as it is not prohibited by other legislation. We are therefore able to operate more commercially, and undertake a range of different business ventures.

BACKGROUND

2. Since the Council's 2015-2020 Corporate Plan was adopted, the Council has had an ambition to be an increasingly commercial organisation.
3. In 2018, a member task group reviewed the Council's commercial arrangements in place at that time, and recommended a number of changes in approach based on the Council's experiences to date, including the creation of a new Commercial

Ventures Executive Sub Committee (CVESC) and a good practice Framework and Checklist to guide future commercial activity. The CVESC was set up in May 2019.

4. In early 2020, the Council agreed its new Corporate Plan, Reigate & Banstead 2025. This plan sets out the Council's priorities for the period 2020-2025 and explains how it will focus its resources and deliver services to those living, working and spending time in the borough.

5. Recognising the financial challenges that the Council is faced with, Reigate & Banstead 2025 includes the objective to "generate additional income and build our financial resilience, in order to sustain services, through responsible and sustainable commercial activities". It identifies that the Council will develop a Commercial Strategy to inform its income generation activities.

6. In November 2020, the Executive agreed the Commercial Strategy Part 1 which sets out the overarching direction and parameters for the Council's commercial activity. The Part 1 Strategy explains the categories of commercial activity that the Council will undertaken and sets out three Guiding Principles that will underpin all the Council's work in this area, as follows:

   a. Principle 1: Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives
   b. Principle 2: Any commercial decisions will be based on a robust assessment of the business case using consistent criteria (to be detailed in Part 2 of this Strategy), and appropriate due diligence and risk assessment
   c. Principle 3: Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.

7. At the same time as agreeing the Commercial Strategy Part 1, the Executive agreed to support the ongoing development of a Part 2 Commercial Strategy, to be brought to a future meeting.

KEY INFORMATION

The Council's current financial position

8. The Service & Financial Planning 2022/23 report presented to the Executive in November 2021 provides an up-to-date picture of the Council's financial position. This outlines that at the time of preparing the report the Council faces a potential budget gap of £0.718 million in 2022/23 with that gap forecast to increase further in future years. Over the medium term, therefore, action will be required to continue to pursue projects that generate new sources of income (as well as the Council seeking ways to use existing resources more efficiently).

Changes to borrowing rules

9. Recent changes to the rules around local authorities borrowing to fund their activities mean that the Council will only be able to generate income to contribute to addressing the funding gap if the income stream that we receive is incidental to the main purpose of the investment.

Learning from experience and best practice

10. Acting more commercially as a local authority is not free from pitfalls. To inform the Part 2 Commercial Strategy the experiences of a range of local authorities was considered. The Council's own experience in relation to commercial activity has also been reflected upon. This suggests that our future commercial activity should be underpinned by:

    a. A thorough understanding of investment opportunities including the preparation of robust business cases and risk assessments

    b. Progressing commercial projects using our established project management frameworks and reporting processes

    c. Using our established governance structures to ensure that decision-making is transparent (accepting that there will a need to treat commercially sensitive information as exempt); and

    d. Focusing on activity in areas where the Council already has experience, skills and expertise, and continuing to 'grow' in-house skills and expertise, supplemented by external advice where appropriate

Investing in commercial assets

11. While the Council is no longer able to borrow to invest in assets purely for commercial reasons, asset activity remains an important tool available to the Council, enabling the generation of income as a by-product of delivering broader corporate objectives such as housing and regeneration activity, either directly or indirectly via a company.

12. The Commercial Strategy Part 2 explains the various types of asset activity that the Council may undertake, and the things that will be taken into account as opportunities in these areas are considered and developed.

13. The priority areas of Council activity in this area will be:

    - Evidence: Ensuring a robust understanding of our asset portfolio and its performance
    - Asset management: Maximising value from the assets that we currently own and /or manage for commercial income
    - Asset (re-)development: Securing new income streams and/or capital receipts from development projects
    - Asset disposal: Disposing of assets that are currently underperforming or surplus to requirement; and
    - Asset acquisition: Purchasing assets which deliver broader benefits in line with our Corporate Plan.

14. The Council is already undertaking work in this are, for example, with income due to be generated from its Marketfield Way and Cromwell Road developments. By maintaining a pipeline of asset projects based around these priorities we will ensure that asset-related work continues to contribute to addressing the Council's funding gap and that future resource requirements (both financial and skills/expertise) are considered at the appropriate time.

Investing in commercial service activity

15. The Council also has the ability to generate income (or make savings) by taking a commercial approach to some elements of its service-related activity. This includes through trading activity and the setting of fees and charges.

16. The Commercial Strategy Part 2 explains how - in taking forward proposals in these areas - a robust understanding of the customer base and/or relevant markets will be needed, along with ensuring that appropriate measures are in place to deliver the activity whilst ensuring that core or statutory activities will not be compromised.

17. The priority Council activities in this area will be:

    - Continuing to incrementally grow our existing trading activities for medium-term income generation and introducing commercial into services we currently provide non-commercially or that align with our remit; and
    - Maximising income from existing non-statutory fees and charges and introducing new non-statutory fees and charges where appropriate

18. The Council already undertakes some trading activity (for example in relation to revenues, benefits and fraud work and trade waste). The Part 2 Commercial Strategy sets parameters for future activity in this area to be undertaken in a way that contributes to the longer term financial sustainability of the Council whilst also ensuring that risks are carefully managed.

OPTIONS

19. The options available to the Executive are as follows:

    - Option 1: Approve the Commercial Strategy Part 2 appended at Annex 1. This option is recommended. Having an up-to-date strategy in place will ensure clarity and transparency about what the Council is seeking to achieve through its commercial activity and the processes in place to achieve this.
    - Option 2: Request amendments to the Commercial Strategy Part 2 appended at Annex 1 before it is approved. This option is not recommended. The strategy at Annex 1 has been subject to consultation with the CVESC and the Commercial Scrutiny Panel, as well as the Overview & Scrutiny Committee; and further delay may constrain or delay the ability of the Council to progress its activity in this area.
    - Option 3: Do not approve the Commercial Strategy Part 2. This option is not recommended. The Executive has previously agreed that a Part 2 should be developed, and further delay may constrain or delay the Council's ability to progress commercial activity, which will impact on the longer-term financial sustainability of the Council.

LEGAL IMPLICATIONS

20. There are no direct legal implications associated with the approval of the Commercial Strategy Part 2.

21. The Strategy does, however, identify some of the general legal risks associated with commercial activity. It will therefore continue to be important that appropriate legal

advice (including from external advisors) be sought on commercial investment proposals as they are developed and implemented.

FINANCIAL IMPLICATIONS

22. The importance of income generation as a means of the Council securing funding for service provision is recognised in the Corporate Plan and Commercial Strategy Part 1 and underscored by the November 2021 Service & Financial Planning 2022/23 report.
23. Whether property-related or service-related, commercial activity may require initial or ongoing funding in order to secure commercial income streams or capital receipts. For example, revenue funding may be required to market properties for lease, or for staff to expand traded services; or capital funding may be required to purchase property or equipment. Section 6 of the Commercial Strategy Part 2 provides more information about how revenue funding, feasibility funding and capital funding decisions will be taken, and how income will be reported on.
24. The Commercial Strategy Part 2 is based on the fact that the Council will need to borrow to fund future capital investment activities, but also recognises the latest CIPFA guidance and the increased constraints on Public Works Loan Board funding recently confirmed by Government. The approach proposed is consistent with those rules.

EQUALITIES IMPLICATIONS

25. Under the Equality Act 2010, we have a duty to have due regard to the need to eliminate unlawful discrimination, harassment, victimisation and other prohibited conduct; and advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not share it. This duty applies to all decisions made in the course of exercising the Council's public functions.
26. The Commercial Strategy Part 2 does not have any direct implications for staff, residents or other service users including those with protected characteristics. Rather it sets out broad parameters for the delivery of commercial activity by the Council.
27. The requirement for equality impact to be assessed is incorporated within the Council's Project Management Framework. It will be important that the equality impacts of individual commercial projects are fully considered and that, in developing proposals, consideration is given to how positive impacts can be increased for those with protected characteristics, as well as how negative impacts can be reduced.

COMMUNICATION IMPLICATIONS

28. The Commercial Strategy Part 2 will be publicly available on the Council's website alongside Part 1.
29. No dedicated communication activity is planned in relation to the Commercial Strategy Part 2. However, communications activity may take place in relation to specific commercial activities or projects referenced in the Strategy: the need for this will be considered on a case by case basis.

RISK MANAGEMENT CONSIDERATIONS

30. The future financial sustainability of the Council is an identified risk on the Strategic Risk Register. The risk register recognises that the Council is expecting to be increasingly reliant on income from fees, charges and its treasury and commercial investments. It identifies a range of controls and mitigating actions, including ensuring that the Council continues to invest in skills and expertise to support delivery of the Council's financial and commercial objectives while managing associated risks.
31. The Commercial Strategy Part 2 provides a summary of the key (general) risks associated with commercial property-related and service-related activity. Project-specific risks and operational risks will be identified and managed through the Council's project management framework and the Council's operational risk registers respectively.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

32. No direct environmental implications have been identified associated with the Commercial Strategy Part 2. It will be important that the environmental implications (positive or negative) of commercial property-related and service-related activity are fully considered within business cases and through the decision-making process.
33. As the Council delivers its Environmental Sustainability Strategy there may be some income generating or 'invest to save' opportunities associated with that work, which can be explored as project business cases are developed.

OTHER IMPLICATIONS

34. Human Resources: The Commercial Strategy Part 1 recognises the need to embed a commercial culture within the organisation and ensure that our commercial activities are properly resourced. The focus in the Commercial Strategy Part 2 on activity that aligns with corporate objectives and our existing areas of expertise means that current staff resources are well placed to undertake this work. However:
    a. In some cases, fixed-term staff resources may be recruited to oversee the delivery of particular projects with a commercial element; and
    b. If the appropriate technical or commercial expertise does not exist 'in house', or where a second opinion or 'critical friend' is considered beneficial, external consultants may be used. This could include (but may not be limited to) legal, financial and property-market advice.

CONSULTATION

35. Members of the CVESC have been consulted as part of the preparation of this Part 2 Strategy.
36. The Commercial Strategy Scrutiny Panel considered the emerging Part 2 approach at a meeting in October 2021, where they raised a number of observations including:
    a. There were benefits and disadvantages to different models and approaches to commercial practice

b. Making most of Council's property assets, by maximising the returns and improving the overall value of assets that the Council owns and manages as commercial income are priorities

c. There was a difficult balance to be struck as there was only a finite amount that the Council was able to do to generate further income from acquisitions within the latest constraints and costs of borrowing; and

d. Specific skills and specialist or technical knowledge may need to be available / brought in at different stages of a commercial venture to ensure the right commercial expertise at the right time as identified by business cases or feasibility studies.

37. The Scrutiny Panel were subsequently invited to provide views via email on the draft Strategy document; however no additional comments were received from Panel members.

38. Comments from the Overview and Scrutiny Committee at its December 2021 meeting will be reported to the Executive Committee by way of addendum or verbal update.

POLICY FRAMEWORK

39. The production of a Commercial Strategy is consistent with the Council's Corporate Plan for the period 2020 to 2025

40. Delivery of the Commercial Strategy will continue to be a key consideration in service and financial planning; and provides the long-term solution for this Council to be able to agree a balanced budget year on year.

BACKGROUND PAPERS

1. Reigate & Banstead 2025: available online at www.reigate-banstead.gov.uk/rbbc2025
2. Commercial Strategy Part 1: available online at https://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/reigate_and_banstead_2025/4
3. November 2021 Executive Report 'Service & Financial Planning 2022/23': available online at https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1810&Ver=4

Funding our Services: A Commercial Strategy (Part 2)

Explaining the Reigate & Banstead approach to commercial investment

December 2021

Contents Page

Commercial Strategy Part 2 Summary: 'Plan on a page'

The context:

1. The impact of the **current local government funding regime** along with **increased budgetary pressures** means that the Council is facing **a growing funding gap**.
2. This means that the Council itself will need to **generate income in order to continue to fund services**.
3. At the same time a **tighter local government borrowing regime** is placing **restrictions on investing purely for yield**.
4. Together this means that we need to **review and evolve our commercial approach**.

Our proposed commercial approach:

1. A **project pipeline** to establish **new income streams** from asset activity while also **delivering broader corporate objectives**.
2. Ensure that **existing income streams** we already rely on from our assets are **maintained and where possible increased**; and that we **repurpose, redevelop or dispose** of those assets that cost us money.
3. **Invest in new assets** to secure income or deliver savings whilst also delivering corporate priorities.
4. Continue to **sell or trade services where we already do this**; and **look to introduce new trading activity** where this aligns with our local government remit and areas of expertise.
5. Take a **more commercial approach** to **fees and charges**.

Ensuring robust and transparent decisions:

1. Take an **evidence based approach** and apply our **established project management framework**, including risk management, benefits tracking and 'lessons learned' and an enhanced approach to **financial business cases**.
2. Take account of **overall asset portfolio balance** and the need to **manage the impact of trading activity** on core services and activities.
3. Use the **Commercial Ventures Executive Sub-Committee** to take formal decisions about commercial investment, and continue to use the **Commercial Governance Framework**.
4. Quarterly **commercial income reporting** to Overview & Scrutiny, continued provision of **project dashboards** to members, and quarterly **updates on portfolio performance** to CVESC members.

Funding commercial activity:

1. **Revenue funding** agreed annually via budget process or via earmarked reserves
2. **Project feasibility funding** available from the Feasibility Studies Reserve
3. **Capital funding** via the annual Capital Programme and in agreement with the CVESC

Executive Summary

Introduction

To deliver the priorities, as set out in the corporate plan ‘Reigate & Banstead 2025’, the Council faces tough decisions about funding. To avoid significant increases in Council Tax, we need to generate surplus income, in order that those funds can be re-invested into the provision of frontline services for our residents. This means we will need to act more commercially.

This Commercial Strategy Part 2 builds on Part 1 of the Commercial Strategy which was agreed in November 2020. It explains the different types of commercial activity that the Council will consider, provides a framework for how different options will be evaluated, and outlines the basis on which decisions will be made.

The context

The impact of the current local government funding regime, along with increased budgetary pressures, mean that the Council is facing a growing funding gap. We will therefore need to generate income itself in order to continue to fund services.

At the same time, a tighter local government borrowing regime is placing restrictions on the Council’s ability to invest purely for financial yield

Taken together, this means that we need to review and evolve our commercial approach. More information about the context against which this Strategy has been prepared is included in Section 2: The scale and practical implications of the funding challenge.

Our proposed commercial approach

The approach to commercial activity that the Council will take is based around two main areas, commercial asset activity and commercial service activity. The Council will:

- Develop a project pipeline to establish new income streams from asset activity
- Ensure that the existing income streams that we already rely on from our assets are maintained and where possible increased, and that assets that cost us money are repurposed, redeveloped or disposed of
- Invest in new assets to secure income or achieve savings, whilst also delivering against wider corporate objectives

- Continue to sell and trade services where we already do this, and look to introduce new trading activities where this aligns with our local government remit and our areas of expertise; and
- Take a more commercial approach to our non-statutory fees and charges.

More information about the proposed commercial approach is included at Section 4: Investing in commercial assets and Section 5: Investing in commercial services.

Ensuring robust and transparent decisions

In taking decisions about commercial asset and service related activity, the Council will:

- Take an evidence based approach and apply its established project management framework, including risk management, benefits tracking and 'lessons learned' and an enhanced approach to financial business cases
- Take account of our overall asset portfolio balance and the need to manage the impact of trading activity on our core services and activities
- Use the Commercial Ventures Executive Sub-Committee ('the CVESC') to take formal decisions about commercial investment and continue to use the Commercial Governance Framework to support this process; and
- Provide quarterly commercial income reporting to the Overview & Scrutiny Committee, continue to provide project dashboards to members and introduce quarterly updates on portfolio performance to CVESC members.

More information about the Council's governance and decision-making processes is included in Section 6: Funding, implementing and reporting on our commercial activity.

Funding commercial activity

The Council recognises that funding will be required to progress and 'unlock' commercial income generating opportunities. This will include:

- Revenue funding agreed annually via budget process or via earmarked reserves
- Project feasibility funding available from the Feasibility Studies Reserve; and
- Capital funding via the annual Capital Programme and in agreement with the CVESC

More information about these funding sources is provided in Section 6: Funding, implementing and reporting on our commercial activity.

Section 1: Introduction

Our Corporate Plan

1. In 2020, the Council agreed its new Corporate Plan, Reigate & Banstead 2025[1]. The plan sets out the Council's priorities and explains how we will focus our resources and deliver services to those living, working and spending time in the borough. These priorities include supporting vulnerable residents and local communities, strengthening our local towns and centres, making sure our Reigate & Banstead remains an attractive place to live and moving towards being a more environmentally sustainable borough.
2. To deliver the Council's corporate priorities, Reigate & Banstead 2025 includes the objective to generate additional income and build our financial resilience, in order to sustain services, through responsible and sustainable commercial activities. The plan then gives some examples of some of the ways the Council will do this, including:
    - Developing a commercial strategy to inform our income generation activities
    - Expanding our Council Tax and Business Rates collection and counter-fraud services for other organisations where it makes commercial sense to do so
    - Investigating other opportunities to sell or diversify our services and pursue these, where supported by a robust business case
    - Investing in new property assets or development opportunities in our economic area where these will provide a reliable revenue income stream or longer term capital receipt, and help us sustain services; and
    - Using our existing property assets to generate revenue income or capital receipts for the Council, including by bringing some of them forward for development.

Our Commercial Strategy Part 1

3. Our Commercial Strategy Part 1 was agreed by the Council's Executive in November 2020. It explains what we mean by 'commercial activities' and why the Council needs to undertake them, how commercial thinking will be embedded in the organisation and how commercial decisions will be taken. It sets out three principles that will underpin all our commercial activities, to provide reassurance that any commercial activity undertaken by the Council is consistent with our statutory roles and responsibilities:
    - **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in

[1] www.reigate-banstead.gov.uk/rbbc2025

the borough, and our corporate objectives as well as in line with all relevant advice and guidance

- **Principle 2:** Any decisions which have a commercial aspect will be based on a robust assessment of the business case using consistent relevant criteria, and appropriate due diligence and risk assessment
- **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.

The scope of this Commercial Strategy Part 2

4. The Part 1 Commercial Strategy explains that there are two main elements to our approach: firstly, becoming more business-like in our day-to-day activities, and secondly, increasing capital and revenue returns through our assets and investment.
5. The purpose of this Commercial Strategy Part 2 is to provide more detail around the 'investment' elements of the Council's commercial approach as described in Part 1. It should be read alongside the Council's Commercial Governance Framework, which was agreed by the Executive in March 2019[2].
6. For the purposes of this Part 2 strategy, a commercial venture is defined as one that:
    - Is not a core Council function or activity
    - Will generate income or capital receipts for the Council; and
    - Will require substantive revenue or capital spend beyond what is defined in agreed budgets (excluding earmarked reserves) *or* the establishment of a company; and
    - Where the Council's actual cumulative exposure exceeds £100,000[3].
7. A commercial venture may be progressed directly by the Council, or indirectly via either a new or existing Council company. This Part 2 Strategy:
    - Explains the different types of commercial activity that the Council will consider
    - Provides the framework for how different options will be evaluated and investment focused; and
    - Explains in more detail the basis on which decisions will be made and clarifies the processes which will be used.

[2] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=223&Ver=4
[3] Net of projected income. As defined in the Council's adopted Commercial Governance Framework (see footnote 2)

8. It will guide both the Council's direct commercial activity, and also provide the basis for decision making by the Leader, the Executive and Shareholder Panel members in respect of business plans for Council's current, and any future, companies.

Learning from experience and best practice

9. Acting more commercially as a local authority is not free from pitfalls. The past few years have seen a number of local authorities receiving negative assessments of the approach they have taken to commercial activity; and reliance on commercial activities has been a contributing factor in some instances to local authorities issuing section 114 notices (essentially a declaration that they do not have enough funds to deliver or balance their budgets).

10. To inform this Part 2 Commercial Strategy we have reviewed activity by a range of local authorities, as well as this Council's own experience in undertaking commercial activity. From this we have identified some 'learning points' that have shaped our approach:

    - A good understanding of any individual investment is essential, including its realistic costs, risks and timeframes
    - Proper process helps to avoid problems by allowing them to be spotted early and enabling timely responses
    - Councils benefit from playing to their strengths, with successful examples where authorities have been able to leverage their specialist knowledge, but also cases where moving away from this has increased the level of risk
    - Commercial skills and awareness are essential, and many issues can be avoided by having the relevant skills and experience in place.

11. Our own experiences in commercial activity to date, as well as our learning from elsewhere, indicates that the Council has the following core strengths that should form the basis of its future commercial activity:

    - We have in-house skills and expertise in areas where we already provide services, and are well placed to build on this, drawing on external advice if necessary
    - We understand the public sector environment, which presents opportunities for selling our services
    - We have good relationships with a range of local partners, offering opportunities for collaboration
    - We do not have an obligation to provide short-term returns to shareholders so we can invest for the longer term; and
    - While we have a forecast funding gap, we do have substantial revenue reserves which means we can take time to do things in a measured and appropriate way.

Section 2: The scale and practical implications of the funding challenge

The scale of the funding challenge

12. The Council receives no revenue support grant from central Government and its ability to fund the services it provides comes primarily from:

- Council Tax
- Some additional funding from money we are able to retain from the business rates that we collect
- Income from commercial activity that we already carry out, such as income from our property assets.

13. Every year, the Council publishes a Medium Term Financial Plan (MTFP), looking forward five years. This sets out the scale of the funding challenge for this Council in terms of reaching its goal (set out in the Corporate Plan) of being financially self-sustaining. At the time of writing, the latest MTFP is dated November 2021[4]. It outlines the budget pressures that will need to be addressed by the Council from 2022/23 onwards, including:

- Making budget provision for future pay and pensions increases
- Budgeting for the costs of approved borrowing to fund planned Capital Programme commitments
- The impacts on available resources of Government funding plans in future years, including the loss of Negative RSG Grant, the Fair Funding Review and the Business Rates Reset
- Revenue and capital budget growth to deliver priorities in the new Corporate Plan
- The ongoing financial impacts of the COVID-19 pandemic; in particular continued reductions in parking income forecasts; and
- The requirement to address other budget risks and opportunities that have been identified during budget setting, including: ICT resilience (investment to address risks); property rental income (significant lease renewals during the year); procurement & contract management and data insight (investment in additional capacity); family support & refugee resettlement (new funding opportunities); and Government Waste & Resources Strategy impacts (2024/25 onwards).

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[4] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1810&Ver=4

14. Taking all of this into account, the latest MTFP forecasts the Council’s budget gap as follows:

Figure 1: MTFP Budget Forecast Revenue Budget Gap (November 2021)

	Approved Budget 2021/22	Forecast Budget 2022/23	Forecast Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26	Forecast Budget 2026/27
Forecast gap	Balanced	£0.718m	£2.257m	£2.616m	£3.775m	£4.275m
Annual increase in gap	-	£0.718m	£1.539m	£0.359m	£1.159m	£0.500m
Gap as a percentage of 2021/22 budget requirement	-	4.1%	12.0%	15.0%	21.7%	24.6%

15. There are various tools at the Council’s disposal to reduce the budget gap, but the MTFP identifies maximising our income and commercial activity as being key strands of the Council’s budget setting activity in future years.

16. For this reason, funding is - and will continue to need to be - allocated within the Council’s annual budget to support commercial activity.

Practical implications of the funding challenge

The need for capital expenditure

17. As described in Part 1 of the Commercial Strategy, the funding challenge faced by the Council means that we will need to both reduce what we spend on service provision *and* generate income. We will do this by:

- Firstly, becoming more business-like in our day to day activities
- Secondly, increasing capital and revenue returns through our assets and investment.

18. It is the second of these themes that is the main focus of this Part 2 Commercial Strategy. The activities described in Part 1 for this theme - making best use of our property assets; and investing to generate new sources of revenue income - will both require capital expenditure by the Council.

Methods of funding capital expenditure

19. The Council has at its disposal a range of methods of funding capital expenditure that are available to us, as set out in more detail in the Council's 2021/22 Capital Investment Strategy: These include:

- Government grants and non-government contributions (sometimes requiring a 'match funding' element)
- Prudential borrowing
- Capital receipts
- Revenue contributions
- Use of leasing; and
- Section 106 Agreements (Town and Country Planning Act 1990) and Community Infrastructure Levy (CIL) sums.

20. There may also be more 'non-traditional' options such as local lotteries or crowd funding, however the list above represents the primary means of funding at our disposal.

21. While the Council has not historically had any need to borrow to fund its capital expenditure (relying on the use of grants, capital receipts etc), it is now in a position where borrowing will be required to fund delivery of corporate objectives. This is already recognised in the Council's Medium Term Financial Plan and Capital Investment Strategy; and in the Treasury Management Strategy which confirms an authorised borrowing limit of up to £161.5m to fund delivery of the Council's capital programme as currently approved (January 2021[5]).

Borrowing, and the options available to us

22. Figure 2 explains the main borrowing options available to the Council.

Figure 2:Different borrowing options available to the Council

Type of funding	Observations
Revenue reserves	Constrained by capacity of the revenue budget / reserves to make funds available; unlikely to be a realistic option given current revenue budget pressures
Capital receipts	Proceeds from sale of other capital assets

[5] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1632&Ver=4

Public Works Loans Board (PWLB)	No minimum loan value; quick to arrange Loan options: Maturity / Equal Instalments of Principal / Annity structure Duration of up to 50 years Interest repayment and MRP are a charge to the revenue budget over loan duration
Private Placements (Loans)	Bilateral loans with institutional investors (typically pension funds, insurance companies); minimum loan size is around £30m Loan options: Maturity / Equal Instalments of Principal / Annity structure Timetable to complete is around 8-12 weeks from initiation Interest repayment and MRP are a charge to the revenue budget over loan duration May be cheaper than PWLB however expensive and demanding on capacity to arrange
Bond Issue	Usually £250m minimum Requires authority to have a credit rating and investor 'roadshows' which are costly to arrange
Municipal Bond Agency	Local Govt Funding Agency – exists primarily to reduce councils' capital long term financing costs. Still in relatively early stages of being established. Allows authorities to diversify funding sources and borrow at a lower cost than PWLB - sells municipal bonds on the capital markets, raising funds that it will then lend to councils

23. However, despite this range of options there are also increasing constraints over what we can borrow and how we can used borrowed funds.

24. The **Prudential Code and Treasury Management Code** are set by the Chartered Institute of Public Finance and Accountancy (CIPFA). Local authorities are required by regulation to have regard to these Codes. At the time of writing, and in advance of updates to the Prudential Code, CIPFA has issued early guidance to local authorities about investment and borrowing to invest. This guidance applies to all forms of borrowing carried out by local authorities, and clarifies:

    - The types of capital spending where borrowing is still allowed (service delivery, housing and economic regeneration)
    - Why borrowing to invest solely for financial return is not allowed (due to the risks involved, particularly the fixed costs of borrowing compared to the volatility of income streams and capital values); and
    - That 'financial return' covers all investment returns, whether that be revenue income streams or capital gains.

25. **PWLB borrowing** is a major source of borrowing for local authorities. However, the Government has recently introduced new lending terms and procedures that place limitations on the purposes for which it can be used:

- Defining the types of capital expenditure that can be funded by PWLB borrowing (mainly to support service delivery, housing and regeneration activity)
- Introducing a stricter definition of what is classified as an investment asset primarily for yield and therefore which PWLB borrowing can no longer be used to fund; and
- Confirming that if a local authority is planning to acquire investment assets in the next 3 years it will not be able to use the PWLB to finance *any* capital programme expenditure.

What this means in practice

26. The above constraints mean that the Council is able to borrow in order to generate income to contribute to addressing the funding gap, but only if the income stream (or capital gain) is incidental to the main reason for the capital investment. This limits the Council to generating income from capital investment to activities such as regeneration and housing.

27. It is also important – in planning for capital investment funded by borrowing – that the costs of borrowing are considered (that is, interest repayments and a minimum revenue provision). **Annex 1** provides some hypothetical examples to demonstrate (in very simple terms) how borrowing costs influence the income yield from any particular scale of investment, and – for the purposes of comparison – indicative gross investment yields at the time of writing.

Section 3: Our future commercial investment: Setting the scene

Commercial Strategy Part 1 Guiding Principles

28. The Council's focus for future commercial investment is summarised in the Commercial Strategy Part 1, in the first Guiding Principle:

> *Principle 1: Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance*

29. This Guiding Principle will be applied as the Council determines the types of commercial investment opportunities it should pursue in the future.

Capital Investment Strategy priorities

30. The Council's Capital Investment Strategy[6] outlines the Council's corporate capital investment priorities. These relate to all capital investment therefore are also the starting point to guide the Council's focus for future commercial investment activity.

31. Our current corporate capital investment priorities are:

- **The prosperity of the borough**: investment that will stimulate economic growth
- **Income and efficiency**: investment which promotes the financial stability of the Council
- **Supporting delivery of core Council services**: investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community
- **Building community assets**: investment that will benefit our communities; and
- **Ensuring the environmental quality and sustainability of the borough**: investment that will make the borough a more attractive place to live, work and visit or deliver wider environmental benefits.

[6] At the time of writing, agreed in July 2021 and available at https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1802&Ver=4

How we will approach commercial investment

32. Given the constraints to borrowing outlined in the earlier section, any commercial investment by the Council will need to be based *not* primarily on income but on one or more of the other corporate plan or capital investment priorities.

33. We will approach commercial investment in the future recognising these constraints but also reflecting on the learning from our work in this area in recent years and from elsewhere in the sector (as summarised at in **Section 1**). We will:

- At all times recognise our responsibility to invest wisely and to promote the interests of our residents and our borough
- Ensure that our house is in order and that we have a robust foundation for our commercial activity
- Use our corporate plan priorities to inform what we do
- Work within our means, reflecting the resources and expertise that we have available to us
- Use up-to-date market and sectoral evidence and analysis, and
- Learn from best practice.

34. The next two sections explain the different commercial investment opportunities that will be considered by the Council and explains the basis around which different options will be considered. They cover:

- Investing in commercial assets; and
- Investing in commercial services.

Section 4: Investing in commercial assets

Current asset portfolio

35. The Council already owns an extensive property portfolio, which generates income that is already being used to fund the delivery of council services. A full list of Council assets is published annually on the Council's website, at https://www.reigate-banstead.gov.uk/downloads/download/582/assetregisterdataset.

36. The Council also has a wholly owned property investment and delivery company, Greensand Holdings and interests in Horley Business Park Development LLP, a joint venture set up to bring forward the planning and development of employment land.

37. The Council reports annually on the performance of properties it holds purely as investments (investment properties) in its annual statement of accounts; however the portfolio that is generating income from the Council is much wider, as demonstrated by Figure 3, Figure 4 and Figure 5 below.

Figure 3: RBBC Commercial Property Portfolio: Number of assets by type

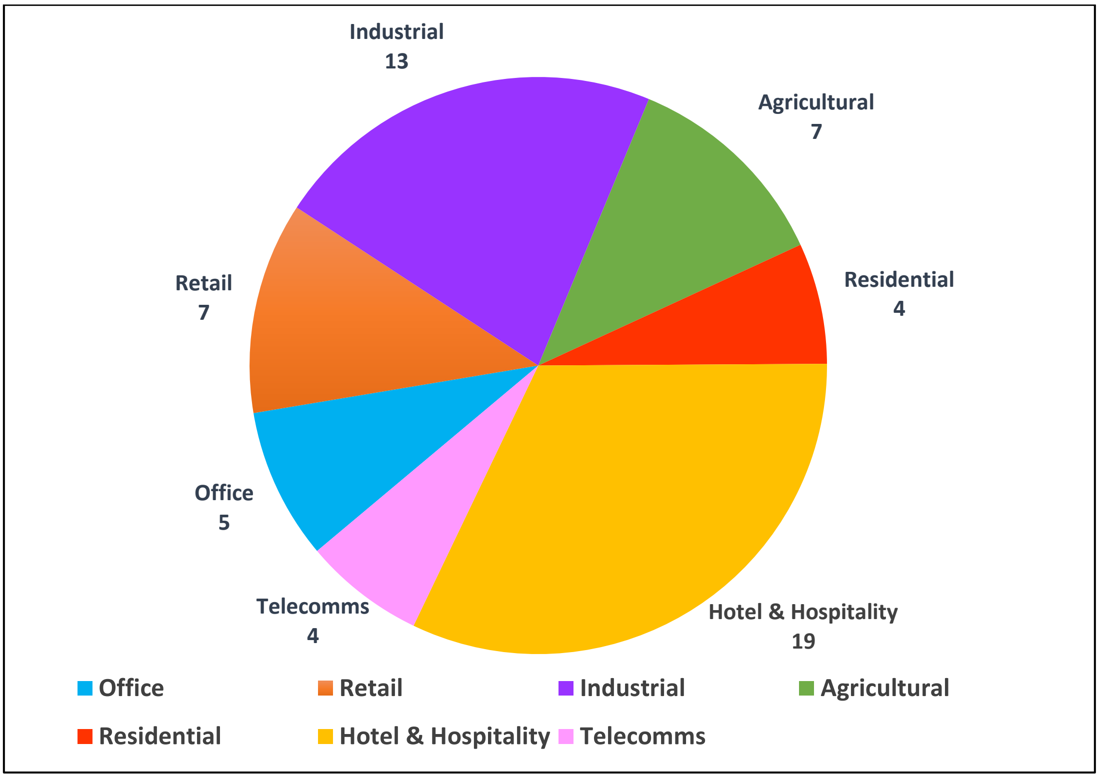


Figure 4: RBBC Commercial Property Portfolio: Capital value by type

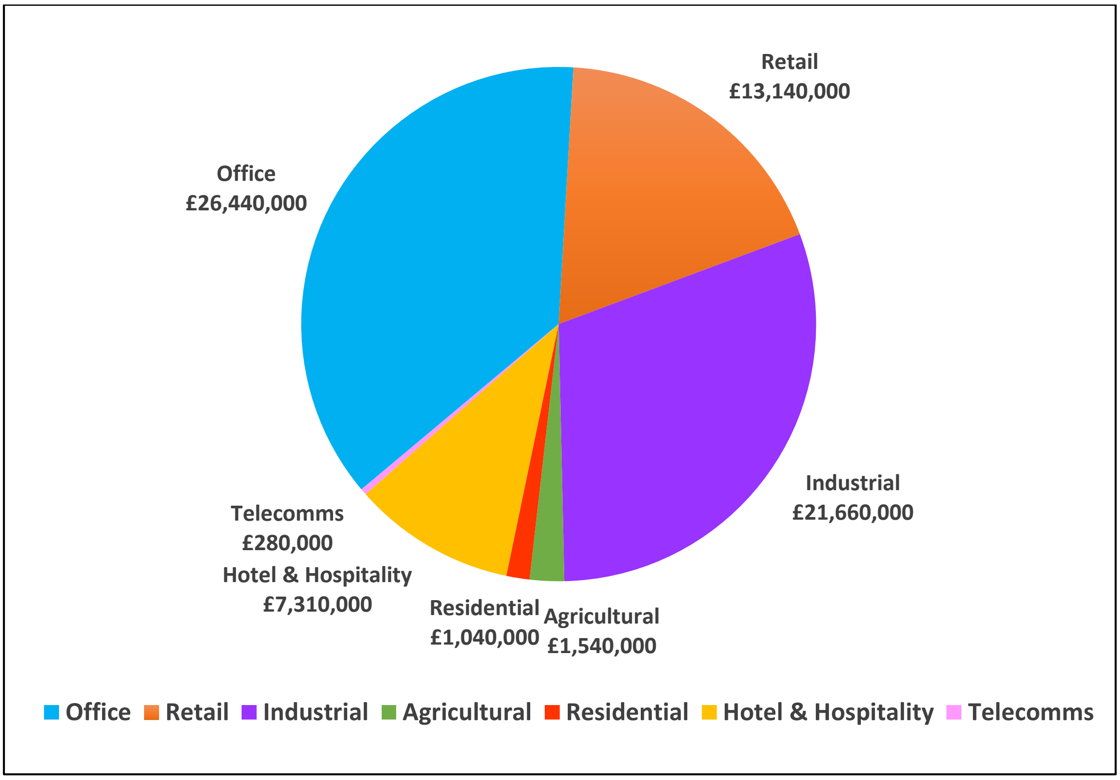
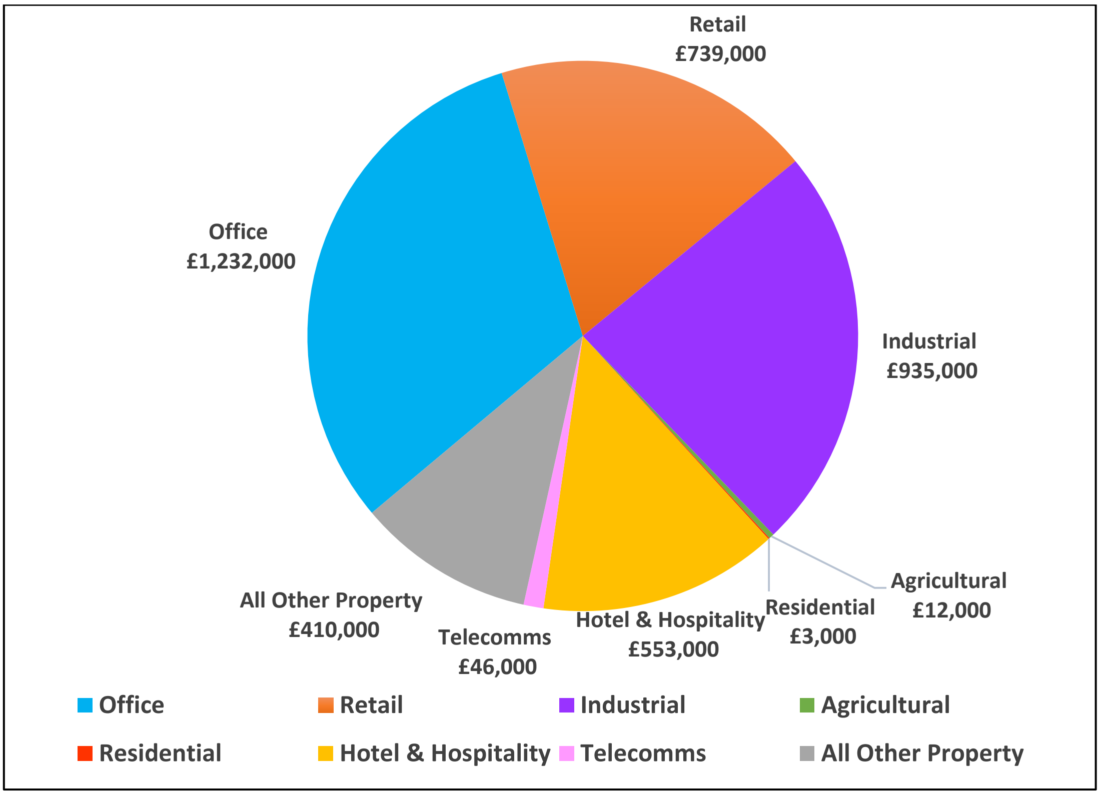


Figure 5: RBBC Property Income: Breakdown by asset type



Overall approach and types of activity

38. The Capital Investment Strategy explains the aims and objectives of the Council's Asset Investment Approach as follows:

> *The aim is to realise the benefits of the effective management of investments, which include: creating a balanced portfolio of assets that minimises management costs and resources; increasing returns and creating new revenue income streams; adopting an approach of balancing risk and reward; supporting delivery of the Council's objective to ensure financial self-sufficiency; and supporting the local economy.*

39. This will form the basis of our overall approach to investing in property assets, and the more detailed basis for decision making set out in this Strategy.

Criteria for decision-making

40. The starting point for taking decisions about investing in property assets will be ensuring that we have a robust evidence base for doing so. This will include a full and comprehensive assessment and analysis of our existing property portfolio, drawing on external advice as necessary and ongoing monitoring of, and regular reporting on, asset performance and market trends. This evidence base will enable us to take a more proactive, planned (and less reactive) approach to our commercial property investment activity.

41. When making decisions about direct asset activity, the Council will review opportunities on a case-by-case basis, and 'in the round' to ensure a full understanding of the benefits, risks and longer term implications of an opportunity are understood. This will include consideration of:

- The contribution of any opportunity to Corporate Plan objectives
- The type, tenure and location of the asset and current and forecast market conditions
- The impact that pursuing the opportunity will have on the Council's overall portfolio
- Immediate and longer term capital costs and revenue implications
- Risks associated with the specific opportunity as well as any wider risks for the organisation should it pursue the opportunity; and
- Exit strategy.

42. The same general considerations will also help inform the Council's approach to indirect asset activity via companies, for example the approval of company business plans.

Investing in asset activity that supports the delivery of Council objectives and the local economy while also delivering an income stream

43. Current constraints to borrowing (as outlined in **section 2**) mean that the Council is not able to buy property purely for yield. Even if we could, net yields are currently such that this would not be a sufficient solution for the Council to address the funding gap we are faced with.

44. We will therefore focus on asset activity that deliver corporate objectives (such as housing, environmental or place-shaping projects) whilst also maximising opportunities to generate income streams where this does not compromise those objectives.

45. By way of example, our asset management, asset acquisition and asset re-development activity may enable the Council to:

- Deliver a Local Plan allocation or infrastructure project in the longer term
- Contribute to the achievement of objectives defined in the Corporate Plan
- Contribute to the achievement of objectives defined in subsidiary strategies to the Corporate Plan, including (but not limited to) the Housing Delivery Strategy and the Environmental Sustainability Strategy
- Secure the continued contribution of the asset to the social, economic and environmental wellbeing of the borough and its residents, where this could otherwise be at risk or where the Council has the ability to enhance that contribution; or
- Deliver one or more Council services more efficiently or effectively than is currently the case.

46. The Corporate Plan explains that the Council will invest in new property assets or development opportunities within our economic area. To ensure that our investment is consistent with our core responsibility as a local authority to support the local economy, the Council will only invest in property within the borough, or close to the borough border in the event that this investment secures a benefit for borough residents.

Consideration of asset use or type, tenure and location: the need to maintain a balanced portfolio of assets

47. Ensuring a balanced portfolio of assets will mean that the Council is able to appropriately balance risk and reward, and that our investments will be as resilient as possible to market fluctuations.

48. Figure 3, Figure 4, and Figure 5 above present the Council's current portfolio balance across our main commercial assets.

49. The property market can change rapidly, and at the time of writing there is considerable uncertainty as to the ongoing impacts of both Brexit and the Covid-19 pandemic on the

property market. For these reasons, this this strategy does not specify specific sectoral targets; rather our focus will be on developing a diverse portfolio and on asset activity that enables us to deliver housing, place shaping or environmental objectives whilst also providing an income stream.

50. The implications of any substantive investment on the Council's overall portfolio will be considered as part of the decision making process, including impact on the sectoral balance and impact on the Council's future reliance on income from any one sector.

51. The Council will also, where possible, take the opportunity to diversify the Council's portfolio interests by changing or expanding the use existing assets where supported by evidence of need or demand.

52. **Annex 2** provides a summary of our current investment appetite in relation to key sectors and an assessment of our current portfolio. This will be updated annually based on market intelligence from external advisors and regular portfolio monitoring.

Understanding income potential and associated costs

53. Prior to entering into any substantive property investment activity, a comprehensive financial business case will be prepared. This will include consideration of:

    - Short, medium and longer term capital costs including all those associated with any asset purchase, the costs of any planned development and/or any ongoing maintenance costs; and
    - Revenue implications, including return on investment and internal rate of return, and the impact of any lease breaks, likely void periods and management costs.

54. To inform this assessment, the condition of the asset will be considered as well as the status of any occupiers. Due diligence will be undertaken prior to any asset acquisition, and opportunities for income or savings via lease negotiations or management arrangements will be considered.

Ensuring an appropriate balance is struck between risk and reward

55. The Council's Capital Investment Strategy recognises that the Council is exposed to a range of risks associated with property investment, including financial risks, macro-economic risks, reputational risks and governance risks. A summary of key risks and management/mitigation measures is included at **Annex 3**.

56. Decisions on whether any asset investment provides an appropriate balance between risk and reward will be taken on a case-by-case basis, taking into account the considerations set out above, financial and non-financial benefits, current and forecast market conditions and portfolio balance.

57. In making any decision to invest in asset activity, consideration will also be given to the potential exit strategies available to the Council including in the event that circumstances change.

Prioritising our commercial asset activity

58. The Council will focus its commercial asset activity around a number of priority areas. It will build and maintain a pipeline of projects (based around these priorities) which both deliver against corporate priorities and generate new income streams or capital receipts. This pipeline will help provide increased clarity about how the Council will address some of the funding gap it faces and will be an important tool in identifying future resource requirements, both in terms of skills/expertise and in terms of capital funding for feasibility and development works.

59. These priorities reflect the tools available to the Council as set out in Figure 6.

Priority 1: Evidence - Ensuring a robust understanding of our asset portfolio and its performance

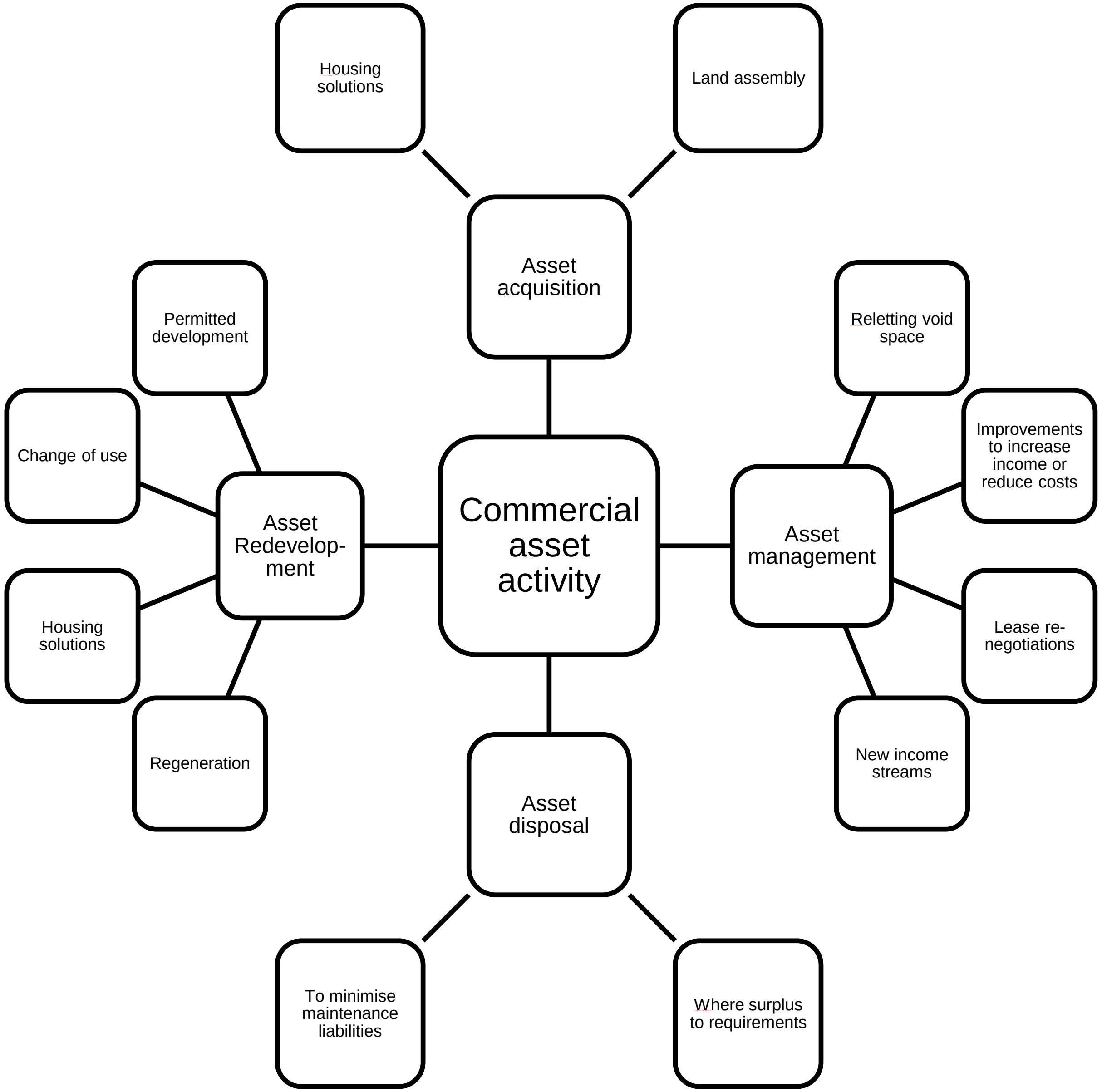
60. A robust understanding of our property portfolio will mean we are in the best possible position to assess risks and rewards associated with new opportunities. Establishing a clear performance baseline will also enable us to establish improved procedures for regular reporting on portfolio performance.

Priority 2: Asset Management - Maximising value from the assets that we currently own and /or manage for commercial income

61. The properties that we currently own already generate substantial income streams for the Council. However, income from these properties cannot be taken for granted and our commercial strategy needs to ensure both that this continues into the future and that we increase income where we can.

62. Careful management is required to minimise void periods (and reduce the costs to the Council associated with these); to make sure that our properties are of a high standard to continue to generate good income streams into the future; and to make sure that the lease arrangements that we have in place deliver the best possible returns for the Council.

Figure 6: Summary of commercial asset activities



Priority 3: Asset (Re-)Development - Securing new income streams and/or capital receipts from development projects

63. The Council has invested a considerable sum of money in progressing a range of development projects in recent years, some of which are still ongoing. These have the ability to generate new income streams for the Council in the short term, so we will prioritise completing these projects so we can realise income from them as soon as possible.

64. At the same time, we will prepare proposals for future development activity, ensuring that the Council has an ongoing development project pipeline. We will primarily focus on the development, redevelopment or change of use of assets already within the Council's ownership, but our development pipeline may also include newly acquired assets or projects involving land assembly activity.

Priority 4: Asset Disposal - Disposing of assets that are currently underperforming or surplus to requirement

65. Assets that are currently underperforming can cost the Council money, rather than generating income. In some cases, it may be cost effective for the Council to invest in an underperforming asset to either bring it up to a standard where it generates a commercial return, redeploy it or redevelop it (under priorities 2 or 4 above). However, in other cases it will not be cost effective to do this and it may make more financial sense to dispose of the asset.

Priority 5: Asset Acquisition - Purchasing assets which deliver broader benefits in line with our corporate plan

66. Asset acquisition will be considered where it contributes to the delivery of one or more corporate objectives (for example, in relation to housing, place-shaping or environmental projects) and there may be cases where such acquisitions have the ability to generate income or savings for the council as a by-product.

67. In limited cases, it may make sense for the Council to purchase assets to enable it to assemble land for regeneration purposes. This may be done on the open market or through the use of compulsory purchase orders. This approach will primarily be used in cases where the Council already owns property in an area, however in rare instances the Council may seek to assembly land to respond to market circumstances that would otherwise have a detrimental impact on local residents or communities.

Commercial Assets Action Plan

68. **Annex 4** sets out our current action plan for commercial asset activity action plan.

Section 5: Investing in commercial services

Overall approach and types of activity

69. The Council has the ability to generate income (and make savings) by taking a commercial approach to some elements of its service-related activity. These are explained in Part 1 of the Commercial Strategy and include:

- Setting fees and charges
- Generating income from selling the services we provide to other organisations or new customers and
- Through procurement and contract management.

70. This Part 2 Strategy focuses on the first two of these, with the latter being addressed separately via a review of the Council's Strategic Procurement Approach.

71. The Localism Act 2011 introduced the General Power of Competence, which allows local authorities to operate more commercially, and undertake a range of different business ventures; and the Council already generates income from discretionary services it provides (such as garden and trade waste collection) and through selling its expertise to other public sector organisations (for example, undertaking fraud investigation for other local authorities).

72. There are a range of different delivery models which the Council can use to undertake service trading activities, including direct provision and the creation of Local Authority Trading Companies.

73. The Council also collects fees and charges for a range of services. Some of these are statutory and/or the Council has no discretion over whether to collect them or the level of the fee or charge. However, in other areas the Council does have some ability to adjust what it charges to ensure costs are covered – our adopted Fees & Charges Policy[7] provides the basis for doing this.

Criteria for decision making

74. As with commercial property activity, opportunities for service-related commercial activity will be considered on a case-by-case basis but in a consistent manner and based around some central considerations.

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[7] At the time of writing, the latest Council Fees & Charges policy, dated November 2021, is available at https://reigate-bansteadintranet.moderngov.co.uk/documents/s17285/Annex%205%20-%20Fees%20Charges%20Policy.pdf

75. The approach defined below will ensure that the risks to the Council are minimised, and that any commercial income generated is done so in a sustainable way. **Annex 5** summarises the key risks and management/mitigation measures.

Trading activity

76. In pursuing any new or expanded[8] direct trading activity, or any proposal to establish a trading company, a business plan will be required. This will need to:

- Explain how the proposal provides a social, economic or environmental service or benefit to the borough, its residents and/or its businesses, as well as income
- Demonstrate a clear knowledge and understanding of the potential market and customer base, including competing providers
- Demonstrate that the Council has, or has access to, the technical or local expertise to deliver the service
- Set out how the activity will be resourced and explain what measures will be put in place to ensure that core or statutory activities will not be compromised
- Be accompanied by a robust financial business case
- Explain how performance will be monitored and reported on.

Fees and charges

77. The Council's adopted Fees & Charges Policy sets out some standard principles that underpin the Council's approach to fees and charges as follows:

> *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 in line with CPI inflation increases; and Be subject to a scheduled review at least every 3-5 years*

78. In addition to these considerations, any proposals will also be expected to demonstrate the following:

- That the Council has a clear knowledge and understanding of the current customer base and the potential impact of the change on service demand and service users; and

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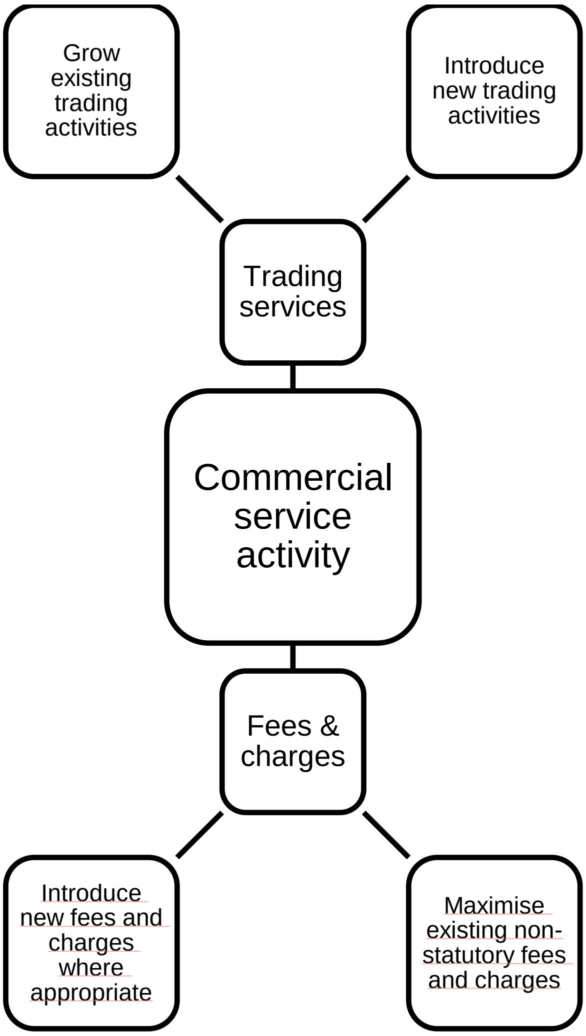
[8] that is, trading activity that requires additional substantive resourcing in order to generate income

- An explanation and justification for the charging model proposed (that is, full cost recovery, direct cost plus or subsidised).

Prioritising our commercial service activity

79. The Council will focus its commercial services activity around the priorities listed below and summarised in Figure 7.

Figure 7: Summary of commercial service activities



Priority 1: Trading - Continue to incrementally grow our existing trading activities for medium-term income generation, and introduce commercial into services we currently provide non-commercially or that align with our remit

80. The Council already undertakes some trading activity, and as we already have experience in these areas, as well as the resources in place to deliver activity, we will prioritise their development and expansion, taking into account the considerations set out earlier in this section.

81. There may be some areas of activity where the Council currently provides services, but not on a commercial basis. While the immediate focus will be on those areas where we already trade, we may bring forward new proposals to sell our existing services on a commercial basis to generate income, either directly (to cover costs) or via a trading company.

82. At the time of writing, it is not intended that the Council will, in the short term, pursue the provision of services that do not fit within the remit of a borough council, however in the longer term, partnerships to deliver such activity may be explored.

Priority 2: Fees and charges - Maximising income from existing non-statutory fees and charges and introducing new non-statutory fees and charges where appropriate

83. The Council has in place a range of non-statutory fees and charges where it has some discretion to set the terms of collection and the collection amount. One priority area of focus will be ensuring that we are maximising the income collected from existing fees and changes, in line with the terms of the Fees and Charges Policy.

84. There are some areas where the Council may be able to collect non-statutory fees and charges where it does not already do so. Before new charges are introduced these will be assessed against the criteria set out above.

Commercial Services Action Plan

85. **Annex 6** sets out our commercial service activity action plan.

Section 6: Funding, implementing and reporting on our commercial activity

Formal governance and decision making structures

86. The Council reviewed its approach to commercial governance in 2018 into early 2019, building on its experience undertaking commercial activity at that time. The outcomes of this process were:

- Adoption by the Executive in March 2019[9] of a new Commercial Governance Framework and Checklist to guide future working and ensure lessons from part practice are implemented.
- Agreement by the Executive in May 2019[10] to establish a new Commercial Ventures Executive Sub Committee (CVESC).
- Agreement by the CVESC in January 2020[11] of various delegations associated with the investment and company governance
- Review and confirmation by CVESC in April 2021[12] of the approach to investment and company governance, including the approach to establishment of a holding company structure.

87. **Annex 7** summarises the Council's formal decision-making processes insofar as they relate to commercial activity. This Commercial Strategy Part 2 does not seek to change the formal decision-making or company structures agreed by the Executive and the CVESC.

88. The Council's formal governance and decision-making structures are supported by a number of other informal and operational structures, including:

- The Council's Democratic Services team, which ensures appropriate agenda planning and management
- Informal CVESC meetings, where members of the committee meet informally to consider emerging issues and proposals
- Officer level Companies Oversight Board which monitors company performance and provides advice to the CVESC on company governance, activities and associated matters

[9] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=223&Ver=4
[10] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=137&MId=1381&Ver=4
[11] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=328&MId=1562&Ver=4
[12] https://reigate-banstead.moderngov.co.uk/ieListDocuments.aspx?CId=328&MId=1861&Ver=4

- The Officer-level Strategic Property Officer Group, which monitors asset performance and provides advice to the CVESC on commercial property activity, opportunities and projects
- The Corporate Governance Group comprised of the Council's statutory officers and other senior officers, with the remit of ensuring good corporate governance.
- The Council's Place & People and Organisation Boards ('the Governance Boards') which comprise senior officers within the council and provide oversight of project-based activity.

89. Together these mechanisms ensure that proposals for commercial activity receive appropriate input from relevant technical experts within the Council, and oversight from senior managers and Executive members.

Funding our proposals for commercial activity

90. Commercial activity, whether property-related or service-related, may require initial or ongoing funding in order to secure commercial income streams or capital receipts. For example, revenue funding may be required to market properties for lease, or for staff to expand traded services; or capital funding may be required to purchase property or equipment.

91. The Council agrees a revenue budget each year for the delivery of Council services, and a capital programme for the delivery of associated activities. This annual budget will set out the funding that will be available for commercial activity within that year.

- **Revenue funding:** Where revenue funding is required to support commercial activity, this will be included within the annual revenue budget and/or funded from a reserve set aside for this purpose. Such requests (or the establishment of earmarked reserves) will be subject to consultation and scrutiny as part of the annual budget setting process.
- **Feasibility funding:** At the time of writing, the Council has a Feasibility Studies revenue reserve which can be drawn upon to assist in the development of commercial activity proposals. Requests for funding from the Feasibility Studies reserve are subject to consultation with members of the CVESC and the Council's Corporate Governance Group, and agreement by the Council's section 151 officer.
- **Capital funding:** Capital funding may be required for property acquisition, development activity etc. The Council's Capital Programme (which is subject to consultation and scrutiny as part of the annual budget setting process) includes capital allocations for activity to support the delivery of the Corporate Plan, the Housing Delivery Strategy and for commercial investment properties. Requests for

capital funding for commercial activity from these allocations will be considered on a case-by-case basis by the CVESC.

Developing and implementing proposals for commercial activity

92. Proposals for commercial activity will vary in nature and in scale and may be project or non-project activities such as property acquisition or disposal. The processes outlined below apply to activities with a commercial element to them that accords with the agreed commercial governance framework.

93. Project-based activity will be progressed in line with the Council's agreed operational-level Project Management Framework. This includes a requirement to produce a project business case, accompanied by a robust financial business case and risk assessment, for regular project reporting, benefits tracking and reporting on 'lessons learned'.

94. Figure 8 and Figure 9 explain the process for project-related activity and property acquisition or disposal activity respectively.

95. Where commercial activity proposals require agreement from the CVESC or Executive (for example, they require capital funding or propose the establishment of a trading company) the Commercial Governance Framework and Checklist will be used to help inform the decision-making process.

Skills and training to deliver our commercial activity

96. To deliver its commercial activity, it is vital that the Council has access to the appropriate skills and expertise.

97. The focus in this strategy on commercial asset activity to deliver corporate priorities, and commercial service activity aligned with the council's remit, means that in many cases the Council will already have a strong skills and knowledge base 'in-house'. However as there is increasing pressure for services to act commercially, it will be important that the organisation continues to ensure that staff and councillors are supported to develop skills and expertise in this area. This may include through the employment of members of staff with new and different skill sets, training of existing staff and members and other professional development opportunities.

98. It is likely that in some cases, additional expertise will be needed. This could include:

- Use of external advisors, for example legal, financial or property advisors to support in-house staff or provide specialist advice
- Use of external consultants with topic-specific experience; or
- The use of fixed-term staff resources to oversee the delivery of particular projects with a commercial element.

Figure 8: Commercial project development / implementation process

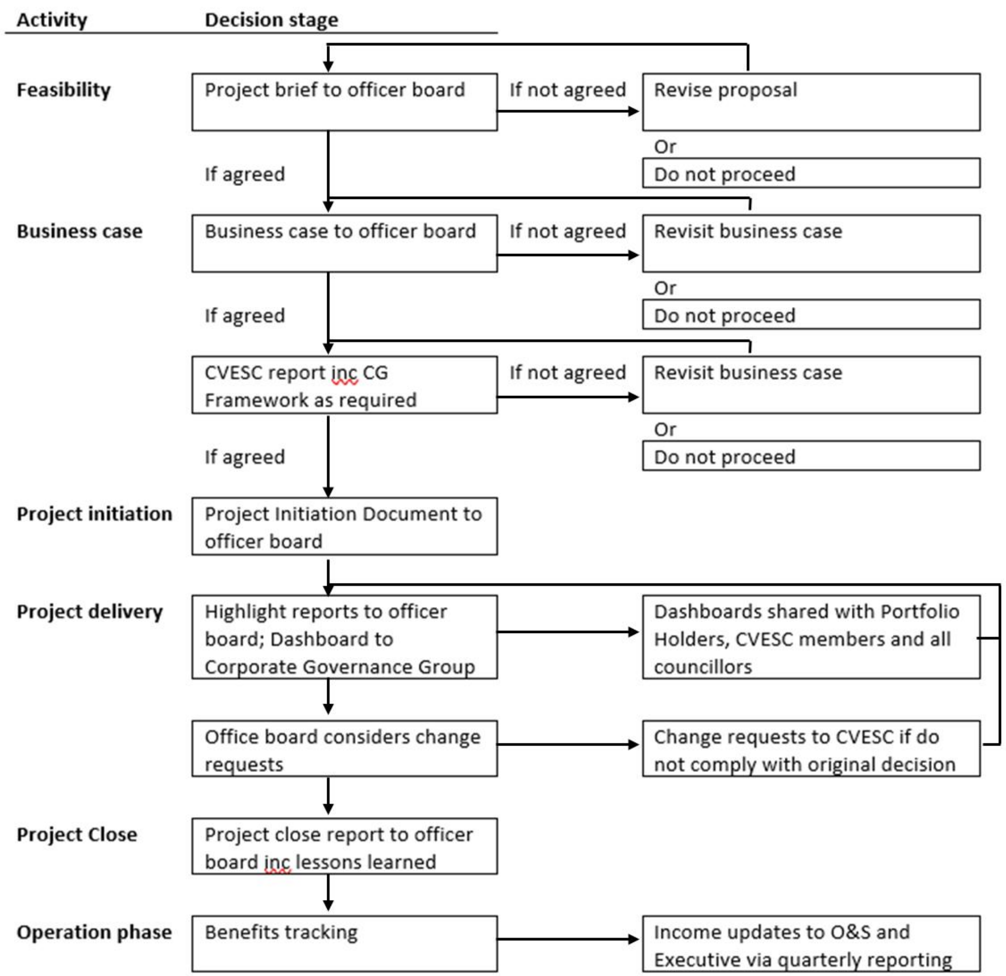
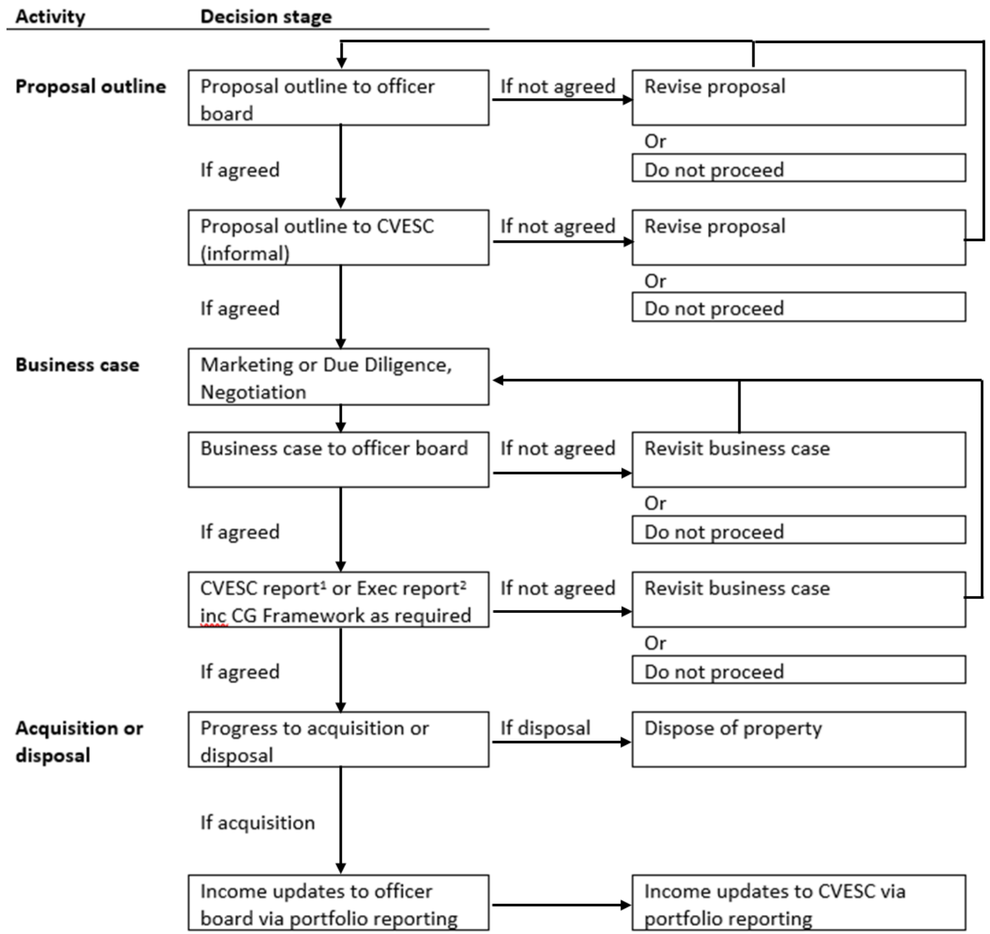


Figure 9: Asset acquisition/disposal process



1 CVESC has the authority to agree acquisitions
2 Executive agreement may be required for disposals

51

99. Where external expertise is sought, where possible this will be approached on a partnership basis to help secure added value for the organisation and help contribute to the building on in-house capacity and knowledge.

100. In support of its budget setting process, the Council is developing a financial sustainability plan which will involve heads of service across the organisation identifying commercial opportunities and efficiency measures – this will be overseen by the Corporate Governance Group (comprising statutory officers and directors) who will be able to take a holistic view of any additional skills and expertise that may be required to assist the organisation.

Reporting on commercial activity

101. Commercial activity will be reported on once activities have been agreed and are underway in the following ways:

- Progress on commercial project activity will be reported via project highlight reports to the relevant Governance Board
- Project dashboards will be reported to the Corporate Governance Group and to members on a quarterly basis, with the O&S Committee having the opportunity to comment on these
- Asset performance will be reported quarterly to the relevant officer board and to CVESC members
- Commercial income updates will be reported as part of quarterly budget monitoring reporting to the Overview & Scrutiny Committee and the Executive
- Operational and where appropriate strategic commercial risks will be reported on via the Council's quarterly risk reporting process to the Audit Committee and the Executive
- An annual report on the Council's commercial activities and companies will be provided to the Overview & Scrutiny Committee and the CVESC.

Annex 1: Hypothetical borrowing examples

Note that these figures are provided for illustrative purposes only – they exclude any other operating expenses and therefore do not represent a true picture in respect of any individual investment

Figure 10: Illustration of how borrowing costs impact on income yield

	If £1m borrowed	If £10m borrowed
Average annual interest payments (assumes PWLB 50 year rate of 2.39%)	£11,950	£119,500
Annual Minimum Revenue Provision (MRP) Charge	£20,000	£200,000
Total Annual Borrowing Charge to the Revenue Budget	**£31,950**	**£319,500**
Annual gross income/(loss) if investment generates an income stream of 1%	(£21,950)	(£219,500)
Annual gross income/(loss) if investment generates an income stream of 3%	(£1,950)	(£19,500)
Break-even point: 3.2% before operating costs		
Annual gross income/(loss) if investment generates an income stream of 5%	£18,050	£180,500
Annual gross income/(loss) if investment generates an income stream of 10%	£68,050	£680,500

Figure 11: Indicative gross investment yields Sept 2021 for comparison purposes

Investment type	Indicative gross investment yield
M25 offices[1]	5.50%
Provincial offices[1]	4.75%
High Street retail[1]	6.75%
Retail warehouse[1]	5.75%
Foodstores[1]	4.50%
Industrial / distribution[1]	3.25%
Current RBBC money market investments	0.016%

[1] Source: Savills Sept 2021

Annex 2: Summary of Council’s current investment appetite (2021/22)

Note that this table will be updated annually to inform the Council’s commercial activity

Asset category	2021/22	2022/23	2023/24	2024/25	2025/26
Offices	Red				
High Street Retail	Red				
Industrial/Distribution	Amber				
Leisure (hotels, gyms)	Amber				
Hospitality (food and drink)	Amber				
Housing	Green				

55

Annex 3: Commercial asset activity risk overview and risk management

Risk	Management / mitigation measures
Strategic due to market downturn or change in market conditions	Opportunities considered on a case by case basis; up to date market intelligence used to inform decision making. A general approach of spreading risk will help offset the potential impact of individual failures
Strategic due to benefits or potential of an asset or project being overstated or failing to achieve corporate objectives	Business case approach ensures consideration of risks and benefits 'in the round'. Benefits monitoring via established governance and reporting processes
Financial implications due to poor initial assessment of costs, income streams, void periods etc	Robust and comprehensive financial assessments will be undertaken to inform decision making, including consideration of projected capital and revenue costs and income. External advice will be sought as required, for example in relation to valuations and condition assessments. Regular portfolio reviews will provide enhanced understanding of revenue streams
Financial implications due to poor initial assessment of values/ asset lifespan	Independent valuations will be commissioned as part of the decision-making process. Exit strategy options will be considered at the time of decision-making
Financial due to poor maintenance impacting on income or capital receipts	Implement programme of asset surveys and repair/maintenance activity; asset maintenance included as key element of commercial strategy
Legal due to challenge from third parties	Appropriate legal advice at project development stage. Only activities that align with the council's overall objectives and areas of responsibility will be pursued
Reputational due to perceptions around Council's remit and/or as a result of adverse financial or other implications	Business cases and established governance arrangements will ensure transparent and clear rationale for decisions made and that local impacts have been assessed and understood before making a decision. Communications strategies will be developed to accompany individual initiatives. Rationale for Council's commercial activity explained corporate plan annual reporting and regular comms activity.
Unintended environmental, social or economic consequences arising from activity	Business case approach and current governance arrangements will ensure broader environmental, social and economic implications of activity are taken into account at the project development stage, and monitored at the project delivery stage via benefits tracking and risk reporting

Annex 4: Commercial Assets Action Plan

Task	Responsibility	Timeframe	Outcome	Risks to delivery	Resources
Priority 1: Evidence - Ensuring a robust understanding of our asset portfolio and its performance					
Undertake a 'deep dive' into our current portfolio and develop a reporting template	Property	2021/22	Robust understanding of asset portfolio and performance	Loss or diversion of staff resources	Existing staff resources
Introduce quarterly reporting to CVESC members on asset and portfolio performance	Property	2022/21 onwards	Ongoing and up to date understanding of asset portfolio and performance	Loss or diversion of staff resources	Existing staff resources
Priority 2: Asset management - Maximising value from the assets that we currently own and/or manage for commercial income					
Continue activity to re-let vacant floorspace and minimise the cost to the Council from void space	Property	2021/22	Reduced costs to Council and increased income	Changing market demand; loss or diversion of staff resources	Existing staff resources Existing revenue budgets
Focus on the worst-performing assets in our portfolio to improve their commercial return (eg via upgrades, repurposing, redevelopment or disposal) – see also priorities 3 and 4)	Property	2022/23-2023/24	Reduced costs to the Council and increased income or capital receipt	Changing market demand; loss or diversion of staff resources	Existing staff resources May require additional resourcing depending on solution– see also priorities 3 and 4
As leases expire, implement upgrades to key investment assets to ensure they remain attractive to potential tenants	Property	Ongoing	Maintenance of a reliable income stream from investment assets	Changing market demand; loss or diversion of staff resources	Existing staff resources Capital funding
Priority 3: Asset (Re-)Development: - Securing new income streams and/or capital receipts from development projects					
Conclude development of Marketfield Way, Cromwell Road and Lee Street	Place Delivery	2021/22-2022/23	Project place-shaping objectives achieved	Supply chain/materials availability	Existing staff resources Existing project budgets
Continue marketing of units at Marketfield Way and Cromwell Road	Property	2021/22-2022/23	Direct income streams secured	Changing market demand	Existing staff resources Existing revenue budgets

Establish housing company as a mechanism for the Council to generate income from residential letting activity	Housing	2021/22	Income stream secured via payment of dividends from company to Council	Business case proves unviable; changing market conditions; loss or diversion of staff resources	Existing staff resources Consultancy support Existing project budgets
Complete Horley Car Park feasibility work and progress to planning then development	Place Delivery, Property, Housing	2021/22-2022/23	Place-shaping objectives and contribution to rolling project pipeline	Business case proves unviable; loss or diversion of staff resources; failure to secure planning; changing market demand; supply chain issues	Existing staff resources Consultancy support Existing feasibility funding Capital funding
Identify other pipeline projects for existing but underused assets, including consideration of opportunities for development, permitted development or income generation associated with: - Operational council buildings - Underutilised investment properties (see also priority 2) - Green spaces - Car parks	Property, Place Delivery, Housing, Greenspaces, Car Parking, Other services as required	2021/22-2022/23 and ongoing	Contribution to a rolling pipeline of projects to deliver a combination of corporate objectives, reduced costs to the council, income generation and capital receipts	Project specific but may include: Market conditions impacting project viability; loss or diversion of staff resources; failure to secure planning permission	Existing staff resources Depending on the nature of the project: Consultancy support Feasibility funding Capital funding
Priority 4: Asset Disposal - Disposing of assets that are currently underperforming or surplus to requirement					
As leases expire, dispose of assets where it makes financial/operational sense to do so. See also priority 2	Property, other services as required	Ongoing	Reduced costs to the Council, capital receipts	Changing market conditions	Existing staff resources Existing revenue budgets
Priority 5: Asset Acquisition - Purchasing assets which deliver broader benefits in line with our corporate plan					
Investigate opportunities to invest in emergency and temporary housing solutions, or other housing products to meet local needs	Housing, Property	From 2022/23 onwards	Reduced housing revenue costs to the Council, contribution to wider housing objectives Direct or indirect income stream(s)	Project specific but may include: Availability of suitable properties; market conditions impacting project viability; loss or diversion of staff resources	Existing staff resources Consultancy support as required Feasibility funding Capital funding

Investigate opportunities to invest in social or economic regeneration in the borough	Property, Place Delivery	From 2022/23 onwards	Direct or indirect income stream(s) or capital receipts, contribution to wider regeneration objectives	Project specific but may include: Availability of suitable properties; market conditions impacting project viability; loss or diversion of staff resources	Existing staff resources Consultancy support as required Feasibility funding Capital funding
Investigate opportunities to invest in renewable energy solutions	Sustainability, Property	From 2022/23 onwards	Reduced energy revenue costs to the Council, contribution to wider sustainability objectives	Project specific but may include: Availability of suitable properties; market conditions impacting project viability; loss or diversion of staff resources	Existing staff resources Consultancy support as required Feasibility funding Capital funding
Identify land assembly opportunities to enable the delivery of corporate objectives and pursue accordingly	Property. Planning, Place Delivery	From 2022/23 onwards	Land acquired to enable the future delivery of other corporate objectives	Project specific but may include: Changing market conditions; loss or diversion of staff resources	Existing staff resources Consultancy support as required Feasibility funding Capital funding

Annex 5: Commercial services activity risk overview and risk management

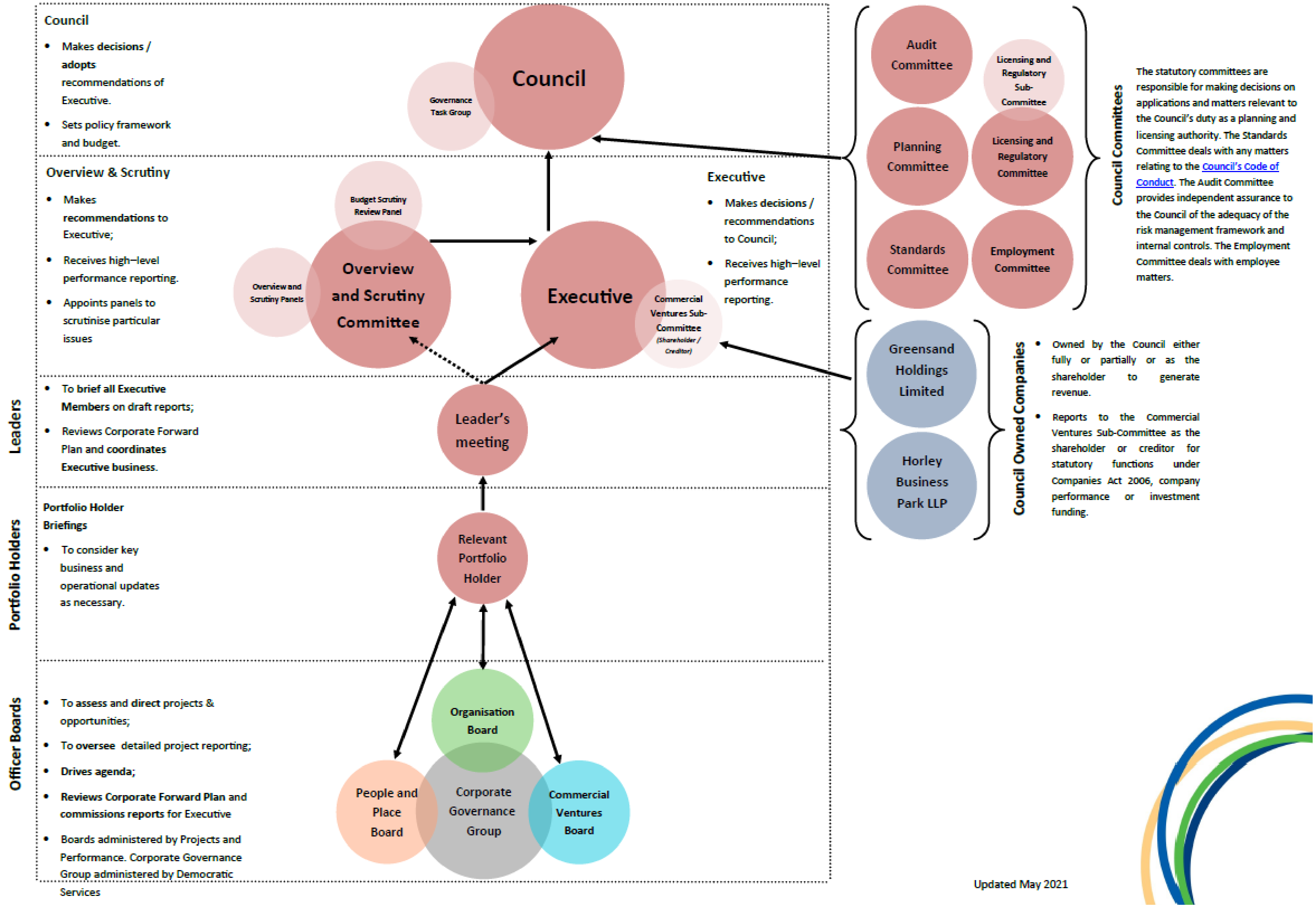
Risk	Management / mitigation measures
Strategic due to trading or charging activity not being consistent with the political ethos of the Council	Business cases will be used to document how a proposed initiative will contribute to corporate priorities
Reputational due to trading or charging activity resulting in backlash from private competitors, negative press or public feedback	Business cases and established governance arrangements will ensure transparent and clear rationale for decisions made and that local impacts have been assessed and understood before making a decision. Communications strategies will be developed to accompany individual initiatives
Reputational due to trading failure	Robust business cases and careful (and documented) consideration of risk and reward by decision-makers
Legal due to challenge from competitors (trading) or service users (charging)	Appropriate legal advice will be taken at project development stage, including (as appropriate) in relation to subsidy control. Only activities that align with the council's overall objectives and areas of responsibility will be pursued. Charging will be applied in line with adopted Fees & Charges policy
Financial due to change of market circumstances (supply or demand)	The Council will only pursue activities where it has access to a full understanding of the market and customer base; this will be demonstrated at the business case stage
Financial due to trading or charging activity failing to generate a profit or leads to loss of sunk expenditure	Charging activity will be based on a robust assessment of service delivery costs. Business cases for trading activity will include a detailed financial assessment including projected capital and revenue costs and income; and will include a project specific risk assessment. A general approach of spreading risk will help offset the potential impact of individual failures
Strategic due to direct resource shortages or diversion of resources impacting on delivery of core services	Business cases will consider overall resource requirements, project specific resourcing risks and contingency measures

Annex 6: Commercial Services Action Plan

Task	Responsibility	Timeframe	Outcome	Risks to delivery	Resources
Priority 1: Trading services - continue to incrementally grow our existing trading activities for medium-term income generation and introducing commercial into services that we currently provide non-commercially or new services that align with our remit					
Explore options to expand and consolidate the Council's Revenues, Benefits and Fraud income generating activity, including potential to establish a trading company	Revenues, Benefits & Fraud	2021/22-2022/23	Generation of increased income stream	Client demand; potential new competitors; loss or diversion of staff resources; trading company business case proves unviable	Existing staff resources Consultancy support as required Revenue funding
Explore options to expand and consolidate the Council's Garden Waste customer base	Neighbourhood Operations	2021/22-2022/23	Generation of increased income stream	Client demand; loss or diversion of staff resources; associated costs make business case unviable; longer term impact of Government Waste & Recycling Strategy currently unknown	Existing staff resources Capital / revenue funding
Establish housing company as a mechanism for the Council to generate income from residential letting activity	Housing	2021/22	Income stream secured via payment of dividends and loan premium from company to Council	Associated costs make business case unviable; market demand; loss or diversion of staff resources	Existing staff resources Consultancy support Existing project budgets
Explore new commercial trading opportunities arising from the implementation of the Government's Waste & Resources Strategy	Neighbourhood Operations	2022/23 onwards	Potential to secure a revenue stream to either mitigate against service provision cost increases or to generate income	Final content of Waste & Resources Strategy currently unknown; client demand; potential for new competitors; associated costs make	Existing staff resources Consultancy support as required Feasibility funding Capital / revenue funding

				business case unviable.	
Consider other service areas where there may be potential to introduce trading activity	Various	Ongoing	Potential to generate income to cover costs or introduce new income streams	Project specific but may include: levels of client/market demand; presence of competitors; charging model proving unviable	Existing staff resources Depending on the nature of the project, may also require consultancy support, capital / revenue funding
Priority 2: Fees & charges - Maximise income from existing non-statutory fees and charges and introduce new non-statutory fees and charges where appropriate					
Assess all fees and charges for compliance with the Fees & Charges Policy and maintain rolling review to ensure continued alignment and amend charging models to increase receipts where this can be justified.	Various	Ongoing	Costs for non-statutory service provision covered by relevant fees and charges as far as possible	Cost increase results in reduced service demand; potential reputational risks	Existing staff resources
Introduce enhanced charging in relation to pre-application advice	Planning	2022/23	Costs for non-statutory service provision covered by relevant fees and charges	Cost increase results in reduced service demand	Existing staff resources
Continue to explore opportunities for the introduction of new fees and charges	Various	Ongoing	Costs for non-statutory service provision covered by relevant fees and charges as far as possible	Project specific but may include: Cost introduction results in reduced service demand; potential reputational risks	Existing staff resources

Annex 7: The Council's Governance Framework



Updated May 2021

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SIGNED OFF BY	Interim Head of Finance
AUTHOR	Pat Main, Interim Head of Finance,
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EMAIL	pat.main@reigate-banstead.gov.uk,
TO	Audit Committee Executive Council
DATE	Thursday, 25 November 2021 Thursday 16 December 2021 Thursday 10 February 2022
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards);

SUBJECT	Treasury Management Mid-Year Report 2021/22

RECOMMENDATIONS

Audit Committee

(i) Review the Treasury Management Performance for the year to date and the updated prudential indicators and provide any comments for consideration by Executive; and

(ii) Note the updated Treasury Management outturn results for 2020/21 that have been resubmitted now that the previously-outstanding information at Section 6 is available.

Executive and Council

(i) Note the Treasury Management Performance for the year to date and the updated prudential indicators.

REASONS FOR RECOMMENDATIONS
This report confirms compliance with the requirements of the regulatory framework for treasury management. The Council is required to receive and approve, as a minimum, three treasury reports each year, which incorporate relevant policies, estimates and actuals: (i) **Prudential and Treasury Indicators and Treasury Strategy** – sets the framework for treasury management activities in the following financial year. • The Treasury Management Strategy and Performance Indicators for 2021/22 were previously approved by Council on the 8 April 2021. (ii) **Half-Year Treasury Management Report** – updates Members on the current borrowing and investment position, whilst amending prudential indicators and revising policies where necessary. • This report. (iii) **Annual Treasury Management Outturn Report** – a backward-looking review focussing on the previous year's performance. • The outturn report for 2020/21 was reported to Executive on 16 September 2021 and approved by Council on 23 September 2021. It was also reported to Audit Committee on 28 September 2021. It is now re-submitted to this meeting of Audit Committee and includes the previously-outstanding information at Section 6.
EXECUTIVE SUMMARY
This report sets out treasury management performance for 2021/22 to date including performance against the Prudential and Treasury Management Indicators. It will be presented to Audit Committee on 25 November and Executive on 16 December 2021 and to full Council on 10 February 2022 will be asked to approve the recommendations. 2021/22 has continued to be a challenging year for treasury management due to uncertainty in the financial markets caused by COVID-19 The Council has been holding funds at a higher level than expected due to the vital role it has played in passing on grants to support businesses during the pandemic, and to provide additional business rates reliefs. It has, however, ensured that these funds were passed on as soon as possible to those in need. Overall performance is currently forecast to be better than budget. This is as a result of the borrowing facility not being utilised due to slippage in the 2021/22 capital programme. At the half year, the position is that: • Borrowing has reduced to £4m; since the end of the financial year 2020/21 a loan for £5m was repaid on 18 June 2021;

- Investments in Money Market Funds now stand at £28m, up from £23m at the end of 2020/21;

- Fixed term investments have reduced to zero from a balance of £13m as at the end of the financial year 2020/21; and

- Long-term investments in companies including interest risen since year-end to remain at £16.891m.

The forecast year end position:

- Borrowing to rise to £20m, depending on the requirements of the capital programme. We currently anticipate this borrowing occurring no earlier than March 2022;

- Investments with interest in both fixed term and long-term company investments to rise to £17.394m; and

- Additional Money Market Funds to be opened and then others to mature and close. In addition to Money Market Funds, there is likely to be further investment in Building Society and other secure investments, depending upon the interest rate offered.

The updated Treasury Management outturn position for 2020/21 is also reported, as requested by Audit Committee at its meeting on 28 September 2021.

- At that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments.
- This information is now available and the updated version is attached at Annex 2.

STATUTORY POWERS

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

2. Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management, the CIPFA 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. Regulations issued under the Local Government Act 2003 require local authorities to produce an annual review of its treasury management activities for the previous year, including performance against the Prudential and Treasury Management Indicators.

5. The Treasury Management Strategy and Performance Indicators for 2021/22 were approved by Council on the 8 April 2021.

6. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. The updated Treasury Management outturn position for 2020/21 is reported again, as at that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

FORWARD VIEW

7. The first half of 2021/22 has continued to reflect the Council's response to the COVID-19 situation and this experience needs to be considered and reflected in investment decisions made in the current year and the progress made on the capital programme. This experience also needs to be considered when the Treasury Management Strategy 2022/23 is produced.

8. It is still important to revisit the investment targets and risk appetite for investments in light of the latest economic environment and forecasts of future economic activity. The Treasury Management Strategy needs to be subject to ongoing review to ensure that it reflects the costs of actual borrowing and projections of future costs of borrowing and sets out the required rate of return of investments.

9. The Council regularly consults with its Treasury management advisors (Link) and takes account of their briefings on any changes in the risk profile of individual Money Market Funds, as well as considering updates from the Money Market Fund institutions themselves and the wider market in general.

10. We will continue to review the calculation and the assumptions that underpin the minimum revenue provision (MRP) calculation and the estimated loss allowance calculation for investments in trading companies to ensure that the General Fund is protected from any unforeseen losses.

11. In considering and updating the Treasury Management Strategy we ensure that any investments that are made are comply with our local carbon reduction targets.

12. The Treasury Management Strategy for 2022/23 will be set after the Capital Programme 2022/23 to 2026/27 and its financing are approved as part of budget-setting in January. The Strategy will be reported in draft to Audit Committee in March 2022, and then in its final form to Executive in March for consideration and onward approval by Council in April.

13. The Treasury Management Strategy 2022/23 will take account of any residual ongoing COVID-19 risks and the timing of expected capital receipts.

KEY INFORMATION

Half-Year Performance 2021/22

14. Performance during 2021/22 is reported at Annex 1.

COVID-19 Pandemic

15. The impacts of COVID-19 are still being felt including:
    - Less predictable cashflows due to receipt of planned and additional Government funding;
    - A continuation of the reduction in income receipts across all services and the Collection Fund; and
    - A reduction in market return on all investments

16. COVID 19 still means that the revised timescales for receipt of planned and emergency funding created a significant challenge from a treasury management perspective. They made cashflow forecasting less certain, which meant that large cash balances could not be avoided. Remote working and banks having no immediate solution which avoids the need for ‘wet’ signatures on documentation, means that new investments and call accounts cannot always be easily set up to place the excess funding.

Investments

17. 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.

18. 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.

19. The Council continues to seek to reduce its investment counterparty risk (i.e. those institutions it is ‘safe’ to invest with) by further diversifying its investment portfolio.

Borrowing

20. 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

21. The Treasury Management Strategy Statement (TMSS), for 2021/22 was approved before the start of the year. 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)

22. 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 Indicators for Capital Expenditure

23. The table below sets out the latest estimates for capital expenditure and any changes since the Capital Programme original budget was approved earlier this year.

Table 1: CAPITAL EXPENDITURE AND FINANCING	2020/21	2021/22			
	Actual at 31-Mar-21	Budget at 01-Apr-21	Budget including approved Slippage at 30-Sep-21	Actual Cap Ex to date at 30-Sep-21	Forecast including approved growth at 31-Mar-22
	£000	£000	£000	£000	£000
Capital Expenditure	**25,453**	**41,624**	**141,080**	**15,620**	**42,025**
Financed by:					
Capital Grants	2,113	1,600	1,600	-	1,600
Capital Receipts	4,403	24,488	5,409	-	4,402
Funding equivalent to historic New Homes Bonus allocation			19,079		
Revenue contribution	-	-	-	418	427
Capital Reserves	-	7000	7000	3500	7000
Prudential Borrowing	18,937	8,536	107,992	11,702	28,595
Total Capital Funding	**25,453**	**41,624**	**141,080**	**15,620**	**42,025**

24. The Capital Programme forecast has been updated to take account of 2020/21 carry-forwards, re-profiling of projects and new project approvals.

25. 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)

26. The table 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	**2020/21**		**2021/22**	
	Actual at 31-Mar-21	**Budget at 01-Apr-21**	**Budget including approved growth at 30-Sep-21**	**Forecast including approved growth at 31-Mar-22**
	£000	£000	£000	£000
Opening balance - CFR	**31,105**	**106,235**	**49,875**	**49,875**
Add prudential borrowing (Table 1)	18,937	8,536	107,992	28,595
Less MRP	(167)	(528)	(528)	(294)
Less PFI and Finance Lease repayments	-	-	-	-
Net movement in CFR	18,770	8,008	107,464	28,301
Closing Balance CFR	**49,875**	**114,243**	**157,339**	**78,176**

27. The borrowing need in 2020/21 resulted in a closing Capital Financing Requirement (CFR) of £49.875m.

28. 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.

29. 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 taxpayers. 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 2021/22 estimated to be £0.294m. The Council is not required to make a minimum revenue provision for loans to companies or investment properties as an estimated loss allowance is made instead under IFRS9.

30. Table 3 sets out the performance to date against the limits set out in the Treasury Management Strategy and the likely position to year end.

<u>Prudential Indicator: Limits to Borrowing Activity</u>

31. 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.

32. 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 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The table below 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 the table.

Table 3: COMPARISON OF BORROWING PARAMETERS TO ACTUAL EXTERNAL BORROWING	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Forecast	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Opening CFR	**31,105**	**49,875**	**85,604**	**87,226**	**89,839**
In Year addition to CFR	18,937	36,023	2,134	3,538	3,362
MRP	(167)	(294)	(511)	(926)	(970)
Closing CFR	**49,875**	**85,604**	**87,226**	**89,839**	**92,231**
External Borrowing	-	-	2,134	3,538	3,362
Authorised Limit	**161,500**	**161,500**	**161,500**	**161,500**	**161,500**
Operational Boundary	**151,500**	**151,500**	**151,500**	**151,500**	**151,500**

Prudential Indicator- Authorised Limit

33. 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 2021/22

34. A detailed commentary on the economy and interest rates, as provided by the Council's treasury advisor, Link Asset Services, can be found in section 2 at Appendix 1 to this report.

35. 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. The table below sets out the net treasury investment position as at 30 September 2021 and the projected position at 31 March 2022.

36. Following investment in the capital programme, treasury investments were £28m at 30 September 2021. 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.

Table 4: INVESTMENT PORTFOLIO – TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Banks	12,468	26	22,553	45	11,478	70
Building Societies	13,000	27	-	-	-	-
Aberdeen Liquidity Fund	5,000	10	10,000	20	-	-
Black Rock	5000	10	8,000	16	-	-
Federated Money Market Fund	5,000	10	-	-	-	-
Goldman Sachs International	5,000	10	-	-	-	-
GS Sterling Liquid Reserve			10,000	20	5,000	30
LGIM Sterling Liquidity 4	3000	6	-	-	-	-
TOTAL TREASURY INVESTMENTS	**48,468**	**100**	**50,553**	**100**	**16,478**	**100**

37. The table below sets out total investments, including non-treasury investments such as investment in property assets and council-owned companies.

Table 5: INVESTMENT PORTFOLIO – NON-TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Third Party Loans:						
Subsidiaries - Greensand Property Holdings Ltd	14,410	24	14,869	25	15,325	25
Companies - Horley Business Park Development LLP	877	1	922	2	968	2
Associate - Pathway for Care Ltd	1,100	2	1,100	2	1,100	2
Investment Property	43,372	73	43,372	72	43,372	71
TOTAL NON-TREASURY INVESTMENTS	**59,759**	**100**	**60,263**	**100**	**60,766**	**100**

38. The figures above are shown gross of any impairment for credit loss but without any rolled-up interest.

39. The treasury investment portfolio yield for the first 6 months of the year was 0.0157% which compares to the benchmark of SONIA rate of 0.048%.

Approval Limits

40. The Treasury Management Strategy specifies the maximum sums that can be invested with any one organisation. There was a period when the Council breached its limit on the maximum sum to be invested in a single institution, as specified in the 2021/22 Treasury Management Strategy, by retaining funds for COVID-19 in the operational bank accounts.

41. This was due to the continued receipt of significant emergency funding at short notice from the Government. The breach has subsequently been addressed by opening additional investment accounts with new institutions, after agreeing new processes for doing so which allowed for remote working and social distancing

Table 6.1: Breaches of Maximum Limits - Lloyds Bank (only)

Quarter	Days in period	Days above limit	Average above limit
One	65	26	£4,532,198
Two	66	0	£0

Table 6.2: Breaches of Maximum Limits - Lloyds and Bank of Scotland Combined (being part of the same banking group)

Quarter	Days in period	Days above limit	Average above limit
One	65	30	£4,601,614
Two	66	32	£5,592,553

42. In addition, there was one investment from 1 April to 10 September 2021 where £5m was deposited in a Federated Money Market Fund to help spread counterparty-risk. This investment is accredited by two rather than three of the relevant credit agencies, being Standard & Poors and Fitch (no rating provided by Moody), and therefore did not fully-meet TMSS rating requirements.

Borrowing Strategy

43. The Borrowing Strategy has been updated to reflect the Capital Financing Requirement as set out in Table 3 above. We currently anticipate borrowing occurring no earlier than March 2022.

Updated Outturn Performance 2020/21

44. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. At that date there was a small number of figures to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

OPTIONS

45. The Audit Committee has three options:

Option 1 – note the report and provide any feedback to the Executive.

Option 2 – note the report but ask officers to provide more detail on specific issues contained in the report before it can be submitted to Executive and Council for approval.

Option 3 – reject the report. This would result in non-compliance with the Treasury Management Code of practice and associated regulations.

The Audit Committee is asked to approve Option 1.

46. The Executive has three options:

Option 1 – note the report and recommend its approval by Council.

Option 2 – note the report but ask officers to provide more detail on specific issues contained in the report before it can be submitted to Council for approval.

Option 3 – reject the report. This would result in non-compliance with the Treasury Management Code of practice and associated regulations.

The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

48. The financial implications of treasury management activities were reported in the budget section of the Quarter 1 Performance Report to Executive on 16 September 2021. There are no additional direct financial implications that arise from this report.

EQUALITIES IMPLICATIONS

49. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

50. There are no communications implications arising from this report

RISK MANAGEMENT CONSIDERATIONS

51. Key risks are managed in accordance with Prudential Code indicators, including ensuring Security, Liquidity and Yield for investments. Further details are provided at Annex 1.

OTHER IMPLICATIONS

52. There are no other implications relating to this report.

CONSULTATION

53. Audit Committee will be asked to consider this report at its meeting on 25 November 2021 and it will be reported to Executive on 16 December 2021. It will then be presented to Council on 10 February 2022.

POLICY FRAMEWORK

54. This report is submitted in accordance with the Council's Treasury Management Policy.

Annexes

1. Treasury Management Half-Year Report 2021/22
2. Treasury Management Outturn 2020/21

BACKGROUND PAPERS

- Executive 25 March 2021 – *Treasury Management Strategy 2021/22*
- Executive 28 September 2021 – *Treasury Management Outturn Report for 2020/21*

ANNEX 1

TREASURY MANAGEMENT MID-YEAR REPORT
2021/22

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1. Link Treasury Commentary

2 Capital Expenditure and Financing and Capital Financing Requirement (CFR)

3. Approved Countries for Investments at 30 September 2021

1. Link Treasury Commentary

Economic update

MPC meeting 24.9.21

- *The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.*

- *There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words,* ***the MPC had been prepared to look through a temporary spike in inflation.***

- *So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to* ***faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;*** *this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.*

- *Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.*

- ***The MPC's forward guidance on its intended monetary policy*** *on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -*
    1. *Placing the focus on raising Bank Rate as "the active instrument in most circumstances".*
    2. *Raising Bank Rate to 0.50% before starting on reducing its holdings.*
    3. *Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.*
    4. *Once Bank Rate had risen to at least 1%, it would start selling its holdings.*

- ***COVID-19 vaccines.*** *These have been the game changer which have enormously boosted confidence that* ***life in the UK could largely return to normal during the summer*** *after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big* *question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.*

US. *See comments below on US treasury yields.*

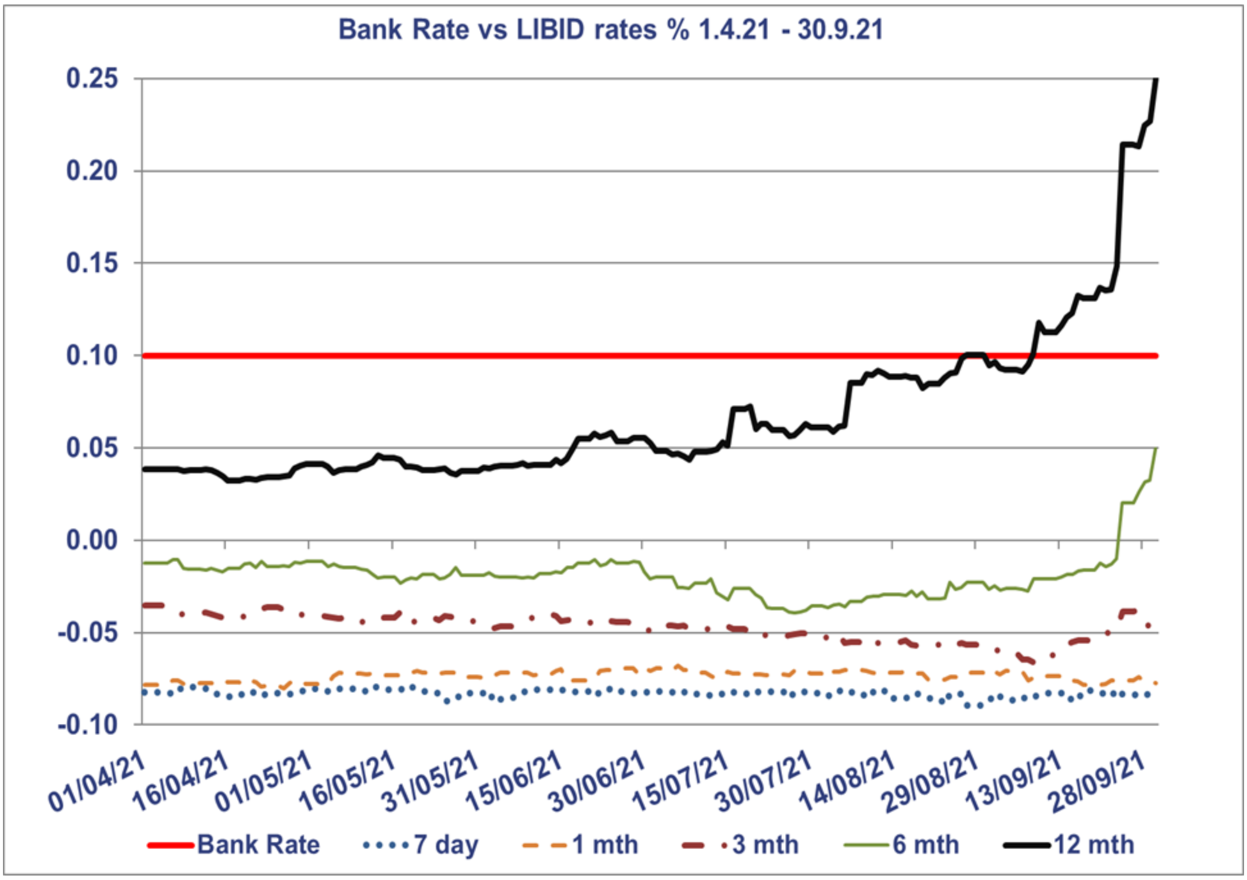
EU. *The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.*
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. *After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.*

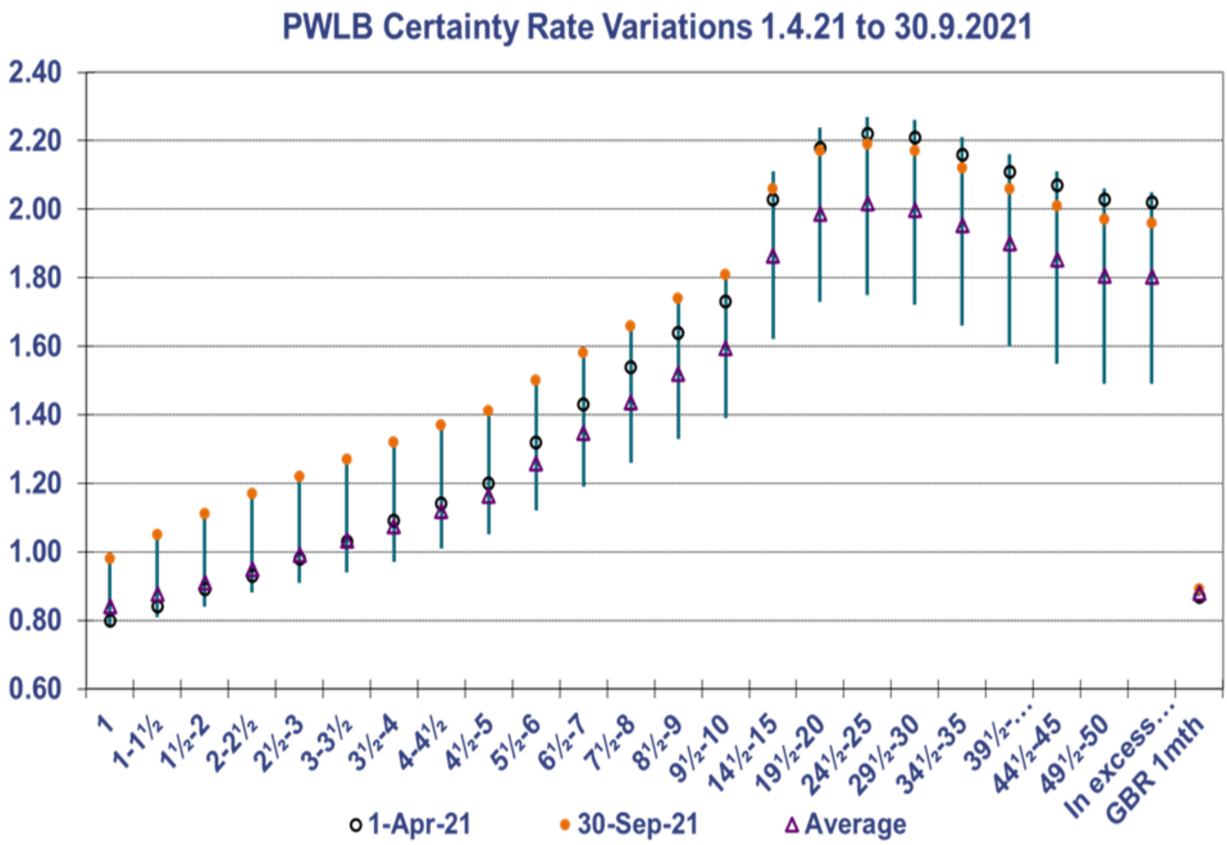
Japan. *2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.*

World growth. *World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of* ***world globalisation*** *and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.*

Supply shortages*. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.*



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22


PWLB Certainty Rate Variations 1.4.21 to 30.9.2021
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-...
44½-45
49½-50
In excess...
GBR 1mth
1-Apr-21
30-Sep-21
Average

2. Capital Expenditure and Financing and Capital Financing Requirement (CFR)

Table 1: APPROVED CAPITAL EXPENDITURE PROGRAMME	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Actual	Projected	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Budget 2020/21	96,100	25,453	42,025	30,099	4,725	4,549
Total Capital Expenditure	**96,100**	**25,453**	**42,025**	**99,576**	**4,725**	**4,549**

Table 2: APPROVED CAPITAL EXPENDITURE PROGRAMME	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Actual	Projected	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Reserves	-	-	-	-	-	-
Capital Receipts	8,805	4,403	4,402	44,266	-	7,000
Capital Grants and Contributions	1,843	2,113	1,600	917	1,187	1,187
Revenue Contribution	-	-	-	-	-	-
Funding equivalent to historic New Homes Bonus allocation	10,000	-	-	17,000	-	-
Total Financing	**20,648**	**6,516**	**6,002**	69,183	**1,187**	1,187
Borrowing Need	75,452	18,937	36,023	30,393	3,538	3,362
Total Capital Expenditure	**96,100**	**25,453**	**42,025**	**99,576**	**4,725**	**4,549**

Table 3: PROJECTED CAPITAL FINANCING REQUIREMENT (CFR)	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Actual	Forecast	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	31,699	31,105	49,875	85,604	87,226	89,839
Borrowing Need	75,452	18,937	36,023	2,134	3,538	3,362
Less Minimum Revenue Provision / Voluntary Revenue Provision	(528)	(167)	(294)	(511)	(926)	(970)
Total CFR	**106,623**	**49,875**	**85,604**	**87,226**	**89,839**	**92,231**

3. Approved Countries for Investments at 30 September 2021

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
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Source: Link Asset Services:

ANNEX 2

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2020/21

Updated November 2021 (Section 6: Table 10)

APPENDICES

1. Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for the previous financial year as reported at Appendix 1. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that full Council should receive the following reports:

- an annual Treasury Management Strategy in advance of the year; this was reported to Council on 28 May 2020; this was later than originally scheduled due to disruption of Council meetings during the COVID-19 pandemic;
- a mid-year, (minimum), Treasury Update report; reported to Council on 10 December 2021; and
- an Annual Review following the end of the year (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that regard, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously-approved by full Council. It will also be presented to the Audit Committee for scrutiny and review.

Member training on treasury management was undertaken in March 2021 in order to support Members in their scrutiny and oversight role.

Table 1: PRUDENTIAL AND TREASURY INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Capital Expenditure:			
General Fund (see Table 2)	18,890	96,100	25,782
Total	**18,890**	**96,100**	**25,782**
Capital Financing Requirement: In year change			
General Fund	12,279	74,924	30,305
Total	**12,279**	**74,924**	**30,305**
Gross Borrowing:			
Long Term credit arrangements	-	-	-
External Debt	14,000	9,000	9,000
Total	**14,000**	**9,000**	**9,000**
Investments:			
Longer than 1 year	13,000	0	-

Under 1 year	35,000	36,000	36,000
Total	**48,000**	**36,000**	**36,000**
Net Borrowing / (Net Investment)	**(34,000)**	**(27,000)**	**(27,000)**

Link Asset Management continued to provide services as the Council's treasury advisors. Their latest commentary is attached at Appendix 2.

2. Summary

During 2020/21, the Council complied with legislative and regulatory requirements. The key prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are set out below:

The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the Authorised Limit), was not breached.

The challenging investment environment of previous years was amplified in 2020/21, resulting in low investment returns.

<u>COVID-19 Pandemic - Extraordinary Circumstances</u>
The treasury and investment impacts of the COVID-19 pandemic which started in late 2019/20 include:

- Less predictable cashflows due to receipt of planned and additional Government funding at short notice and taking on new responsibilities for paying grant funding to businesses on behalf of Government;
- Incurring unplanned expenses as the authority's emergency response plan was implemented;
- A reduction in income receipts across all services and the Collection Fund.

One of the more significant challenges faced from a treasury management perspective was the revised timescales for receipt of planned and emergency Government funding.

Delays in capital projects due to COVID-19 constraints resulted in significant slippage in the Council's 2020/21 capital programme as displayed in table 1 above.

The Treasury Management Strategy specifies the maximum sums that can be invested with any one organisation. There were periods of time during the year when the Council breached its limit on the maximum sum to be invested in a single institution, as specified in the Treasury Management Strategy. This was due to the receipt of significant emergency funding at short notice from the Government. The breach was subsequently addressed by opening additional investment accounts with new institutions to spread the risk.

3. Introduction and Background

This report provides a summary of the Council's treasury management position for the year with regard to borrowing and investments, including:

- Capital investment activity and the impact of this activity on the Council's

underlying indebtedness (the ‘Capital Financing Requirement’); and
- Performance against Prudential and Treasury Management indicators (Appendix 1).

4. Capital Expenditure and Financing

The Council undertakes capital expenditure to acquire or create long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing requirement.

The table below sets out the capital expenditure during 2020/21 and how it was financed.

Table 2: CAPITAL FINANCING	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Capital Programme Expenditure	18,890	96,100	25,782
Less: amounts not defined as Capital by statute	-	-	(329)
Total Capital Expenditure			**25,453**
Financed By:			
Capital Grants	1,016	1,843	1,994
Capital Receipts	2,099	8,805	4,403
Revenue Contribution	-	10,000	-
Capital Reserves	1,063	-	-
Total Grants & Receipts	**4,178**	**20,648**	**6,396**
Borrowing in Year	14,712	75,452	19,057
Total Finance	**18,890**	**96,100**	**25,453**

5. Overall Borrowing Need

The underlying need to borrow for capital expenditure is the ‘Capital Financing Requirement’ (CFR). The Council’s CFR for the year is set out below and represents a key prudential indicator.

Table 3: CAPITAL FINANCING REQUIREMENT (CFR)	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Outturn £000
Opening balance	18,826	31,105	31,105
Add unfinanced capital expenditure	12,446	75,452	30,571
Less MRP/VRP	(167)	(528)	(266)
Less PFI & finance lease repayments	-	-	-
In year change in CFR	12,279	74,924	30,305
Cumulative Capital Financing Requirement (CFR)	**31,105**	**106,029**	**61,411**

The Council's treasury team ensures that sufficient cash is available to meet capital expenditure plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government's Public Works Loan Board (PWLB), other local authorities or private sector lenders, or by utilising available cash balances on a temporary basis.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that the costs of borrowing to fund capital assets are charged to the revenue budget over the life of the asset. In order to achieve this the Council is required to make an annual charge to the revenue budget, the Minimum Revenue Provision (MRP) to reduce its CFR. This is effectively repayment of the associated borrowing.

The CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Management Strategy for 2020/21 on 28 May 2020.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and that borrowing is only used for a capital purpose, the Council has to ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This confirms that the Council is not borrowing to support revenue expenditure. The table below sets out the Council's gross borrowing position against its CFR and confirms that the Council has complied with this prudential indicator.

Table 4: GROSS BORROWING POSITION	2019/20 Actual £000	2020/21 Original Budget £000	31 March 2020 (2020/21) Actual £000
Gross External Borrowing Position (Table 1)	**14,000**	**9,000**	**9,000**
Cumulative CFR (Table 3)	31,105	106,029	61,411
(Under) / Over Funding of CFR	**(17,105)**	**(97,029)**	**(52,411)**

The Authorised Limit - the Authorised Limit is the 'affordable borrowing limit' required by section 3 of the Local Government Act 2003. Once this has been approved, the Council does not have authority to borrow above this level without formal adoption of a revised Limit. The table below confirms that the Council has maintained gross borrowing within its Authorised Limit during 2020/21

The Operational Boundary – the Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator confirms the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the 'Net Revenue Stream' (the Council's revenue budget).

TABLE 5: COST of CAPITAL AGAINST NET REVENUE STREAM	2020/21
Authorised Limit	£162m
Maximum gross borrowing position during the year	£9m
Operational Boundary	£152m
Average gross borrowing position	£9m
Net financing costs as a proportion of Net Revenue Stream	(3.77)%

6. Treasury Position at 31 March 2021

The Council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks across all treasury management activities. Procedures and controls to achieve these objectives are well established both through officer and Member reporting and through officer activity as set out in the Council's Treasury Management Practices. At the end of 2020/21 the Council's treasury position was as follows:

Table 6: DEBT PORTFOLIO	**31 March 2020 Principal £000**	**Rate / Return %**	**Average Life (years)**	**31 March 2021 Principal £000**	**Rate / Return %**	**Average Life (years)**
Fixed rate funding:						
PWLB	-	-	-	-	-	-
Lincolnshire County Council	6,000	1.00%	9 months	-	-	-
Portsmouth City Council	3,000	1.00%	9 months	-	-	-
Portsmouth City Council	5,000	1.20%	1.3 years	5,000	1.20%	3 months
Elmbridge Borough Council	-	-	-	4,000	1.70%	9 months
Total	**14,000**	**1.07%**		**9,000**	**1.45%**	
Variable Rate Funding:						
PWLB	-	-	-	-	-	-
Market Loans	-	-	-	-	-	-
Total Debt	**14,000**	**1.07%**		**9,000**	**1.45%**	
CFR (Table 3)	31,105			61,411		
Over / (Under) Borrowing	**(17,105)**			**(52,411)**		

Table 7: INVESTMENT PORTFOLIO	**31 March 2020 Principal £000**	**Rate/ Return %**	**Average Life (years)**	**31 March 2021 Principal £000**	**Rate/ Return %**	**Average Life (years)**
Investments:						
- In-House	35,000	0.50%	1 year	23,000	0.01%	1 year
- With Brokers	13,000	1.56%	2.5 years	13,000	1.58%	5 months
Total Investments	**48,000**	**0.90%**	**1.67 years**	**36,000**	**0.69%**	**0.75 years**

The maturity structure of the debt portfolio is set out below:

Table 8: INVESTMENT PORTFOLIO	**31 March 2020 Actual**	**2020/21 Original Limits**	**31 March 2021 Actual**
Under 12 months	64%	100%	100%
12 months and within 24 months	36%	100%	0
24 months and within 5 years	0%	100%	0
5 years and within 10 years	0%	100%	0
10 years and within 20 years	0%	100%	0

20 years and within 30 years	0%	100%	0
30 years and within 40 years	0%	100%	0
40 years and within 50 years	0%	100%	0

The limit for maturity structure of the debt portfolio at 100% reflects the fact that the Council has little external borrowing at present.

Table 9: INVESTMENT PORTFOLIO	**Actual 31 March 2020 £000**	**Actual 31 March 2020 %**	**Actual 31 March 2021 £000**	**Actual 31 March 2021 %**
Treasury investments				
Banks	5,000	10%	-	-
Building Societies - rated	18,000	38%	13,000	36%
Local authorities	-	-	-	-
Money Market Funds	25,000	52%	23,000	64%
Total	**48,000**	**100%**	**36,000**	**100%**
Bond funds	-	-	-	-
Property funds	-	-	-	-
Total managed externally	-	-	-	-
TOTAL TREASURY INVESTMENTS	**48,000**	**100%**	**36,000**	**100%**

Table 10: INVESTMENT PORTFOLIO (updated November 2021)	**Actual 31-Mar 2020 £000**	**Actual 31-Mar 2020 %**	**Actual 31-Mar 2021 £000**	**Actual 31-Mar 2021 %**
Non-Treasury Investments				
Third party loans & share capital:				
Subsidiaries – Greensand Property Holdings Ltd	12,482	21%	13,258	23%
Companies – Horley Business Park Development LLP	594	1%	602	1%
Associate – Pathway for Care Ltd [1]	1,100	2%	1100	2%
Investment Property	45,531	76%	43,373	74%
Total Non-Treasury Investments	**59,707**	**100%**	**58,333**	**100%**
Treasury investments	48,000	45%	36,000	38%

Table 10: INVESTMENT PORTFOLIO (updated November 2021)	Actual 31-Mar 2020 £000	Actual 31-Mar 2020 %	Actual 31-Mar 2021 £000	Actual 31-Mar 2021 %
Non-Treasury investments	59,707	55%	58,333	62%
Total – All Investments	**107,707**	**100%**	**94,333**	100%

The maturity structure of the investment portfolio is set out below:

Table 11: ALL TREASURY INVESTMENTS	2019/20 Actual £000	2020/21 Budget £000	2020/21 Actual £000
Investments:			
Longer than 1 year	23,000	13,000	13,000
Up to 1 year	25,000	23,000	23,000
Total	**48,000**	**36,000**	**36,000**

7. Borrowing Outturn 2020/21

Loans were drawn during the year to fund the net unfinanced capital expenditure.

Table 12: LOANS						
Lender	**Principal**	**Type**	**Interest Rate**	**Start date**	**Maturity Date**	**Duration**
Short-term Market Loan	£4m	Fixed Interest Rate	1.70%	18/12/2020	20/12/2021	12 months

This compares well with the 2020/21 budget assumption that long term borrowing would be at an interest rate of 2.70%.

Borrowing in advance of need - the Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8. Investment Outturn 2020/21

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance and was implemented in the Treasury Management Strategy approved by the Council on 28 May 2020. The Policy sets out the approach for choosing investment counterparties based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, such as rating outlooks, credit default swaps and bank share prices etc.

Investment activity during the year conformed to the approved Policy and the Council experienced no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. Core cash resources comprised usable reserves as follows:

Table 13: USABLE RESERVES	2019/20 Actual	2020/21 Actual
	£000	£000
General Fund Balance	7,939	2,331
Earmarked Reserves	33,652	37,558
Usable Capital Receipts	581	7,361
Capital Grants Unapplied	21,396	21,396
Total	**63,568**	**68,646**

Investments - the Council maintained an average balance of £36m of investments in 2020/21 which earned an average rate of return of 0.51%. This compares with a (pre-pandemic) budget assumption of £36m investment balances earning an average rate of 0.93%. The comparable external performance indicator is the average 12-month LIBID uncompounded rate, which was 0.17%. The Council's average rate of return of 0.51% is mainly driven by the fixed investments made prior to the pandemic where interest rates were most favourable.

9. Other Treasury Management Matters

Pooled Investment Funds. The Council had no pooled investment funds during the year.

Non-treasury management investments. The Council's current approach to making property investment decisions is set out in its Capital Investment Strategy which explains how investment decisions are made, how delivery is approached and how risks are managed. In order to support investment decisions, the Council relies on the principles established in its evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to secure financial sustainability.

APPENDIX 1

PRUDENTIAL AND TREASURY INDICATORS

1.1 PRUDENTIAL INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Capital Expenditure			
General Fund (Table 2)	18,890	96,100	25,454
Ratio of net financing costs to net revenue stream			
General Fund	(4.99)%	4.95%	(3.77)%
Gross Debt			
Brought forward 1 April	12,000	14,000	14,000
Carried forward 31 March	14,000	9,000	9,000
In year borrowing requirement	2,000	(5,000)	(5,000)
Capital Financing Requirement			
Opening CFR (Table 3)	18,826	31,105	31,105
In year CFR change (Table 3)	12,279	74,924	30,305
Closing CFR (Table 3)	31,105	106,029	61,411
Annual change in Capital Financing Requirement			
General Fund	12,279	74,924	30,305

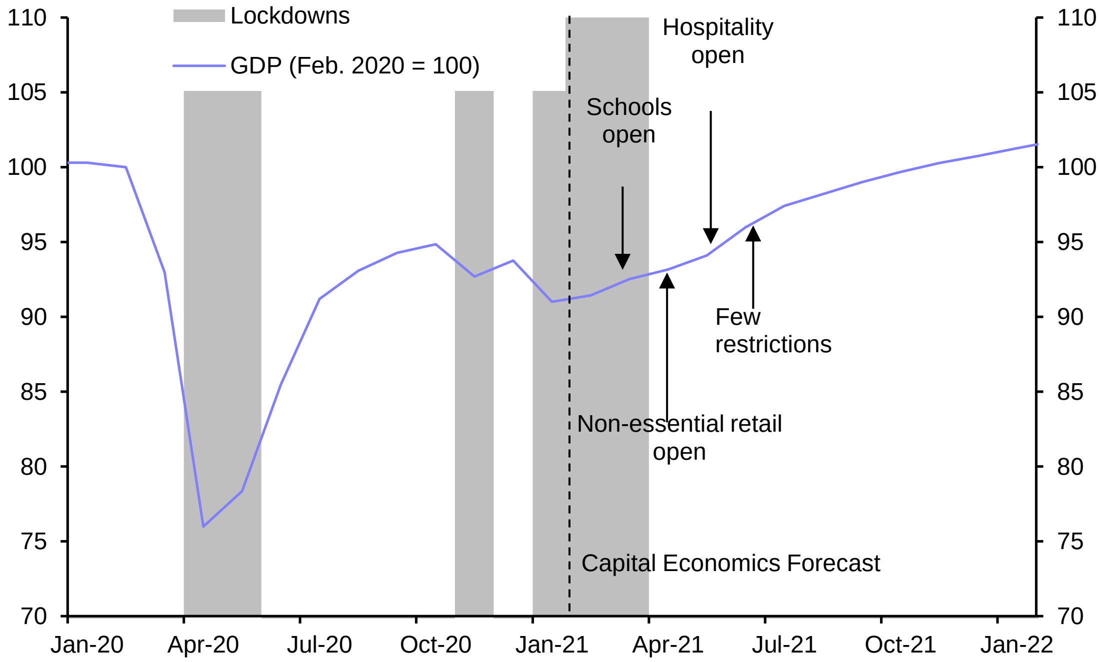
1.2 TREASURY MANAGEMENT INDICATORS	**2019/20 Actual £000**	**2020/21 Original Budget £000**	**2020/21 Actual £000**
Authorised Limit for External Debt			
Borrowing	80,000	161,000	161,000
Other long-term liabilities	-	500	500
Total	**80,000**	**161,500**	**161,500**
Operational Boundary for External Debt			
Borrowing	70,000	151,000	151,000
Other long-term liabilities	-	500	500
Total	**70,000**	**151,500**	**151,500**
Actual External Debt	**14,000**	**9,000**	**9,000**

1.3 MATURITY STRUCTURE OF FIXED RATE BORROWING DURING 2020/21	**Target upper limit**	**Target lower limit**	**Actual**
Under 12 months	100%	0%	100%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and within 20 years	100%	0%	0%
20 years and within 30 years	100%	0%	0%
30 years and within 40 years	100%	0%	0%
40 years and within 50 years	100%	0%	0%
Maturity structure of Investments during 2020/21	upper limit	lower limit	
Longer than 1 year	£20m	£0m	£0m
Up to 1 year	£13m	£0m	£36m
Total	£33m	£0m	£36m

LINK ASSET SERVICES COMMENTARY – April 2021

The Economy and Interest Rates

UK. Coronavirus. *The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.*



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The ***Monetary Policy Committee*** *cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which* *time the economy was expected to be making a strong recovery and negative rates would no longer be needed.*

***Average inflation targeting**. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.*

***Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.*

***BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.*

***USA.** The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.*

*After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial* *markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.*

EU. *Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.*

Inflation was well under 2% during 2020/21. ***The ECB*** *did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore,* ***unlikely to be a euro crisis*** *while the ECB is able to maintain this level of support.*

China. *After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.*

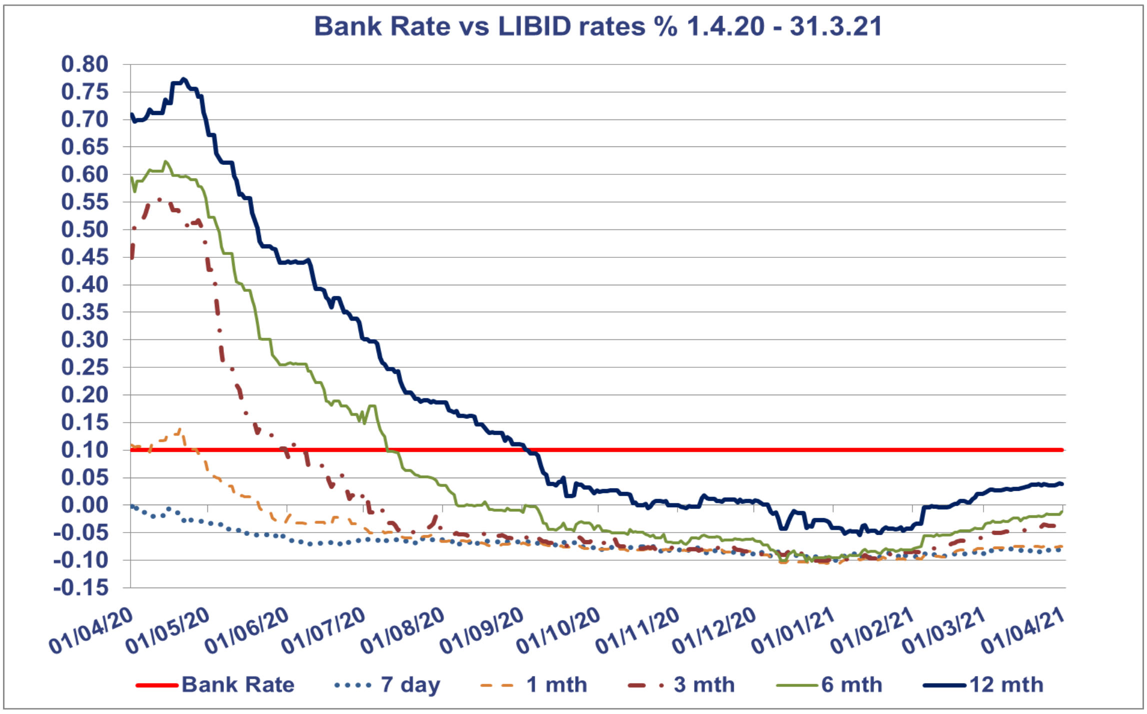
Japan. *Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.*

World growth. *World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.*

Deglobalisation. *Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.*

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

Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

For authorities that have sufficient cash balances to place longer term investments -

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

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

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

For authorities with minimal cash balances that can only be placed out for up to one month.

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

This authority does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

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

Borrowing strategy and control of interest rate risk

During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please adapt this outline to what you actually did in the year):

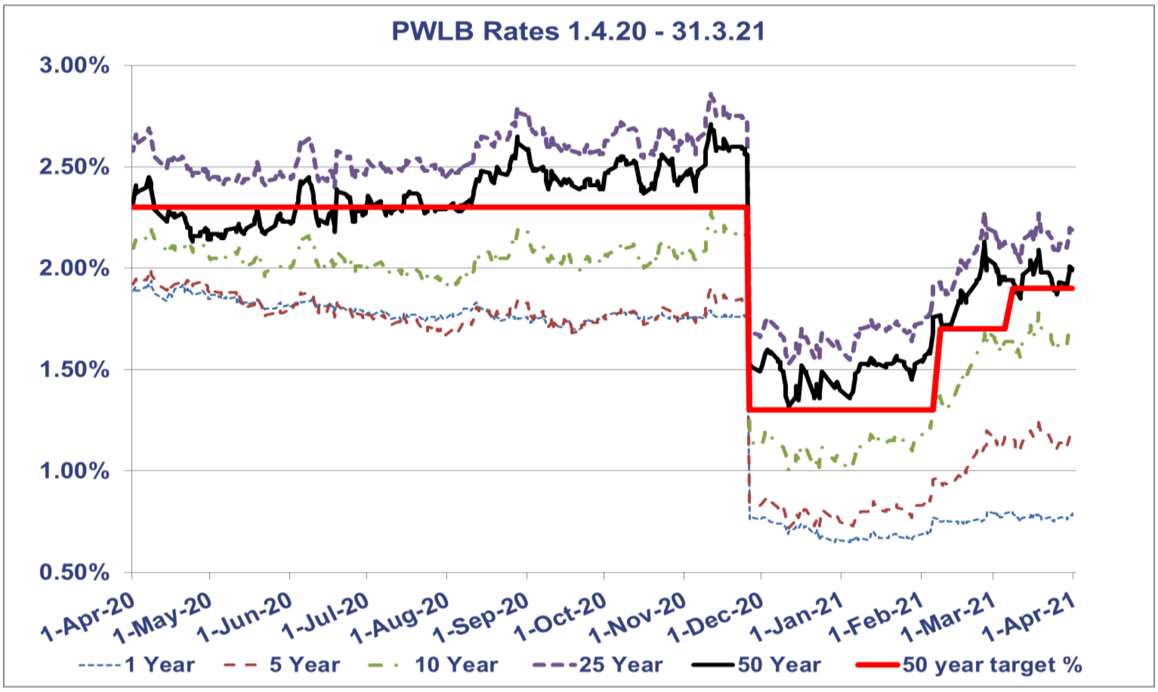
- *if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding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

- *if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.*

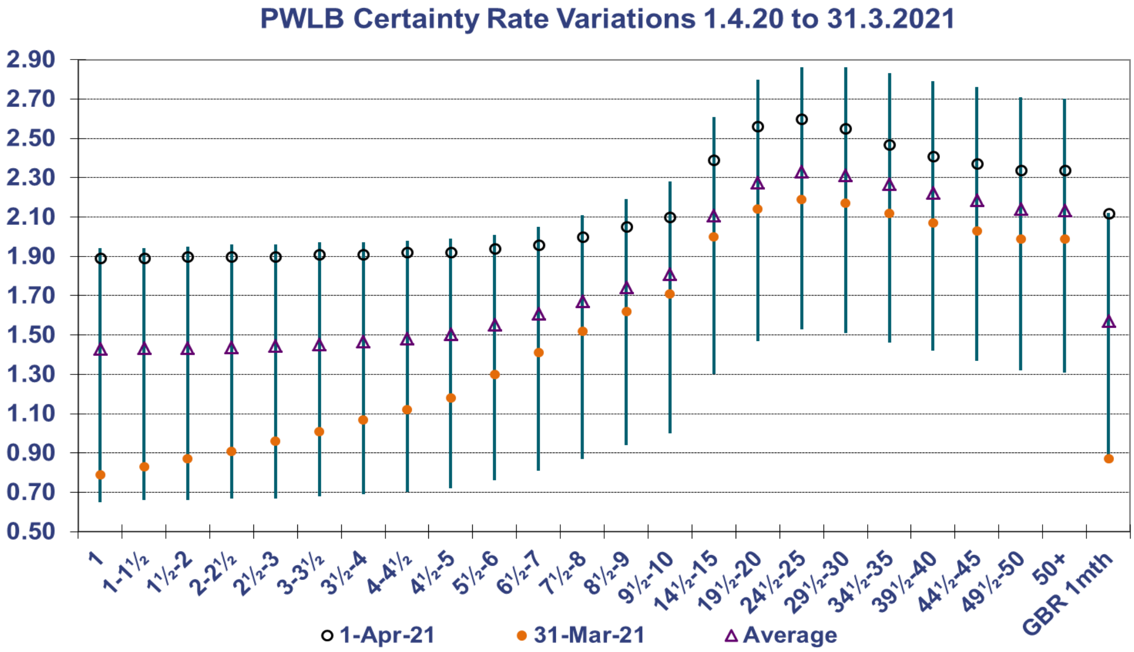
Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates,

Forecasts at the time of approval of the treasury management strategy report for 2020/21 were as follows:-

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



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%



PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

SIGNED OFF BY	Interim Head of Finance
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TO	Overview and Scrutiny Committee Executive
DATE	Thursday, 9 December 2021 Thursday, 16 December 2021
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance & Governance Portfolio Holder for Corporate Policy & Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Quarter 2 Performance Report 2021/22

RECOMMENDATIONS
That the Overview and Scrutiny Committee:

(i) Note Key Performance Indicator (KPI) performance for Q2 2021/22 as detailed in the report and in Annex 1 and make any observations to the Executive;

(ii) Note the Budget Monitoring forecasts for Q2 2021/22 as detailed in the report and at Annexes 2 and 3 and make any observations to the Executive.

That the Executive:

(iii) Note Key performance Indicator performance for Q2 2021/22 as detailed in the report and in Annex 1;

(iv) Note the Budget Monitoring forecasts for Q2 2021/22 as detailed in the report and at Annexes 2 and 3.

REASONS FOR RECOMMENDATIONS

For the Council's performance to be reviewed and for appropriate KPI reporting and budget monitoring arrangements to be in place.

EXECUTIVE SUMMARY

This report provides an overview of the Council's performance for Q2 2021/22, including Key Performance Indicator (KPI) reporting, as well as revenue and capital budget monitoring.

Of the ten KPIs reported on in Q2, eight are on target or within tolerance. Two indicators are off target.

Service and Central budgets are currently forecast to be £0.061m (0.4%) higher than the Revenue Budget for 2021/22 that was approved in February 2021.

The approved budget included separate forecasts for the ongoing financial impacts of the COVID-19 pandemic and this report includes updated forecasts based on the current position. The impacts of the pandemic continue to be monitored closely and, while additional expenditure has continued to be contained within the funding provided by Government, use of Earmarked Reserves set aside for the purpose will be necessary to offset forecast income losses. Further details are provided in this report and at Annex 2.

The Capital Programme forecast for the year is £53.07m which is £88.01m (62.4%) below the approved Programme for the year. The variance is as a result of £87.36m slippage and a net underspend of £0.065m. Further details are provided in this report and at Annex 3.

The Overview and Scrutiny Committee and Executive have the authority to approve their respective recommendations.

STATUTORY POWERS

1. Following the abolition of Best Value Performance Indicators (BVPI) in 2008 and the National Indicator Set (NIS) in 2010, there is no statutorily imposed framework for local authorities to manage performance.
2. The Local Government Act 1972 requires the Council to set the associated annual budget as part of proper financial management. This monitoring report is part of that process.

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.

BACKGROUND

4. Each quarter the Overview and Scrutiny Committee and Executive receive an update on the Council's performance. The report provides an overview of KPI as well as budgetary performance.
5. KPIs are service level performance measures and are set in order to demonstrate performance against key corporate objectives.
6. Quarterly budget monitoring is a key financial control mechanism that demonstrates that the Council is fulfilling its responsibilities for managing public funds.

KEY INFORMATION

Key Performance Indicators

7. Ten KPIs are reported on in Q2, the full detail of which is provided in annex 1.
8. Of the ten KPIs reported on, eight are on target or within the agreed tolerance. Two indicators are off target, outside of their tolerance and are therefore red rated.
9. Of those that are off target:

   - **KPI 2 – Business rates collection.** Performance continues to be affected by the recalculation of the Retail Rate Relief which took place earlier this year, leading to a number of instalments being set back and a subsequent recalculation and creation of new instalment plans. It is expected that performance will catch up as the year progresses.

   - **KPI 7 – Affordable Housing Completions.** Affordable housing completions this quarter continue to be off target, however these units are often delivered in batches. With a significant number of housing development projects such as the Horley North West Sector, RNIB and Quarryside Business Park expected to reach completion later in the year, an increase in affordable housing completions is expected to bring completions in line with the target.

Revenue Budget Forecast

10. The 2021/22 Original Revenue Budget approved by Council in February 2021 was £17.395m.
11. At 30 September the forecast outturn for Services and Central Budgets is £17.841m against a management budget of £17.808m, including one-off funding from Reserves, resulting in an overall net underspend of £0.033m (0.4%).
12. In addition, there are forecast continued income losses of £1.418m (net) following the COVID-19 pandemic that will have to be funded this year through a call on the Reserve that has been set aside to mitigate this risk.

Table 1: REVENUE BUDGET MONITORING at 30 Sept 2021	Original Budget £m	In-Year Adjustments[1] £m	Management Budget £m	Forecast Outturn £m	Forecast Year-end Variance £m
Service Budgets	16.240	0.413	16.653	16.714	0.061
Central Budgets	1.155	0.000	1.155	1.127	(0.028)
Revenue Budget Forecast at 30 June	**17.395**	**0.413**	**17.808**	**17.841**	**0.033**
Income losses due to ongoing COVID-19 impacts	0.000	0.000	0.000	1.772	1.772
Government Funding to offset Income Losses	0.000	0.000	0.000	(0.354)	(0.354)
Revenue Budget Forecast at 30 June Including COVID-19 Income Losses	**17.395**	**0.413**	**17.808**	**19.259**	**1.452**

Note: in-year budget adjustments reflect the drawdown of Earmarked Reserves during the year and amounts carried forward from the prior year to fund approved expenditure.

Service Budgets

13. The 2021/22 Original Budget for Services approved by Council in February 2021 was £16.240m.

14. At 30 September the full year outturn is forecast to be £16.714m against a management budget of £16.653m resulting in an overspend of £0.061m (0.4%).

15. The key variances are:

Organisation:

- Electoral Services - £0.168m underspend due to lower than expected election costs and review of long term contracts .

Place:

- Planning Policy - £0.133m underspend due to lower staff costs because of vacancies.

People

- Revenues, Benefits & Fraud - £0.393m overspend due to lower DWP subsidy and higher Housing Benefit, partially offset by lower staff costs due to vacancies and higher commercial income.

Corporate

- Management Team - underspend of £0.200m in anticipation of implementation of the new senior management structure

16. Further details of Service budget variances are provided at Sections 1 and 2 of Annex 2.

COVID-19 Expenditure & Funding

17. The Revenue Budget for 2021/22 that was approved by Council in February 2021 did not include specific budgets for ongoing expenditure relating to the Council's response to the pandemic but it did provide an outline of the types of spending that were likely to be incurred and assumptions regarding how they would be funded based on the information available at the time.

18. The latest forecast for additional expenditure and funding during 2021/22 are summarised below. This confirms that expenditure and associated funding are currently forecast to balance. These forecasts are based on current assumptions regarding national and local recovery following the pandemic and may change. Some of the forecast Government funding is also subject to final confirmation. The majority of pandemic funding is received direct from the Government but some continues to be paid via Surrey County Council.

Table 2: COVID-19 FORECAST ADDITIONAL EXPENDITURE & FUNDING at 30 Sept 2021	**Forecast Expenditure £m**	**Forecast Funding £m**
Welfare Response	0.294	
'Welcome Back' Expenditure & Funding	0.166	(0.166)
Revenues & Benefits Team - additional temporary staff	0.136	
Financial Management & Monitoring	0.131	
Communications/Contact Centre/Data & Insight Team - additional capacity	0.113	
Homelessness Prevention	0.101	
Revenues & Benefits - in-house overtime, software etc	0.101	
Environmental Services/Waste Team - additional capacity	0.100	
ICT support costs	0.079	
Other expenditure (including Elections)	0.056	(0.039)
Surge Testing	0.026	(0.026)
Cultural, Sports, Leisure	0.022	

New Burdens Funding (bid outcome awaited, only part assumed)		(0.030)
Test & Trace Administration Funding		(0.088)
Contain Outbreak Management Funding		(0.274)
Government COVID-19 Funding Allocation 2021/22		(0.638)
Forecast Expenditure and Funding 2021/22	**1.323**	**(1.261)**
Net Expenditure / (Income)	**0.062**	

COVID-19 Income Losses

19. The main area for concern relates to ongoing income losses as a consequence of the pandemic. At 30 September the forecast total income loss is £1.418m after taking account of forecast Government funding for losses to 30 June (only).

Table 3: COVID-19 FORECAST INCOME LOSSES AND FUNDING at 30 June 2021	**Forecast Income Loss £m**
Car Parking	1.228
Leisure Services (management fee has continued to be waived during 2021/22; lower pitch income)	0.278
Planning Policy (lower fee income)	0.118
Property & Facilities (lower income from commercial properties)	0.051
Planning Policy (lower fee income)	0.118
Revenues & Benefits (lower commercial income	0.040
Environmental Licencing (lower premises/taxi licencing & MOT income)	0.037
Harlequin (lower ticket sales, hire and catering income)	0.020
Forecast Income Loss	**1.772**
Government Funding (Q1 Losses Only)	(0.354)
Net Forecast Income Loss 2021/22	**1.418**

20. The net forecast shortfall can be funded on a one-off basis through drawing on the £2.0 million Earmarked Reserve that was set aside at the end of 2020/21 in anticipation of continued income losses.

21. These forecasts are based on the second quarter position and remain subject to review as recovery continues.

22. Looking forward beyond 2021/22 there remain concerns that ongoing income losses (in particular relating to car parking) will add significantly to the forecast budget gap over the medium term as there is no current prospect of further Government funding for the majority of these pressures beyond the end of June 2021.

23. The ongoing unfunded impacts will have to be accommodated within future budget-setting decisions and will result in a further call on Reserves until sustainable solutions are implemented. This will have to be addressed as a priority during budget-setting for 2022/23 for services where there is no prospect of income streams returning to pre-pandemic levels.

24. As previously reported, over the medium term, the main options for mitigating the financial impacts of COVID-19 include:
    - Continue to lobby Central Government for additional funding in recognition of the residual impacts of income losses on district Councils and their ability to deliver services.
    - Look to make offsetting savings and efficiencies where possible before calling on Reserves.
    - Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.

25. As a final resort it would be necessary to apply for permission from Government to capitalise some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. This would place the Council in the spotlight as being at risk of financial failure.

26. Further updates on forecast impacts on costs and income and how they might be funded will continue to be included in the quarterly budget monitoring reports throughout 2021/22.

Central Budgets

27. The 2021/22 Original Budget for Central budgets approved by Council in February 2021 was £1.155m.

28. At 30 September the forecast outturn is £1.127m against a management budget of £1.155m resulting in an underspend of £0.028m (2.42%).

29. This overspend is mainly as a result of small adjustments to forecasts as projects near completion.

30. During the quarter notification was received from the Local Enterprise Partnership of its decision to withdraw £2.833m grant funding that was previously allocated to help the Council prepare to develop Horley Business Park. The reason for withdrawal was because the current timeframe for delivery no longer meets the original grant terms. The grant funding was used in 2019 to part-fund the loan to Greensand Holdings Limited for purchase of land on the business park site. The grant will be replaced with equivalent prudential borrowing and the costs will be taken into account when preparing treasury management budgets for 2022/23.

31. Further details on Central Budget forecasts are provided at Annex 2.

Investment Income

32. Forecast income from property rents at Quarter 2 is £4.608m compared to the £4.568m that was received in 2020/21. This represents 26.5% of the net revenue budget for 2021/22.

Capital Programme Monitoring

33. At 30 September 2021, the Capital Programme budget was £141.08m (including £99.456m of approved carry-forward capital allocations from 2020/21).

34. The forecast outturn position is £53.07m which is £88.01m (62.4%) below the approved Programme for the year. The variance is driven by £87.36m slippage and a net underspend of £0.65m.

35. Slippage at 31 March will be carried forward to the Programme for 2022/23 onwards. The main reasons for forecast slippage at the end of Quarter 2 were:

    - Housing Delivery Programme (£20.0m slippage) – these capital funds have been allocated to fund investment in new affordable housing. There are no specific developments planned at this time. Forecasts will be updated when new business cases are developed.
    - Commercial Investments Programme (£63.98m slippage) - these capital funds have been allocated to fund investment in new developments and commercial assets & activities to deliver a sustainable net income stream. There are no specific developments or asset purchases planned at this time. Forecasts will be updated when new business cases or investment opportunities are developed.

36. The forecast net underspend is mainly as a result of:

    - ICT Disaster Recovery - £0.200m lower expenditure due to activity being funded from elsewhere in the capital programme.

37. Further details are provided at Annex 3.

OPTIONS

38. The Overview and Scrutiny Committee has two options:

    Option 1: Note the Q2 2021/22 KPI and budget performance and make no observations/comments to the Executive.

    Option 2: Note the Q2 2021/22 KPI and budget performance and make any observations to the Executive

39. The Executive has two options:

    Option 1: Note the Q2 2021/22 KPI and budget performance and make no observations/comments to the Head of Corporate Policy, Projects and Business Assurance and/or Head of Finance.

Option 2: Note the Q2 2021/22 KPI and budget performance and make any observations/comments to the Head of Corporate Policy, Projects and Business Assurance and/or Head of Finance.

LEGAL IMPLICATIONS

40. There are no legal implications resulting from this report.

FINANCIAL IMPLICATIONS

41. There are no additional financial implications arising from this report.

EQUALITIES IMPLICATIONS

42. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

43. There are no communication implications arising from this report

RISK MANAGEMENT CONSIDERATIONS

44. There are no risk management implications arising from his report
45. The annual budget report and supporting strategies include a full risk assessment of budget proposals.

OTHER IMPLICATIONS

46. There are no other implications arising from this report.

CONSULTATION

47. The performance report has been reviewed by the Council's Corporate Governance Group.
48. There are no other consultation implications arising from this report.

POLICY FRAMEWORK

49. Robust performance management is integral to measuring the extent to which policy objectives have been achieved.

BACKGROUND PAPERS

None.

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Q2 2021/22 Key Performance Indicators

KPI	Status	Portfolio Holder
KPI 1 – Council Tax Collection	AMBER	Cllr Schofield
KPI 2 – Business Rates Collection	RED	Cllr Schofield
KPI 3 – Staff Turnover	GREEN	Cllr Lewanski
KPI 4 – Staff Sickness	GREEN	Cllr Lewanski
KPI 5 – Homelessness Positive Outcomes	GREEN	Cllr Neame
KPI 6 – Housing Completions	GREEN	Cllr Biggs
KPI 7 – Affordable Housing Completions	RED	Cllr Biggs
KPI 8 – Local Environmental Quality Surveys	GREEN	Cllr Bramhall
KPI 9 – Missed Bins	GREEN	Cllr Bramhall
KPI 10 – Recycling	AMBER	Cllr Bramhall

KPI 1 – The % Of Council Tax Collected

	TARGET	ACTUAL	STATUS
Q1	29%	29.09%	GREEN
Q2	57%	56.36%	AMBER

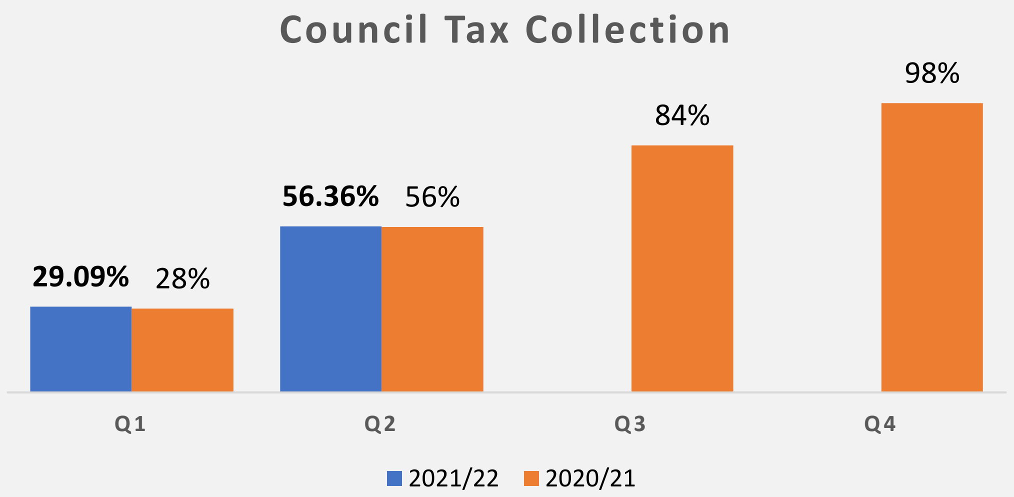
Description

This indicator measures the percentage of Council Tax collected by the Council. The performance reported is cumulative for the year to date. The performance reported is cumulative for the year to date. A tolerance of 1% is applied each quarter.

Narrative

Performance in Q2 is just below target, though within tolerance. Performance in Q2 of this financial year is marginally up when compared to 2020/21.

The non-achievement of the target can be attributed to the impacts of Covid-19 and delays in recovery action as the courts were closed.



KPI 2 – The % Of Business Rates Collected

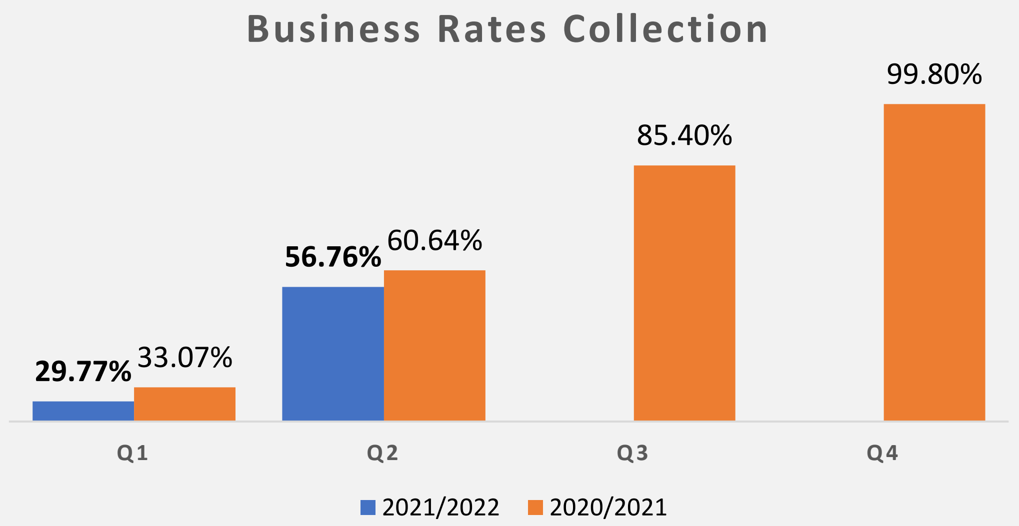
	TARGET	ACTUAL	STATUS
Q1	31%	29.77%	RED
Q2	58%	56.76%	RED

Description

This indicator measures the percentage of non-domestic rates (NNDR) collected by the Council. The performance reported is cumulative for the year to date. A tolerance of 1% is applied each quarter.

Narrative

Performance continues to be affected by the recalculation of Retail Rate Relief (Covid-19 related) earlier in the year, leading to a number of instalments being set back and a subsequent recalculation and creation of new instalment plans. This is a pattern seen across Surrey. It is therefore expected that performance will catch-up as the year progresses.



KPI 3 – Staff Turnover

	TARGET	ACTUAL	STATUS
Q1	12%	7%	GREEN
Q2	12%	7%	GREEN

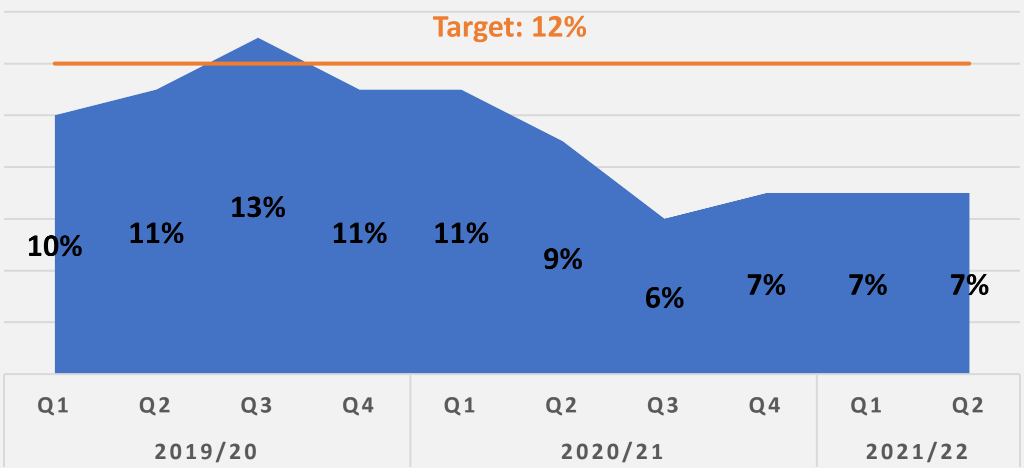
Description

This indicator tracks the percentage of staff that leave the organisation on a voluntary basis. The performance reported is for a cumulative rolling 12 month period.

Narrative

Staff turnover has remained comfortably within the target area in Q2, with levels remaining steady at 7% for the last 3 quarters. The Employment Committee received an update on key workforce data at its meeting on [23 June 2021](), which included additional information on staff turnover.

Staff Turnover



KPI 4 – Staff Sickness Absence

	TARGET	ACTUAL	STATUS
Q1	4 days	3.21 days	GREEN
Q2	4 days	3.36 days	GREEN

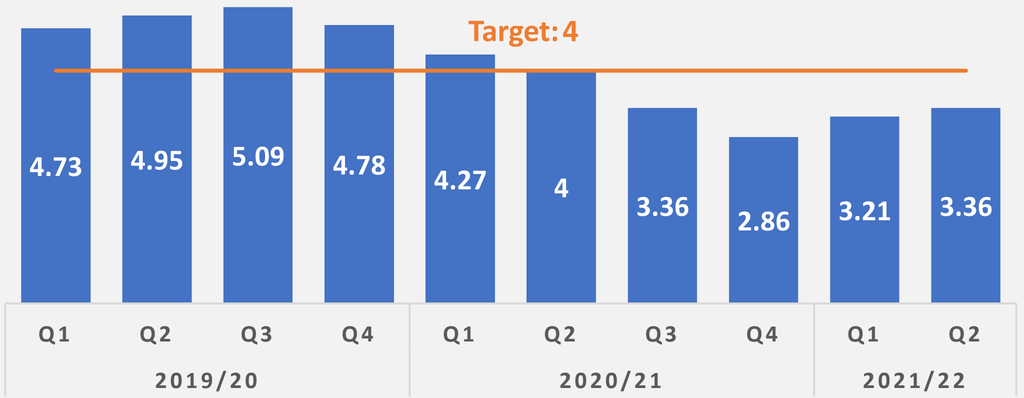
Description

This indicator tracks the average duration of short term sickness absence per employee. The performance reported at the end of each quarter is for a cumulative rolling 12 month period. The indicator measures all non Covid-19 short term sickness absence.

Narrative

Despite a small uptick, short-term staff sickness absence continues to be within target. The Employment Committee received an update on Key Workforce Data at its meeting on [23 June 2021](), which included additional information on staff sickness.

Staff Sickness Absence (Days)



KPI 5 – The % Of Positive Homelessness Prevention And Relief Outcomes

	TARGET	ACTUAL	STATUS
Q1	50%	74%	GREEN
Q2	50%	79%	GREEN

Description

This indicator measures the Council's performance in preventing and relieving homelessness where a household has approached the Council for support and where the Council has a statutory obligation to provide it under the Homelessness Reduction Act.

Prevention and relief are terms that are defined by the Act. The indicator measures the percentage of positive outcomes achieved in the quarter against approaches to the Council that were made in the quarter.

Additional information on homelessness and the responsibilities placed on local authorities is available on the [government's website](#).

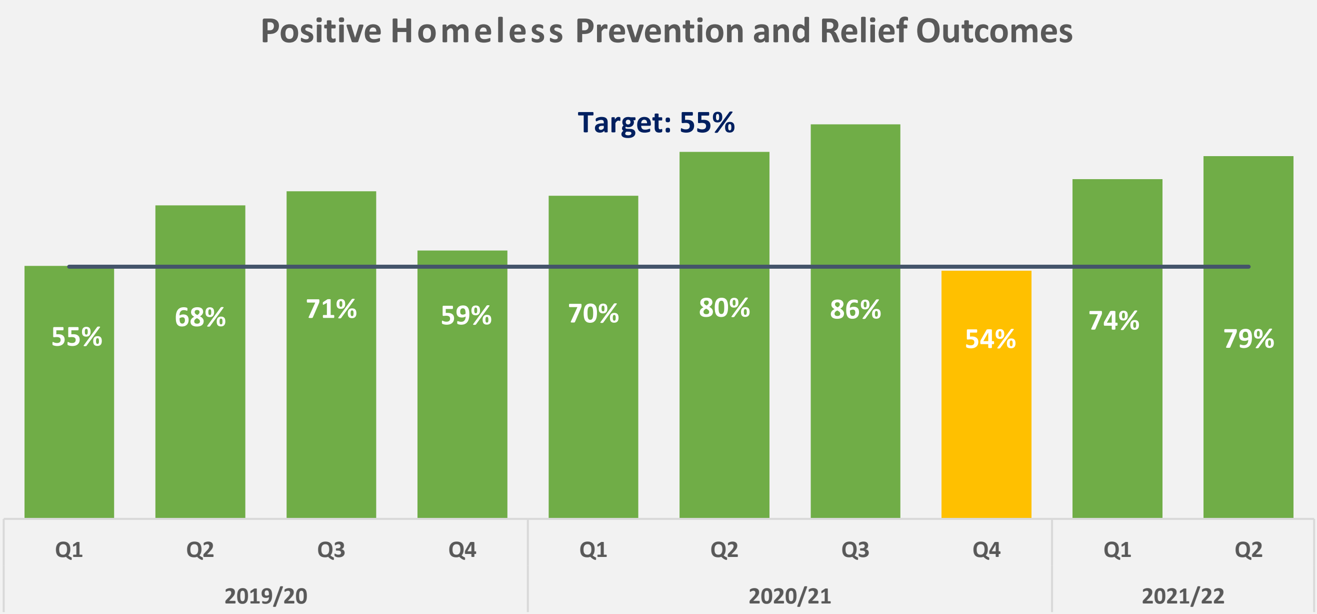
Narrative

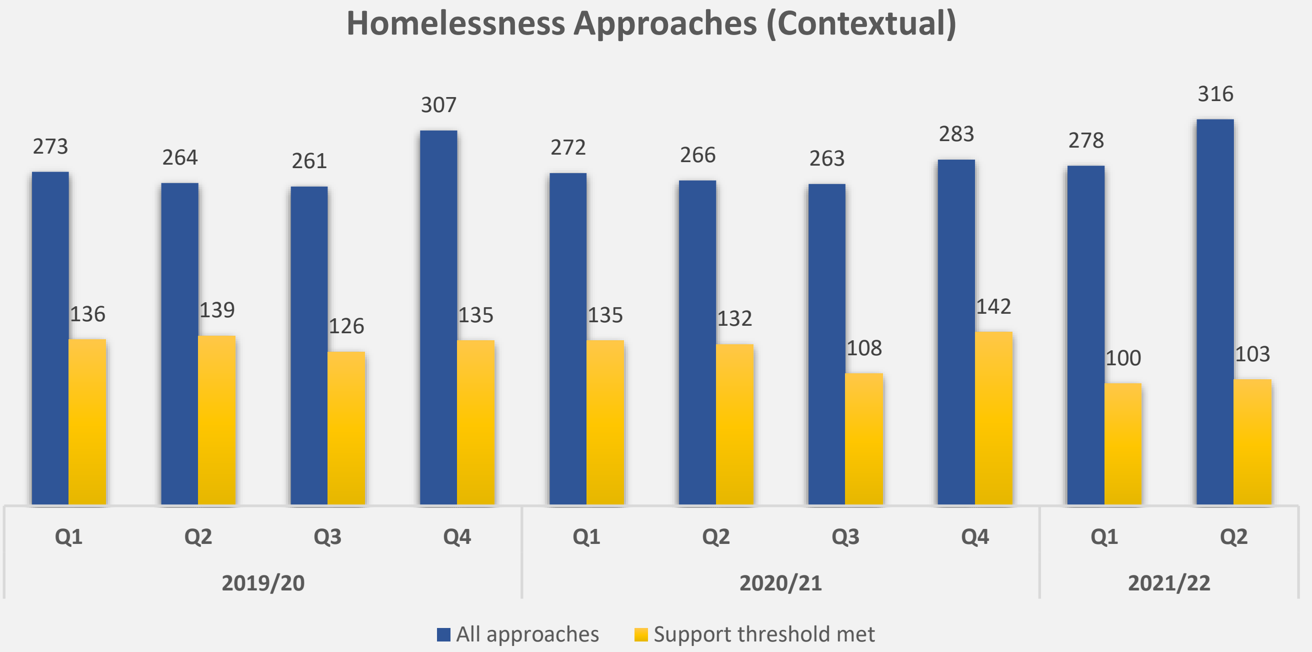
As reported in previous quarters, homelessness approaches remain at a high levels. Despite the increase in the number of approaches, the Council has continued to maintain a high percentage of positive outcomes.

In Q2 there were 316 total homelessness approaches made to the Council, an all time high. Approaches across the quarter were consistent across all three months. This increase can be attributed to the end of the ban on bailiff enforcement which expired on 31 May.

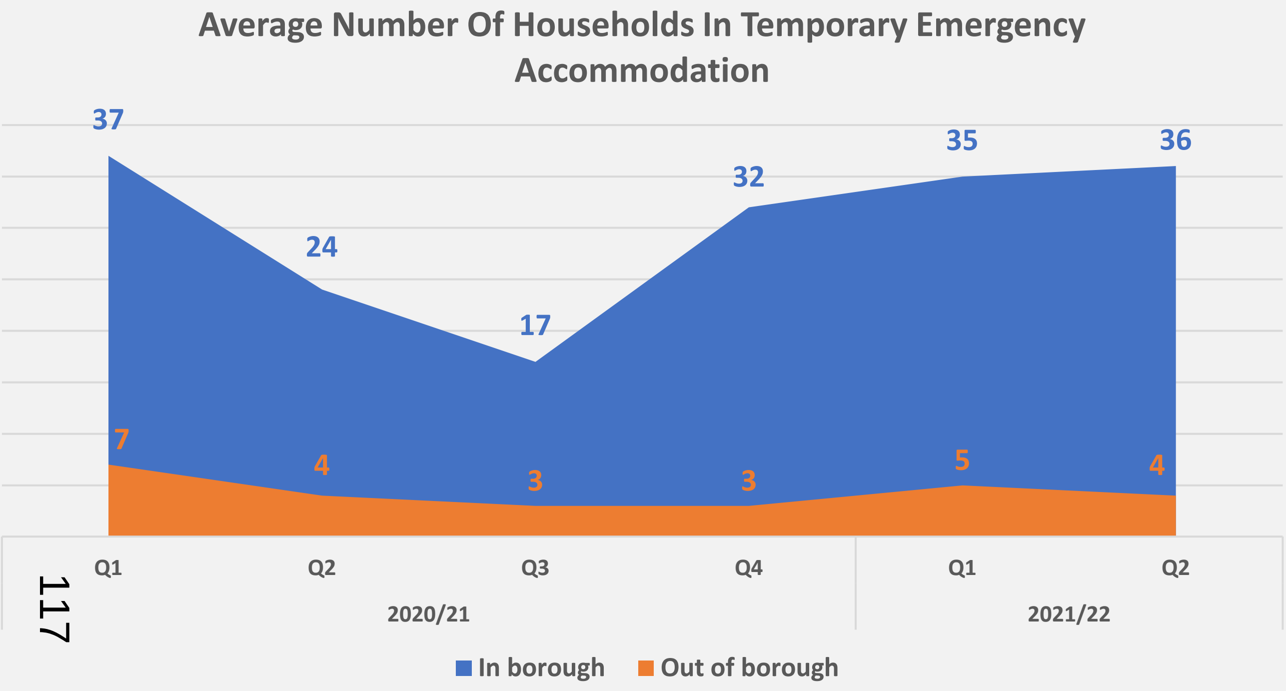
Of the 316 approaches, there were 103 cases where the support threshold was met. In Q2 there were 83 positive prevention and relief outcomes.

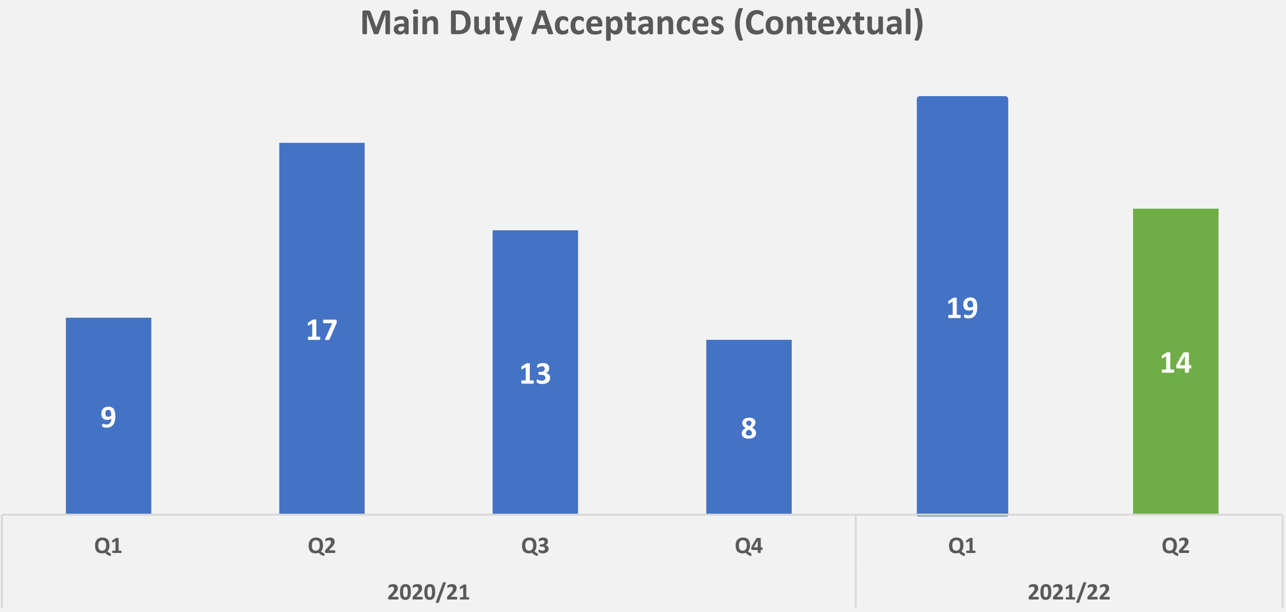
Please see additional contextual performance information overleaf.





KPI 5 – The % Of Positive Homelessness Prevention And Relief Outcomes (Continued)





Temporary emergency accommodation

The average number of households placed in temporary emergency accommodation (not Council owned) has seen a levels stabilise Q2, although levels remain higher than at the same period in the previous year.

Single persons continue to make up an increasing share of those placed in temporary emergency accommodation. The Council had previously been successful in applying for a grant from the DLUHC to place and support single persons in temporary emergency accommodation who otherwise would not have met the threshold for support. The continuing support from this partly explains the continued higher level of placements.

Despite high levels of homelessness approaches the Council continues to secure equally high levels of positive prevention and relief outcomes.

The use of temporary emergency accommodation also continues to impact the **Council's own emergency accommodation** which is being operated at a reduced capacity in order to ensure social distancing and the avoidance of facilities being shared. As of the close of Q2 the occupancy of Massetts Road sits at 50%.

Main duty acceptances

The main housing duty is to provide accommodation until more secure accommodation is found.

At the close of Q2 there were 14 main duty homelessness acceptances, a minor decrease on the 19 seen in Q1 and down by 3 from the 17 seen in Q2 2020/21.

KPI 6 – Net Housing Completions

		TARGET	ACTUAL	STATUS
20/21	Q2	230	277	GREEN
	Q3	345	606	GREEN
	Q4	460	794	GREEN
21/22	Q1	115	112	AMBER
	Q2	230	283	GREEN

Description

This indicator measures the net number of residential housing completions that have taken place in the borough. It includes all completions – i.e. at both market and affordable rates. The targets mirror those set in the Council's Development Management Plan. Performance reported is cumulative for the year. Given the fluctuations in housing completions throughout the year, a tolerance of 60 applies each quarter.

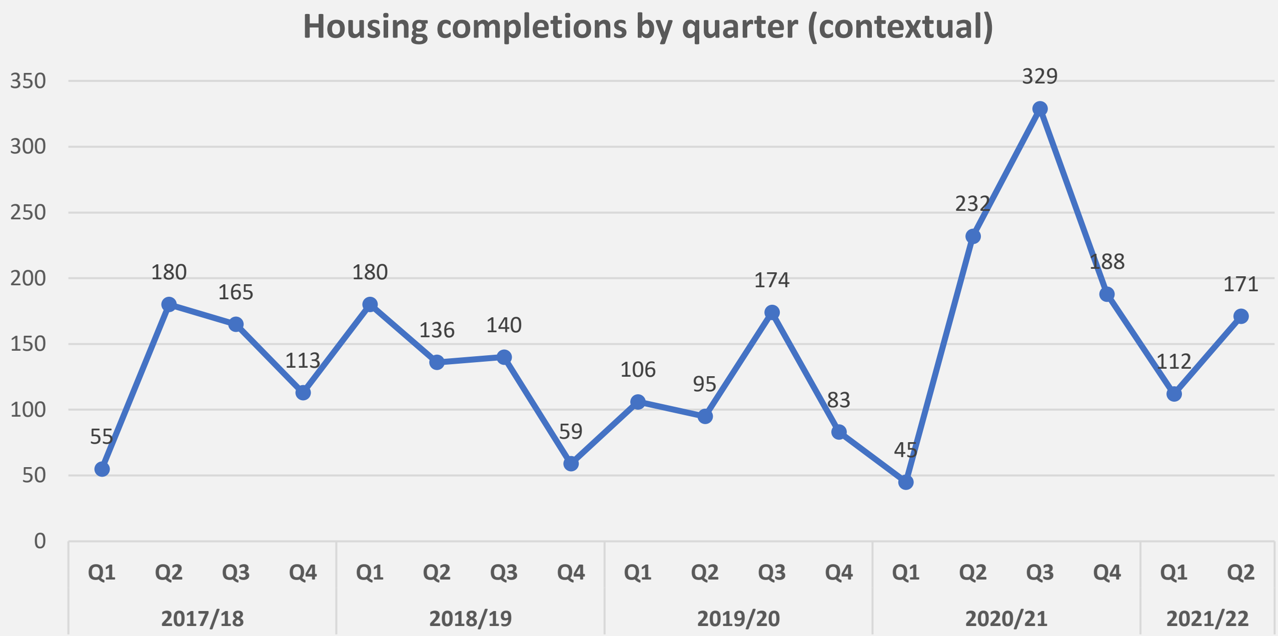
Narrative

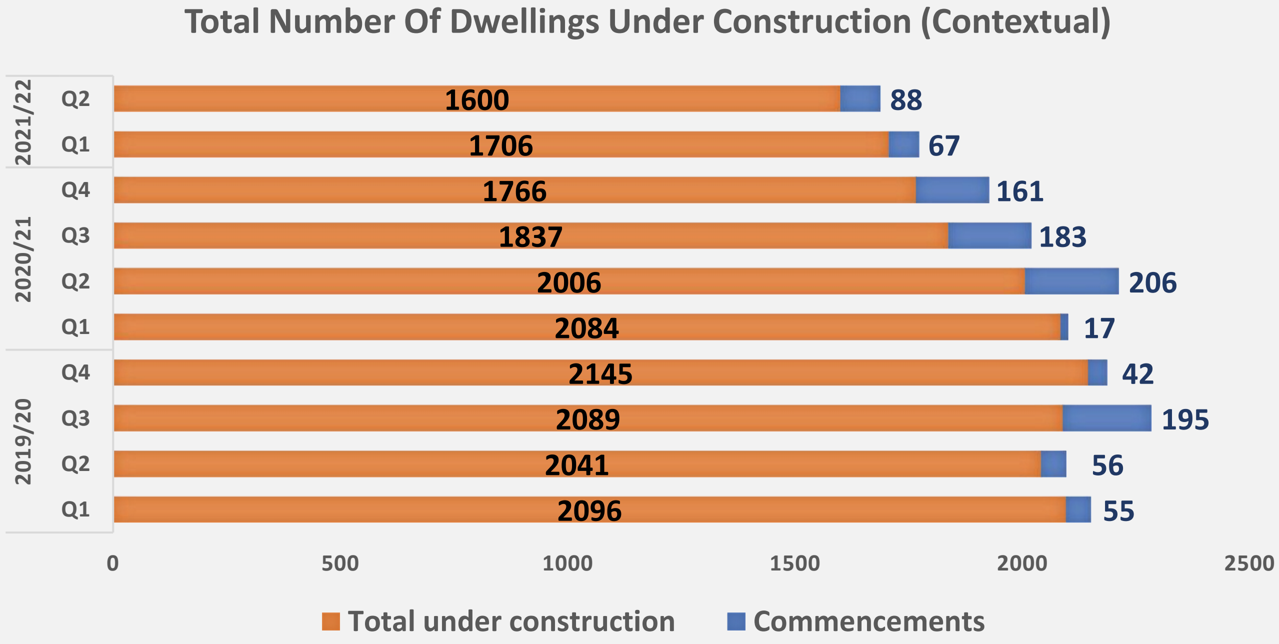
Net housing completions for Q2 2021/22 are on target, with the number of completions comfortably over the target of 230, sitting at 283 at the close of the quarter.

The majority of completions have been recorded from the site of the former Redhill Youth Centre (50 units) and from the conversion of the offices at Warwick House (54 units). Large sites such as Horley NW, De Burgh School, former Liquid and Envy and RNIB Soundscape continue to deliver a steady stream of housing in the borough.

At the end of Q2 there were 1,600 dwellings under construction, with 88 commencing during the quarter.

Please See KPI 7 for information on affordable housing completions.





KPI 7 – Net Affordable Housing Completions

		TARGET	ACTUAL	STATUS
20/21	Q2	50	23	RED
	Q3	75	67	AMBER
	Q4	100	93	AMBER
21/22	Q1	25	15	AMBER
	Q2	50	24	RED

Description

KPI 7 measures the number of net affordable housing completions in the borough. The targets mirror those set in the Council's Development Management Plan. Performance reported is cumulative for the year. Given the fluctuations in housing completions throughout the year, a tolerance of 10 applies each quarter.

Narrative

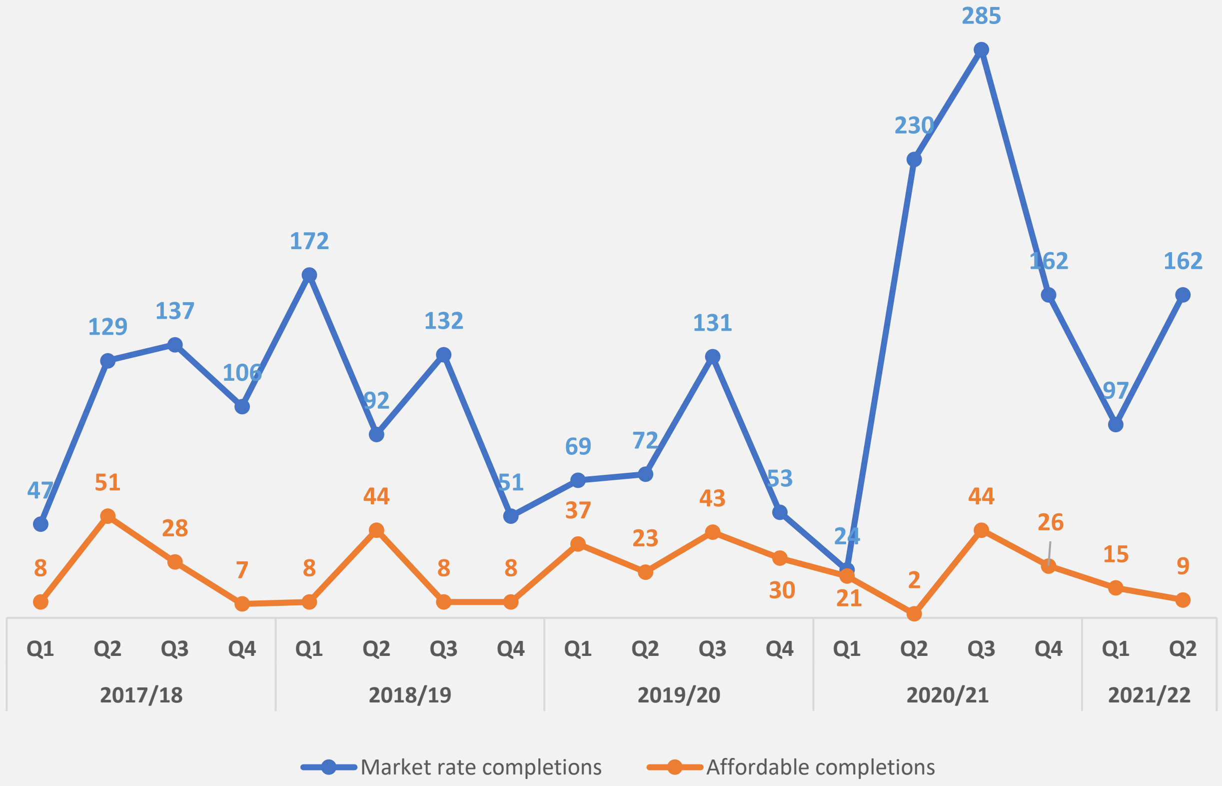
At the close of Q2, 24 affordable housing units have been completed. Whilst affordable housing completions this quarter remain low, these units are often completed in batches. It is expected that future affordable dwelling delivery at large sites such as Horley North West Sector, RNIB and Quarryside business park will come through later in the year and will bring completions inline with targets.

Of the 24 completions in Q1, 9 affordable units have been delivered during this quarter. Most of these units (7) came from the development on the site of the former Redhill Youth Centre.

Of the 1,600 dwellings under construction at the end of Q1, 230 are for affordable units. During the same period there were a further 6 affordable units commenced.

Affordable completions by tenure (contextual)				
Reporting period		Social rent	Shared ownership	Total
2020/21	Q2	2	0	2
	Q3	4	40	44
	Q4	5	21	26
2021/22	Q1	1	14	15
	Q2	2	7	9

Housing Completions By Quarter (Contextual)



KPI 8 - Local Environmental Quality Surveys

	TARGET	ACTUAL	STATUS
Q1	90% of sites at grade B	100%	GREEN
Q2	90% of sites at grade B	100%	GREEN

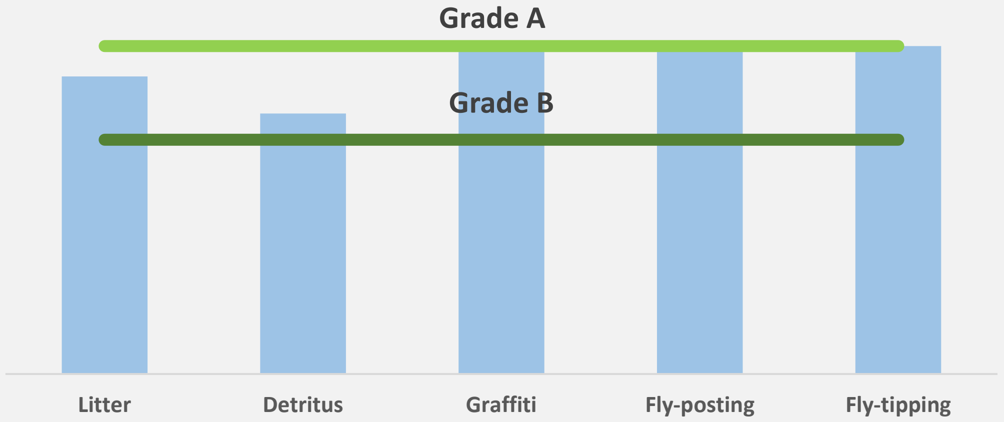
Description

Local Environmental Quality Surveys (LEQs) are a robust and well recognised methodology for measuring the cleanliness of places. The methodology is developed and maintained by Keep Britain Tidy. A selection of sites in the borough are assessed in the following categories: litter, detritus, fly-tipping, fly-posting and graffiti. The average of the scores achieved in each category gives an overall score for each site that is surveyed.

Narrative

Of the 125 surveys carried out in Q1, all scored at grade B and above. The Council has seen an improvement in average category scores during Q2.

LEQ average site scores by category



KPI 9 - Number Of Missed Bins Per 1,000 Collected

	TARGET	ACTUAL	STATUS
Q1	10	1.32	GREEN
Q2	10	1.08	GREEN

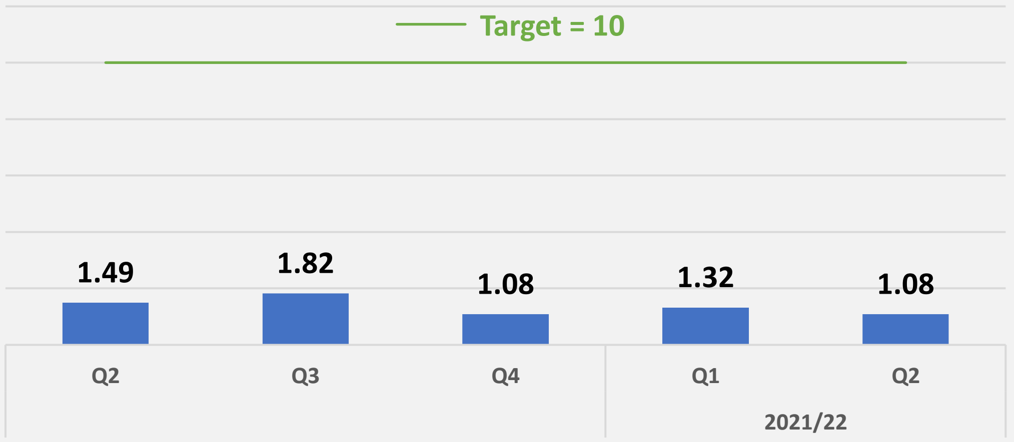
Description

This indicator tracks how many refuse and recycling bins have been missed per 1,000 that are collected. Performance is measured and reported on quarterly.

Narrative

Despite the continuing challenges presented by the Covid-19 pandemic and the heightened levels of waste seen during the year, the Council has maintained a reliable waste collection service for residents, with just over 1 bin reported as missed per 1,000 that were collected.

Number of missed bins per 1,000 collected



KPI 10 – Recycling: The Percentage Of Household Waste That Is Recycled And Composted

		TARGET	ACTUAL	STATUS
20/21	Q2	60%	56.5%	AMBER
	Q3	60%	55.2%	AMBER
	Q4	60%	53.1%	RED
21/22	Q1	60%	56.9%	AMBER

Description

This indicator measures the percentage of household waste collected by the Council that is recycled and composted. Performance is reported one quarter in arrears, with Q1 2021/22 performance reported in Q2. The target for this indicator is a stretch target, set in the Joint Waste Management Strategy to which the Council is a signatory, along with Surrey County Council and all Surrey Districts and Boroughs.

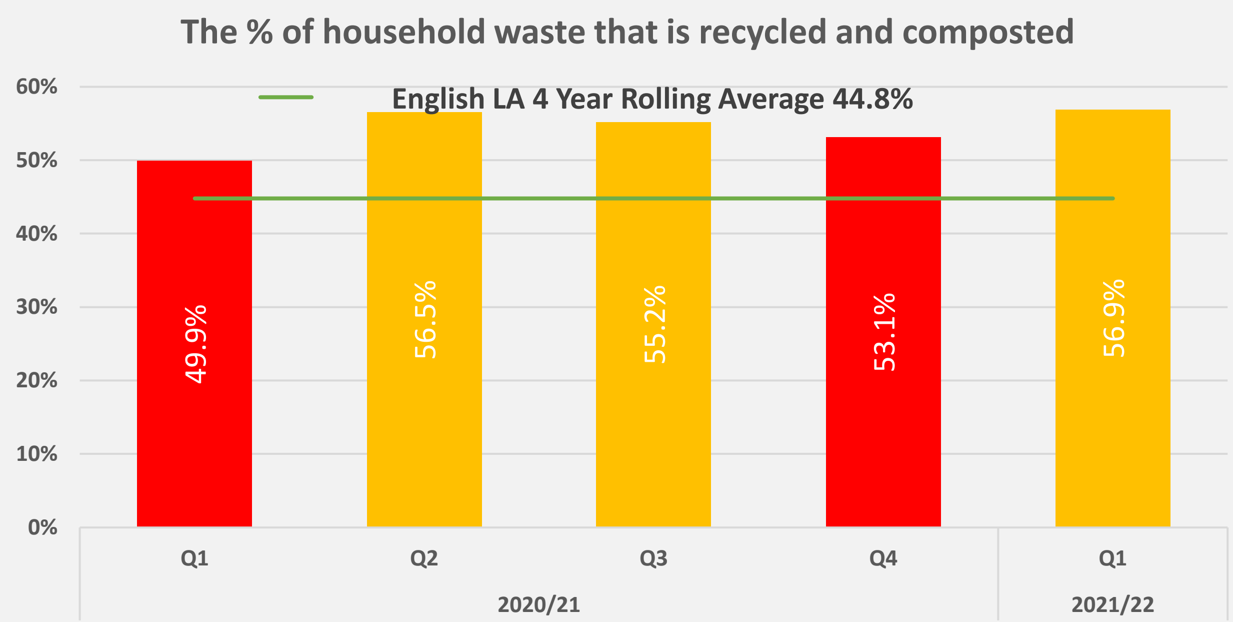
Narrative

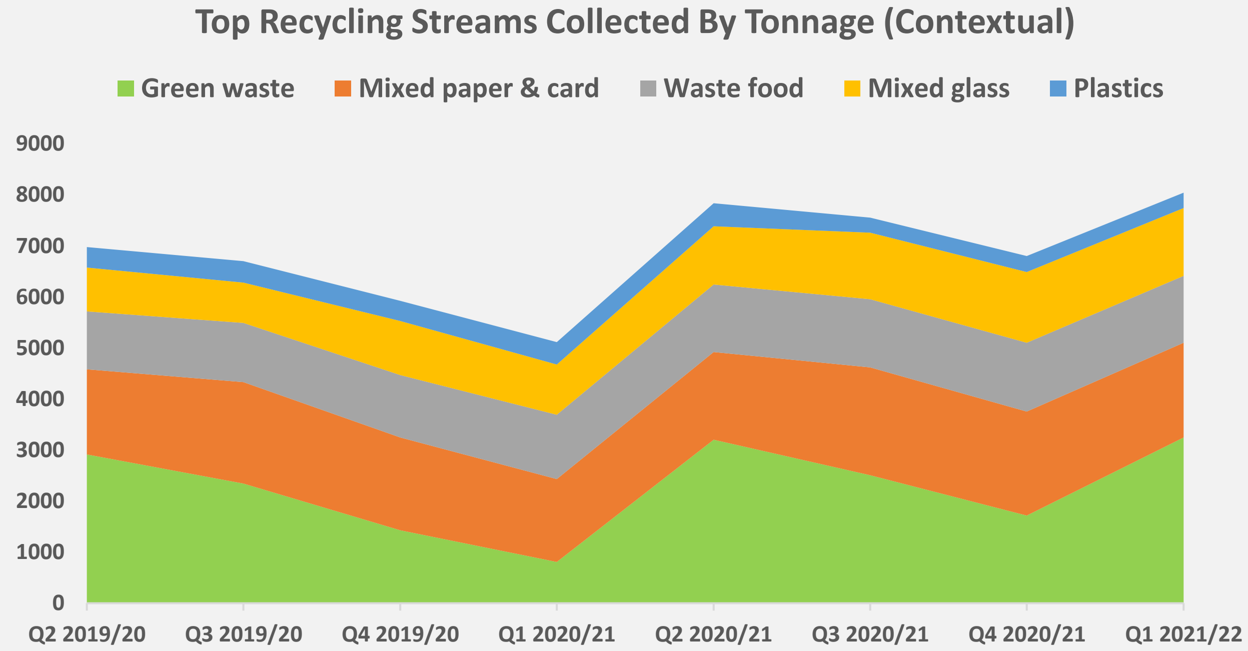
Coming into the 2021/22 financial year, Covid-19's impact continues to be felt on tonnages and the composition of household waste. While off-target, this quarters performance is within the agreed tolerance and is therefore rated amber.

Despite falling short of the 60% target, the Council has seen an improvement in its recycling performance this quarter, with levels returning to the previous high achieved in Q2 2020/21. Moreover, recycling performance in Q1 of this year is up considerably when compared to the same quarter last year.

The collection of the borough's garden waste was a key contributor to this quarter's strong result, along with continued strong yields of paper, mixed recycling and food waste, which reflects the continuing impact of Covid-19 on waste tonnages collected (with increased working at home and online purchasing habits).

The Council is continuing to work to heighten recycling performance alongside the Surrey Environment Partnership, including through the roll-out of full kerb side recycling to flats.





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2021/22 Period 6: Revenue Budget Monitoring

Summary

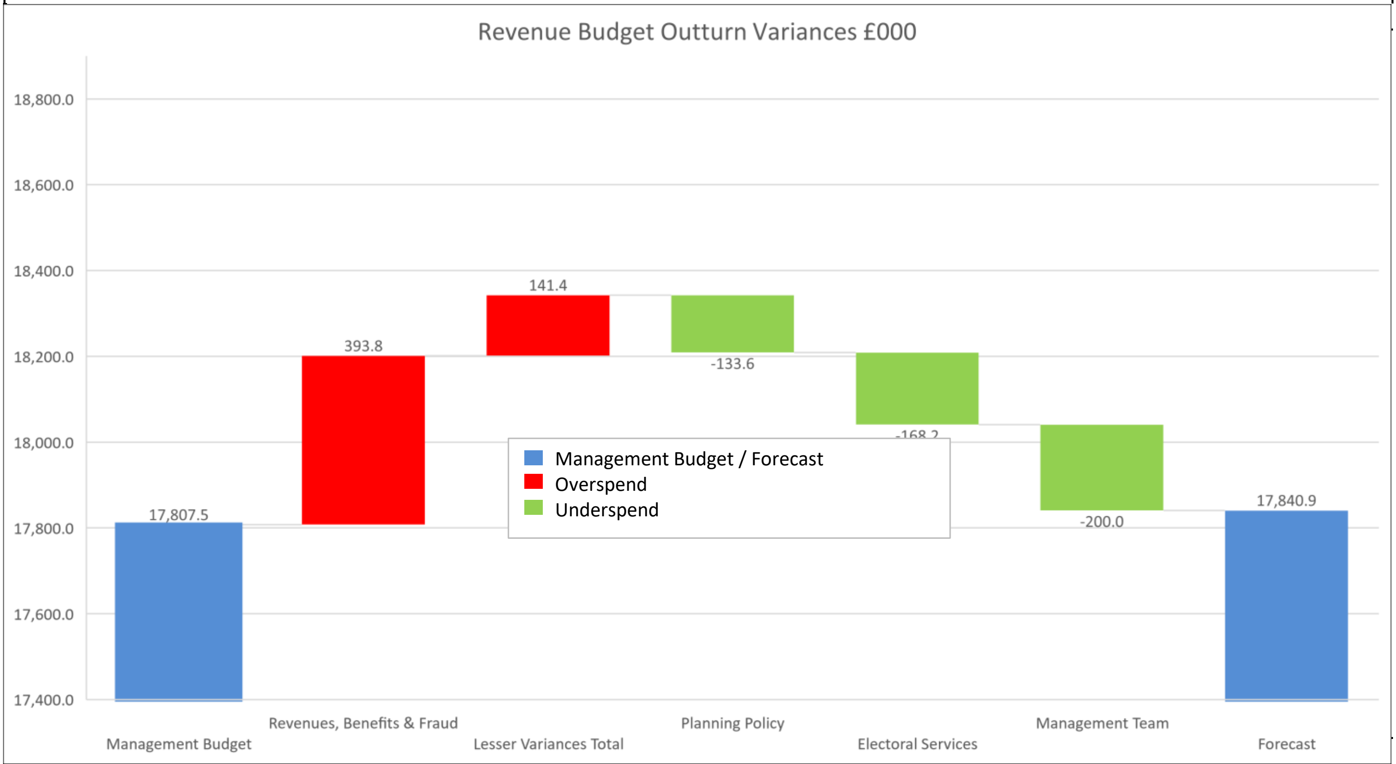
The full year forecast at the end of Quarter 2 for underlying Service budgets is £0.061m (0.4%) higher than the management budget; the Central budgets are reporting £0.028m (2.4%) lower than budget, resulting in an overall forecast of £0.033m (0.2%) higher than budget.
Ongoing COVID-19 income losses are forecast to be £1.772m, £0.354m of which are expected to be funded by the Sales, Fees & Charges grant from Government. Inclusion of these net losses results in a forecast of £1.452m (8.2%) higher than budget which will be funded by calling on the £2.000m COVID-19 Reserve that has been set aside for this purpose in 2021/22.

Reconciliation of Original Budget to Management Budget for 2021/22

	£000	£000
Original Budget		17,395.0
Unspent Budget brought forward from 2020/21	218.3	
Transfers from Reserves:		
Corporate Plan Delivery Fund Reserve	117.0	
Environmental Sustainability Reserve	77.2	
		412.5
Management Budget		17,807.5

Headline Revenue Budget Information 2021/22

		£000	
Management Budget		17,807.5	
Year End Forecast	- Service & Central Budgets	17,840.9	
Projected overspend	- Service & Central Budgets	**33.4**	(0.2% of the budget)
Year End Forecast	- ongoing COVID-19 income losses	**1,772.5**	
	- COVID-19 income losses funding	**-354.0**	
Projected overspend	- including ongoing net COVID-19 income losses	**1,451.9**	(8.2% of the budget)



Forecast for underlying Services is £0.194m over budget. Significant variances summarised below:

Revenues, Benefits & Fraud: £393k overspend is mostly attributable to lower DWP subsidy, higher Housing Benefit overpayment and DHP, partially offset by £197k lower salary costs due to six vacancies in the team, and a £53k larger surplus on the trading account.

Planning Policy: £133k underspend driven by vacancies across the team partially offset by higher external consultancy costs.

Electoral Services: £168k underspend. The forecast reflects £73k lower than budgeted election costs and £96k savings resulting from a review of long term contracts.

Management Team: £200k underspend as a result of the revised structure of the team.

Forecast for Central Budgets is £0.028m under budget. There are no significant variances.

COVID-19 Ongoing Income Losses

These are detailed at Section 2 and summarised above. To be funded by calling on the £2.000m COVID-19 Reserve set aside to mitigate this risk in 2021/22.

COVID-19 Ongoing Expenditure & Funding

These are detailed at Section 3

1. General Fund Reserve

		£000	£000
Balance at start of year			3,000.0
Less: Projected overspend	at 31 March 2022		-33.4
Anticipated balance at End of Year before Reserves Review/Reallocations*			2,966.6
*Maximum General Fund Balance Required (2021/22 = £3m)		2,609.3	

2. Corporate Plan Delivery Fund (CPDF) Reserve

		£000	£000
Balance at start of year			860.6
V21-03 CPDF Community Centre Review	Community Centres	83.2	
V21-01 CPDF Community Centre Review	Community Centres	15.0	
V21-02 CPDF Community Centre Review	Community Centres	18.8	
Balance before any further transfers in year			743.6

3. Capital Schemes (Feasibility Studies) Reserve

The Capital Schemes (Feasibility Studies) Reserve was established to ensure that funding is available to prepare business cases and obtain external professional advice for new initiatives designed to deliver new capital schemes, including new sources of sustainable commercial income streams. Once a Capital scheme is approved by Executive, the costs can be capitalised and the funds will recycle back to the Capital Schemes (Feasibility Studies) Reserve.

	£000	£000
Balance at start of year		2,334.7
		2,334.7

4. Economic Development Initiatives Reserve

The Economic Development Initiatives Reserve was established to fund initiatives to raise awareness amongst local people of quality local employment opportunities.

	£000	£000
Balance at start of year		656.5
		656.5

5. Environmental Sustainability Reserve

The Environmental Sustainability Reserve was established to fund initiatives to improve RBBC's environmental impact

	£000	£000
Balance at start of year		247.5
Groundworks for Electric Vehicle Charging Points	63.2	
Fixed Term internal secondment	14.0	
		77.2
		170.3

Budget Monitoring: Summary 2021-22 | **Revenue ANNEX 2: Section 2**

Responsible Officer	Service	Original Budget £000	Total Variations £000	Management Budget £000	Year End Outturn £000	Year End Variance £000	Commentary
1. Service Budgets							
1a. Organisation							
Catherine Rose	Corporate Policy	227.8	77.2	305.0	299.8	(5.2)	Minor variance
	Projects & Business Assurance	204.4	0.0	204.4	182.6	(21.8)	Minor variance
Carys Jones	Communications	700.8	0.0	700.8	700.8	0.0	
	Customer Contact	400.4	0.0	400.4	400.4	0.0	
Darren Wray	Information & Communications Technology	1,767.4	0.0	1,767.4	1,808.9	41.5	Increase in server support costs.
Kate Brown	Organisational Development & Human Resources	785.8	0.0	785.8	824.6	38.8	Overspend to cover two maternity posts and other minor variances.
Joyce Hamilton	Legal Services	816.6	0.0	816.6	861.8	45.2	Reduction in Legal income by £40.1k and recruitment expense of £10.7k. A small saving of £6.4k was made in Corporate subs budget.
	Land Charges	-105.6	0.0	-105.6	-105.6	0.0	
	Democratic Services	861.1	0.0	861.1	846.3	(14.8)	Savings mainly due to reduction of £14k in training costs in Member Allowances and Support.
	Electoral Services	447.9	169.3	617.2	449.0	(168.2)	£72.4k lower elections costs and £95.8k saving due to unused budget mainly in temp staff, training and publicity & promotional.
	Corporate Support	184.0	0.0	184.0	184.0	0.0	
Pat Main	Finance	1,326.6	0.0	1,326.6	1,362.2	35.6	Higher staff costs relating to vacancy cover and service development activities
	Property & Facilities	-1,495.1	0.0	-1,495.1	-1,526.7	(31.6)	
	Property & Facilities - ongoing COVID income loss	0.0	0.0	0.0	51.0	51.0	Redhill Hotel £40k, Horley Leisure Centre £9k, Priory Park Pavilion £2k.
	Commercial & Investment	143.4	0.0	143.4	143.4	0.0	
1b. Place							
Simon Bland	Economic Prosperity	353.6	0.0	353.6	348.9	(4.7)	Minor variance
Morag Williams	Fleet	886.6	346.9	1,233.5	1,233.5	0.0	
	Refuse & Recycling	1,348.1	-212.1	1,136.0	1,177.1	41.1	£189k Temporary Staff and £99k Overtime overspends, are partially offset by a combination of other lesser variances. Additional recycling income has already been included in the forecast. Paper, Domestic Mixed and Food recycling are all showing a forecast favourable variance for both materials collected and recycling credits earned.
	Engineering & Construction	60.9	0.0	60.9	82.0	21.1	A capitalised salary assumption of (£18k) is no longer deliverable.
	Environmental Health & JET	1,101.4	-3.4	1,098.0	1,098.2	0.2	Minor variance
	Environmental Licencing	-203.6	0.0	-203.6	-204.6	(1.0)	Minor variance
	Environmental Licencing - ongoing COVID-19 income loss	0.0	0.0	0.0	37.2	37.2	Premises and taxi licences £20k, MOT & Testing £17k.
	Greenspaces	1,481.8	-37.0	1,444.8	1,443.5	(1.3)	Minor variance
	Car Parking	-2,024.8	-7.6	-2,032.4	-2,062.4	(30.0)	Underspend due to current vacancies
	Car Parking - ongoing COVID-19 income loss	0.0	0.0	0.0	1,228.0	1,228.0	Off-street £1.1m, On-street £0.1m. Forecast losses have reduced since the Q1 report.
	Street Cleansing	1,006.7	-86.8	919.9	927.6	7.7	Minor variance
Peter Boarder	Place Delivery	354.5	0.0	354.5	348.1	(6.4)	£23k underspend against consultancy budget, as £11k spend expected against a £34k budget by year end. With an overspend of £13k against the salary budget (due to bonuses paid in P3) and a small overspend of £3k from other non-pay items, the current forecast is reporting an overall £6k underspend.
Andrew Benson	Building Control	45.0	0.0	45.0	45.0	0.0	As of Q2, Salaries is underspending by £318k due to 6 vacancies across the Planning budget. There is a plan to restructure the team, where we anticipate to recruit to 4/5 of the current vacant posts and potentially give up one post as a saving. This is currently under discussion and will be confirmed by January. In contrast, the Planning Team are also reporting an overspend of £174k against consultancy and a further £25k overspend against contractors, to fill the vacant gaps within the team structure. We expect to see this overspend reduce as we recruit to the vacant posts.
	Development Services	225.4	2.0	227.4	232.4	5.0	
	Planning Policy	457.9	18.0	475.9	342.3	(133.6)	
	Planning Policy - ongoing COVID income loss	0.0	0.0	0.0	117.9	117.9	Planning Fee income (losses worsened significantly in Aug & Sept). Slowdown in the construction industry during the pandemic.

Budget Monitoring: Summary 2021-22 **Revenue ANNEX 2: Section 2**

Responsible Officer	Service	Original Budget £000	Total Variations £000	Management Budget £000	Year End Outturn £000	Year End Variance £000	Commentary
1c. People							
Justine Chatfield	Community Development	453.8	-6.5	447.3	426.5	(20.8)	Salary underspend
	Partnerships	406.4	35.5	441.9	388.9	(53.0)	Favourable variance relates to the underspend in CCTV operating costs, a current project has realised savings and will be reflected in 22/23. Taxi Vouchers scheme remains largely un-utilised and is being reviewed for 22/23.
	Community Centres	292.1	117.0	409.1	409.1	0.0	
	Voluntary Sector Support	295.1	0.0	295.1	295.1	0.0	
Richard Robinson	Housing Services	999.3	0.0	999.3	1,075.5	76.2	Variance due to increase of £51k in B&B charges payable to suppliers and reduction in income totalling £25k from temporary accommodation and 64 Massetts Rd.
Simon Rosser	Benefits Paid/Subsidy Received	623.0	0.0	623.0	906.3	283.3	Salary underspend of £197.5k is based on 6 vacancies. This underspend is offset by the fact that potential revenue streams may not be recognised as initially anticipated: the Housing Benefit Overpayment (and Payment Deduction Programme) budget is currently under-recovered by £150k and will require growth as part of the 22/23 S&FP process. The Service has also historically accounted for a high level of Discretionary Housing Payment income - this is now reducing year on year, resulting in an overspend of c£118k against budget. The subsidy rate on all Housing Benefit expenditure is expected to be 97% of net expenditure, less than the previous rate of 99.3%. Commercial trading is forecast to see a £71k surplus by year end (net of an increased contractual income and a small fall in salary expenses, due to maternity/vacancies).
	Revenues, Benefits & Fraud	-112.9	136.4	23.5	186.7	163.2	
	Commercial Trading Account - Revenue & Benefits	118.0	-136.4	-18.4	-71.1	(52.7)	
	Commercial Trading Account - ongoing COVID income loss	0.0	0.0	0.0	40.0	40.0	External contract opportunity not pursued due to COVID staff redeployments.
Duane Kirkland	Supporting People	161.4	0.0	161.4	161.8	0.4	Minor variance
	Supporting Families	90.0	0.0	90.0	96.5	6.5	Overspend due to extra team training to improve their abilities and performances to carry out their duties.
	Harlequin	446.0	0.0	446.0	461.1	15.1	Overspend due to the installation and certification of H&S winch system (£6.3k) and HQ theatre new website design (£4.2k)
	Harlequin - ongoing COVID income loss	0.0	0.0	0.0	20.0	20.0	Cinema & event ticket sales, pantomime tickets, room hire and catering income
	Leisure Services	-89.1	0.0	-89.1	-63.5	25.6	£24.7k relates to additional one-off staff cost.
	Leisure Services - ongoing COVID income loss	0.0	0.0	0.0	278.4	278.4	GLL leisure fee waived £262k, football & cricket pitch hire £16k
1d. Management Team							
Mari Roberts-Wood	Management Team	1,158.2	0.0	1,158.2	958.2	(200.0)	Forecast saving following management team restructure.
Frank Etheridge	Emergency Planning	39.7	0.0	39.7	39.7	0.0	
Total Services including COVID-19 income losses		**16,240.0**	**412.5**	**16,652.5**	**18,486.4**	**1,833.9**	**11.01%**
Ongoing COVID-19 income losses		0.0	0.0	0.0	1,772.5	1,772.5	
Total Services - underlying		**16,240.0**	**412.5**	**16,652.5**	**16,713.9**	**61.4**	**0.37%**
2. Central Budgets							
Pat Main	Insurance	460.1	4.9	465.0	457.0	(8.0)	Minor variance
	Treasury Management - Interest on Investments	-1,216.1	21.1	-1,195.0	-1,202.6	(7.6)	Minor variance
	Treasury Management - Interest on Borrowing	165.0	-60.0	105.0	105.0	0.0	
	Treasury Management - Interest on Trust Funds	18.0	0.0	18.0	14.0	(4.0)	Minor variance
	Minimum Revenue Provision	1,361.0	0.0	1,361.0	1,360.9	(0.1)	Minor variance
Kate Brown	Apprenticeship Levy	74.5	0.0	74.5	74.5	0.0	
	Recruitment Expenses	40.0	0.0	40.0	40.0	0.0	
	Corporate Human Resources Expenses	86.8	0.0	86.8	86.8	0.0	
Pat Main	Central Budget Contingencies	0.0	50.2	50.2	50.2	0.0	
	Preceptor Grants	37.5	0.0	37.5	37.5	0.0	
	External Audit Fees	67.0	-14.0	53.0	45.2	(7.8)	Minor variance
	Internal Audit	61.2	-2.2	59.0	58.5	(0.5)	Minor variance
Total Central Items		**1,155.0**	**0.0**	**1,155.0**	**1,127.0**	**(28.0)**	**(2.42%)**
COVID-19 Income Losses funding		0.0	0.0	0.0	-354.0	-354.0	
Grand Total		**17,395.0**	**412.5**	**17,807.5**	**19,259.4**	**1,451.9**	**8.15%**

2021/22 COVID EXPENDITURE & FUNDING (latest forecast at September 2021)	Forecast Expenditure £m	Forecast Funding £m
Welfare Response	0.294	
'Welcome Back' Expenditure & Funding	0.166	(0.166)
Revenues & Benefits Team - additional temporary staff	0.136	
Financial Management & Monitoring	0.131	
Communications/Contact Centre/Data & Insight Team - additional capacity	0.113	
Homelessness Prevention	0.101	
Revenues & Benefits - in-house overtime, software etc	0.101	
Environmental Services/Waste Team - additional capacity	0.100	
ICT support costs	0.079	
Other expenditure (including Elections)	0.056	(0.039)
Surge Testing	0.026	(0.026)
Cultural, Sports, Leisure	0.022	
New Burdens Funding (bid outcome awaited, only part assumed)		(0.030)
Test & Trace Administration Funding		(0.088)
Contain Outbreak Management Funding		(0.274)
Government COVID-19 Funding Allocation 2021/22		(0.638)
Forecast Expenditure and Income 2021/22	**1.323**	**(1.261)**
Net Expenditure / (Income)	**0.062**	

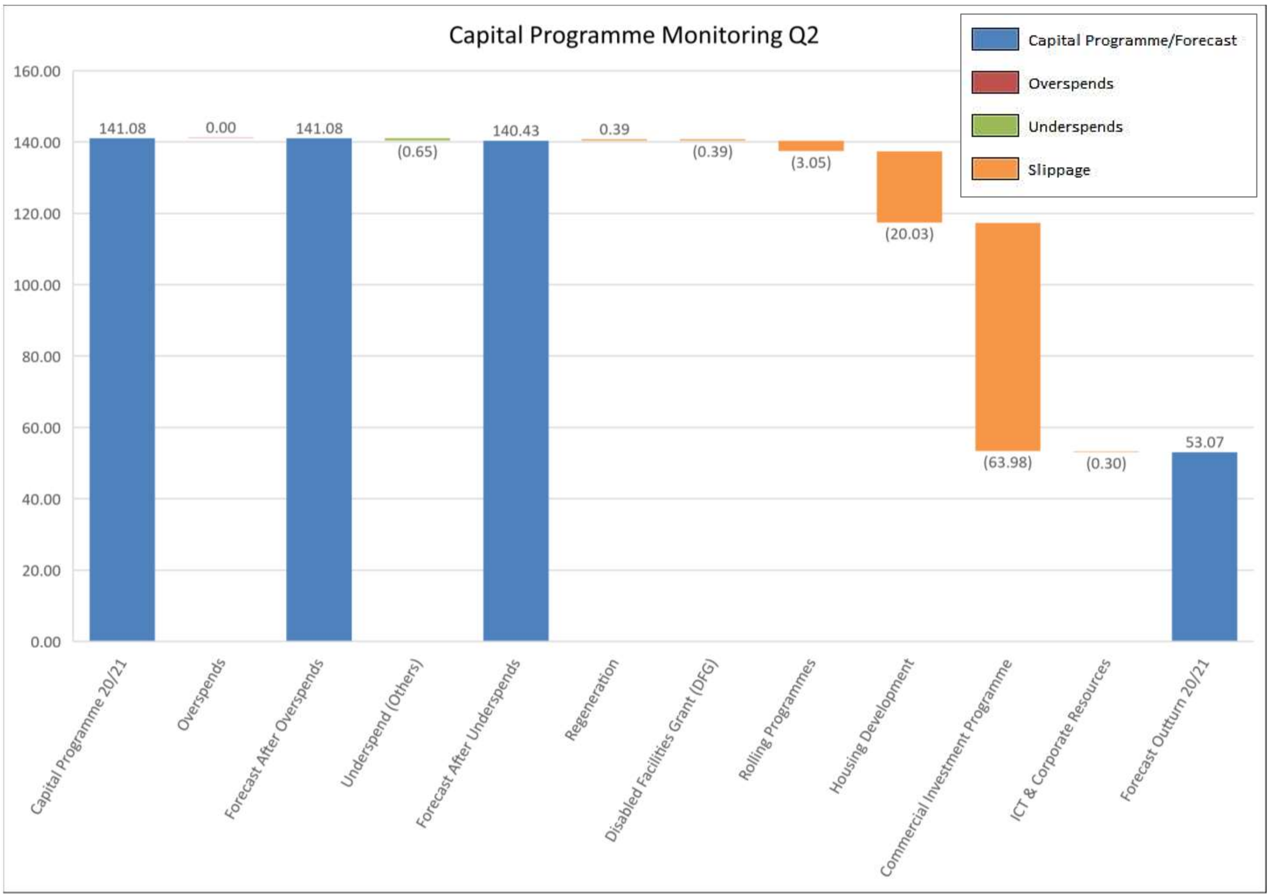
2021-22 Outturn Capital Programme Monitoring Q2

Summary

Forecast full year expenditure against the Capital Programme at the end of Quarter 2 is £53.07m which is £88.01m (62.4%) below the approved Programme for the year. The variance is predominantly a result of £20.00m slippage from Housing Development and £63.98m from the Commercial Investment Programme.

Headline Capital Budget Information 2021-22

	£m	
Current Budget (Section 1):	**141.08**	
Projected Net Overspends	0.00	(or 0 % of Programme)
Projected Net Underspends	(0.65)	(or 0 % of Programme)
Projected Slippage	(87.36)	(or 62 % of Programme)
Total Capital Expenditure	**53.07**	



Underspends

Others	**Disaster Recovery (£0.2m underspend) -** This spend will now be charged to the ICT Replacement Programme (CC61014) and hence, the budget is no longer required and will be given up as a saving from the Capital Programme in 2022/23.
	Handy Person Scheme (£0.04m underspend) - COVID-19 has resulted in fewer applications being received and progressed for Small Works Grants and Loans than might otherwise be expected.
	Contaminated Land - Investigation work (£0.03m underspend) - This is an emergency contingency budget to be used in exceptional circumstances. There are no plans to use the budget at this time.

Slippage

Housing	**Housing Delivery Programme (£20.0m slippage)** - Capital funds allocated to fund investment in new affordable housing. There are no specific developments planned at this time. Forecasts will be updated when new business cases are developed.
Commercial Investment	**Commercial Investments Programme (£63.97m slippage)** - Capital funds allocated to fund investment in new developments and commercial assets & activities to deliver a sustainable net income stream. There are no specific developments or asset purchases planned at this time. Forecasts will be updated when new business cases or investment opportunities are developed.
Disabled Facilities Grant (DFG)	**DFG (£0.39m slippage)** - COVID-19 has had a big impact on the number of referrals for DFG works, with these stopping during the early part of lockdown. Works in properties were also temporarily suspended for several weeks, due to contractors suspending their entire operations and vulnerable clients unwilling to allow works in their homes. Work is now underway again, but a lower than budget spend over the year is expected. Grants may be repaid under certain conditions as per the agreement (for example, when a property is sold). This can occur randomly at any time and therefore cannot be forecast in advance.
Other	**Investments in Technology Projects (£0.30m slippage)** - No projects currently identified.

Reconciliation of Capital Programme to Approved Budgets 2021-22

	£000
Current Capital Programme Budget	41,624.4
Budget approved but not yet released[1]	0.0
	41,624.4
Additions	
Budget carry-forwards from previous year	99,455.6
Budgets released during the year[1]	0.0
Reprofiling of projects	0.0
Other changes	0.0
Current Capital Programme Budget	**141,080.0**

Notes

1 Some budgets are approved as part of the Capital Programme but are not released pending further approval. These are added once the project documentation has been approved.

Capital Budget Monitoring: Summary by Programme and Project 2021-22

Programme/Project	Current Budget	Year End Outturn (Agreed)	Year End Variance (Agreed)	*Quarter 1: Explanation of Significant Variances*	Quarter 2: Explanation of Significant Variances
	£000	£000	£000		
	1,000.0	1,000.0	1,000.0		
Operational Buildings	277.0	77.0	-200.0		Project deferred due decisions on future hybrid working on the Town Hall site.
Day Centres Programme	101.0	101.0	0.0		
Existing Pavilions Programme	196.0	196.0	0.0		
Leisure Centre Maintenance	39.0	39.0	0.0		
Harlequin Property Maintenance	181.0	181.0	0.0		
Tenanted Properties	192.0	106.8	-85.3		Although this is the expected underspend at year end, some of this favourable variance might be spent when propwerty conditions are assessed.
Crown House	210.0	210.0	0.0		
Units 1-5 Redhill Dist Centre Salfords	57.3	57.0	-0.2		
Linden House, 51B High Street Reigate	28.3	28.0	-0.3		
Unit 61E Albert Road North	66.5	167.0	100.5		Roofing works brought forward as they are needed before the tenant can move in.
Forum House, Brighton Road Redhill	170.0	170.0	0.0		
Beech House, London Road Reigate	3,000.0	200.0	-2,800.0		Project deferred until a new tenant can be found.
Regent House, 1-3 Queensway Redhill	75.0	75.0	0.0		
Commercial Investment Properties	76.0	76.0	0.0		
Infra-structure (walls)	54.0	54.0	0.0		
Car Parks Capital Works Programme	434.0	434.0	0.0		
Earlswood Depot/Park Farm Depot	88.0	88.0	0.0		
Public Conveniences	38.0	38.0	0.0		
Cemeteries & Chapel	60.0	0.0	-60.0		Project deferred until next year due to lack of staff resources.
Allotments	30.0	30.0	0.0		
Building Maintenance - Support Cost	50.0	50.0	0.0		
Pavilion Replacement - Woodmansterne	20.0	20.0	0.0		
Priory Park Maintenance	213.0	213.0	0.0		
Strategic Property	**5,656.0**	**2,610.8**	**-3,045.3**		
ICT Replacement Programme	750.0	750.0	0.0		
Investment in Technology Projects	300.0	0.0	-300.0	*No development projects currently identified.*	No development projects currently identified.
Disaster Recovery	200.0	0.0	-200.0		No Disaster Recovery projects currently identified
Environmental Strategy Delivery	250.0	0.0	-250.0		Budget allocated for future environmental projects, although no current expectation to spend against this budget.
Corporate Resources	**1,500.0**	**750.0**	**-750.0**		
Great Workplace Programme - Phase 2	472.0	472.0	0.0		
Workplace Facilities	10.0	10.0	0.0		
Organisational Development	**482.0**	**482.0**	**0.0**		
0	0.0	0.0	0.0		
Organisation Capital Budget	**7,638.0**	**3,842.8**	**-3,795.3**		

Capital Budget Monitoring: Summary by Programme and Project 2021-22

Programme/Project	Current Budget	Year End Outturn (Agreed)	Year End Variance (Agreed)	*Quarter 1: Explanation of Significant Variances*	Quarter 2: Explanation of Significant Variances
	£000	£000	£000		
Handy Person Scheme	50.0	10.0	-40.0		
Home Improvement Agency SCC Grant	120.0	120.0	0.0		
Disabled Facilities Grant	1,134.0	748.0	-386.0		
Repossession Prevention Fund	30.0	0.0	-30.0		Total expenditure will be offset with grant funding at year end.
Lee Street Bungalows	793.3	793.3	0.0		Awaiting for plans and proposals to be finalised by developers.
64 Massetts Road	0.0	0.0	0.0		
58 Massetts Rd (YMCA East Surrey)	100.0	100.0	0.0		
Housing Delivery Programmme	20,000.0	0.0	-20,000.0	No specific development opportunities currently identified in 2021/22	No specific development opportunities currently identified in 2021/22
Development of Court Lodge Residential Site	0.0	0.0	0.0		
Cromwell Road Development 2016	5,815.2	5,815.2	0.0		Work continues on the project. Potential underpsend overall but to be reviewed quarterly.
Unit 1 Pitwood Park Tadworth	2,348.8	2,348.8	0.0		Project completed in August 2021, retentions due in August 2022
Housing	**30,391.3**	**9,935.3**	**-20,456.0**		
Harlequin - Service Development	200.0	200.0	0.0		Unused budget as visions/plans were being created and finalised. The team is now in a position to start spending on project identified i.e CCTV camera, café area and toilet renovations, room hire & kitchen upgrade etc…
Harlequin Maintenance	75.9	75.9	0.0		Spending has started and budget is expected to be used during the second half of the year.
Leisure & Intervention	**275.9**	**275.9**	**0.0**		
CCTV Rolling Programme	90.0	90.0	0.0		
Community Partnerships	**90.0**	**90.0**	**0.0**		
People Services Capital Budget	**30,757.2**	**10,301.2**	**-20,456.0**		

Capital Budget Monitoring: Summary by Programme and Project 2021-22

Programme/Project	Current Budget £000	Year End Outturn (Agreed) £000	Year End Variance (Agreed) £000	*Quarter 1: Explanation of Significant Variances*	Quarter 2: Explanation of Significant Variances
Vehicles & Plant Programme	2,230.5	2,230.5	0.0		
Fleet Vehicle Wash-Bay Replacement	350.0	350.0	0.0		
Land Flood Prevention Programme	22.3	22.3	0.0		
Play Area Improvement Programme	230.0	230.0	0.0		
Parks & Countryside - Infrastructure & Fencing	68.8	68.8	0.0		
Air Quality Monitoring Equipment	40.0	40.0	0.0		
Contaminated Land - Investigation work	30.0	0.0	-30.0		
Contribution to Surrey Transit Site	127.0	0.0	-127.0		No spend expected for 21/22, awaiting SCC confirmation of when they require payment of this contribution.
Neighbourhood Operations	**3,098.6**	**2,941.6**	**-157.0**		
Pay-on-Exit Car Parking at Central Car Park and Victoria Road Car Park,	53.9	158.2	104.3		The Pay-On-Exit project is progressing and the Service are hoping to enter contract with selected contractor with a view to delivering in the latter part of Q4/early in Q1 2022/23.
Horley Public Realm Improvements - Phase 2 and 3	600.0	60.2	-539.8		The High Street Public Realm Improvements design development will now pause whilst the Service undertake public engagement so we should start to spend again in Q4.
Horley Public Realm Improvements - Phase 4	0.0	0.0	0.0		
Subway Refurbishment, Horley	0.0	85.3	85.3		The forecast is based on the projects restarting after a quiet period during the pandemic, the planned spend in the latter part of the year is dependent on several factors such as negotiations with Network Rail, etc. To be reviewed by Qtr3.
Marketfield Way Redevelopment	32,873.2	35,112.0	2,238.8		Current forecast reflects a slight increase in the contractor's costs (Design and Building works) over the latter part of the year. Overall project still in line with the programme budget.
Redhill Public Realm Improvements	30.0	30.0	0.0		
Merstham Recreation Ground	1,496.0	0.0	-1,496.0		Currently reported against Commercial Feasibility. The costs will be transferred once approval has been given by the council to spend against Capital Programme budget.
Preston - Parking Improvements	456.0	456.0	0.0		
Preston - Landscaping	0.0	0.0	0.0		
Place Delivery	**35,509.1**	**35,901.7**	**392.6**		
Vibrant Towns & Villages	100.0	100.0	0.0		There are two potential projects for the year, whereby one would see expenditure of almost all of the £100k allocation (subject to availability of equipment and/or agreement from partners and other stakeholders).
Economic Prosperity	**100.0**	**100.0**	**0.0**		
Place Services Capital Budget	**38,707.7**	**38,943.3**	**235.6**		
Commercial Investments Programme	63,977.1	0.0	-63,977.1	*No specific development or investment opportunities currently identified.*	
Corporate	**63,977.1**	**0.0**	**-63,977.1**		
Corporate Capital Budget	**63,977.1**	**0.0**	**-63,977.1**		
Total Capital Budget	**141,080.0**	**53,087.3**	**-87,992.7**		

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

SIGNED OFF BY	Head of Corporate Policy, Projects & Performance
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TO	Audit Committee Executive
DATE	Audit Committee: 25 November 2021 Executive: 16 December 2021
EXECUTIVE MEMBER	Portfolio Holder for Corporate Policy and Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Risk management - Q2 2021/22

RECOMMENDATIONS

That the Audit Committee:

(i) **Note the Q2 update on risk management provided in the report and associated annexes and make any observations to the Executive.**

That the Executive:

(ii) **Note the Q2 update on risk management provided by the report and associated annexes.**

REASONS FOR RECOMMENDATIONS

The Audit Committee and Executive's constitutional responsibilities require the regular receipt of updates on risk management.
EXECUTIVE SUMMARY
This report provides an update on risk management in Q2 of 2021/22. Additional detail is provided in the report as well as the supporting annexes.
The Audit Committee and Executive have the authority to approve their respective recommendations.

STATUTORY POWERS

1. The Council holds various statutory responsibilities for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, accounted for, and is used economically and effectively.
2. The Council also has a duty under the Local Government Act (1999) to put in place proper arrangements for the governance of its affairs.
3. The discharge of responsibility includes arrangements for managing risk.
4. The Council's Code of Corporate Governance outlines these core governance principles; compliance with the code is reported each year via the Annual Government Statement.

BACKGROUND

5. Reigate & Banstead Borough Council has a proactive approach to risk management. It is an integral part of the Council's Corporate Governance arrangements and is built into management processes.
6. The Council operates a two-tiered risk management process to address the dynamic and interdependent nature of risk categorisation. The risk categories are strategic and operational risks.
7. Strategic risks are defined as those risks that have an impact on the medium and long-term ambitions and priorities of the Council as set out in the Corporate Plan and Medium-Term Financial Planning (MTFP).
8. Members of the Management Team and Executive Members have shared responsibility for strategic risks. It is the responsibility of the Executive to formally endorse any new risks for inclusion on the strategic risk register.
9. Operational risks are risks that are encountered in the course of the day-to-day delivery of services. However, if an operational risk cannot be fully managed within the service or it has a wider organisational impact then it will be considered for inclusion in the operational risk register by the Council's Corporate Governance Group. Heads of Service have responsibility for operational risks.
10. The Audit Committee has a constitutional responsibility to provide independent assurance to the Council of the adequacy of the risk management framework and internal control environment. It provides independent review of Reigate and

Banstead Borough Council’s governance, risk management and control frameworks. A key component of fulfilling this responsibility is to regularly receive and review the Council’s risks.

KEY INFORMATION

Q2 2021/22 risk management update

11. Each quarter the Audit Committee and Executive receives an update on risk management. As per the Council’s risk management methodology, this report provides an update on all strategic risks as well as any red rated operational risks.
12. The full strategic risk register is available at Annex 1 of this report. Following feedback at the last Audit Committee, the risk register presentation has been revised and the full risk register is now appended to the agenda item.
13. In Q2 there were no new strategic risks identified and there were no strategic risks identified for closure.
14. At the end of Q2 there was one RED rated operational risk, the detail of which is set out in the Part 2 exempt Annex 2.
15. The full risk registers (including those from previous years) are also made available to all members via the ModernGov document library.

Audit Committee – 25 November 2021

16. This report was considered by the Audit Committee on 25 November 2021.
17. The Committee made comments on the report, the detail of which is captured in the minutes of the meeting. However, the Committee made no formal recommendations or observations to the Executive.

OPTIONS

18. The Audit Committee has two options:
    a. Option 1: note this report and make any observations to the Executive.
    b. Option 2: note this report and make no observations to the Executive.
19. The Executive has one option:
    a. Option 1: note this report.

LEGAL IMPLICATIONS

20. There are no legal implication arising from this report.

FINANCIAL IMPLICATIONS

21. Financial risks are considered when preparing the Medium-Term Financial Plan. Capital Investment Strategy, Revenue Budget, and Capital Programme each year.
22. There are no additional implications arising from this report.

EQUALITIES IMPLICATIONS

23. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

24. There are no communications implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

25. The Council risk registers inform the development of the annual risk based internal audit plan.
26. The Council's approach to managing risk is core component of the Code of Corporate Governance.

OTHER IMPLICATIONS

27. There are no other implications arising from this report.

CONSULTATION

28. The contents of this report and the associated annexes have been considered by the Council's Corporate Governance Group.

POLICY FRAMEWORK

29. The Council's risk management strategy and methodology provides additional information on how the Council manages risk.

BACKGROUND PAPERS

None

Risk management

Strategic risk register

Quarter 2 – July to September 2021

Strategic Risks

Strategic risks are defined as those risks that have an impact on the medium to long term ambitions and priorities of the Council as set out in the Corporate Plan and the Medium-Term Financial Strategy. The Management Team has shared responsibility for strategic risks.

The Council's strategic risks are detailed in below table:

SR1	COVID-19 pandemic
SR2	Financial sustainability
SR3	Local government reorganisation
SR4	Organisational capacity and culture
SR5	Economic prosperity
SR6	Reliance on the welfare system
SR7	Cyber security
SR8	Fraud
SR9	Marketfield Way
SR10	Gatwick Airport
~~SR11~~	~~Reform of the planning system~~ (closed in Q1 2021/22)
SR12	Planning system reform

Risk rating

Each risk is scored using the potential impact of the risk and the likelihood of the risk happening. The risk score then determines the level of management action required:

RED	Where management should focus attention. Immediate actions should be identified and plans put in place to reduce risk as a priority.
AMBER	Where management should ensure that contingency plans are in place. These may require immediate action and will require monitoring for any changes in the risk or controls. These will be a key area of assurance focus
YELLOW	These should have basic mechanisms in place as part of the normal course of management.
GREEN	Where risk is minimal if does not demand specific attention but should be kept under review.

Risk status

Tolerate	Decide to accept the risk and take no further measures. This should be a conscious and deliberate decision taken having decided that it is more cost effective to do so than attempt mitigating action.
Transfer	Transfer all or part of the risk. For example, to insurance or to other agencies/contractors.
Treat	Proactive action taken to reduce: • The probability of the risk happening by Introducing control measures • The impact of the risk should it occur.
Close	This could involve changing an aspect of the activity or ceasing to provide the service/function/project and thus eliminate the risk.

RISK RATINGS

IMPACT						
Grave	5					
Significant	4		SR7	SR3 SR4 SR9	SR2 SR6 SR10	SR5
Moderate	3			SR1 SR12	SR8	
Minor	2					
Almost none	1					
		1	2	3	4	5
LIKELIHOOD		Rare	Unlikely	Possible	More than likely	Almost certain

<table>
<tr><th>SR1</th><th colspan="4">Covid-19 pandemic</th><th>AMBER</th></tr>
<tr><td>Description</td><td colspan="5">The Council will continue to respond to the Covid-19 pandemic in supporting residents, businesses as well as other partner public sector organisations.

The effects of the pandemic, coupled with the ongoing response, could result in significant disruption to the delivery of services and the achievement of corporate objectives.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="4">Cllr Brunt</td></tr>
<tr><td>Officers</td><td colspan="4">Mari Roberts-Wood and Luci Mould</td></tr>
<tr><td>Controls</td><td colspan="5">Ongoing planning for disruption caused by the pandemic, including maintaining organisational preparedness via emergency and business continuity planning.

Resumption of COVID-19 command and control processes and procedures if required.

Liaison with partners and the Surrey Local Resilience Forum.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="5">Operating within the confines of, and responding to, Covid-19 has now become ‘business as usual’ for the Council. Ongoing disruption is expected and is being proactively planned for.

During Q2 the government’s autumn and winter plan for COVID-19 was published. The plan has not ruled out further restrictions to help control the spread of Covid-19. Accordingly, the Council’s preparedness activities for winter have begun, including identifying staff for potential redeployment following any need to resume the Council’s response activities.

During Q2 several plans integral to the Council’s response to the COVID-19 pandemic have been updated, including the: Pandemic Plan; Emergency Plan and Surge Testing Plan. Service business continuity plans continue to be kept up to date.

The Council continues to engage with partners in Surrey, including the Local Resilience Forum and other districts and boroughs. Learning from partners continues to assist preparedness activities.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>Possible</td><td rowspan="2">Direction of travel</td><td colspan="2" rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Moderate</td></tr>
<tr><td>Status</td><td colspan="5">Treat</td></tr>
<tr><td>Last update</td><td colspan="5">28 October 2021</td></tr>
</table>

<table>
<tr><th>SR2</th><th colspan="2">Financial sustainability</th><th>RED</th></tr>
<tr><td>Description</td><td colspan="3">In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty.

The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council’s COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes.

If this substantial financial burden is not mitigated through direct Government support, then these unplanned financial pressures will have an adverse impact on the Council’s capacity to deliver against its Corporate Plan ambitions. The delivery of corporate plan objectives will similarly be jeopardised if the Council is unable to secure additional income streams.

The ongoing financial settlement with the Government also remains uncertain.

The Council is therefore increasingly reliant on income derived, and to be derived and generated, from investments, fees and charges and commercial activities – the ability to do so, however, may be further restricted by changes in legislation, regulations and codes of practice. Commercial activity and investments are similarly not without risk.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="2">Cllr Schofield</td></tr>
<tr><td>Officers</td><td colspan="2">Pat Main</td></tr>
<tr><td>Controls</td><td colspan="3">The Council will continue to ensure that strong financial management arrangements are in place and will continue to invest in skills and expertise to support the delivery of the Council’s financial and commercial objectives while managing risks.

An up-to-date Medium Term Financial Plan and Capital Investment Strategy. The MTFP sets out the forecast budget challenges over the coming five years and forms the basis for service and financial planning, while the Capital Investment Strategy provides an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of council services and how associated risk is managed.

A Treasury Management Strategy (approved in April 2021) that helps ensure that investments achieve target returns within approved security and liquidity limits and that borrowing to fund the Capital Programme is affordable.

Creation and implementation of a Commercial Strategy.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="3">The COVID-19 pandemic resulted in material new financial risks, both in the previous and current financial years and over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority’s response and budgeted sources of income have been impacted. Nevertheless, after taking account of additional expenditure, income shortfalls, and government funding, the overall budget outturn for 2020/21 was a net underspend for the Council, with reserves remaining healthy.

The main area of concern remains the failure of income receipts to return to pre-COVID levels, particularly in relation to parking fees. There is also a risk that increased costs for goods, materials and labour, coupled with supply chain disruption, may impact on our ability to deliver and thereby secure income from development projects.

The specific outcomes of the Government’s planned Fair Funding Review and Business Rates Reset continue to remain unknown; however, they are expected to result in significantly reduced funding.</td></tr>
</table>

<table>
<tr><th colspan="2">SR2</th><th colspan="3">Financial sustainability</th><th>RED</th></tr>
<tr><td colspan="2"></td><td colspan="4">The Council’s updated Medium-Term Financial Plan, approved by the Executive in July 2021, sets out the forecast budget challenge over the coming five years and will form the basis for service and financial planning for 2022/23 onwards. Preparations for budget setting for 2022/23 are now in progress and draft budget proposals will be published for scrutiny in November 2021.

The Council’s Capital Investment Strategy was approved by the Executive in July 2021. Capital Programme proposals for 2022/23 onwards are now in progress and will be reported in November 2021.

The Council adopted Part 1 of its Commercial Strategy during 2020/21 demonstrating the continued importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward new income generating projects. As of Q2 2021/22, work is underway on Part 2 of the Strategy which will provide more detail about the implementation of commercial activity, particularly in investment activity and how associated risks will be managed and mitigated.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of travel</td><td colspan="2" rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">12 October 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR3</th><th colspan="3">Local government reorganisation</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">A reorganisation of local government could be prompted by a range of scenarios and circumstances, including the financial failure of an authority within Surrey or as part of the government’s devolution agenda. A White Paper on English devolution and local recovery is expected in the latter part of 2021, delayed from autumn 2020.

The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Brunt</td></tr>
<tr><td>Officers</td><td colspan="3">Mari Roberts-Wood</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Close working with neighbouring and partner authorities to develop alternative proposals for the future of local government in Surrey.

Lobbying central government where appropriate and necessary.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">Earlier in the year the government confirmed that it will not be pursuing a mandatory, top-down reorganisation of local government.

However, a White Paper on devolution and ‘levelling up’ will be published in autumn 2021. It is anticipated that the White Paper will include proposals for ‘county deals’, a bespoke devolution of powers to county councils. During Q2 Surrey County Council submitted an expression of interest to the government to be a pilot area for the latter and are understood to be developing a proposal for this.

The Council will continue to seek to proactively influence the debate on the future structure of local government within Surrey.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">28 October 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR4</th><th colspan="2">Organisational capacity and culture</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="3">The Council has adopted an ambitious Corporate Plan, supported by a capital investment, housing and Great People strategy.

The COVID-19 pandemic has changed the way the Council operates, the context within which it does so, and will similarly drastically change the organisational culture and ways of working.

The Council will continue to be ambitious and new ways of working will need to be embraced by both members and officers for objectives to be achieved. Key to this is ensuring that staff welfare and wellbeing is maintained, particularly in the challenging circumstances caused by the pandemic.

The failure to remain ambitious and adapt to the ongoing challenges of the pandemic will risk the delivery of corporate objectives.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="2">Cllr Lewanski</td></tr>
<tr><td>Officers</td><td colspan="2">Mari Roberts-Wood and Kate Brown</td></tr>
<tr><td colspan="2">Controls</td><td colspan="3">The creation and implementation of an Organisational Development strategy.

Development of an embedded Workforce Planning approach for the Council, with service and financial planning to appropriately resource the Council’s staffing requirements.

Recruitment, training and development.

Ongoing consultation and engagement with staff.

Succession planning.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="3">Before the COVID-19 pandemic significant work was undertaken on the Council’s Great People work programme (formerly known as the Organisation Development strategy). This has formed a solid basis for post COVID planning.

The Council is continuing to work differently due to the effects of the Covid-19 pandemic. Projects related to future ways of working, including ‘hybrid working’, are being driven forward by the Organisation Board.

A proposal for the future structure of the senior Management Team will be presented to the Employment Committee in November 2021.

HR continue to proactively address staff wellbeing issues. A wider, strategic piece on staff welfare is continuing.

Staff are continuing to be encouraged to take annual leave, especially in teams where significant annual leave balances have accumulated during the response to the pandemic.

HR continues to promote training and development opportunities for staff.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="3">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="3">11 October 2021</td></tr>
</table>

<table>
<tr><th>SR5</th><th colspan="2">Economic prosperity</th><th>RED</th></tr>
<tr><td>Description</td><td colspan="3">A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The COVID-19 pandemic has resulted in significant negative impacts upon the economy, which will continue to be felt for some time.

Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from fees and charges and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="2">Cllrs Humphreys and Schofield</td></tr>
<tr><td>Officers</td><td colspan="2">Luci Mould, Mari Roberts-Wood, Pat Main and Simon Bland.</td></tr>
<tr><td>Controls</td><td colspan="3">The UK economy is outside the control and influence of the Council. However, the Council is able to provide support to residents and businesses, both through direct service delivery and the disbursement of grants and other sources of funding.

Our Business Engagement Team provides a range of support, advice and networking opportunities for local businesses, allowing the Council to receive feedback on economic performance and conditions.

Controls relating to the Council's financial position are summarised in SR2.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="3">Following the ending of most Covid-19 related restrictions, the UK economy has begun to recover from the effects of the pandemic. According to the Office for National Statistics, in Q2 the UK economy grew faster than initial expectations and is now 3.3% below its pre-pandemic peak. However, during the quarter inflationary pressures emerged alongside (and in some instances in consequence of) supply chain disruption which could impact on the wider recovery as well as increasing living costs.

The government's Jobs Retention Scheme concluded on 30 September 2021. The scheme supported a large number of jobs in Reigate and Banstead, as well as those of residents working outside of the borough. Whilst the scheme concluded at the end of the quarter, the Council has not seen a notable increase in resident unemployment.

The 'R&B Works' project continues to highlight and provide support towards local employment opportunities for residents. The project was recently promoted by the Local Government Association as an example of good practice.

Last year the Council launched the East Surrey Work Local Youth Hub. The Hub aims to support young residents claiming Universal Credit in the area, through providing access to a wide range of coaching, mentoring and soft skills development, tailored to meet their career aspirations. The Council has applied to the Department for Work and Pensions for another twelve months funding for the Youth Hub.

In Q1 the Council submitted a bid to the Government's 'Levelling Up Fund' for infrastructure funding in Horley. However, the bid was not successful in the first round of funding requests to the fund.

The Council continues to engage with the East Surrey Economic Recovery Taskforce, which has been successful in encouraging businesses to apply for support funding to the Coast to Capital Local Enterprise Partnership.

The first in-person Council run business engagement events recommenced during the quarter.</td></tr>
</table>

SR5	Economic prosperity			RED
	As reported in SR2 above, the Council is continuing to operate in challenging financial circumstances. The main implication on the Council's finances at present is uncertainty as to whether income levels will return to pre-pandemic levels, particularly in services such as Parking. Reductions in income are being addressed as part of service and financial planning for 2022/23.			
Score **Likelihood**	Almost certain	**Direction of travel**	-	
Score **Impact**	Significant			
Status	Treat/Tolerate			
Last update	11 October 2021			

<table>
<tr><th>SR6</th><th colspan="2">Reliance on the welfare system</th><th>RED</th></tr>
<tr><td>Description</td><td colspan="3">The COVID-19 pandemic has resulted in increasing numbers of residents being reliant upon the welfare system as the economy is negatively impacted. This increases the risk of household budgets being stretched. The latter could result in an increase in cost pressures on the Council as our services are increasingly relied upon.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="2">Cllr Neame</td></tr>
<tr><td>Officers</td><td colspan="2">Mari Roberts-Wood, Duane Kirkland, Justine Chatfield and Richard Robinson</td></tr>
<tr><td>Controls</td><td colspan="3">Increased staffing to manage legislative and welfare/benefit changes.

Investing in IT packages, improving processes and staff training.

The operation of council owned emergency accommodation.

Applying for government grants to fund additional support services.

Joint working and close collaboration with partners.

Increased staff resource through redeployment.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="3">During Q2 the temporary uplift to universal credit ended. This took place at the end of the quarter; any impacts arising will be closely monitored, particularly in the context of the wider cost of living increases seen in areas such as fuel and energy price rises.

The government's Jobs Retention Scheme also concluded in Q2. Despite the scheme's cessation there has not been a notable increase in unemployment within the borough.

The Council continues to apply for government grants to support homeless residents, or those at risk of homelessness. So far in 2021/22 nearly £200k has been secured to help accommodate and support the single homeless cohort, including prison leavers.

The Council was part of a successful cross-Surrey bid for an application to the government's Changing Futures Fund. The programme aims to improve outcomes for adults experiencing multiple disadvantage, including combinations of homelessness, substance misuse, mental health issues, domestic abuse and contact with the criminal justice system. The bid was awarded £2.8 million to be spent in Surrey over a three-year period.

Despite the ban in bailiff led evictions coming to an end, as of the end of Q2 there has not been an increase in evictions over 'normal' years. However, there has been an increase in the complexity of cases and an increase in larger households placed into temporary emergency accommodation. The Council's Housing team continues to work successfully in preventing and relieving homelessness where possible.

Within the borough there is a lack of affordable move on homes for larger households, both in the social and private rented sector. This has resulted in an increase in emergency temporary accommodation spend. This is being closely monitored and options are being considered to mitigate the impacts.

Following an increase during the height of the Covid-19 pandemic, the Council's Money Support service has seen referrals return to more 'normal' pre-pandemic levels. It is possible, however, that the end of the Jobs Retention Scheme and the increase in the cost of living, coupled with the end of the Universal Credit uplift, may result in an increase in referrals. Additional resourcing has been identified to support the service, which will be scaled up if required.</td></tr>
</table>

<table>
<tr><th colspan="2">SR6</th><th colspan="2">Reliance on the welfare system</th><th>RED</th></tr>
<tr><td colspan="2"></td><td colspan="3">The Council continues to provide a scaled back Covid-19 welfare offer. Consideration is continuing to be given to the provision of a pilot scheme to support residents with ongoing welfare needs and who do not meet the threshold of adult social care.

The Council continues to be active in the Surrey wide fuel poverty group, which will look to support residents at risk of fuel poverty.

At the end of the quarter the government announced its new household support fund. The fund makes £500 million available to vulnerable households across the country to help them with essentials over the coming months as the country continues its recovery from the pandemic. The Council will be administering these grants on behalf of the government.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="3">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="3">18 October 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR7</th><th colspan="3">Cyber security</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Organisations are at an ever-increasing risk of cyber-attack as the use of digital systems and technologies increases, particularly as home working has become the norm in response to the COVID-19 pandemic.

More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised.

The effects of a cyber-attack are wide and varied though at their worst could result in data destruction and theft, as well as significant disruption to the delivery of services.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Lewanski</td></tr>
<tr><td>Officers</td><td colspan="3">Ann Slavin and Darren Wray</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">ICT has in-place several layers of defences protecting core data and systems from Internet and locally introduced threats. Including email scanning, internet browsing controls; device and server based anti-virus software and whole disk encryption for laptops.

Virus patterns are updated on a regular basis. Firewalls are placed at points on the network where external connections join the local network.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">The ICT service has recently put in place a service level agreement (SLA) with the NCCGroup, which works on behalf of the Cabinet Office on heightening cyber security across local government. The SLA will provide support and instant access to their expertise in the event of a cyber security incident.

ICT has also worked with the National Computer Centre. This work concluded in March 2021 and resulted in a work plan which will inform future improvements to the Council's cyber security.

A proposal for significant enhancements to the Council's cyber security capabilities has been approved by Corporate Governance Group and the Organisation Board, with in year funding secured. Procurement activities will commence shortly; work on implementation is expected to start in Q4.

In 2021/22 the Council's internal auditors reviewed the Council's cyber security capabilities. All identified management actions aside from one have been completed. The remaining outstanding action related to recruiting new member of staff. Recruitment took place but was unfortunately unsuccessful. However, sufficient cover arrangements and upskilling activities within the existing team are planned.

ICT continues to report data security matters to the Senior Information Risk Officer (SIRO).

The ICT customer base is continuing to be kept informed of any specific threats and are continually reminded to be vigilant when opening email or browsing websites, particularly those from unknown sources.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Unlikely</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">14 October 2021</td></tr>
</table>

<table>
<tr><th>SR8</th><th colspan="4">Fraud</th><th>AMBER</th></tr>
<tr><td>Description</td><td colspan="5">Due to the wide range of activities undertaken by the Council, there is a risk of fraud being committed. The latter is exacerbated by the new areas of activity which the Council has launched following the COVID-19 pandemic.</td></tr>
<tr><td rowspan="2">Owner</td><td colspan="2">Portfolio Holder</td><td colspan="3">Cllr Schofield</td></tr>
<tr><td colspan="2">Officers</td><td colspan="3">Mari Roberts-Wood and Simon Rosser</td></tr>
<tr><td>Controls</td><td colspan="5">The Whistleblowing and Anti-Fraud and Corruption policy.
The Council has a Fraud and Financial Investigations Team that are proactive and reactive. Investigations can be external and internal and cover all areas of corporate fraud.
Staff induction also includes fraud awareness training, as well as awareness of established policies and procedures.
Internal audit undertaking reviews into fraud risk areas.
The Council maintains robust control measures to protect public funds from fraudulent activity. This includes the Counter Fraud, Corruption and Bribery Policy, Whistleblowing Policy and Prosecution Policies.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="5">The Council’s internal auditors have audited systems and processes related to the new COVID-19 activity areas. Both reviews resulted in a ‘substantial assurance’ opinion, with no management actions recommended.
A staff fraud awareness programme has been implemented, with training of the relevant teams taking place.
With the end of the ban on bailiff evictions, there is an increased potential for fraudulent applications for joining the Council’s housing register. This will be closely monitored in the coming months.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of travel</td><td rowspan="2" colspan="2">-</td></tr>
<tr><td>Impact</td><td>Moderate</td></tr>
<tr><td>Status</td><td colspan="5">Treat</td></tr>
<tr><td>Last update</td><td colspan="5">13 October 2021</td></tr>
</table>

<table>
<tr><th>SR9</th><th colspan="4">Marketfield Way</th><th>AMBER</th></tr>
<tr><td>Description</td><td colspan="5">Marketfield Way is a major place delivery project for the Council and is critical to shaping Redhill and ensuring the town’s continued vitality. It will also generate income which can be reinvested in Council services.

The ongoing economic fallout of the COVID-19 pandemic may have negative impacts on this development, particularly with regards to securing commercial tenants and its consequent financial viability.</td></tr>
<tr><td rowspan="2">Owner</td><td colspan="2">Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td colspan="2">Officers</td><td colspan="3">Luci Mould and Peter Boarder</td></tr>
<tr><td>Controls</td><td colspan="5">The terms within the building contract includes measures to minimise financial risks, including those related to COVID-19, to the Council. Similar protection provisions have been included in key contracts associated with the development to minimise risk.

The main build contract with Vinci reduces financial risk by fixing outstanding costs.

Regular meetings with the external development managers. The development managers provide a monthly report highlighting any risks and issues for management attention.

Rigorous change management processes have been put into place.

A flexibility-of-use methodology has been adopted for Marketfield Way’s commercial units.

Grant funding from the Local Enterprise Partnership.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="5">A cinema operator for the scheme has now been selected. The lease has been drafted and exchange of contracts is expected in Q3 2021/22.

The Council is currently in advanced negotiations with a major retailer regarding a key anchor unit. The lease is expected to be signed in Q3 2021/22.

The Council has instructed a number of changes to the commercial units to enable flexibility in their letting, both now and in the future.

The construction industry is currently experiencing a materials shortage. The Council’s contractors are ensuring that materials are ordered well in advance of when they are required to as to avoid delays on site.

A study has been commissioned to understand the market catchment of the development. This will inform the preparation of the marketing and lettings strategy planned for Q3 2021/22.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td>Status</td><td colspan="5">Treat</td></tr>
<tr><td>Last update</td><td colspan="5">14 October 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR10</th><th colspan="3">Gatwick Airport</th><th>RED</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">The COVID-19 pandemic will continue to negatively impact on Gatwick airport. The outbreak has seen a large reduction in air travel which can be expected to continue for the foreseeable future due to the negative economic outlook and ongoing global travel restrictions.

As a key local employer the financial position of the airport will affect local employment, which may result in an increased number of residents seeking support from the Council.

Moreover, despite the negative economic outlook, Gatwick Airport have indicated that they will continue to pursue their previously announced expansion plans. An intensification or expansion of Gatwick has attendant local environmental and infrastructural risks.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Humphreys</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Simon Bland</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">This risk is largely outside of the Council’s control and is dependent on any possible support provided by the government to the aviation sector and the commercial decisions made by private companies.

However, where possible the Council will regularly liaise with relevant parties to understand any possible upcoming impacts, both in relation to the ongoing impacts of Covid-19 and expansion.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">The situation at Gatwick is continuing to be monitored. The government’s Jobs Retention Scheme ended on 30 September. Despite this, there has not been a significant number of redundancies at Gatwick Airport.

As travel restrictions are lifted and the roll-out of the vaccination programme continues, British Airways is therefore expecting significant passenger growth.

Indeed, the latest data published by Gatwick shows that in September 2021 aircraft movements have almost returned to levels seen in February 2020, just before the first Covid-19 restrictions were implemented.

Last year some long-haul flights recommenced from Gatwick, though short haul flights continue to operate from Heathrow. However, British Airways are currently consulting with unions on returning running short haul flights to and from Gatwick.

Gatwick is continuing to pursue its plans for expansion and is currently consulting on the impacts of the proposal in advance of submitting a Development Consent Order for an additional runway. The Council is active in this consultation which will conclude in December 2021.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">More than likely</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Tolerate/Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">11 October 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR11</th><th colspan="3">Reform of the planning system</th><th>CLOSED</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Following the publication of the ‘Planning for the Future’ white paper, the government is consulting on changes to planning system.

Whilst the proposals are at an early stage, the current White Paper proposes increasing the threshold at which affordable housing is required from developments from 10 units to 40 or 50.

Given the large number of developments in the borough offering 11-40 homes, the increase in the threshold to 40 would reduce RBBC’s delivery of affordable housing by up to approximately 60%.

This change could therefore negatively impact delivery of affordable housing in the borough.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Andrew Benson</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Respond to the government’s consultation as it develops and as additional rounds of consultation are issued.

To continue to pursue the delivery of affordable housing as detailed in the Council’s housing strategy.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">In Q2 2020/21 the Council responded to the consultation by central government and lodged its opposition to the white paper’s proposals, principally in regard to the potential loss of affordable housing in the borough. The consultation closed on 29 October 2020.

In Q1 2021/22 the government confirmed that the plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 was being abandoned, meaning that medium sized developments will still be required to provide affordable housing.

With the plan to reduce the threshold for the provision of affordable homes dropped by the government, the impact of this risk has changed. As such, in Q1 2021/22 reporting this risk was closed, with a new strategic risk raised to reflect the current implications of the risk (see SR12).</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">N/A</td><td rowspan="2">Direction of travel</td><td rowspan="2">N/A</td></tr>
<tr><td>Impact</td><td colspan="2">N/A</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Risk closed</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">16 July 2021</td></tr>
</table>

<table>
<tr><th colspan="2">SR12</th><th colspan="3">Planning system reform</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Following the publication of the ‘Planning for the Future’ White Paper, the government is considering changes to the planning system in England.

There is a risk that, if adopted in the form contained in the White Paper, these changes could result in a loss of local democratic control over planning matters.

Moreover, whilst the government have confirmed that they will not be increasing the threshold at which affordable housing is required from developments (which was included in the original consultation document), there is also a risk that the proposed changes could result in a reduction in the delivery of affordable housing in the borough.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Andrew Benson</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Respond to the government’s consultation as it develops and as additional rounds of consultation are issued.

To continue to pursue the delivery of affordable housing as detailed in the Council’s housing strategy.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">On 6 August 2020, the government published a consultation document on proposed changes to the planning system. The Council responded to this consultation and lodged its opposition to the white paper’s proposals as it was then defined, principally regarding the potential loss of affordable housing in the borough.

The government’s response to the consultation was published in December 2020. This was followed up with second response in April 2021 which confirmed that a more immediate plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 was being abandoned.

As of the end of Q2 2021/22, and despite ministerial changes, there has been no further formal government announcement on the proposals for reforming the planning system, thereby reducing the likelihood that any changes will come into effect during financial year 2021/22.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">↓</td></tr>
<tr><td>Impact</td><td colspan="2">Moderate</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">15 October 2021</td></tr>
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