Overview and Scrutiny Committee Agenda

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5 February 2019

To the Members of the OVERVIEW AND SCRUTINY COMMITTEE

Councillors: B. A. Stead (Chairman),

T. Archer	J. P. King
M. S. Blacker	R. Michalowski
R. W. Coad	D. T. Powell
G. R. Curry	J. M. Stephenson
J. C. S. Essex	Mrs. A. F. Tarrant
J. S. Godden	Mrs. R. S. Turner
N. D. Harrison	J. F. White

Substitutes

	Councillors:
Conservatives:	Mrs. R. Absalom, R. Biggs, J. M. Ellacott, V. H. Lewanski, G. Owen and C. Stevens
Residents Group:	Mrs. J. S. Bray, R. Harper and M. J. Selby
Green Party:	H. Brown and S. McKenna

For a meeting of the **OVERVIEW AND SCRUTINY COMMITTEE** to be held on **THURSDAY, 14 FEBRUARY 2019** at **7.30 pm** in the New Council Chamber - Town Hall, Reigate.

John Jory
Chief Executive

1. MINUTES (Pages 5 - 10)

To confirm as a correct record the Minutes of the previous meeting.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any apologies for absence and notification of any substitute Members in accordance with the Constitution.

3. DECLARATIONS OF INTEREST

To receive any Declarations of Interest (including the existence and nature of any Party Whip).

4. PORTFOLIO HOLDER BRIEFING

To receive a briefing from Councillor Knight, Executive Member for Housing & Benefits, and to consider any issues that arise.

To consider any Advance Questions submitted.

5. COMMERCIAL GOVERNANCE REVIEW (Pages 11 - 66)

To consider the report on the Commercial Governance Review, as conducted by the Commercial Governance Review Member Task Group, to be considered by the Executive on 18 March 2019, and to make any comments for consideration by the Executive.

To consider any Advance Questions submitted.

6. DRAFT TREASURY MANAGEMENT STRATEGY 2019/20 (Pages 67 - 112)

To consider the draft Treasury Management Strategy 2019/20 that was agreed by the Executive on 24 January 2019 for consultation with the Committee.

To consider any Advance Questions submitted.

7. OVERVIEW AND SCRUTINY COMMITTEE WORK PROGRAMME 2019/20 (Pages 113 - 122)

To consider the proposed Work Programme for the Committee for 2019/20 and to forward the Programme and any comments to the Executive for recommendation to Council.

To consider any Advance Questions submitted.

8. EXECUTIVE

To consider any items arising from the Executive which might be subject to the 'call-in' procedure in accordance with the provisions of the Overview and Scrutiny Procedure Rules set out in the Constitution.

9. 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: Under the Committee and Sub-Committee Procedure Rules set out in the Constitution, items of urgent business must be submitted in writing but may be supplemented by an oral report.)

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BOROUGH OF REIGATEAND BANSTEAD

OVERVIEW AND SCRUTINY COMMITTEE

Minutes of a meeting of the Overview and Scrutiny Committee held at the New Council Chamber - Town Hall, Reigate on Thursday, 17 January 2019 at 7.30 pm.

Present: Councillors B. A. Stead (Chairman), T. Archer, M. S. Blacker, R. W. Coad, G. R. Curry, J. C. S. Essex, N. D. Harrison, R. Michalowski, J. M. Stephenson, Mrs. A. F. Tarrant, J. F. White, Mrs. R. Absalom (Substitute) and J. M. Ellacott (Substitute)

Also present: Councillors M. A. Brunt, J. E. Durrant, T. Schofield, and C.T. Whinney

46. MINUTES

RESOLVED that the minutes of the meeting held on 6 December 2018 be approved as a correct record.

47. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Committee Members: Councillors J.P. King, D.T. Powell (substituted for by Cllr R. Absalom), and R.S. Turner (substituted for by Cllr J.M. Ellacott).

Others: Louise Round, Chair of the East Surrey Community Safety Partnership

48. DECLARATIONS OF INTEREST

No declarations of interest were made.

49. ANNUAL SCRUTINY OF THE WORK OF THE COMMUNITY SAFETY PARTNERSHIP

The Chairman welcomed the following guests to the meeting:

- Police and Crime Commissioner for Surrey, David Munro
- Borough Commander for Reigate and Banstead, Angie Austin
- Deputy Chair of the East Surrey Community Safety Partnership, Michael Hodder

The Committee received a presentation from Councillor J. Durrant, Executive Member for Community Safety, and Sarah Crosbie, Partnerships Team Leader, on the community safety portfolio and the Council's community safety work. This included information on the work of the Council and the Community Safety Partnership to support the safety of residents and to address matters such as anti-social behaviour, domestic abuse, serious organised crime and the 'Prevent' counter-terrorism campaign. Attention was also drawn to the Council's recent modern slavery awareness campaign and the positive response received. It was

also identified that the Council's direct community safety and enforcement activities now operated on a more distinct basis, and that additional information on the enforcement elements would be provided at a future point.

The Committee then received a presentation from the Borough Commander for Reigate and Banstead, Angie Austin, on the work of the police within the borough. This included information on crime rates and reporting practices, priority areas, and recent police initiatives and operations. Information was also provided on some of the approaches utilised by the police to address and disrupt criminal activity, and the role that could be played by the community.

The Committee then received a presentation from the Police and Crime Commissioner (PCC) for Surrey, David Munro, on the role of the PCC and the police across the county and the borough. This included information on options for policing budgets and officer numbers, headline crime areas (anti-social behaviour, burglary, child sexual exploitation, domestic abuse, drug & alcohol offences, fraud, modern slavery, and unauthorised encampments), and options for community engagement.

The Committee considered and discussed the presentations. There were a number of questions and comments, relating to the following topics:

- **Unauthorised Encampments**. Queries were raised regarding police awareness of unauthorised encampments by groups within the borough and the approaches adopted in response. It was confirmed that the police sought to pursue all such incidents as proactively as possible, within the bounds of legislation. It was identified that information from local residents was important for assessing the community impact of such incidents. It was identified that the Council was developing a report on a range of available responses, including consideration of physical defences for at-risk sites and potential legal options. It was also noted that there was a need to provide appropriate sites for authorised encampments in the area, and that where designated transit sites were available, this increased the options available for responding to unauthorised encampments. It was commented that it was hoped that the government might take account of transit sites when considering requirements for gypsy and traveller accommodation in the borough.
- **Police Overview and Funding**. In response to a query, the PCC confirmed that police performance in the borough was considered to be generally good. It was identified that recorded crime had increased, but that much of this increase was assessed to be due to improvements and changes in recording practices, and that the increase in Surrey had been lower than the national average. It was identified that where problem areas occurred, they would continue to be addressed. It was identified that the police would continue to support improvements to the clean-up rate for crimes, and that options including additional training were being considered to support this.
  It was confirmed that the recent funding for Police had been below the desired levels, and that where resources were constrained, this placed limitations on the options available to the force. It was identified that, in the absence of national funding, options for local funding were being considered, and that a consultation on a proposed increase to the Surrey Police precept to support additional officers was ongoing.

- **Begging**. It was commented that some reports had been received from residents of aggressive begging in some town centre areas. It was confirmed that the police were working with the council to consider enforcement options for such matters, including possible use of public space protection orders. It was noted that responses which served only to displace issues were of little benefit.
- **Electric Vehicles**. A question was raised regarding how the adoption of electric vehicles, such as taxis, could be supported within the borough. It was confirmed that the council was considering options around the provision of supporting infrastructure, i.e. charging points and was generally looking to include electric vehicles in its fleet where appropriate. It was identified that Surrey police had acquired a number of electric cars for the use of the force.
- **Youth Work**. It was confirmed that detached youth work with the iBus scheme was being conducted in the Whitebushes area.
- **Community Groups**. A query was raised regarding the role of community groups established by local residents in supporting the work of the council and the police to support community safety in the area. It was identified that information provided by such groups was welcomed by the police, and that where records of exchanges on messaging applications and social media were offered, these could help provide evidence of matters identified by these groups. It was identified that groups such as Neighbourhood Watch were often effective at deterring crime in the relevant areas. The importance of engagement with the community around both immediate concerns and longer terms issues was confirmed.
- **The Modern Slavery Awareness Campaign**. It was queried if an update on the modern slavery awareness campaign was available, and it was confirmed that an update report on the campaign would be made available to all Members following the meeting.
- **Recent Car Thefts**. A query was raised regarding the police approach to a selection of car thefts in the borough. It was identified that individuals had been identified and responded to by the police on a previous occasion in relation to car thefts in the area. It was further noted that that known risk factors were identified and monitored, and that where patterns were identified, resources to address the matter could be prioritised.
- **Local Enforcement Powers**. A query was raised regarding the powers which had been made available to the council's enforcement officers and if they were considered to be sufficient. It was noted that the police had granted all available powers to the council, but that the council was seeking additional powers around matters such as parking enforcement from other sources. It was confirmed that the powers currently held by the council were considered to be being used effectively, but that ways to improve were always being considered.
- **Prioritisation of Issues**. It was identified that issues were identified as priority community safety concerns for the council and police on a number of bases. In addition to known resident priorities, it was noted that some matters were requirements of national strategies. It was noted that some matters of concern to residents were known to be symptomatic of underlying and connected issues, and that addressing these underlying issues was therefore an important step in resolving the resulting symptoms. It was also noted that some individuals were not as able to raise concerns around issues they may be experiencing, and that it was important to ensure that these

individuals and all members of the community received the support they required.

- **Police information availability**. It was identified that information on Surrey Police and the Police and Crime Commissioner was available on their respective websites, and that the PCC and chief constable attended public accountability meetings on a quarterly basis. It was identified that national crime statistics, along with the ability to consider more local information, were also available online. Regarding cases where there were immediate concerns or ongoing operations, it was identified that communication was sometimes constrained by operational necessities, but that, where areas of public concern were identified, it was sought to make information available as soon as possible.
- **Aggressive door-to-door salespeople**. It was identified that some residents had reported incidents with aggressive behaviour from door-to-door salespeople. The police noted that they had not received many reports of such incidents, but that they would respond where problems were identified. It was noted that such individuals did require official recognition, but that this did not have to be granted by the area in which they were operating. It was noted that some such persons might be victims of modern slavery and therefore not be operating freely.
- **Council priorities**. The Leader of the Council commented to the Committee that the Executive recognised Community Safety as an important area of activity, and that additional resources were being allocated where a need was identified.

The Chairman and Committee thanked the guests, Cllr Durrant, and supporting officers for their contributions, and it was:

RESOLVED that the review of the work of the East Surrey Community Safety Partnership in 2018/19 be noted.

50. COMMERCIAL GOVERNANCE REVIEW - UPDATE

Councillor Ellacott, Chair of the Commercial Governance Review Member Task Group, provided a verbal update to the Committee on the work of the group and its forthcoming report to the Committee. It was noted that a full report on the Commercial Governance Review would be considered at the February meeting of the Committee.

It was noted that the task group had been considering the Council's commercial governance arrangements, and reviewing options for the Council's approach to future commercial activities. The group was noted to have had a cross-party membership, supported by the Monitoring Officer and other officers, and in consultation with the wider Membership and an independent consultant.

It was noted that the group had considered matters including identifying where the establishment of a commercial body is appropriate, the committee reporting of commercial matters, the nomination of directors to any commercial bodies, and the approach to performance monitoring of such bodies.

It was confirmed that one of the topics considered by the group had been the handling of commercial confidentiality considerations, and ensuring that all

Members had appropriate access to information. The importance of ensuring that any commercial partners had awareness of the requirements associated with working with a public sector organisation.

RESOLVED that the update on the progress of the Commercial Governance Review be noted.

51. BUDGET PROPOSAL FOR 2019/20 - UPDATE

The Committee considered an update on the proposed Budget for 2019/20, including additional information on the provisional local government settlement 2019/20 and the Capital Programme, which was introduced by Councillor T. Schofield, Executive Member for Finance. An amendment to the Capital Programme information containing minor updates to the Capital Programme 2019/20 to 2023/24 details was tabled at the meeting.

It was noted that the update included information on the proposed establishment of a New Posts Fund to fund new posts that might be required as a result of team restructures during 2019/20.

The Committee considered and discussed the report. There were a number of questions and comments relating to the following topics:

- **Proposed Budget Adjustments**. Observations were made regarding the potential use of income from retained business rates, including the delivery of services and the impact on council tax.
- **Great Workplace Programme**. It was confirmed that the Great Workplace Programme covered matters such as office furnishings and related supplies.
- **Capital Programme projected spending**. A number of queries were raised regarding the projected spending in the capital plan relating to areas including Priory Park maintenance, play areas improvement programme, commercial investment properties, and cemeteries & chapel. It was confirmed that additional information on the detail surrounding the referenced figures would be provided following the meeting. It was noted that rolling programmes were based on future expectations for capital requirements, and that these were reconsidered on an annual basis as additional information on requirements and available funding became available. It was confirmed that regular maintenance activity did not have a capital requirement and therefore was not included in the programme.
- **ICT replacement programme**. It was confirmed that the spending on the ICT replacement programme varied across years due to requirements around the lifespan of devices and licences and associated replacements.
- **New Posts Fund**. It was confirmed that the fund was to support new permanent posts where a requirement was identified during the year, prior to their incorporation into the usual section of the budget in following years. It was confirmed that governance and consultation arrangements for the fund would be confirmed following the meeting.
- **Government consultation papers – Fair Funding Review and Business Rates Retention**. A query was raised regarding the opportunity for Members

to contribute to the consultation on these topics. It was identified that the officers would be working with the Executive Member for Finance to produce a draft response to the consultation, and that this could be made available to Members. It was suggested that any Members who would like to make comments on the consultation contact the Executive Member for Finance.

- **Supporting Commentary**. It was remarked that the financial information provided would be made more accessible via the addition of additional supporting information and commentary, and it was confirmed that it would be sought to provide this additional commentary in future.

RESOLVED that the updates to the proposed budget for 2019/20 be noted.

52. EXECUTIVE

It was reported that there were no items arising from the Executive that might be subject to the 'call-in' procedure in accordance with the provisions of the Overview and Scrutiny Procedure Rules.

53. ANY OTHER URGENT BUSINESS

None.

The Meeting closed at 10.23 pm

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

DIRECTOR	Director of Finance and Organisation
AUTHOR	John Jones, Interim Head of Legal and Governance
TELEPHONE	Tel: 01737 276496
EMAIL	john.jones@reigate-banstead.gov.uk
TO	Executive
DATE	Monday, 18 March 2019
EXECUTIVE MEMBER	Leader of the Council

KEY DECISION REQUIRED	Yes
WARDS AFFECTED	(All Wards);

SUBJECT	Commercial Governance Review 2018

RECOMMENDATIONS:

(i) To note the findings of the Commercial Review Member Task Group;
(ii) To agree the adoption and implementation of the Commercial Governance Framework

REASONS FOR RECOMMENDATIONS:

This report sets out the findings of a review of the Council's commercial activities. It proposes the adoption of a good practice Framework and Checklist to guide future working and ensure lessons from past practice are implemented.

EXECUTIVE SUMMARY:

- A Member Task Group was commissioned by the Overview and Scrutiny Committee to undertake a review of the commercial arrangements the Council has established in recent years. Councillors Ellacott, Harrison, Lynch, Parnall and Walsh sat on the Group and it was supported by John Jones (Interim Head of Legal and Governance) and Sandra Prail (external consultant)
- The findings of the review are now presented to the Executive for approval following consideration by the Overview and Scrutiny Committee on 14 February 2019

Executive has authority to approve the above recommendations

STATUTORY POWERS

1. The Council has the power to set up alternative delivery vehicles to exercise its powers and duties.

BACKGROUND

KEY INFORMATION

Terms of Reference

2. In accordance with an Executive Resolution on 29 March 2018 (and following a similar request from the Overview & Scrutiny Committee on7 December 2017) a Member Task Group was set up to undertake a review of the governance of the commercial arrangements the Council has established in recent years.

3. The review was led by the Interim Monitoring Officer assisted by an external consultant. The purpose of the review was to examine the experience of the Council's commercial activities to date, to identify lessons learnt to be applied to future commercial activities. The scope of the review was agreed to include Pathway for Care Ltd, RBBC Ltd, Greensand Holdings Ltd and Horley Business Park LLP.

4. The Leader of the Council appointed the following Councillors to sit on the Group - Councillor Ellacott (Chair), Harrison, Lynch, Parnall and Walsh.

5. A copy of the Terms of Reference of the Member Task Group is attached at **Appendix A**.

Methodology and Approach

6. The Task Group adopted an evidence led approach which focussed on future learning rather than a forensic examination of past working. The Group identified a series of key questions and lines of enquiry that would inform its review. These key lines of enquiry (KLOE) provided a structured and transparent framework for the review and can be found at **Appendix B (Annexes i-iii)** for Pathway for Care; Greensand Holdings and Horley Business Park). It also compiled a document library of sources of best practice.

7. Based on a documentary review of Council/Committee reports and minutes draft summaries of findings were produced for each venture. In the case of Pathway for Care Ltd additional evidence was sought from the Council's s151 Officer.

8. The draft findings were circulated to all members and those serving officers who were involved in the history of the arrangements. Eight members responded and the former Leader of the Council and the Chief Executive were invited to and attended a meeting of the Group. The Group reviewed their draft findings taking into account the additional evidence.

9. At **Appendix C (Annexes i-iv)** are the findings of the Group in relation to Pathway for Care Ltd, Greensand Holdings Ltd, Horley Business Park LLP and RBBC Ltd. Common themes include a lack of detailed performance measures against which to hold the venture to account, an absence of skills assessment in the appointment of individuals to roles and no agreed and regular reporting timetable to a formal shareholder body.

10. The findings from the review have informed the design of a Framework and Checklist to inform future working. The Framework is intended to represent best practice and to provide practical advice for future projects. It has been shared with the Councils auditors, RSM who have been asked to endorse its use as good practice.

11. The Framework can be found at Appendix D. In summary it comprises a checklist of issues and “golden rules” which it is proposed must be applied (or explicitly considered) whenever the Council proposes to set up a commercial venture. It is intended that the Framework will be applied to the existing commercial entities to the extent that this is practical and possible.The Executive will determine how and when to make the resulting changes to their goverance.

12. It provides a routemap for decision making and a documented template for future projects. It ensures that an options appraisal informs the choice of commercial body; that a clear Business Plan is approved at outset as the basis on which any funds are advanced and to which the Directors can be held accountable; that the shareholder function is clearly delegated to a single Executive Sub-Committee which holds the venture to account against agreed key performance measures and milestones; and that the appointment of representatives is skills based to maximise the likelihood of success and to reduce the potential for conflict of interest.

13. The Internal Auditors have been requested to review the draft Framework. Any information arising from their review that is available will be provided to the Executive on 18 March 2019.

OPTIONS

14. The Executive can either adopt or reject the recommendations of the Task Group .

LEGAL IMPLICATIONS

15. The recommendation of the Task Group provides a robust process to follow in making decisions as to whether the Council should in the future enter into commercial arrangements and an effective means for assessing on-going good governance of Council ventures.

FINANCIAL IMPLICATIONS

16. There is no direct financial implications as a result of this report, although the key findings do refer to how financial transactions were dealt with regarding the Council’s existing commercial arrangements.

EQUALITIES IMPLICATIONS

17. None

COMMUNICATION IMPLICATIONS

18. None

RISK MANAGEMENT CONSIDERATIONS

19. If the recommendation is adopted this will limit the risk to the authority as the proposed Framework requires risk to the Council to be assessed before agreeing to proeed with the setting up of a commercial organisation

OTHER IMPLICATIONS

20. None

CONSULTATION

21. This report was shared with the Council’s Overview and Scrutiny Committee at its meeting on 14 February and its comments have been taken into account. (set out summary of consultation response here)

POLICY FRAMEWORK

22. The recommendation in this report is not in conflict with the Councils Policy Framework

Background Papers:

None

Commercial Governance Review 2018

Member Task Group

Terms of Reference

Definition

The Commercial Governance Review Member Task Group is established in accordance with Protocol 2 of Part 5 of the Council's Constitution.

The Task Group is formally established by the Leader of the Council, who is responsible for appointing / removing Councillors to the group and selecting a Chairman.

Purpose

The Task Group has been established for a time limited duration to undertake a review of the commercial arrangements the Council has established in recent years. This is in accordance with the Executive Resolution on 29 March 2018, but it is explicitly acknowledged that the scope of the Task Group's work shall not be restricted to that which was set out in that Resolution.

It is intended that the review be completed by the end of September 2018.

Membership

The Task Group will be made up of 5 Councillors. Whilst there is no legal requirement to meet political balance requirements, the Task Group protocol states that membership should generally reflect the membership of the Council.

As a result the membership will include 4 (four) Councillors from the Conservative Group and 1 (one) other Councillor from another political group. Membership is set out in Annex 2.

Meetings

Meetings will be held on dates and at times agreed by the Chairman.

The conduct of the Task Group meetings shall be a matter for the Chairman.

In the absence of the Chairman, the Task Group shall elect a Chairman for the meeting.

Quorum

The quorum of the Task Group shall be not less than 3 (three) Members.

Voting

Voting at the Task Group shall be by a show of hands.

In the case of an equality of votes, the Chairman shall have a second or casting vote.

Decisions

All decisions of the Task Group shall be by way of recommendations to the Leader of the Council.

Attendance by non-Members

All Members have the right to attend a formal meeting of the Task Group but may only speak with the agreement of the Chairman.

Meetings will generally be held in private.

Terms of Reference

Purpose

The purpose of the review is to examine the experience of the Council's commercial activities to date, to identify lessons which are relevant to and should be applied to its future commercial activities.

Scope

The Task Group will consider the arrangements in relation to all commercial activities that the Council is or has been involved in. This includes:

- Pathway for Care Limited
- RBBC Limited
- Greensand Holdings Limited
- Horley Business Park LLP
- Directly held Council investments (property and financial)
- Any known future commercial structures (e.g. revenues and benefits company)

Annex 1 sets out a non-exhaustive list of areas which the Task Group should consider.

Outcomes

The Task Group shall make recommendations on any changes that may be identified as a result of its work. This may include new policies / procedures, amendments to existing structures and revisions to the Constitution.

These will be reported to the Leader of the Council / Executive for consideration.

Stakeholders

There are a number of key stakeholders that need to be engaged in the review in order for it to be effective and deliver positive outcomes:

- Leader of the Council
- Portfolio Holders
- Overview & Scrutiny Committee
- All Councillors
- Company Directors (current and past)
- Monitoring Officer
- Head of Paid Service
- S151 Officer

Approach

As set out in the Executive Resolution, the Monitoring Officer will be the lead officer, managing the review.

It is proposed that an external consultant(s) be appointed to support Member workshops to ensure all stakeholders are engaged in the process. This will also ensure the process is seen as fair and unbiased.

Any negative contributory factors that are identified will not be attributed to named individuals or posts. The objective is to identify lessons learned for the future.

Specialised legal and/or accounting input may also be commissioned to assist with review of detailed questions.

The review should also seek to learn from how other Councils manage commercial activities and seek out best practice from across the sector and beyond.

Annex 1

The review should include the following considerations/elements of commercial activities:

- Roles and responsibilities
  - Within the company
  - Within the Council
- Company structures
  - Directors
    - Who?
    - Appointment process
    - Option for Non-Executive Directors?
    - Remuneration
  - Shareholder
    - Who?
    - How?
  - Clear and consistent structures and delegations
  - Conflicts of Interest
- Business plans and performance reporting
- Alignment to 5 Year Plan
- Criteria for future commercial activities
- Council Committee structures
  - What oversight is in place / should be in place
    - Council
    - Executive
    - Overview & Scrutiny Committee
    - Member Panel
- Access to information
  - Wholly owned companies
  - Joint venture companies
- Consistency of approach
- Proportionality and risk

Annex 2: Membership

Cllr Mark Brunt, Leader of the Council, has appointed the following Councillors to the Working Group

- Cllr Ellacott (Chairman)
- Cllr Harrison
- Cllr Lynch
- Cllr Parnall
- Cllr Walsh

Signed: [redacted]

Dated: 11/07/2018

Executive

18 March 2019

Pathway for Care Ltd

Key Lines of Enquiry (KLOE)

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
Initiation	**Strategic objectives (why bother?)**	Were these set out fully and properly from the outset (before committing costs)?	Reports to Executive 14 July 2016 authorised the creation of a local authority wellbeing and integrated support services company. The report noted that Pathway for Care vision and aim was to improve patient experience, whilst at the same time generating profit.	The strategic objectives were identified at the outset but at a high level with relatively limited detail.
	Are clear strategic objectives driving the project?	Did/Does the project fit with the Council's vision?	The report signposts the 5 year plan objective of being financially self-sufficient.	The objective of generating a profit fits with the Council's corporate vision of being financially self –sufficient and improving patient experience fits within its health and well being remit.
		Was/Is there sufficient member buy-in?	The report identifies consultation with the Leader, Deputy Leader, Exec members for health, finance, property and regeneration and leisure and wellbeing.	Member workshops at the outset of the project helped gain wide engagement. Members bought into the initial proposal but the subsequent lack of detail meant that some members felt

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
				inadequately briefed.
		Was/Is it worth investing time and resources? What were/are the costs/ benefits? Can losses be absorbed?	The report includes a section on risk – it states that the business was to be set up to ensure that viability could be tested quickly and within 6 months. A financial summary set out a projected 3 year balance sheet including annual projected income and projected cash flow. 'Conservative' projections: In the first year of trading in 16/17 forecast revenue of £177800 with losses of £258841 – projected revenues end 18/19 in excess of £2m with gross profits of £900k. Projected cash flow ' the business will not be profitable in its early stages and will require working capital from the Council in the form of upto £350k draw down facility.'	The set up reports identified the projected loss before profit generation. Controls were not however placed at the outset on the borrowing limits beyond the initially agreed ceiling nor the timescale for profit generation which if not met would trigger a review.
		Was/Is the Council's role in commercial decision making clear?	The report set out governance arrangements including Board and Shareholder functions. Council's role as Shareholder outlined.	The reports set out governance arrangements and make clear the Council's role as shareholder.
		How were / are the objectives agreed and formally signed off - if so by who?	The report authorised the Health & Well Being Executive Sub Committee to finalise specified arrangement (including Directors Service Agreements, Loan& Draw Down agreement) and recommended delegated authority to the Chief Executive in consultation with the head of Legal Service and Head of Health & Wellbeing to finalise necessary arrangements for the company to	Executive exercised powers of sign off and delegated specific arrangements to a sub committee.

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
			begin trading on 1 August 2016. Executive noted financial projections and the business plan at its meeting on 15 September 2016. It noted allocation of funding from the Corporate Plan Delivery Fund	
Planning	**Thorough planning & due diligence**			Overall the Group found that the planning and due diligence covered appropriate areas but that it lacked detail and analysis. The Group felt that the business case would not have persuaded a bank to lend funds.
	Have all options been considered?	Have alternative delivery vehicles been assessed to establish most appropriate vehicle for project?	The report states that as the company operates for purely commercial purposes and may operate outside borough boundaries the relevant power to set up controlled company is s 1 Localism Act 2011. No assessment of alternative vehicles.	Members were presented with a single option as the vehicle to achieve the objectives. They were not presented with any analysis of alternative vehicles.
		Did/Does the assessment cover relevant criteria including costs, cash flow, complexity, risks (including reputational risks), return on investment, dividends/profit	The report includes a risk assessment and a financial assessment but not against different delivery models.	n/a as no options analysis

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
		distribution?		
	Was/Is there a robust business case?	Did/Does the business case adequately cover	The report states that 'it is imperative that an appropriate governance structure is in place'	
		Optimal governance arrangement including: Role of Board chair Composition of Board NEDS? Stakeholder committee Role of Council in commercial activity Procurement and fraud controls Effectiveness of Board evaluation Reporting to Council – content and mechanism Employee/Directors – managing conflict of interest Availability and distribution of information	No specific reference in the report to the role of the Chair. Report states Shareholders might wish to appoint NED once operational. Report sets out role of stakeholder committee and recommended role taken by a sub-Committee, separation of functions between officers on Board and those advising sub Committee noted. Initial report references potential conflicts of interest. Para 30 initial report ' the council must provide information about the affairs of the company to any member of the local authority as they reasonably require for the proper discharge of the member's responsibilities'.	The importance of the role of NEDs was recognised from set up but the Council did not specify this as a requirement to be delivered within a specific timetable. This meant that implementation was able to slip with no clear plan for delivery. The business plan did not specify clearly how the effectiveness of the Board would be evaluated or the reporting mechanisms/content for doing so.
		Financial plans and controls including authorisation of expenditure	Financial projections and updates to sub Committee. Delegation of finalisation of documents to named officers – eg 6 Nov Sub Committee S151 officer be authorised to	Authorisation of increased loan ceilings was clear but the analysis prior to authorisation was not detailed enough. The

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
			increase the loan ceiling to Pathway for Care	evaluation of risk and achievability of future projections was not robustly tested -for example the report contained little data on likely conversion rate of pipeline negotiations. There was a general lack of objective challenge to test projections and assumptions about future growth before authorising significant increases in borrowing.
		People management/leadership and commercial skillsets	General references to skills eg 'as the company progresses its business the sub Committee will want to ensure that the Board of Directors contains all the necessary skill sets required to give Pathway strategic direction in line with the latest industry projections/thinking'	Whilst there was a recognition of the need for appropriate skills there was no analysis of the skills/track record of individuals against required skills.
		Transfer of assets and support costs	Exec sub Committee authorised to finalise business plan and resourcing agreement for company to use council staff and facilities	There was clarity about the agreement for the company to use council staff and facilities
		Business activity and operational plans based on market research	Business plan includes section on target market and research relied upon.	Whilst the business plan includes a section on target market and research relied upon the content was not detailed.
		Success/outcome measures	The initial summary business plan identified 3 targets for first 6 months: 1. Support a further 300 older people	The business case which underpinned the project would have benefited from clearer

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
			with assessments and /or direct care and support hours; 2. Extend reach to working age adults needing direct support either at home of in supported living tenancies; 3. Attract 1100 further digital monitoring subscribers. 2 KPIS in revised business plan (evidence Pathway helping people and financial projections on track to being profitable by 2018/19).O&S recommended cash flow and pathway capital KPIS.	quantifiable targets and milestones and specific triggers for reporting against these milestones, particularly in relation to financial return and conversion of prospective leads to agreed sales. There was no agreed reporting process whereby any deviation from the business plan would be reported to the Exec Sub Committee which meant that progress was not well tracked and an optimistic projections turned to requests for additional funding.
		Reporting mechanisms	Para 27 initial report ‘ the shareholder will set out the performance levels required for the company and the tolerances within which the company may operate’. Shareholder agreement (draft) refers back to business plan.	The content and timing of updates from the Company was at the discretion of the Company rather than against the delivery of success measures set by the Council. This meant that requests for significant additional funding came as a surprise after earlier positive growth assumptions.
		Risk management and mitigation	All reports include a section on risk.	Reports included a narrative on risk but these were not detailed or quantified.
		Liabilities and taxation	Report identified liability to corporation tax on	The report adequately identified

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
			profits and need to charge VAT	taxation liabilities
		Business, tax, legal and finance sign off before final decision	Initial report has paragraphs on tax (para 43 'the company will be liable to corporation tax in the normal manner on profits and will need to charge VAT'; legal (para 49) and an exempt financial assessment.	
		Exit strategy	No express reference to an exit strategy in initial report but para 52 'if the model does not look viable after 6 months then further investment can be reviewed and if necessary curtailed'.	The call-in demonstrated that the Council's constitutional arrangement for holding the executive to account were in place and capable of implementation. The outcome of 'no further action' in relation to the increase in loan facilities endorsed the Executive's decision meaning there was the opportunity for wide member input. However, the need for this review suggests that the scrutiny function did not resolve issues effectively.
Execution	**Implementation**			
	Was/Is the delivery of the project being tracked and monitored			Overall the Group found that the absence of performance indicators/ milestones for delivery and agreed mechanisms for feedback on performance prevented effective monitoring of

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
	and early action being taken to address risks?			performance and early intervention action to address risks.
		Was/Is performance, resource and financial information being adequately tracked?	Update reports as per schedule.	Performance indicators in the business plan were not comprehensive and performance reporting was not to an agreed process and timeline.
		What business management reporting processes were /are in place & were they carried out appropriately		As above
		What processes were / are in place to manage income (sales) & to confirm compliance with the agreed business case?		As above
		How were /are financial forecasting reviewed and managed to ensure adequate funding & cash flow was available to confirm compliance with the business case?	Executive determined requests for additional draw down - 9 Nov 2017 authorised s151 officer to increase loan ceiling to £1.1m (decision the subject of call in).	To be covered in financial discussion with s151 officer
		What financial controls		To be covered in financial

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
		were/ are in place to ensure expenditure complied with the agreed business case ?		discussion with s151 officer
		What were / are the processes for agreeing changes to the business case (services delivered / sold / finances & resources required) ?	The business plan was updated during the project and O&S recommended changes. No detail on process for change	There was a lack of agreed process for change control.
		Was / Is risk being actively monitored and how was this achieved?	All executive and sub Committee reports include a section on risk. 'The quality of risk management taking place in the company is at least as good as that within the Council' (O&S 26 April response to question).	Reports included a narrative on risk but these were not detailed or quantified. There was no analysis of likelihood/impact nor any description of mitigation measures in place.
		Was/Is there assurance that no project creep occurring? What change control processes were / are in place?	Update reports included descriptions of service delivery and contract pipeline	As above
Closure	**Project closure**			
		Was/Is the exit strategy being followed?	Call – in by O&S led to pre-scrutiny of recommendations to change business model	
		Was/Is there a review of project?	Member Task Group	
		Were/Are lessons learnt being captured and	ToR of Member Task Group includes identifying lessons learnt.	

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Pathway for Care Ltd Evidence from Council minutes	Task Group initial findings
		implemented?		

Executive

18 March 2019

Key Lines of Enquiry (KLOE) Horley Business Park LLP

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Horley Business Park LLP Evidence from Council minutes	Task Group Initial Findings
Initiation	Strategic objectives (why bother?)	Were these set out fully and properly from the outset (before committing costs)?	Exec 15 Oct 2015 report authorising creation of LLP set out links to corporate plan and core strategy – ie creating new jobs for resilient, vibrant economy.	
	Are clear strategic objectives driving the project?	Did/Does the project fit with the Council's vision?	Exec report 15 Oct 2015 identified a clear fit with the Council's vision to create jobs and demand for units of a suitable scale in Gatwick Diamond sub-region.	
		Was/Is there sufficient member buy-in?	Executive report authorised creation of vehicle. It noted briefings have been given to management team, executive members for regeneration, property and finance, Horley ward members and officers in property, planning, policy and regeneration.	
		Was/Is it worth investing time and resources? What were/are the costs/ benefits? Can losses be absorbed?	The exempt report to executive 15 Oct 2018 included a viability study and stage 1 costs.	
		Was/Is the Council's role in		

		commercial decision making clear?		
		How were / are the objectives agreed and formally signed off - if so by who?	Executive 15 Oct 2015 authorised the creation of a JV LLP or Company.	
Planning	Thorough planning & due diligence			
	Have all options been considered?	Have alternative delivery vehicles been assessed to establish most appropriate vehicle for project?	The Executive report which authorised the set up of a JV identified options being a LLP or Co and delegated authority to set up either. No assessment of pros and cons of each or why LLP eventually chosen vehicle.	
		Did/Does the assessment cover relevant criteria including costs, cash flow, complexity, risks (including reputational risks), return on investment, dividends/profit distribution?	n/a	
	Was/Is there a robust business case?	Did/Does the business case adequately cover		

		Optimal governance arrangement including: Role of Board chair Composition of Board NEDS? Stakeholder committee Role of Council in commercial activity Procurement and fraud controls Effectiveness of Board evaluation Reporting to Council – content and mechanism Employee/Directors – managing conflict of interest Availability and distribution of information	The executive meeting of 15 October resolved to appoint Chief Exec and Head of property as the Council's reps on a LLP/Noe Co. No skills assessment. The Exec report identified the set up of a Strategic Property Advisory Group (SPAG) and that the project would be managed with key sign off stages – (1. Initial viability; 2. Site master plan and outline planning application; 3. Development master pan, construction tenders, reserved matters planning application;4. Tenders received, lettings secured, construction).	
		Financial plans and controls including authorisation of expenditure	Reference to key sign off stages and involvement of SPAG.	
		People management/leadership and commercial skillsets	No skills audit	
		Transfer of assets and support costs	Head of Finance given Exec approval to provide management accounting services to the vehicle and make suitable arrangements for statutory accounting and reporting.	
		Business activity and operational plans based on market research	Business viability review considered by the Executive included analytical review of peer group business parks in the south east and effects of a potential second runway at Gatwick airport.	

		Success/outcome measures	Costs of stage 1 and 2 set out in initial exempt report to Executive. No timeline for sign off stages.	
		Reporting mechanisms	Set up of SPAG (advisory) Executive to receive staged report.	
		Risk management and mitigation	The exec report setting up vehicle included section on risk management – identified strong track record and team, potential planning issues, development risks. The exec report on use of CPO powers identified risks as developer unable to provide sufficient financial undertaking (mitigated by indemnity) and unlikely risk of legal challenge. Legal advice taken on state aid.	
		Liabilities and taxation	Reference to no corporation tax being payable.	
		Business, tax, legal and finance sign off before final decision		
		Exit strategy	Sign off stages identified as opportunities for review.	
Execution	Implementation			
	Was/Is the delivery of the project being tracked and monitored and early action being taken to address risks?			
		Was/Is performance, resource and financial information being adequately tracked?	Reports to Executive	
		What business management reporting processes were /are in place & were they carried out		

		appropriately		
		What processes were / are in place to manage income (sales) & to confirm compliance with the agreed business case?		
		How were /are financial forecasting reviewed and managed to ensure adequate funding & cashflow was available to confirm compliance with the business case?		
		What financial controls were/ are in place to ensure expenditure complied with the agreed business case ?		
		What were / are the processes for agreeing changes to the business case (services delivered / sold / finances & resources required) ?		
		Was / Is risk being actively monitored and how was this achieved?	Risk assessments in executive reports	
		Was/Is there assurance that no project creep occurring? What change control processes were / are in place?		
Closure	Project closure			
		Was/Is the exit strategy being followed?	n/a	
		Was/Is there a review of project?	Commercial governance member task group	
		Were/Are lessons learnt being captured and implemented?	Tor of task group to identify lessons learnt	

Executive

18 March 2019

Key Lines of Enquiry (KLOE) Greensand Holdings

Stage	KLOE	Questions to probe Looking forward (is this covered?) and backwards (did this happen?)	Greensands Holdings Ltd Evidence from Council minutes	Task Group Initial Findings
Initiation	**Strategic objectives (why bother?)**	Were these set out fully and properly from the outset (before committing costs)?	In December 2014 the Executive agreed an approach to property investment. The objective was stated as increasing the value and income derived from Council property and assets to ensure financial sustainability and to overcome the challenges facing local government without substantial cuts to services. The Executive report of 15 Sept 2016 which authorised a wholly owned LATC referenced this approach and repeated the objectives.	The strategic objectives for setting up the Company were fully set out from the outset.
	Are clear strategic objectives driving the project?	Did/Does the project fit with the Council's vision?	The 5 Year plan 2015-20 describes the strategic objective of being financially self sufficient and how property investment is intended to help meet that	The Company was a vehicle to deliver on the Council's corporate objective of being financially self sufficient. This meant there was a

			objective.	clear strategic objective driving the Company set up.
		Was/Is there sufficient member buy-in?	Key decisions made by the Executive. Pre decision making scrutiny of the proposal to set up the Company (8 Sept 2016 O&S). One property company progress report to Executive 9 Nov 2017. No Property Sub Committee meetings held in 2016/17 municipal year (O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required).. No post set up Overview & Scrutiny meetings.	Pre decision scrutiny of the decision to set up the Company led to wide member buy-in at the outset. But the lack of subsequent meetings of the Property Sub and O&S and only one progress report to the Executive meant that member engagement was limited after the initial set up.
		Was/Is it worth investing time and resources? What were/are the costs/ benefits? Can losses be absorbed?	The report authorising the company set up includes a section on risk. 'Each acquisition will be considered in light of investment and development appraisals, the overriding economic conditions prevailing, occupational and investment demand as well as the associated due diligence. These appraisals will be provided to	

			members of the property Sub Committee. ‘There will be ongoing liaison (as exists as present) between officers and councillors to ensure there are clear channels of communication and that councillors remain comfortable at all times with proposed deals’. Executive 15 September 2016 report states that the initial draw down facility will be upto £8m initially and that loan to value debt will not exceed a 70/30 ratio to loan debt. The initial funding and loan agreement excludes funding for Cromwell Road (approved budget £5.61m)	
		Was/Is the Council's role in commercial decision making clear?	The 15 Sept 2016 report setting up the company noted that it was imperative to set up an appropriate governance structure. It delegated the shareholder function to Property Sub Committee and required that it ‘set out the performance levels required for the company and the tolerances (eg financial and decision making) within which the company may operate’.	

		How were / are the objectives agreed and formally signed off - if so by who?	Executive 15 September 2016 authorised the set up of the Company.	
Planning	**Thorough planning & due diligence**			
	Have all options been considered?	Have alternative delivery vehicles been assessed to establish most appropriate vehicle for project?	Executive 15 September 2016 ‘ It is important that the company has enough flexibility to buy considered opportunities and work on a commercial basis. This may include joint ventures, special purpose vehicles, and possibly development management agreements’.	
		Did/Does the assessment cover relevant criteria including costs, cash flow, complexity, risks (including reputational risks), return on investment, dividends/profit distribution?	The draft business plan (Property Sub 14 November 2016) records initial funds (ex VAT) of £8m by way of loans as documented in the loan agreement with interest charged at market rate (est 6% compounded annually) or rate required to meet state aid provisions. Further funding may be provided by the Council at rates not exceeding a loan to value rate of 70/30 at interest rate of est 6% or secured from commercial markets . Transfer of Council property assets through an additional loan (sites listed in	

			the plan). The draft stakeholder agreement (Property Sub 14 November 2016) provides that the company shall circulate a revised version of the business plan to shareholders by end Novembers each year for comment and consent.	
	Was/Is there a robust business case?	Did/Does the business case adequately cover	The pre scrutiny report prior to the executive report of 15 Sept 2016 requested that consideration be given to the appointment of NEDs at an appropriate time.	

		Optimal governance arrangement including: Role of Board chair Composition of Board NEDS? Stakeholder committee Role of Council in commercial activity Procurement and fraud controls Effectiveness of Board evaluation Reporting to Council – content and mechanism Employee/Directors – managing conflict of interest Availability and distribution of information	Property Sub Committee appointed Joint Managing Directors and Finance Director at meeting on 14 November 2016. No reference in reports to the role of the Board chair. Draft business plan identifies immediate goals and objectives - no financial targets, no reporting mechanism or timetable. The set up Exec report identified the potential for conflicts of interest but stated that 'at present it is not envisaged that conflicts will emerge but this will be kept under review and arrangement modified to accommodate any change in circumstances'. The only progress report (Exec 9 November 2017) refers to ' a resourcing agreement is being finalised' -there is no evidence that the draft loan agreement was signed. It refers to the purchase of one asset (in the period to 30 Sept 2017) at a cost of "£2.1m with expected income of £175000 (above the 6% RoI)".	

		Financial plans and controls including authorisation of expenditure	Draft shareholder agreement requires Company to maintain effective and appropriate control systems and provides for shareholders to be given information to enable it to monitor investment.	
		People management/leadership and commercial skillsets	Property Sub Committee appointed joint MDs and Head of finance – 14 November 2016. (NB appointed to post names not individual names). No reference to skills. Executive 15 Sept 2016 ' consideration has been given to ensuring that key expertise (such as financial and legal advice) are available to advise both the Council as shareholder and the Company. From time to time it may be necessary to buy in specialist corporate, property, marketing, legal and financial advice on a normal commercial basis to supplement the experience on the Board'.	There was no audit of skills/track record against required skills – appointments were made to posts not individuals. Although it was recognised that skills may need to be bought in there was a lack of clarity about how decisions would be made ie no skills audit or analysis. It was noted that roles were allocated to posts not individuals (unlike Pathways for Care).
		Transfer of assets and support costs	Executive 15 September 2016 identified list of properties/projects to be transferred to the Company. Reports identifies that many of	

			the support services required by the company to be contracted out to the Council. Head of Property Services charged to the Company with an additional payment to be authorised by the Chief Exec.	
		Business activity and operational plans based on market research	No reference to market research – 'the Council has already established a strong record in property acquisition and development ' (Exec 15 Sept 2016)	
		Success/outcome measures	No financial targets in draft business plan.	The business plans lacks quantifiable targets. It sets out aims that are broad with no agreed success measures.
		Reporting mechanisms	No reporting mechanisms set out in business plan. O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required.	There was an absence of agreed reporting mechanisms. O&S 8 Sept 2016 noted that Property Sub Committee would at least initially meet as and when required which was vague. In reality the Property Sub Committee met infrequently which means that progress was not being formally well tracked.

				The absence of a formal timetable for reporting resulted in lack of an official and regular reporting mechanism to the Council as stakeholder.
		Risk management and mitigation	All reports include a narrative section on risk. No risk register. Appraisals for each acquisition to be reviewed by Property Sub Committee. Progress report (Exec 9 Nov 2017) states 'to minimise any investment risk the asset will be managed in accordance with the Council's approved Asset Management Strategy'	
		Liabilities and taxation	The Exec report 15 Sept 2016 includes a section on tax stating that the company will be liable to corporation tax and will need to charge VAT and that every property opportunity would be looked at on its own merits including taxation and legal implications.	
		Business, tax, legal and finance sign off before final decision	Executive authorised set up. Property sub Committee role as	

			shareholder Committee	
		Exit strategy	No reference to an exit strategy.	
Execution	**Implementation**			
	Was/Is the delivery of the project being tracked and monitored and early action being taken to address risks?		One progress report to Executive (9 Nov 2017)	The business plan lacks delivery financial targets and delivery milestones. The only progress report to the Executive lacks detail on how the Company has performed against the business plan – eg it gives no information on the annex of council properties set out in the business plan and reports on one acquisition.
		Was/Is performance, resource and financial information being adequately tracked?		
		What business management reporting processes were /are in place & were they carried out appropriately		
		What processes were / are in place to manage income (sales) & to confirm compliance with the agreed business case?		

		How were /are financial forecasting reviewed and managed to ensure adequate funding & cashflow was available to confirm compliance with the business case?		
		What financial controls were/ are in place to ensure expenditure complied with the agreed business case ?		
		What were / are the processes for agreeing changes to the business case (services delivered / sold / finances & resources required) ?		
		Was / Is risk being actively monitored and how was this achieved?		
		Was/Is there assurance that no project creep occurring? What change control processes were / are in place?		
Closure	**Project closure**			
		Was/Is the exit strategy being followed?		
		Was/Is there a review of project?	Member Task Group	

		Were/Are lessons learnt being captured and implemented?	Terms of Reference of Member Task Group includes identifying lessons learnt.	

Commercial Governance Task Group

Pathway for Care: Summary of findings

Summary of findings in relation to Pathway for Care Limited ("Pathway" or "Company")

Detailed findings can be found in the document headed "Commercial Governance Review 2018: Key Lines of Enquiry (KLOE)", which is available on request from Democratic Services.

Summary

1. Overall the Task Group concludes that whilst there was some evidence of fulfilment under each of the identified key lines of inquiry (as listed in the document referred to above), the depth of analysis in many areas was too superficial, resulting in decision making not being strongly evidence based. For example, in authorising increased loan ceilings the evaluation of risk and achievability of future projections was not robust, with no apparent, objective analysis of the likely conversion rate of potential contracts in the pipeline.
2. The Task Group limited its review to the formal committee documentation relating to Pathway, the responses of members and officers to a consultation on a draft version of these findings and interviews with the then Leader of the Council (Cllr Broad), current s151 Officer (Jocelyn Convey) and Chief Executive (John Jory).
3. Therefore to enable focus on the key issues only, these findings relate to these sources of evidence, rather than being based on a review of the extensive array of other materials relating to Pathway, for example individual member correspondence from the period in question.

Business case

4. The Task Group considered that the business case which underpinned the project would have benefited from clearer, quantifiable targets and milestones and specific triggers for reporting against those milestones, particularly in respect of financial returns and conversion rate of prospective leads to agreed sales.
5. An agreed reporting process whereby any deviation from specified aspects of the business plan would be reported to the Executive Sub Committee would have greatly helped the Council to track progress and take a realistic rather than optimistic view of whether the Company was delivering against its objectives and future prospects.
6. The content and timing of updates from the Company appears to have been at the discretion of the Company rather than against delivery of success measures in an agreed timetable set by the Council. This resulted in the requests for significant additional funds coming as a surprise, following earlier positive growth assumptions.

Non-Executive Directors

7. The Group considers that the appointment of a Non-Executive Director was essential to provide independence and to recognise the risk associated with

potentially serious conflicts of interest for Directors of the Company who were also Council employees.

8. Whilst the initial approval to set up the Company recognised the important benefit of having a Non-Executive Director, the Executive did not specify this as a requirement to be delivered within a specific timetable. The absence of a clear timeline and reporting mechanism meant that implementation was able to slip with no clear plan for delivery. Members reported that repeated requests had been made for such a Director to be appointed, for example by the Executive Sub Committee on 17 February 2017, which asked for a further report to be brought back to consider options for appointment of a NED. However this report was not subsequently brought.

9. The Group recognises the inherent conflict of interest in officers (or members) holding a role as a Company Director. They conclude that appointment as a Director should be skills based and that although each case should be considered individually there should be a strong presumption against any of the Council's statutory post holders (Monitoring Officer, s151 Officer and Head of Paid Service) holding a Directorship.

Member engagement

10. Informal member seminars were used to raise awareness and gain broad Member buy in to the concept behind the Company; these were felt to be helpful at the time but the Task Group is not aware of any formal notes or recordings of these sessions, or responses provided systematically to questions raised at these seminars, which meant that the content of these sessions was later open to dispute.

11. Following Member pressure, the Company was discussed at the Overview & Scrutiny Committee in April 2017. Advance questions were called for, and responses provided, although many responses were not provided on grounds of commercial confidentiality. Similarly, reference was made by a number of members to a general lack of responsiveness during the period in question and in the provision of detailed information in response to questions raised, thus hindering objective challenge to test the projections and assumptions about achievability of future growth at the time. This largely reinforces the conclusions reached from the formal committee documentation.

12. The call-in in November 2017 demonstrated that the Council's formal constitutional arrangements for questioning the process by which the Executive reaches its decisions were in place and capable of implementation. The outcome of 'no further action' endorsed the process by which the Executive's decision to increase the loan facility to £1.1m had been reached. Although not the purpose of the call-in procedure, it did also provide some opportunity for wider member discussion of the rationale for this key decision.

13. However, the fact that the Overview & Scrutiny Committee called for this review of the governance of commercial projects suggests that the wider scrutiny function on the face of it did not resolve issues effectively. Specifically, that proactive establishment of good governance at the outset of a commercial enterprise is felt to

be far more effective than the ability to review decisions after concerns have been raised.

Financial transactions and controls

14. A review of the financial transactions shows a number of shortcomings in terms of financial controls:

    a. For the first seven months of operation, despite the Executive having approved in principle a loan of £350,000 to be advanced to the Company under a loan agreement, rather than establishing a separate loan account funds were instead advanced from the CPDF. Further, for a period these funds were paid directly to one of the Company's suppliers (which was also a company related to the Company's minority shareholder) rather than being advanced to the Company.

    b. Despite a loan agreement then being authorised no evidence has been found for this loan agreement being formally put in place between the Council and the Company for the following five months, ie until 12 months after the first payment of funds.

    c. At times the total accumulated payments from the Council to the Company exceeded the authorised loan limits, by up to £166,000.

    d. Successive advances of funds from the Council to the company were made, on some occasions, within days of each other. This reflected a lack of robust understanding of the financial position and the short term cashflow needs of the Company.

    e. Even after the initial CPDF payments had been regularised, further advances were made from the CPDF, on top of the approved loan, under delegated authority.

15. The reports on progress to the Executive read optimistically and would have benefited from a comprehensive analysis of the cash payment profile, income and costs, measured against the business plan separating the views of the Company from the opinion of Council officers

16. The Task Group recognises that steps have been introduced by the current S151 Officer, who was not employed by the Council during the period when the initial transactions highlighted above occurred, to improve financial processes, and the Task Group supports the further embedding of these improved processes.

Consultation on the draft Findings

17. An initial draft of these findings based only on a review of documentary evidence was circulated to all members and officers involved in the Pathway arrangements.

18. This led to additional input (written and verbal) and documentary evidence. This further input has been very helpful and has reinforced the Group's conclusions. In particular, the following points have been highlighted:

    a. The potentially restrictive nature of a corporate structure, especially one involving a minority shareholder.

b. The need for strong governance to be implemented at outset and maintained, in particular to avoid an over reliance on informal communication within a small circle of Members and Officers as opposed to formal reporting through properly constituted committees

c. A lack of evidenced challenge of company forecasts and projections and therefore an acceptance of the company's projections, which did not come to fruition.

d. The risk of conflicts of interest (actual and/or perceived).

19. In discussing the relationship between commercial ventures and the Overview & Scrutiny Committee, there was discussion as to whether the use of the call-in procedure in November 2017 might have prejudiced the Company's commercial success. The Task Group did not receive any evidence to suggest that this was the case.

Conclusion

20. The Task Group has not conducted a forensic review of the decision making and transactions outlined above, its focus to date has been to learn key lessons for the future governance of the Council's commercial entities, as per its Scope.

21. If the Executive and/or Overview & Scrutiny were of the view that such a forensic review would be of benefit, the Task Group would be willing to oversee this. Members should be mindful of the significant level of resource which would be needed to conduct such a detailed review.

22. The Task Group has concluded that the best means of improving governance of commercial activities is the adoption of a Commercial Governance Framework. This would serve as a basis for future working (based on the key lines of enquiry informing this review), ensuring that best practice guides future commercial projects.

23. This Framework consists of a checklist against which the setup of any future commercial entity would need to be measured, to ensure that all relevant points are addressed at the outset. The Framework proposed for adoption aims to address the key points arising from the evidence provided in relation to Pathway, outlined above.

Commercial Governance Task Group

February 2019

Appendix Cii

Executive

18 March 2019

Horley Business Park LLP: Key Findings

Horley Business Park LLP – Commercial Governance Review – Key Findings

The Executive report which authorised the setting up of a delivery vehicle for the development of employment land at Horley set out clear links with the Council's corporate plan and core strategy. The strategic driver of creating new jobs as part of a facilitating a resilient, vibrant economy was set out fully from the outset. A thorough viability study and staged costings informed the set up and the choice of delivery vehicle was delegated to officers. An informal Strategic Property Advisory Group (SPAG) was agreed by the Executive as the mechanism for reporting. This meant that the detailed monitoring of the performance of the LLP was not through a formal sub committee and no detailed targets or performance assessment is reported back to the Executive at agreed intervals. No skills assessment underpinned the appointment of officers as the Council's representatives on the LLP.

Looking forward the Group consider that there should be clear documented reasons both for the choice of delivery mechanism and for setting up an informal Advisory Group rather than a sub committee. In the event an advisory group is agreed on a case by case basis as the appropriate mechanism this should not negate the need for clear performance targets to be set and progress monitored against them through formal Council structures.

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Appendix Ciii

Executive

18 March 2019

Greensand Holdings: Key Findings

Greensands Holdings Ltd: Commercial Governance Review – Key Findings

The Council was clear from the outset that the strategic objective for setting up the company was to increase the income and value derived from Council property and assets and this aligned to the 5 Year Plan objective of ensuring the Council's financial sustainability.

Pre decision scrutiny of the decision to set up the company led to wide member buy-in at the outset. But after the initial set up the lack of progress reporting to the Property Sub Committee (O&S and the Executive) meant that subsequent member engagement was limited. The business plan failed to identify robust success/outcome measures against which performance would be monitored or any agreed reporting mechanisms. The absence of a formal timetable for reporting against clear performance measures meant that the Council as stakeholder was not fully informed of progress, did not track progress effectively and did not hold the company to account. It did not set out measures which would enable it to assess whether the strategic driver was being met over time.

The absence of the appointment of Non-Executive Directors contributed to a lack of independence with little consideration of the potential conflict of interests for Directors of the Company who were Council employees and appointed without any skills audit.

Looking forward the Group consider it essential for more detailed consideration to be given to appropriate performance measures and reporting framework when agreeing the business plan so that the Council as stakeholder has a guaranteed minimum level of progressing reporting.

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Executive

18 March 2019

RBBC Ltd – Council Decisions summary

Date	RBBC Ltd
29 March 2018	**Executive** **Resolved: extract only** (iii) the proposal to split all activities of Pathway for Care into 2 companies (the existing Pathway for Care and a new digital monitoring company) and to secure external investment for these companies be supported; (iv) the proposal for the Directors of Pathway for Care to transfer appropriate assets , contracts and liabilities to the digital monitoring company be noted; (v) the Council subscribe for 80% of the digital monitoring company B shares representing 40% of the digital monitoring company's share capital;
11 May 2018	**Executive** **Resolved : extract only** The finance Director be authorised to enter into a loan agreement for £96 600 with RBBC Ltd to formalise the loan interest and other amounts owed to the Council within RBBC Ltd's existing liabilities

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Commercial Governance Framework

Background

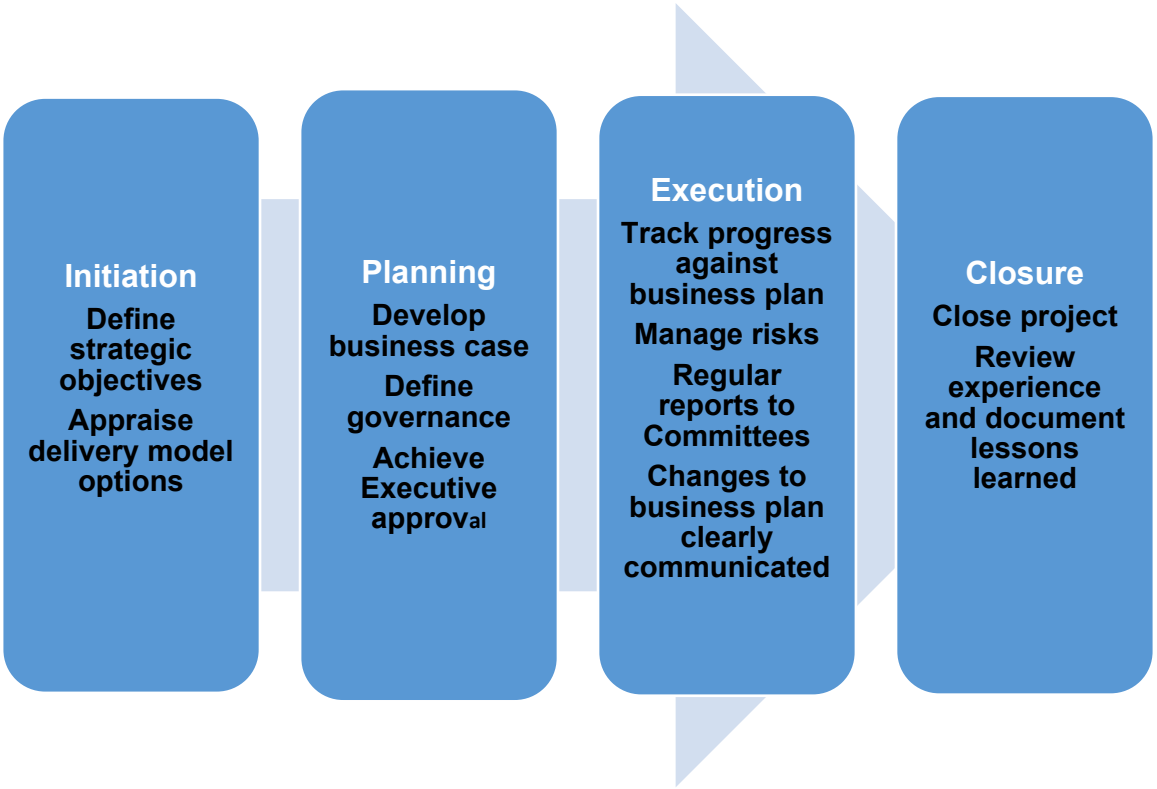
1. This Framework is the distillation of lessons learnt from a review of commercial governance arrangements undertaken by a Member Task Group in 2018-19. The objective of this Framework is to set out a best practice template for the set up and delivery of commercial ventures and companies by the Council in future.

Approach

2. The Framework is structured to follow the lifecycle stages of a commercial venture, with elements applying to each stage – initiation: planning: execution: closure.

3. The Framework provides a structured approach against which individual proposals can be assessed on a "**comply or explain" basis** – ie each element must be followed, unless there is a sound and well explained justification for doing otherwise.

Figure 1: Framework overview



Scope

4. This Framework applies to any commercial venture (eg limited company or LLP in which the Council is a shareholder), or another internal or external structure whose impact on the Council is potentially similar to a commercial entity, where the Council's actual cumulative exposure (by combination of nominal value of ordinary

or preference share capital, loan commitments, payments/remuneration to partners and other exposures) exceeds £100,000 (net of projected income).

5. For as long as the venture is of smaller scale than this threshold (which may be a result of the Council being a minority shareholder) or in a trial phase, discretion can be applied in how the Framework is applied.

Framework: Golden Rules

6. A number of key principles inform the Council's approach to the set up and delivery of commercial ventures. These principles (known as Golden Rules) should be applied before any such ventures are approved on a "comply or explain" basis. Explanations for any non-compliance should be recorded and scrutinised before the venture is approved.

   (i) The shareholder function for all ventures will be exercised by a single, properly constituted Commercial Ventures Executive Sub-Committee. This may be supported by Member/Officer advisory group(s) where appropriate, for specific ventures, but the Sub-Committee will be the route for all formal reporting and decision making (except where items are taken directly to the Executive or to Full Council).

   (ii) The structure chosen and related elements (eg shareholdings, employment contracts, other incentives, lines of accountability) must be considered as a whole by the Executive to ensure that there is alignment between incentives of the commercial venture /company and the Council's objectives.

   (iii) The allocation of Council resources to a venture by the Executive will only occur on the basis of a report containing a completed version of the Initiation and Planning Checklist (Figure 2), with supporting documents as appropriate. Such resources will then only be transferred following execution of appropriate agreements (eg loan agreements).

   (iv) The Sub-Committee will receive updates from ventures, based on the Execution and Closure Checklist (Figure 3) on a quarterly basis (the level of detail of such updates being proportionate to the scale of each venture). Reporting should capture reasons for decisions and the underlying supporting evidence relied upon.

   (v) Internal financial reporting (ie to the Council's finance function) will be undertaken monthly, with reconciliation of cross charges and intragroup balances.

   (vi) Any material changes to the business plan for any venture will be reported to and agreed by the Executive Sub-Committee.

(vii) There will be strong controls over, and transparency relating to, potential conflicts of interest and related party transactions – covering officers, members, other shareholders, customers and suppliers. The highest risk applies to s151 Officer, Monitoring Officer, Head of Paid Service and Executive members and therefore there is a presumption against the appointment of any of these postholders to a Director role.

(viii) Business plans will require the early appointment of a Non-Executive Director (or equivalent independent member).

(ix) Appointment to all roles will be skills led, informed by a documented skills audit.

(x) The Local Authorities (Companies) Order 1995 sets out the rights for an authority and individual member to receive company specific information. In applying the reasonableness test the Council will apply a presumption in favour of sharing relevant information with individual members. The presumption (to be confirmed as part of the initial business case/approval) should be that companies should file full accounts to the Council and publicly (on a voluntary basis if other criteria require a lesser form of reporting).

Commercial Governance Checklist

7. A practical checklist is set out below, which is based on the suite of Key Lines of Enquiry (KLOE) which were used in the Task Group's review of past commercial ventures, and is therefore grounded in the Council's practical experience. For each line of enquiry it records evidence of compliance (or the rationale for non-compliance).

8. The Checklist has two parts, covering different stages of the lifecycle and therefore to be used at different stages and, most likely, to different governance bodies:

- **Initiation and Planning**: to be presented to the Executive when a request is made to approve the venture, and hence provides a reference point against which the operation of the venture can be measured.
- **Execution and Closure:** to be presented to the Executive Sub-Committee on a regular (at least annual) basis, to enable it to discharge its role in monitoring delivery of the venture against the business plan.

Figure 2: Checklist - Initiation and Planning

Requirement	Evidence of compliance (or explanation for non-compliance)
Initiation	
a. How does the project fit with the Council's vision?	
b. What are the objectives of the venture?	
c. What is the Council's appetite for each of the risks involved with the venture? Do we understand the risks?	
d. What are the pros and cons of potential delivery vehicles? Why do we need a corporate entity (if that is what is recommended)?	
e. Why is this the preferred delivery vehicle?	
f. What is the structure of the proposed corporate entity? i. Structure (limited company, LLP, other). ii. Other shareholders/partners involved. iii. Capital structure (equity, debt, other).	
g. Is there sufficient Member buy-in?	
h. Is there sufficient officer buy-in?	
i. Is the Council's role in commercial decision making clear?	
Planning	
a. Does the assessment cover relevant criteria including costs, complexity, risks, return on investment?	
b. Is there a robust business case (to a comparable standard to that which an external investor would require)? Does the business case adequately cover?: i. Projected income and expenditure, over a reasonable time horizon. ii. A clear view of the amount of financing required from the Council, and other parties, over the same time horizon. iii. A range of scenarios covering both optimistic and pessimistic outcomes, showing the financial impact on the Council in each. iv. Success/outcome measures, translated into KPIs which	

Requirement	Evidence of compliance (or explanation for non-compliance)
will be reported regularly to the Executive Sub-Committee. v. Any other requirements on the Council, eg staff time, office space, or use of other Council assets. vi. Potential tax (corporation tax, VAT, other) and other liabilities arising. vii. How any unexpected losses would be absorbed. viii. Market and other research on which the financial forecasts are based. ix. Any Intellectual Property already possessed or expected to be developed as part of the venture, and clarity over its ownership. x. Resolution/shutdown plans/exit strategy in the event of a significant adverse event.	
c. What is the proposed governance model? i. Role of Chairman of the Board (or equivalent). ii. Composition of the Board (or equivalent), including Non-Executive Director(s). iii. The proposed measures for training and evaluation of performance of the Board. iv. Arrangements for reporting back to the Council: i. To officers. ii. To the Commercial Ventures Executive Sub-Committee. iii. To the Overview & Scrutiny Committee. v. Potential constraints on sharing of information with the Council, and ways of addressing them (eg if there is to be a minority shareholder, ensuring that the Articles of Association and/or other documentation allow for full information flow to the Council). vi. Any other governance mechanisms proposed, eg advisory board, stakeholder committee.	

Requirement	Evidence of compliance (or explanation for non-compliance)
d. Who are the key people involved and how have we satisfied ourselves that their skills and experience are relevant and sufficient? i. Identities, skills and experience of key personnel (covering people management, leadership, financial and commercial skillsets). ii. Results of due diligence on key personnel. iii. Assessment of potential conflicts of interest – including any current or expected involvement of related parties/companies.	
e. What controls will be in place to minimise/mitigate risk? i. Procurement and fraud controls. ii. Financial controls (within the Council) to ensure funds advanced are in line with approved limits. iii. Financial controls (within the company/venture) including authorisation of expenditure. iv. Controls relating to other risks arising from the venture.	

Figure 3: Checklist – Execution and Closure

Requirement	Evidence of compliance (or explanation for non-compliance)
Execution	
a. Is performance, resource and financial information being adequately tracked?	
b. Is the delivery of the project being tracked and monitored and early action being taken to address risks?	
c. What business management reporting processes are in place?	
d. What processes are in place to manage income/sales and to confirm compliance with the agreed business case?	
e. Is financial forecasting reviewed and managed to ensure adequate funding and cashflow available to confirm compliance with the business case? Is there a clear separation between the reports from the company/venture and	

Requirement	Evidence of compliance (or explanation for non-compliance)
the covering analysis by the Council's officers?	
f. What financial controls are in place to ensure expenditure complied with the agreed business case? Have the directors attested that these controls have ben complied with during the previous reporting period?	
g. Are processes in place for agreeing changes to the business case (services delivered/sold/finances and resources required)?	
h. Is there assurance that no project creep is occurring? What change control processes are in place?	
i. Have all contracts entered into in (since the previous review) been checked for any conflicts of interest, and if any such conflicts arise, have these been resolved and/or made transparent?	
j. What corporate actions/filings have been reported to Companies House since the previous report?	
k. What are the results of the most recent evaluation of Board performance?	
Closure	
a. Was the agreed exit strategy (as set out in the Planning stage) followed? If not, why not?	
b. Has there been a review of the venture, appropriate to the scale of the venture and involving all relevant stakeholders?	
c. Are lessons learnt being captured and implemented?	

Review

9. The Framework and its implementation shall be reviewed regularly and initially no later than 12 months after its adoption to ensure that it is meeting its objective and that lessons learnt drive improvement.

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

SIGNED OFF BY	Interim Head of Finance and Assets
AUTHOR	Lewis Chingwaru, Interim Treasury Management Project Lead, Semena Williams, Business Accountant
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EMAIL	Lewis.Chingwaru@reigate-banstead.gov.uk, Semena.Williams@reigate-banstead.gov.uk
TO	Overview and Scrutiny Committee
DATE	Thursday, 14 February 2019
EXECUTIVE MEMBER	Portfolio Holder for Finance

KEY DECISION REQUIRED	YES
WARDS AFFECTED	(All Wards);

SUBJECT	Draft Treasury Management Strategy 2019/20

RECOMMENDATIONS

The Committee is requested to consider the draft Treasury Management Strategy published by the Executive on 24 January 2019 and to offer any comments to the Executive on this report.

REASONS FOR RECOMMENDATIONS

To support the adoption of a Treasury Management Strategy for the 2019/20 financial period.

EXECUTIVE SUMMARY

This report provides the Committee with the report published by the Executive on the draft Treasury Management Strategy 2019/20 for consultation.

The Committee is requested to consider this report and to submit any comments to the Executive on the draft Strategy. The Committee is also requested to consider the comments made at the Treasury Management Portfolio Holder Panel meeting held in February 2019 which also considered the draft Strategy.

STATUTORY POWERS

1. The Local Government Act 2000 introduced the requirement for Overview and Scrutiny Committees. The Council's Constitution provides arrangements for the Committee to consider Policy Framework documents, which includes Treasury Management Policy.
2. 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.
3. The Council's Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.

DRAFT TREASURY MANAGEMENT STRATEGY 2019/20

4. The Executive on the 24 January 2019 published the attached draft Treasury Management Strategy 2019/20 for consultation, which is attached at Appendix 1.
5. The Council is required to approve an annual Treasury Management Strategy and Prudential Indicators to demonstrate that borrowing and investments are prudent, affordable and sustainable.
6. It has been necessary to make a number of changes to the format and contents of the Strategy this year in order to ensure compliance with updated guidance and regulations. The details of these changes are set out in the covering report to Executive in March and full council in April.
7. The draft strategy will be considered by the Treasury Management Portfolio Holder Panel on 12 February 2019. The comments and conclusions of the Panel will be reported to the Committee.
8. The Committee is requested to consider the draft strategy and to provide comments to the Executive at their meeting on the 18 March 2019.

BACKGROUND PAPERS

Executive Agenda: 24 January 2019

Reigate & Banstead
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REPORT OF:	DIRECTOR OF FINANCE & ORGANISATION (CFO)
AUTHOR:	Semena Williams
TELEPHONE:	01737 276039
E-MAIL:	semena.williams@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	24 JANUARY 2019
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

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

SUBJECT:	**DRAFT TREASURY MANAGEMENT STRATEGY 2019/20**

RECOMMENDATIONS:

That Executive approves the contents of this report and annexes for formal consultation in accordance with the Council's Constitution.

REASONS FOR RECOMMENDATIONS:

To support the adoption of a Treasury Management Strategy for the 2019/20 financial period.

EXECUTIVE SUMMARY:

To comply with the Code of Practice on Treasury Management, the Council must approve Prudential Indicators and a Treasury Management Strategy each year that reflect the Council's expected operations in this area for the 2019/20 financial year.

Executive has authority to approve the above recommendations

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

ISSUES

Background

3. The Council is required to approve an annual Treasury Management Strategy and Prudential Indicators so that borrowing and investments are prudent, affordable and sustainable.

4. The Strategy has been prepared in line with the CIPFA Treasury Management Code of Practice published in late 2017. The draft for consultation is attached at Annex 1.

Matters for Consideration

Guidance

5. A number of changes have been required when preparing the Council's 2019/20 Treasury Management Strategy as a consequence of recent revisions of MHCLG Investment Guidance, MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

6. These changes are intended to reflect the increasingly complex business models being adopted by Local Authorities in response to reductions in other funding streams.

7. Changes to the guidance include the introduction of a new requirement to publish a Capital Investment Strategy, to provide a longer-term focus to the capital plans. There are also enhanced reporting requirements surrounding commercial activity undertaken under the Localism Act 2011.

Capital Investment Strategy and Capital Programme

8. The Council's Capital Investment Strategy will be presented to Executive in March and full Council in April 2019. It is likely that further changes to the scope/ structure of the final draft of the Treasury Management Strategy will be required at that stage to ensure full alignment.

9. The Capital Programme as reflected in this report represents approved capital expenditure to date and forecast future investment plans. These are also subject to review as the Capital Investment Strategy is finalised.

Financial Reporting Standards

10. IFRS 9 replaces IAS 39, Financial Instruments – Recognition and Measurement - and was effective from April 2018. It is intended to respond to criticisms that IAS 39 was too complex and inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle. The implications of these changes for this Council will be assessed during the final accounts process for the financial year 2018/19.

Prudential Indicators

11. The statutory Prudential Indicators contained within the Treasury Management Strategy are based on the new guidance.

12. The changes in mandatory Prudential Indicators include the removal of the following:

    - Actual and estimates of the ratio of financing costs to net revenue stream

    - Estimates of the incremental impact of capital investment decisions on the council tax

13. There is a new mandatory prudential indicator that measures the level of gross debt to the current Capital Financing Requirement (CFR). The purpose of this indicator is ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

OPTIONS

14. There are 3 options:

15. **Option 1 – Approve the recommendations within this report**

    This would provide the best opportunity to maximise the potential returns that can be earned during the coming financial year and minimise the risk of audit criticism.

    This is the recommended option.

16. **Option 2 - To defer the report and ask Officers to provide more information and/or clarification on any specific points**

    The current Investment Regulations issued by MHCLG means that this Strategy must be approved prior to the financial year to which it relates.

    Any delay in approving the Strategy could leave the Council open to the same risks identified in option 3 below.

17. **Option 3 - To not support the contents of this report**

    This would mean that Officers will not have a mandate to undertake treasury management activities, which will lead to the Council only receiving minimal returns on its investments and hence poor value for money.

    It would also leave the Council not being compliant with the MHCLG statutory guidance and the CIPFA Code of Practice, which will result in criticism from our External Auditor.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

EQUALITIES IMPLICATIONS

20. There are no equality implications arising from this report.

COMMUNICATION IMPLICATIONS

21. The report should set out what communications plans are in place to support the decision, or to communicate the reasons for the decision. This could include proactive promotion, campaigns, key messages, and partnership communications.

22. Where there are significant communications implications, the draft report must be shared with the communications team before white list stage.

RISK MANAGEMENT CONSIDERATIONS

23. These are detailed in Annex 1

OTHER IMPLICATIONS

24. There are no other implications arising from this report

CONSULTATION

25. This report will be reviewed by a Member Panel led by the Portfolio Holder for Finance in February and then by the Overview and Scrutiny Committee at its February meeting.

POLICY FRAMEWORK

26. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

Background Papers:

27. None

Draft Treasury Management Strategy Statement 2019/20

INDEX

1. INTRODUCTION

Background

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

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

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

Revised reporting is required for the 2019/20 cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a Capital Investment Strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.The Capital Investment Strategy is being reported separately to Executive and full Council in March/April 2019.

Reporting requirements

1.2.1 Capital Investment Strategy

The revised CIPFA 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a Capital Investment Strategy, which will provide the following:

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

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

This Capital Investment Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

The Capital Investment Strategy will show:

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

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

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

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

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and Treasury Indicators and Treasury Strategy** (this report). This first, and most important, report is forward-looking and covers:
   - capital spending plans, (including prudential indicators);
   - the minimum revenue provision (MRP) policy, demonstrating how residual capital expenditure is charged to revenue over time;
   - the Treasury Management Strategy, setting out how the investments and borrowings are to be organised), including treasury indicators; and
   - a Treasury Investment Strategy, describing the parameters for how investments are to be managed.

b. **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An Annual Treasury Report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

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

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the Treasury Investment Strategy;
- creditworthiness policy; and

- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The 2018/19 training for Members is scheduled in February 2019 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties.

2. THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Members are asked to approve the capital expenditure forecasts:

Table 1:Capital Expenditure Programme

APPROVED CAPITAL EXPENDITURE PROGRAMME	2018/19 Budget £000	2019/20 Projected £000	2020/21 Projected £000	2021/22 Projected £000	2022/23 Projected £000	**2023/24** Projected £000
Finance & Organisation:						
Sub-Total	38,683.3	355.0	180.0	406.0	381.0	381.0
People Services						
Sub-Total	1,823.6	1,665.1	1,285.0	1,285.0	1,285.0	1,285.0
Place Services:						
Sub-Total	5,207.6	18,806.7	27,944.6	26,210.5	16,407.5	1,307.5
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2:Capital Expenditure Programme Financing

CAPITAL EXPENDITURE FINANCING	**2018/2019** Projected £000	**2019/20** Projected £000	**2020/21** Projected £000	**2021/22** Projected £000	**2022/23** Projected £000	**2023/2024** Projected £000
Capital Reserves	21,824.8	1,016.8	152.9	6,123.1	0.0	0.0
Capital Receipts	290.3	362.0	19,680.5	11,569.5	15,575.5	475.5
Capital Grants & Contributions	3,599.4	3,047.9	2,776.2	2,653.8	2,498.0	2,498.0
Total Financing	**25,714.5**	**4,426.8**	**22,609.6**	**20,346.4**	**18,073.5**	**2,973.5**
Net Financing Need	20,000.0	16,400.0	6,800.0	7,555.1	0.0	0.0
Total Expenditure	**45,714.5**	**20,826.8**	**29,409.6**	**27,901.5**	**18,073.5**	**2,973.5**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

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

The Council is asked to approve the CFR projections below:

Table 3: Projected Capital Financing Requirement

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement						
CFR – General Fund	20,000.0	36,269.0	42,825.3	50,082.5	49,716.9	49,336.8
Total CFR	**20,000.0**	**36,269.0**	**42,825.3**	**50,082.5**	**49,716.9**	**49,336.8**
Movement in CFR	**20,000.0**	**16,269.0**	**6,556.3**	**7,257.1**	**-365.5**	**-380.2**
Movement in CFR represented by						
Net financing need for the year (above)	20,000.0	16,400.0	6,800.0	7,555.1	0.0	0.0
Less MRP/VRP and other financing movements	0.0	-131.0	-243.7	-298.0	-365.5	-380.2
Movement in CFR	**20,000.0**	**16,269.0**	**6,556.3**	**7,257.1**	**-365.5**	**-380.2**

Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement*:*

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);

This option provide for an approximate 4% reduction in the borrowing need (CFR) each year. The Council has no such capital expenditure incurred before 1 April 2008.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £Nil.

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Investment Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual Treasury Investment Strategy.

Current portfolio position

The overall treasury management portfolio as at 31 March 2018 and the position as at 21 December 2018 are shown below for both borrowing and investments.

Table 4: Treasury Portfolio

Portfolio Position	2017/18		2018/19	
	Actual as at 31 March 2018		Actual as at 31 December 2018	
	£'000	%	£'000	%
Investments:				
Local Authorities	10,000	16%	0	0%
Clearing Banks	5,000	8%	0	0%
Call Account	5,811	9%	3	0%
Money Market Funds	8,000	13%	8,000	16%
Building Societies	33,000	53%	43,000	84%
Total Investments	**61,811**	**100%**	**51,003**	**100%**
Long-Term Borrowing				
PWLB	0		0	
Market Loans	0		0	
Total Long Term	**0**		**0**	
Short Term Borrowing	0		0	
Total Borrowing	**0**		**0**	
Total Net Treasury Investments/(Borrowings)	**61,811**		**51,003**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 5: External Debt

£'000	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt						
Debt 1 April	**0**	**20,000**	**36,400**	**43,200**	**50,755**	**50,755**
Expected Change in Debt	20,000	16,400	6,800	7,555	0	0
Other Long-Term Liabilities (OLTL)	0	0	0	0	0	0
Expected Change in Other Long-Term Liabilities (OLTL)	0	0	0	0	0	0
Actual Gross Debt at 31 March	**20,000**	**36,400**	**43,200**	**50,755**	**50,755**	**50,755**
The Capital Financing Requirement	**20,000**	**36,269**	**42,825**	**50,082**	**49,717**	**49,337**
Under/ (Over) Borrowing	**0**	**-131**	**-375**	**-673**	**-1,038**	**-1,418**

*** The Council is currently debt free. New borrowing is expected in the final quarter of 2018/19. Therefore, the Council is starting from a nil CFR position, the gross debt should be the same as the Capital Financing Requirement. The difference is represented by the cumulative minimum revenue provision (MRP) netted-off from the CFR amounts.*

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 6: Operational Boundary

Operational Boundary £'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Other Long term liabilities	0	0	0	0	0	0	0
Total	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**	**70,000**

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Table 7: Authorised Limit

Authorised Limit £'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Other Long-term liabilities	0	0	0	0	0	0	0
Total	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**	**80,000**

Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and commentary sets out their current view.

Table 8: Interest Rates

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally-positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy changes also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative

easing, when they mature. We have, therefore, seen US 10-year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully-funded with loan debt; instead cash supporting the Council's reserves, balances and cash flow has been used as a temporary funding measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was 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 will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long-term and short-term rates than that currently forecast,* perhaps arising from an acceleration 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 will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely

as short-term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Executive at the earliest meeting following its action.

4. ANNUAL TREASURY INVESTMENT STRATEGY

Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, will be covered in the Capital Investment Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.3 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 60% of the total investment portfolio, (see paragraph 4.3).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in appendix 5.3.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see page 5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. MHCLG, are currently conducting a consultation for a “temporary override” to allow English local authorities time to adjust their portfolio of investments.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.2 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating "Watches" (notification of a likely change), rating "Outlooks" (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Table 9: Counterparty List

Counterparty List		Credit Rating (Fitch or Equivalent)	
UK Banks	Covers UK Retail & Clearing Banks	Short term - F1+	Extremely Strong Grade
		Long Term - AAA	
Non-UK Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign Long Term rating of AAA (Fitch or equivalent)	Short term - F1+	Extremely Strong Grade
		Long Term - AAA	

Counterparty List		Credit Rating (Fitch or Equivalent)	
Part Nationalised UK Bank	Royal Bank of Scotland ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the ratings in UK Banks above.	Short term - F1+	Extremely Strong Grade
		Long Term - AAA	
The Council's own banker for day to day banking transactional purposes.	If the bank falls below the above criteria, in this case balances will be minimised in both monetary size and time invested.	Short term - F1+	Extremely Strong Grade
		Long Term - AAA	
Building societies	The Council will use all societies which:	Short term - F1+	Extremely Strong Grade
		Long Term - AAA	
		Assets in excess £1bn (and/or)	
Money Market Funds (MMFs)	Constant Net Asset Value (CNAV)	Short term - F1+	Extremely Strong Grade
Money Market Funds (MMFs)	Low-Volatility Net Asset Value (LVNAV)	Short term - F1+	Extremely Strong Grade
Money Market Funds (MMFs)	Variable Net Asset value (VNAV)	Short term - F1+	Extremely Strong Grade
UK Government (including gilts, Treasury Bills and the DMADF)	No credit rating UK Government guarantees		
Local authorities, parish councils etc.	No credit rating UK government guarantees		
Housing associations		Short term - F1+	Very Strong Grade
		Long Term - AA	
Supranational institutions		Short term - F1+	Extremely Strong Grade
		Long Term - AAA	

A limit of 60% will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative

rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

Table 10: Counterparty Limits

	Fitch Long term Rating (or equivalent)		**Money and/or % Limit**	**Time Limit**
	Short Term	Long Term		
UK Banks higher quality	*F1+*	AAA	£10m	5yrs
UK Banks medium quality	*F1+*	AA	£5m	3yrs
Part nationalised UK Bank	N/A		£10m	1yr
Council's banker (not meeting UK Banks higher quality)	F1+	AA	£10m	1 day
DMADF	UK sovereign rating		unlimited	6 months
Local authorities	N/A		£10m	3yrs
Housing associations higher quality	F1+	AAA	£5m	3yrs
Housing associations medium quality	F1+	AA	£3m	2yrs
	Fund rating		**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	AAA	N/A	£10m	liquid
Money Market Funds LVNAV	AAA	N/A	£10m	liquid

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day

core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other Members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Other limits

Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 60% of the total investment portfolio.

b) **Other limits.** In addition:

- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Treasury Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%

- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

The Council is asked to approve the following treasury indicator and limit:

Table 11: Treasury Limits

Upper limit for principal sums invested for longer than 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested for longer than 365 days	£m	£m	£m
Current investments as at 31.12.18 in excess of 1 year maturing in each year	*These limits are currently subject to review with our treasury advisors and will be confirmed in the final Treasury Management Strategy report in March 2019*		

Notes:
1. Councils which are expected to place investments for an average period of up to 100 days may prefer to set a budget for investment earnings in line with our three-month LIBID forecasts shown in appendix 5.2.

2. Councils which expect to place investments for longer periods than 100 days will need to adjust the average figures above as appropriate.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

Link Asset Services "SLY" model
These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft
- Liquid short-term deposits available with a week's notice.
- Weighted average life benchmark.

Yield - local measures of yield benchmarks are*:*

- Investments – internal returns above the 7-day LIBID rate
- Investments – external fund managers - returns 110% above 7 day compounded LIBID.

And in addition that the security benchmark for each individual year is:

Table 12: Security Benchmarks

	1 year	2 years	3 years	4 years	5 years
Maximum	*These limits are currently subject to review with our treasury advisors and will be confirmed in the final Treasury Management Strategy report in March 2019*				

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External fund managers

The Council's external fund manager(s) will comply with the Annual Treasury Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by the cash fund manager(s) are as follows:

Table 13: Credit Criteria

	Fitch	Moody's	Standard and Poors
Long Term	*These limits are currently subject to review with our treasury advisors and will be confirmed in the final Treasury Management Strategy report in March 2019*		
Short Term			

5. APPENDICES

1. Capital Prudential and Treasury Indicators and MRP Statement
2. Economic Background
3. Treasury Management Practice 1 – credit and counterparty risk management
4. Approved Countries for Investments
5. Treasury Management Scheme of Delegation
6. The Treasury Management Role of the Section 151 Officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

5.1.1. Capital expenditure

Details of the Capital Programme 2019/20 to 2023/24 are reported separately on this agenda.

5.1.2. Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in the 2019/20 Budget Report.

5.1.3. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central

Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed, they gave a figure for this of around 2.5% in ten years' time but declined to give a medium-term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation fell from 2.7% to 2.4% in September. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.1%, (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.7%, the highest level since 2009. This increase in

household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has

indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds
and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed

for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much-improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.

- March 2019: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU Members, such as changes to the EU's budget, voting allocations and policies.

5.3 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT (OPTION 2)

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Treasury Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual Treasury Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society) For category 5 this covers bodies with a minimum Short-Term rating as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	*These limits are currently subject to review with our treasury advisors and will be confirmed in the final Treasury Management Strategy report in March 2019*
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size, but will restrict these type of	

	investments.	
e.	Any **bank or building society** that has a minimum long-term credit rating, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	
f.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category.	
g.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	
h.	**Loan capital** in a body corporate. See note 1 below.	
i.	**Bond funds.** See note 1 below.	
j.	**Property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

5.4 APPROVED COUNTRIES FOR INVESTMENTS

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

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

To be updated to reflect the most current list.

5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Executive/Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Overview & Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Section 151 (Responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Investment Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the Capital Investment Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:

- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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

SIGNED OFF BY	Director of Finance and Organisation
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TO	Overview and Scrutiny Committee
DATE	Thursday, 14 February 2019
EXECUTIVE MEMBER	Leader of the Council

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards)

SUBJECT	Overview and Scrutiny Committee Work Programme 2019/20

RECOMMENDATIONS

(i) that the proposed Work Programme for 2019/20 as set out at Annex 1 and detailed in the report be approved (taking account of the Management Team's comments) for recommendation to the Executive and the Council.

SUMMARY

To consider the proposed Work Programme for the Overview and Scrutiny Committee for 2019/20 and to forward the programme and any comments to the Executive.

Statutory Powers

1. The *Local Government Act 2000* (as amended) established Overview and Scrutiny Committees within the Leader with Cabinet model of governance. Subsequent legislation including the *Police and Justice Act 2006*, the *Local Government Public Involvement in Health Act 2007*, the *Local Democracy, Economic Development and Construction Act 2009*, the *Localism Act 2011* and the *Local Authorities (Overview and Scrutiny Committees) (England) Regulations 2012* has provided additional responsibilities on the Committee.

2. In accordance with the Overview and Scrutiny arrangements contained in the Council's Constitution, the Committee's future work programme was discussed with the Leader and this report refers to those discussions where appropriate.

3. Following consultation with the Executive the work programme is submitted for approval by the Council so that it can be agreed at the beginning of the Municipal Year.

A Balanced approach to the Committee's Responsibilities

4. The Committee's work during 2018/19 continued to reflect the streamlined approach that the Council has adopted to managing its processes. This includes using mechanisms such as Seminars and Portfolio Holder Panels.

5. As required by the Constitution, an outline of the Committee's work programme for 2019/20 was discussed between the Leader of the Council and the Chairman of the Committee with representatives of the Management Team. The purpose of this meeting was to seek a balanced approach to the work programme, whilst retaining the principles of good governance that underpin the Committee's activities. The outcomes of that meeting are reflected in this report and in the proposed work programme.

Developing a work programme

6. The Committee's work programme is designed to help it plan its business during the year and is set out in various categories in paragraphs 12 to 42.

7. To provide flexibility (to accommodate matters not contained within the work programme) the following protocol has been established:

   "In addition to the Committee's agreed work programme it needs to allow flexibility for additional priority work that emerges during the course of the year. In those circumstances the Committee should be permitted to undertake that piece of work following consultation and agreement with the Chairman of the Committee and appropriate Executive Member and Management Team Manager. In the event that this is not possible a report should be made to the Executive requesting the inclusion of the issue within the work programme".

   The prioritisation of the Work Programme may be adjusted by the Chairman during the year to manage the business effectively.

8. An important element of the Committee's work is to ensure that it continues to assist the Council in driving forward the Corporate Plan's key objectives and priorities. The Committee's work programme is therefore designed in a constructive way to link with the Executive's work programme.

9. The Council's Corporate Plan is currently undergoing review, and an updated plan is scheduled to be published this year, following consultation. The activities of the Committee may therefore be adjusted, as outlined in paragraph 7, to reflect any revisions to the Council's key objectives and priorities.

10. A task group has been established to review the Council's governance and constitution. Once this review has been conducted, the activities of the Committee may therefore be adjusted, as outlined in paragraph 7, to reflect any revisions to the Council's governance and constitutional arrangements.

11. Attached at Annex 1 is a summary of the Committee's proposed Work Programme and further details are set out below.

A. Policy Framework consultations

12. It is proposed that the Work Programme includes Policy Framework consultation documents as required by Policy Framework procedures within the Council's Constitution. There is no longer a legal requirement to publish a Leader's Forward Plan, but a plan is prepared administratively which continues to identify all of the Strategies/Plans that will be reviewed by the Executive. Where the proposed strategy is not significantly different, or where they have been tested through Member briefings/seminars following consultation with the Chairman and Vice-Chairman, a formal report will not usually be brought to the Committee.

B. Work Programme Rolled Forward from 2018/19

13. The Committee is anticipated to complete its work programme in 2017/18, with no matters to roll forward.

C. Executive Member Objectives

14. The Committee has continued to work closely with Executive Members during 2018/19 and has received presentations from Portfolio Holders on a number of the Council's priority work streams. The Committee proposes to continue this approach in 2019/20.

15. To further support effective cooperation of the Committee and the Executive, the Committee is now also receiving biannual updates from the Leader of the Council on the Council's overarching activities and strategic objectives. The Committee proposes to continue this approach in 2019/20.

D. Audit activities

16. The Committee's Audit activities proposed for 2019/20 are to consider:

    (a) the annual Internal Audit report for 2018/19;
    (b) the annual ISA 260 External Audit report for 2018/19;
    (c) the monitoring of individual audit reports through quarterly performance reports; and
    (d) the Internal Audit Plan for 2020/21.

17. Where the Chairman agrees that there are no significant issues therein requiring attention, it will be their decision whether the annual Internal Audit report be considered formally at a meeting of the Committee.

18. As established in 2018/19, changes to guidance around the External Audit process require this to be reported to the Executive in July. As the audit process will only conclude very shortly prior to this point, it is therefore necessary for the findings of the External Audit process to be considered by the Committee subsequent to this date, at the next available meeting. The External Audit report for 2018/19 would therefore be considered by the Committee in September 2019.

E. Performance Management Monitoring

19. In addition to the audit activities listed above, the Committee has a role to monitor the performance of the Council. This has been fulfilled by reporting on the following matters, which the Committee consider appropriate to continue for 2019/20:

- Revenue, Capital and Service Performance Management Monitoring (quarterly)
- Risk Management performance (six monthly)
- Five Year Plan performance (six monthly)

F. Panels for 2018/19

20. It is proposed that two Panels be re-established for 2019/20 as follows:

Budget Scrutiny Review Panel

21. The Committee has established a Budget Scrutiny Review Panel each year on a task and finish basis. The Budget Scrutiny Review Panel held one meeting in 2018/19 and reviewed the proposed budget for 2019/20 Medium Term Financial Plan). A streamlined approach, supported by an advance questioning process, continued to work well and allowed the Panel to conclude its work in one meeting.

22. It is therefore suggested that the Panel's work in 2019/20 be based on the consideration of the Provisional Budget proposals for 2020/21 (including any updated assumptions within the Medium Term Financial Plan, appropriate revenue projections and a progress report on the Capital Programme projections).

23. To support additional consideration of strategic budget matters, it is also proposed that early consideration of the Council's budget objectives and priorities be undertaken by the Committee at its April meeting, at the end of the 2018/19 municipal year. The comments of the Committee emerging from this meeting will then be available to be considered during the earlier stages of the development of the 2020/21 budget.

Local Plan Scrutiny Review Panel

24. The Local Plan Panel did not meeting in 2018/19, as the Council's Development Management Plan was undergoing consideration by the planning inspectorate during this period, and there was therefore no detailed work for the Panel to undertake.

25. The Council will be conducting a review of its Core Strategy in 2019/20, and it is therefore proposed that the Local Plan Panel be re-established to consider this.

G. Housing Association Performance

26. In 2017/18 the scrutiny arrangements around housing association performance were updated to reflect the Council's new Strategic Partnership Agreement with Raven Housing Trust and new legislative requirements. An update on the new partnership was therefore provided to the Committee as part of a portfolio holder briefing by the Portfolio Holder with responsibility for Housing. It is proposed that this arrangement continue for 2019/20

H. Externally Focussed Overview and Scrutiny work

27. The Committee has successfully undertaken scrutiny with and of partner organisations in recent years (see also paragraphs 14, 25 and 29).

28. In June 2018 the Committee activities of community facility providers GLL. The Committee continues to consider this a beneficial piece and work, which contributes towards facilitating and encouraging strong communication between external partners working to the common goal of best serving local residents.

29. The Committee proposes during 2019/20 to consider a range of external challenges and partners as part of its input to the development of the Council's new Corporate Plan. Consultation is expected to take place between May and September 2019.

I. Crime and Disorder Scrutiny

30. The Committee is the 'crime and disorder' scrutiny committee for the purposes of the Police and Justice Act 2006. This requires the Committee to undertake a scrutiny activity of crime and disorder matters once every 12 month period. The Committee has worked well with partners such as the Police and Surrey County Council on developing this activity.

31. In 2018/19 the Committee invited the Executive Member for Community Safety, along with representatives of the Police and Community Safety Partnership to this meeting to assist it in its consideration of the topic. Consideration of the Community Safety Plan was therefore undertaken by the Committee, supported by the Executive Member for Community Safety.

32. It is proposed that the Committee continue to undertake this activity in 2019/20, with regard to those matters considered to be of most significance to the Council in the coming year.

J. Joint Scrutiny of Surrey-wide Strategic matters

33. Although there is a collaborative scrutiny arrangement in place to consider Surrey wide strategic matters, to date no topics have met the criteria. At present there is no activity for the Committee in this area.

K. Council Corporate Scrutiny

34. The Chief Executive, Leader and Chairman of the Overview & Scrutiny Committee considered the need for scrutiny, balanced with the need to protect the need for confidentiality to enable the corporate entities to operate competitively.

35. In 2018/19, updates on Council owned companies were considered by the committee on a six monthly basis. An update was considered by the Committee in October 2018 and another is due to be considered in March 2019.

36. A Commercial Governance Review Member Task Group was established in 2018. This group has been undertaking a review of the commercial arrangements established by the Council. It is anticipated that this group will be producing a number of recommendations for the Council's future commercial governance, which may include recommendations on the role of the Committee. In response to these recommendations, the activities of the Committee may therefore be adjusted, as outlined in paragraph 7, to reflect any revisions to the Council's commercial governance arrangements.

37. It is proposed that the Committee continue to receive a paper on post completion outcomes achieved from the projects undertaken through the Council's property company.

L. Call-Ins

38. The Committee would also consider matters that have been called in for review. The inclusive approach adopted by the Executive to include the Overview and Scrutiny Committee in its work has assisted to reduce the number of matters Called-In. In this way the Committee's views can often be considered before the Executive decision is made.

39. There were no Call-Ins of Executive decisions in 2018/19.

M. Councillor Calls for Action

40. The Committee is responsible for considering any Councillor Calls for Action (CCfA) received. The Committee has adopted a procedure for reviewing the inclusion of Calls for Action in its work programme.

N. Scrutiny of the Public Sector Board

41. The Council previously established a Public Sector Board with Surrey County Council to consider joint priorities, and in particular, joint regeneration projects. However, as these projects have been delivered the PSB has not met for the last 2 years. At the time of writing, Surrey County Council is reviewing its engagement with Borough and District Councils, which may lead to additional activity in this area.

42. At this stage, therefore, there is no specific scrutiny requirement regarding the Public Sector Board in 2019/20, but will be an option for the activities of the Committee to be adjusted, as outlined in paragraph 7, to reflect any changes in this respect.

Management Team comments

43. Management Team is supportive of the Work Programme proposed.

44. The work of the Committee is clearly a valuable part of the overall checks and balances needed to ensure that the authority makes decisions that are robust and challenged with the best interests of the community and the delivery of quality services at the heart of this remit.

Resource Implications

45. The main role of the Council in considering the Overview and Scrutiny Committee's Work Programme is to ensure that the work streams are appropriate and not leading to duplication. More importantly the Council must ensure appropriate resources are available to add value to that Work Programme and balance the demands of the Committee against the overall priorities of the Council. Given the proposed work programme, no specific resource implications beyond those planned are anticipated.

Finance Implications

46. There are no direct financial implications arising from the recommendations set out in this report. Should any of the work undertaken by Overview and Scrutiny generate recommendations with financial implications then these will be highlighted at that time.

Legal Implications

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

Equalities Implications

48. The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between people who share those protected characteristics and people who do not;
- Foster good relations between people who share those characteristics and people who do not.

49. The three parts of the duty applies to the following protected characteristics: age; disability; gender reassignment; pregnancy/maternity; race; religion/faith; sex and sexual orientation. In addition, marriage and civil partnership status applies to the first part of the duty.

50. The Committee should ensure that it has regard for these duties by considering them through the course of its work. This should include considering:

- How policy issues impact on different groups within the community, particularly those that share the nine protected characteristics;
- Whether the impact on particular groups is fair and proportionate;
- Whether there is equality of access to service and fair representation of all groups within the Borough;
- Whether any positive opportunities to advance equality of opportunity and/or good relations between people, are being realised.

Options

51. The Committee has the option to approve, add to or remove items from the proposed work programme as set out in the report. If the Committee is minded to increase significantly the Work Programme in a way which would increase the support required for the Committee's activities, a further report will be needed.

Conclusions

52. The Overview and Scrutiny Committee Proposed Work Programme 2019/20 sets out a programme of activity that is in line with the Council's priorities. This report requests the Committee to consider its work programme for 2019/20, and to support the programme for recommendation to the Executive and the Council.

Overview and Scrutiny Committee: Draft Work Programme 2019/20

No.	Subject	Proposals	Management Team comments
(i)	**Policy Framework Consultations**	To consider Policy Framework consultation documents.	Supported
(ii)	**Work Rolled Forward**	No proposals.	-
(iii)	**Executive Member Objectives**	To receive presentations from Executive Members. To receive biannual updates from the Leader of the Council.	Supported
(iv)	**Audit Activities**	To consider the following audit activities: • The annual Internal Audit report for 2018/19; • The annual External Audit report for 2018/19; • Quarterly reports relating to individual audit reports; • The Internal Audit Plan for 2020/21.	Supported
(v)	**Performance Management Monitoring**	To consider performance by reporting on the following as appropriate: • Revenue, Capital and Service Performance Management Monitoring (quarterly); • Risk management performance (six monthly). • Five Year Plan performance (six monthly)	Supported
(vi)	**Scrutiny Panels**	That the following Panels be re-established in 2019/20: • Budget Scrutiny Panel • LDF Scrutiny Panel	Supported
(vii)	**Joint Scrutiny**	No countywide joint scrutiny is programmed.	Supported
(viii)	**Externally focussed work**	To consider a range of external challenges and partners to provide input to the development of the new Corporate Plan. Consultation on the plan is expected to take place between May and September 2018.	Supported

No.	Subject	Proposals	Management Team comments
(ix)	**Call Ins; Councillor Calls for Action**	To consider Call-Ins and Councillor Calls for Action.	Supported
(x)	**Crime and Disorder Scrutiny**	To continue to undertake 'Crime and Disorder' scrutiny activity once every 12 months.	Supported
(xi)	**Council Corporate Scrutiny**	To consider updates on the performance of Council companies on a 6 monthly basis. To undertake any additional scrutiny requirements as identified in by the governance review process.	Supported
(xii)	**Public Sector Board**	No proposals at this time.	-