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Simon Young, Solicitor
Head of Legal and Democratic Services

EPSOM & EWELL BOROUGH COUNCIL

STRATEGY AND RESOURCES COMMITTEE

Tuesday 5 April 2016 at 7.30 pm

Town Hall

The members listed below are summoned to attend the Strategy and Resources Committee meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Neil Dallen (Chairman)
Councillor Clive Woodbridge (Vice-Chairman)
Councillor Tony Axelrod
Councillor Richard Baker
Councillor Rekha Bansil
Councillor Kate Chinn
Councillor Eber Kington
Councillor Omer Kokou-Tchri
Councillor Keith Partridge
Councillor Mike Teasdale

Yours sincerely

Head of Legal and Democratic Services

For further information, please contact Fiona Cotter, 01372 732124 or fcotter@epsom-ewell.gov.uk

AGENDA

1. QUESTION TIME

To take any questions from members of the Public

Please Note: Members of the Public are requested to inform the Democratic Services Officer before the meeting begins if they wish to ask a verbal question at the meeting

2. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting.

3. MINUTES OF PREVIOUS MEETING

The Committee is asked to confirm as a true record the Minutes of the ordinary meetings of the Strategy and Resources Committee held on 17 November 2015 and 27 January 2016 and the Minutes of the Special Meeting of the Strategy and Resources Committee held on 8 December 2015 and to authorise the Chairman to sign them

4. EXTERNAL AUDIT PLAN (Pages 5 - 26)

This report sets out the approach being taken by the Council's external auditors, Grant Thornton, to the audit of the accounts for 2015/16

5. CORPORATE PLAN (Pages 27 - 36)

This report asks the Committee to adopt the new Corporate Plan for 2016 to 2020 and its four Key Priorities.

6. PERFORMANCE MANAGEMENT 2015/16: PROGRESS REPORT THREE AND PROVISIONAL TARGETS FOR 2016/17 (Pages 37 - 56)

This report sets out performance against the Committee's actions for Progress Report Three 2015/16 and Provisional Targets for 2016/17.

7. ECONOMIC DEVELOPMENT STRATEGY (Pages 57 - 68)

The Council has prepared a draft Borough-wide Economic Development Strategy, which serves as a framework for delivering sustained prosperity. The draft Strategy identifies a series of actions and interventions that can be pursued through the Council's economic development, town centres management and planning functions.

8. TREASURY MANAGEMENT STRATEGY (Pages 69 - 110)

This reports sets out the updated Treasury Management Strategy Statement 2016/17 to 2018/19.

9. BACKLOG MAINTENANCE: YEAR END UPDATE AND PROPOSALS FOR 2016/17 (Pages 111 - 116)

The report indicates current position at year end 2015-16 in relation to the backlog maintenance programme and requests the allocation of the backlog maintenance budget to schemes in 2016-17

10. UPDATE OF CONTRACT STANDING ORDERS

TO FOLLOW

11. **COMMITTEE RESTRUCTURING**

TO FOLLOW

12. **ACTION SURREY: REQUEST FOR FUNDING** (Pages 117 - 122)

Action Surrey is collaboration between all eleven Surrey districts delivering the statutory requirement on the Council to promote Home Energy Conservation under the Home Energy Conservation Act 1995. A contribution of £6,000 has been requested from each of the partnering Local Authorities to continue providing this service to Borough residents for 2016/17 and 2017/18

13. **OUTSTANDING REFERENCES** (Pages 123 - 126)

This report lists the references to officers outstanding as at 5 April 2016.

14. **EXCLUSION OF PRESS AND PUBLIC**

The Committee is asked to consider whether it wishes to pass a resolution to exclude the Press and Public from the meeting in accordance with Section 100A (4) of the Local Government Act 1972 on the grounds that the business involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Act (as amended) and that pursuant to paragraph 10 of Part 2 of the said Schedule 12A the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15. **MINUTES OF PREVIOUS MEETINGS**

These Minutes from the meetings of the Strategy and Resources Committee held on 17 November 2015 and 27 January 2016 have not been published because the meeting was closed to the press and public on the grounds that the nature of the business to be transacted/nature of the proceedings dealt with information relating to the financial or business affairs of the Council and a third party.

16. **ACQUISITION OF LAND** (Pages 127 - 130)

This report has not been published because the meeting is likely to be closed to the press and public in view of the nature of the business to be transacted/nature of the proceedings. The report deals with information relating to the business affairs of the Council and the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

17. ACQUISITION OF PROPERTY (Pages 131 - 140)

This report has not been published because the meeting is likely to be closed to the press and public in view of the nature of the business to be transacted/nature of the proceedings. The report deals with information relating to the business affairs of the Council and the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information

18. HOUSING PROPERTY MATTERS

This report will not be published because the meeting is likely to be closed to the press and public in view of the nature of the business to be transacted/nature of the proceedings. The report deals with information relating to the business affairs of the Council and the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information **(TO FOLLOW)**.

EXTERNAL AUDIT – AUDIT PLAN FOR 2015/16

Report of the:	Director of Finance & Resources
Contact:	Kathryn Beldon
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annex 1: The Audit Plan Year Ended 31 March 2016
Other available papers (not attached):	

REPORT SUMMARY

This report sets out the approach being taken by the Council's external auditors, Grant Thornton, to the audit of the accounts for 2015/16.

RECOMMENDATION (S)	*Notes*
(1) That the Committee endorses the External Audit Plan Year Ended 31 March 2016.	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 This report supports the Council's Key Priority Managing Resources.

2 Background

2.1 Grant Thornton are the Council's independent external auditors appointed by the Audit Commission. The main contacts are Elizabeth Olive (Associate Director) and Ade O Oyerinde (Audit Manager).

2.2 The auditors have had discussions with finance staff, the Chief Executive and the Director of Finance & Resources and have prepared an audit plan for the 2015/16 accounts (Annex 1).

3 Proposals

3.1 Officers are satisfied that the Audit Plan addresses the key financial and governance issues.

3.2 The Associate Director and Audit Manager will both be in attendance to introduce this item and answer Members' questions.

4 Financial and Manpower Implications

4.1 Audit fees are estimated at £53,684 as set out in the Audit Plan.

4.2 ***Chief Finance Officer's comments:*** *None for the purposes of this report*

5 Legal Implications (including implications for matters relating to equality)

5.1 Grant Thornton has confirmed that the Audit Plan has been prepared in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General in 2015.

5.2 ***Monitoring Officer's comments:*** *None for the purposes of this report*

6 Sustainability Policy and Community Safety Implications

6.1 There are no implications for the purposes of this report.

7 Partnerships

7.1 There are no implications for the purposes of this report.

8 Risk Assessment

8.1 The audit of the Council's financial statements comprises a key element of the Council's governance arrangements.

9 Conclusion and Recommendations

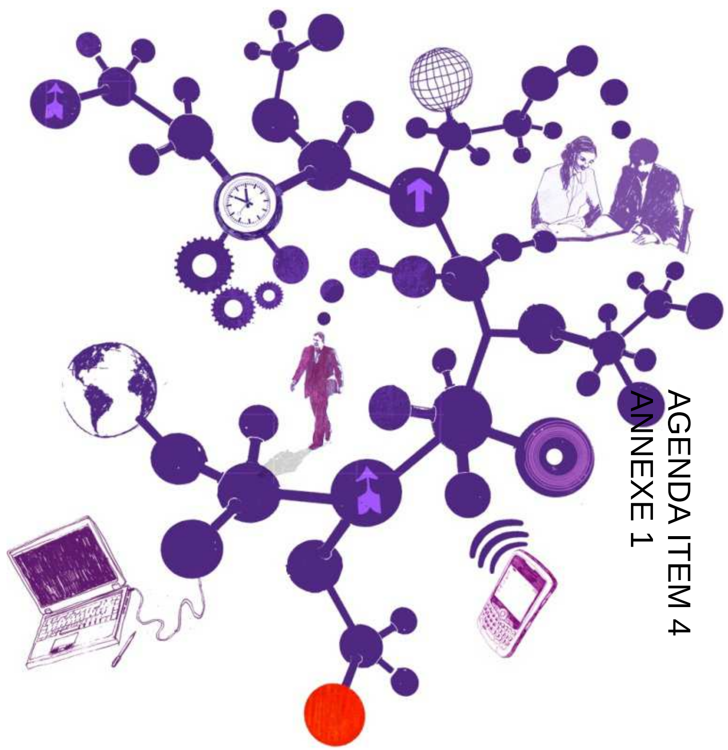
9.1 The Committee is asked to endorse the Audit Plan.

WARD(S) AFFECTED: N/A

The Audit Plan
Epsom and Ewell Borough Council

Year ending 31 March 2016

5 April 2016



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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5 April 2016

Dear Members of the Strategy and Resources Committee

Audit Plan for Epsom and Ewell Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Epsom and Ewell Borough Council, the Strategy and Resources Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth L Olive

Engagement Lead

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- Epsom and Ewell Borough Council is one of the 15 councils nationwide to face quicker and more savage Government cuts than expected. This means the Council will need to save £1m more than originally anticipated.

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2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.

3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- Epsom and Ewell Borough Council is currently faced with increasing level of homelessness which is exacerbated by increases in the weekly rental charges.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- You brought forward the accounts production in 2014/15 and are reviewing the accounts preparation process to streamline this further in 2015/16.

Our response

1.

- We will consider your plans for addressing its financial position to inform our work reaching our VFM conclusion.

2.

- We will consider if devolution is a VFM risk and discuss your plans to inform our work in reaching our VFM conclusion.

3.

- We will consider how you have reflected government announcements to inform our work in reaching our VFM conclusion.
- We will share our knowledge of how other councils are responding to these changes.

4.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive audit work on your financial statements by 31 July 2016 as a 'dry run'

AGENDA ITEM 4
ANNEXE 1

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Collaborative working with others is likely to be one of the solutions to the Government's austerity measures.

4. Other requirements

- You are required to submit a Whole of Government accounts pack on which we provide an audit opinion
- You also complete housing benefit grant claims and returns on which audit certification is required

Our response

1. Fair value accounting

- We will keep you informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

2. Corporate governance

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

3. Joint arrangements

- We will discuss with officers the arrangements in place for partnership working to in form our work in reaching our VFM conclusion.

4. Other requirements

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements and by the deadline specified by Public Sector Audit Appointments Ltd.

Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

- Inherent risks
- Significant risks
- Other risks
- Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Devise audit strategy (planned control reliance?)

Yes
- Test controls
- Substantive analytical review
- Tests of detail

Extract your data

IDEA

Analyse data using relevant parameters

Report output to teams

No
- Tests of detail
- Substantive analytical review

General audit procedures

Financial statements

Conclude and report

Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

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AGENDA ITEM 4
ANNEXE 1

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £911k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £46k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any separate materiality levels.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Epsom and Ewell Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Epsom and Ewell Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Documenting the control environment and walkthrough of the system in respect of journal entries **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions.

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Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	**Work completed to date:** • Walkthrough of operating expenses system **Further work planned:** • Review of control account reconciliations • Sample testing of operating expenditure during the financial year • Testing of the year end payables • Testing for unrecorded liabilities • Testing of manual accruals
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	**Work completed to date:** • Walkthrough of the payroll system **Further work planned:** • Review of monthly/weekly reconciliations of the payroll to the ledger • Directional analytical review using trend analysis • Sample testing of payroll transactions to payslips and HR contract of employment.

Other risks identified (continued)

Other risks	Description	Audit approach
Valuation of property, plant and equipment (PPE) including investment properties	You revalue your assets regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Investment properties are re-valued annually. The Code requires that you ensure that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	**Planned work:** • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into your asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	Your pension fund asset and liability as reflected in your balance sheet represent significant estimates in the financial statements.	**Planned work:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

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AGENDA ITEM 4
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Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Assets held for sale (if any)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

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Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

AGENDA ITEM 4
ANNEXE 1

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out to the right:

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

Following the completion of this risk assessment, we have identified one significant risk and this is summarised below. A significant risk is defined as an issue, decision or area of activity which relates to the overall VfM criterion, is important enough to be of clear interest to the public and other stakeholders and about which we do not already have sufficient information on which to base a conclusion on the relevant arrangements. Included below are details of the work we plan to carry out to address this risk in fulfilling our duties in respect of the 2015/16 VfM conclusion. We will also consider the Council's other risks related to the NAO's VfM criteria and will report back any findings to the Strategy and Resources Committee.

Significant risks	Sub-criterion	Planned response
You are on course to achieve a planned budget for 2015/16 though you have had to take some difficult measures such as having a moratorium on spend. Going forward to 2016/17, the Local Government Finance Settlement reduced your funding assessment by 25% in 2016/17 and further savings of £1.6 million are required over the period 2017/18 to 2019/20.	Sustainable resource deployment	We propose to: • review your outturn position for 2015/16, including the delivery of savings targets • review your plans to achieve the 2016/17 revenue budget • assess your progress on the residual risk reported in our previous audit reports • meet with key officers to discuss and review your arrangements to ensure medium term financial stability.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and summarised in the Annual Audit Letter. As stated above, we will only report by exception in our auditor's report where we are not satisfied that the Council has proper arrangements in place to secure value for money.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention We have also reviewed internal audit's work on your key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • communication and enforcement of integrity and ethical values • commitment to competence • participation by those charged with governance • management's philosophy and operating style • organisational structure • assignment of authority and responsibility • human resource policies and practices.	Our work has not identified material weaknesses which are likely to adversely impact on your financial statements.
Walkthrough testing	We have completed our walkthrough tests of the controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work to date has not identified any weaknesses which impact on our audit approach. Further work required: Document year end controls around pension liabilities and PPE valuations.

Results of interim audit work (continued)

	Work performed	Conclusion
Early testing	We undertook the following early transaction testing during the interim: • Operating expenses (months 1 – 9) • Property Plant Equipment ownership and physical verification • Housing Benefits system parameters • Employee remuneration (months 1 – 9) is in progress Our work to date has not identified any issues which we wish to bring to your attention.	Our work to date has not identified any weaknesses which impact on our audit approach. Further work planned: • High level review of IT
Journal entry controls	We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements. We have carried a walkthrough of the journal entry system and confirmed that the system operates as designed. We also completed early testing of journal entries (months 1 – 10) during the interim audit.	Our work over the control environment and walkthrough of the journal system has not identified any weaknesses which impact on our audit approach. Our work to date on interim testing of journals month 1 – 10 has not identified any issues to bring to your attention.

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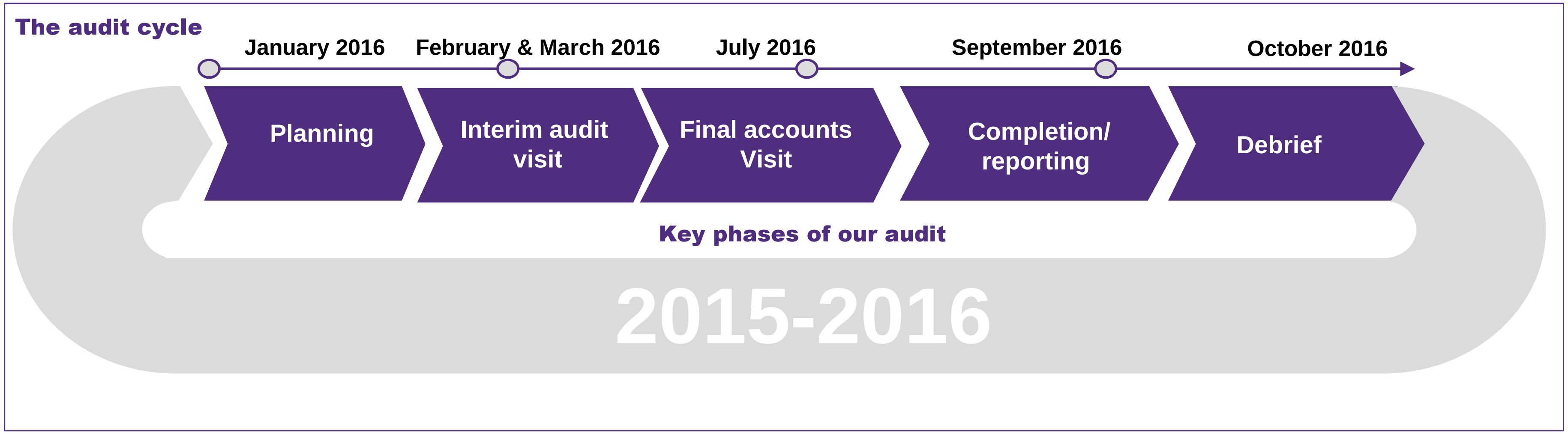
Key dates



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Date	Activity
January 2016	Planning
w/c 15 February 2016	Interim site visit
5 April 2016	Presentation of Audit Plan to Strategy and Resources Committee
14 April 2016	Presentation of Audit Plan to Audit, Crime & Disorder & Scrutiny Committee
1 July 2016	Year end fieldwork commences
September 2016 (TBA)	Audit findings clearance meeting with Director of Finance and resources
27 September 2016	Report audit findings to those charged with governance (Strategy & Resources Committee)
By 30 September 2016	Sign financial statements opinion

AGENDA ITEM 4
ANNEXE 1

Fees and independence

Fees

	£
Council audit	44,708
Grant certification	8.976
Total audit fees (excluding VAT)	**53,684**

Fees for other services

Service	Fees £
None	**Nil**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

AGENDA ITEM 4
ANNEXE 1

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AGENDA ITEM 4
ANNEXE 1

CORPORATE PLAN 2016 TO 2020

Report of the:	Chief Executive
Contact:	Frances Rutter/Adama Roberts
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	Annexe 1 – Corporate Plan Overview Annexe 2 – Corporate Plan Visual
Other available papers (not attached):	None

REPORT SUMMARY

This report asks the Committee to adopt the new Corporate Plan for 2016 to 2020 and its four Key Priorities.

RECOMMENDATION (S)	*Notes*
That the Committee recommends to Council **(1) to agree and adopt the Ambition and four Key Priorities for the Corporate Plan 2016 to 2020 as set out in Annexe 1;** **(2) to agree and adopt the new Corporate Plan 2016 to 2020.**	

1 Background and Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Council is in the last year of its current Corporate Plan 2012 to 2016 and needs to implement its new one for 2016 to 2020 along with its Key Priorities.

1.2 The Corporate Plan will continue to identify the Council's Ambition, Key Priorities and Core Values for the next four years.

1.3 The proposed Corporate Plan and Key Priorities have been developed as a result of consultation carried out with members, the Leadership Team, key stakeholders and Staff. Residents have also been consulted with in February 2016 and a total of 450 responses were received from the online and paper surveys.

1.4 The Corporate Plan and its Key Priorities will demonstrate how the Council will deliver agreed targets and the Medium Term Financial Strategy approved in February 2016 shows how the draft Corporate Plan will be funded. The Council will seek to maintain areas of excellence whilst striving to continuously improve services provided by managing its limited resources.

1.5 Following consultation with Committee Chairmen, the provisional targets for 2016/17 have been submitted to the various committees for approval as at March 2016. The provisional targets have tried to address the concerns raised by members throughout 2017/16. Targets will be reviewed and set annually for the lifecycle of this Corporate Plan. However as the Council develops its performance management arrangements during the next few years, it is important that members maintain the flexibility to amend targets during the year.

1.6 Meanwhile due to the difference in performance management arrangements it is proposed that there will be no further monitoring of the 2015/16 taregets.

2 Consultation Findings Quick Stats

2.1 Overall, 95% of respondents agreed that the Council should implement the Key Priority ‘Keeping the Borough Clean and Green’. A further 5% disagreed. They were asked to state their reason for disagreeing and the top two reasons were:

2.1.1 Their concern over the term ‘premium recycling’, respondents’ perception was that the Council will be charging them to recycle (39%)

2.1.2 Their concern over the lack of enough information on the key measures and successes to aid decision making (35%)

2.2 Nine in ten respondents 92% agreed that the Council should implement the Key Priority ‘Supporting our Community’. It’s worth noting that 8% did not agree. However, only 7% gave a reason. The top two reasons for disagreeing include:

2.2.1 Concern over affordable housing and infrastructure - nearly seven in ten of those who ticked no (68%), do not want more affordable homes as they felt that the areas does not have the necessary infrastructures such as lack of areas to develop, roads, schools, hospitals etc to warrant an increase in new builds to an area that is already overcrowded

2.2.2 Respondents who disagreed felt that greater explanation was needed in order to make an informed decision about which Key Priorities to adopt (19%)

2.3 The majority of respondents 91% agreed that the Council should implement the Key Priority 'Managing our Resources'. However 9% disagreed. Again only 8% of those who disagreed gave a reason. The top two reasons for disagreeing include:

2.3.1 Again the lack of enough information to make an informed decision was highlighted as the top reason for disagreeing by respondents (83%)

2.3.2 The second reason was respondents concern over the Social Centres (14%)

2.4 Overall, 94% of respondents agreed that the Council should implement the Key Priority 'Supporting Businesses and our Local Economy'. Only 6% disagreed. The top two reasons for disagreeing include:

2.4.1 Their concern over parking, traffic & roadways (52%)

2.4.2 Doing more to encourage additional shops and businesses (28%)

2.5 Respondents were asked to provide further comments and overall, 24% welcome the proposals, 23% had concerns over parking, traffic and roadways, 21% had concerns as previously expressed over the lack of enough information to aid decision making, 13% had concerns over litter, street cleaning, graffiti and park maintenance, 10% had concerns over premium recycling and the rest of the suggestions or concerns raised range from encouraging additional shops and businesses, affordable homes and its impact on infrastructures, better facilitates for the elderly and children, social centre and better healthcare facilities for the vulnerable. For more information please refer to the New Corporate Plan Consultation Report.

2.6 Overall, respondents agreed with the Council's proposals. However, it's worth noting and learning from their feedback regarding the lack of adequate information to make an informed decision.

3 Proposed Ambition 2016 to 2020

3.1 As part of the development of the Corporate Plan, Committee Chairmen were consulted and their feedback taken on board.

3.2 To ensure the Corporate Plan is fit for purpose within its four years lifespan, key measures, successes and targets will be reviewed annually to make sure they add value to residents as well as teams within the Council. However, the Ambition and Four Key Priorities will not change for the duration of the Plan.

3.3 The Council is asked to agree with the Ambition for 2016 to 2020: **"Making Epsom and Ewell an excellent place to live and work".** The Ambition has not been changed as it's considered relevant and still reflects the Council aspiration.

4 Proposed Key Priorities 2016 to 2020

4.1 Keeping the Borough Clean and Green

4.2 Supporting our Community

4.3 Supporting Businesses and our Local Economy

4.4 Managing our Resources

5 Financial and Manpower Implications

5.1 ***Chief Finance Officer's comments:*** *None for the purposes of this report*

6 Legal Implications (including implications for matters relating to equality)

6.1 ***Monitoring Officer's comments:*** *None for the purposes of this report*

7 Sustainability Policy and Community Safety Implications

7.1 The Corporate Plan 2016 to 2020 and its supporting Performance Indicators for 2016/17 will assist the Council in creating safe and sustainable communities and address the Council's legal responsibilities for community safety.

8 Partnerships

8.1 The Corporate Plan supports various strategies across the Council and reflects the priorities of key partners. These will be reviewed regularly to ensure they are achievable within timeframes set.

9 Risk Assessment

9.1 If the Council fails to adopt a new Corporate Plan, there is a risk that the focus on Key Priorities which has been achieved over the past twelve years will be lost; that key services will not be developed as required and that the efficiency savings will not achieved. This is particularly important during a period when government funding is likely to be even more restricted.

9.2 There is a risk to the quality of services if funding for additional investment cannot be made available.

9.3 There are risks to the Council's reputation with its partners, credibility with its residents and, on future inspection, if the Key Priorities and the means of achieving them are not clearly set out and promoted.

9.4 There is a risk to the Council's reputation if priorities are set and then not achieved, but the Plan, together with existing performance management mechanisms, is designed to ensure that this risk is managed and that priorities are delivered.

10 Conclusion and Recommendations

10.1 The adoption of the Corporate Plan for the next four years will provide an important focus for the Council's work to ensure that services to the local community meet the areas of greatest importance and need.

10.2 The Committee to note that the annual service targets for 2016/17 – have been submitted to the Council's policy committees for approval as at March 2016.

10.3 Detailed information around targets set for 2016/17 will be reported based on the committee cycles. Targets will be reviewed and set annually for the lifecycle of this Corporate Plan

10.4 Give the new approach being taken under the Corporate Plan 2016 to 2020 and as a result of concerns expressed by members, it is proposed to not report the yearend performance management for 2015/16. Policy committees will however receive performance reports based on the 2016/17 targets in September. Consultation with Chairmen will commence shortly on how the performance targets will be presents to members.

10.5 The Committee reviews and agrees to adopt the proposed Ambition and four Key Priorities for the Corporate Plan 2016 to 2020 as set out in Annexe 1.

WARD(S) AFFECTED: All

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Corporate Plan

2016/20

Making Epsom & Ewell an Excellent Place to Live and Work

Corporate Plan 2016/20 - Key Priorities

Keeping our Borough Clean and Green

We will do this by:

- Providing quality parks, nature reserves and other public spaces that are safe, pleasant and well maintained
- Accommodating sustainable development whilst seeking to preserve the green belt
- Introducing a premium weekly collection service for recycling and waste and encouraging more household waste to be recycled
- Keeping the streets and public spaces clean and tidy
- Taking action to reduce graffiti, littering, flyposting, illegal advertising and dog fouling

Key outcomes

Management Plans for all major parks and public spaces

Premium weekly recycling and waste service introduced from Spring 2017

Recycling clubs with local schools

Clean and tidy streets and public spaces

Key success measures

External accreditation for our major parks and public spaces

Delivery of the Biodiversity Action Plan

Increase in recycled household waste

Street cleanliness assessment

Supporting our Community

We will do this by:

- Supporting and enabling the delivery of affordable homes
- Helping those at risk of homelessness
- Promoting healthy and active lifestyles, especially for the young and elderly
- Encouraging and supporting volunteering initiatives

Key outcomes

Increase supply of homes to meet local needs

Residents supported from becoming homeless

Implement the Leisure Development Strategy

Community clean up campaigns

Key success measures

Delivery of affordable homes

Reduction in Homelessness

Long term empty properties brought back into use

Increase our supply of temporary accommodation

Delivery of the Leisure Development Strategy Action Plan

Managing our Resources

We will do this by:

- Developing multi-skilled and motivated staff
- Providing services digitally
- Identifying new sources of revenue and maximising our existing income
- Delivering further efficiency savings and cost reductions
- Maximising returns from properties and other investments

Key outcomes

An Organisational Development Strategy which drives culture change and high performance, builds capacity and delivers a skilled workforce for the future

A new improved website enabling services to be delivered digitally

Asset Management Plan for major assets

Balanced budget each year

Key success measures

Core values embedded into our performance management framework

Increased digital accessibility of our services

Returns generated from property and other investments

Agreed savings delivered

Supporting Businesses and our Local Economy

We will do this by:

- Supporting a comprehensive retail, commercial and social offer
- Maintaining strong links with local business leaders and representative organisations
- Supporting developers to bring forward the development of town centre sites
- Delivering an affordable Economic Development Strategy
- Promoting our Borough as an excellent place to do business

Key outcomes

High quality / innovative building design

Improved transport infrastructure

Visual appearance of the town/ shopping centres enhanced

Key success measures

Businesses attending the Business Leaders' meetings

Delivery of Plan E to improve traffic flow in Epsom Town Centre

Delivery of the Economic Development Strategy Action Plan

Space for start-up/incubator businesses to grow and expand


EPSOM & EWELL BOROUGH COUNCIL
KEY PRIORITIES
CORE VALUES
VISION
Making Epsom & Ewell an Excellent Place to Live and Work
Keeping the Borough Clean and Green
Supporting our Community
Managing our Resources
Supporting Businesses and our Local Economy
Respect
Customer Focus
Integrity
Forward Thinking

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PERFORMANCE MANAGEMENT: PROGRESS REPORT THREE 2015/16 AND PROVISIONAL TARGETS FOR 2016/17

Report of the:	Chief Executive
Contact:	Frances Rutter/Adama Roberts
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A .
Annexes/Appendices (attached):	Annexe 1 - Performance Management – Progress Report Three 2015/16 Annexe 2 - Provisional Targets for 2016/17
Other available papers (not attached):	None

REPORT SUMMARY

This report sets out performance against the Committee's actions for Progress Report Three 2015/16 and Provisional Targets for 2016/17.

RECOMMENDATION (S)	*Notes*
That the Committee:	
(1) Receives Performance Management Progress Report Three 2015/16 and identifies any issues requiring action over and above that set out within it;	
(2) Reviews and agrees targets for 2016/17 as detailed in Annexe 2 of this report and outlined in paragraph 3.1.	

1 Background and Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 In December 2011 the Council adopted the Corporate Plan for 2012/16. The Plan identifies the Council's Key Priorities and Core Values for the next four years. This is the last year of the life cycle of the current Corporate Plan.

1.2 As part of the service planning process to support delivery of the Council's Corporate Plan, actions have been agreed under the Service Plans for 2015/16.

1.3 It was agreed that due to the volatile nature of the economic climate, actions will be reviewed and set annually rather than for a period of four years. This was deemed more productive because changes and decisions around actions set in our Service Plans could be taken promptly, in line with changing economic times.

1.4 The former Corporate Management Board also agreed to trial production of the Performance Management Report based on the Committee cycle rather than quarterly cycles in order to make the information reported more streamlined and up to date. This has proved to be more effective and evident in years two and three of the Council's Annual Service Plan monitoring.

1.5 As a result, progressive updates are given, the traffic lights system of reporting has been replaced with an 'Achieved', 'On Target', and 'Not Met', status update for Progress Reports one to three. However the same format as in the previous system of reporting has been maintained for year-end i.e. 'Achieved', 'Signed Off', 'Rolled Forward' and 'Deferred or Deleted'.

Key to Reporting Progress Reports One to Three Format	
Achieved 	An action is achieved once all objectives specified have been completed.
On Target 	An action is on target at the time of reporting the progress if it's likely to be completed by year end. Actions that are reported as on target are closely monitored and evaluated throughout various performance phases to ensure they continue to be achievable by year end. Measures have been implemented to ensure Responsible Officers (ROs) promptly advise the Consultation & Communication team of any change/s that is/are likely to impact on an action being achieved. This is then fed back to CMB and responsible committees. A risk analysis section has been introduced, for the first time in our performance reporting to pre-empt and facilitate the achieving of actions set within a given financial year. This enhances the review process embedded within our performance monitoring, because all actions that are reported as on target or not met have to be rigorously evaluated at each performance management phase - with further actions outlined to facilitate their achievement.
Not Met 	An action is reported as not met if it's likely to be unachievable at year end. The chances of achieving these actions within the reporting period are slim. All actions are continuously evaluated and where issues may occur, automatically highlighted to alert CMB and responsible committees in order to facilitate a prompt decision making process. This process usually involves the ROs, CMB and responsible committees.

	However, for Data Quality purposes, committees have the final say as to whether an action will be deleted/deferred/tweaked or replaced with a new one depending on the evidence given by ROs or CMB.

1.6 A risk analysis section has been incorporated into the Performance Management Framework as per audit and the former CMB recommendations. It facilitates the pre-empting and reviewing of any issues that may prevent an action being achieved within a specific timeframe.

1.7 The Council's performance management framework enables progress against each of the Service Plan action areas to be monitored on a committee cycle basis as explained above.

1.8 This report sets out performance against the Year 4 Service Plan actions and Progress Report Three 2015/16 actions for which the Committee is responsible.

2 Performance as at February 2016

2.1 Annexe 1 to this report provides the Committee with an extract from the Progress Report Three 2015/16 covering all the Service Plan actions for which this Committee is responsible. The full Progress Report Three 2015/16 is available to councillors on the Council's Intranet, IRIS.

2.2 Overall, Strategy & Resources Committee has **15** actions for the financial year 2015/16. As at February, **six** (6) have been Achieved, **three** (3) are On Target, **five** (5) Not Met, and **one** (1) has been deleted as agreed at S&R call over - 'Undertake refurbishment at Horton Chapel'.

3 Provisional Targets for 2016/17

3.1 The draft Corporate Plan 2016/20 will be submitted to S&R Committee and Full Council in April for approval following the consultation with residents, members and staff in February. Four key priorities have been proposed as part of the new Corporate Plan. As a result, provisional targets have been also been drafted for the committees.

3.2 The provisional targets address the concerns expressed by Members previously and have been developed in consultation with Committee Chairmen. The provisional targets are focused around the key priorities for 2016/17 and are not reliant upon third parties to deliver. Performance management arrangements will continue to develop throughout next year and it is important that Members maintain flexibility to modify targets where required. Members are asked to note that, if the draft Corporate Plan 2016 to 2020 is amended the proposed targets for 2016 to 2017 may change to reflect the amendments made to the Corporate Plan. Strategy & Resources Committee is asked to review and agree its targets for 2016/17 as outlined in Annexe 2.

4 Financial and Manpower Implications

4.1 Actions identified for 2015/16, at the time of agreeing the actions, were considered to be achievable within agreed budgets, including the reduced staffing budget.

4.2 There are no specific financial or manpower implications for the purpose of this report.

4.3 ***Chief Finance Officer's comments:*** Expenditure incurred for external parks accreditations will need to be met from existing revenue budgets.

5 Legal Implications (including implications for matters relating to equality)

5.1 There is the opportunity through the development and delivery of this Service Plan to secure significant benefits for residents.

5.2 There are no particular legal implications for the purpose of this report.

5.3 ***Monitoring Officer's comments:*** *None for the purposes of this report.*

6 Sustainability Policy and Community Safety Implications

6.1 Delivery of Year 4 of the Service Plan will assist the Council to create sustainable communities.

6.2 There are no particular community safety implications for the purpose of this report.

7 Partnerships

7.1 There are no particular partnership implications for the purpose of this report.

8 Risk Assessment

8.1 The creation of a Performance Management Framework mitigates against loss of focus and assists the organisation in ensuring that it has the financial capacity to deliver its objectives.

9 Conclusion and Recommendations

9.1 The implementation of a robust performance monitoring and management system is essential to ensure that the Committee's Service Plans, and ultimately, the Council's Key Priorities are delivered or any variances explained and decisions over future action made.

9.2 This report sets out performance information relating to the Service Plan for 2015/16 to date. In considering any action as a result of the information before them, Members must take into account the risks and implications of failing to meet a target or changing a target at some stage during the monitoring period.

9.3 The Committee is asked to identify any issues requiring action over and above that set out in the Progress Report in Annexe 1.

9.4 The Committee is also requested to agree its targets for 2016/17 as set out in Annexe 2.

WARD(S) AFFECTED: All

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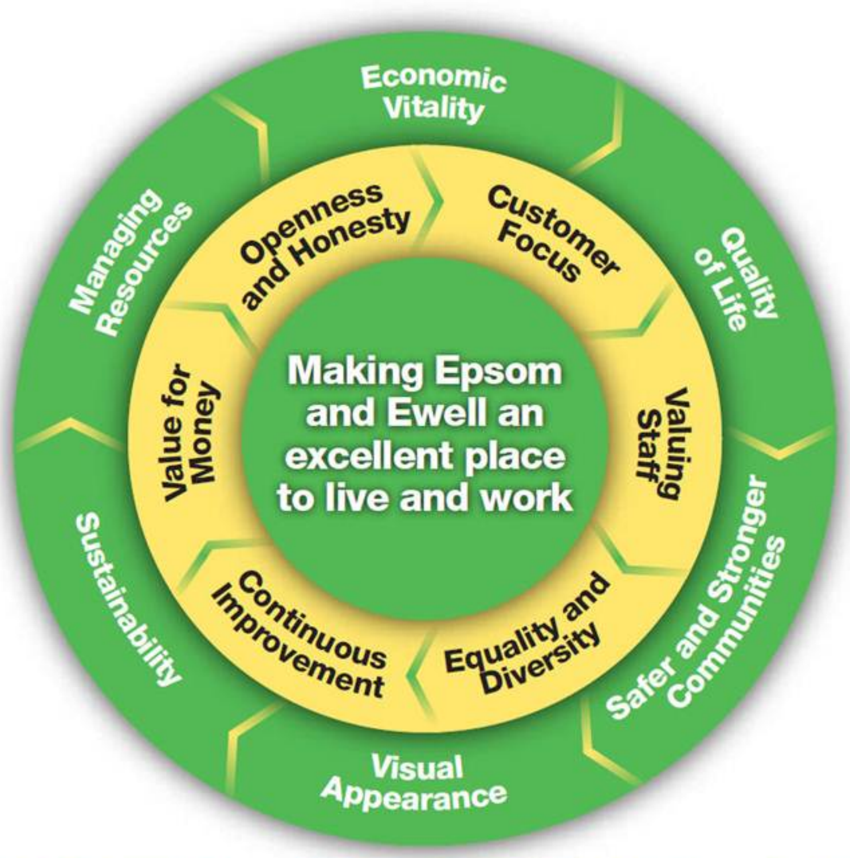
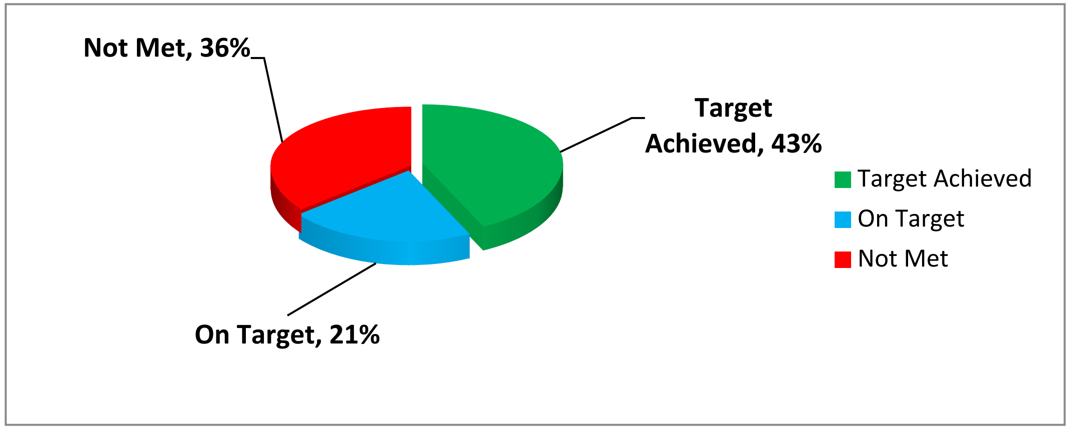


Progress Report Three

Prepared for the Strategy & Resources Committee – 18 February 2016

AGENDA ITEM 6
ANNEXE 1

Summary of Strategy & Resources Committee as at February



Strategy & Resources Committee has **15** actions for the financial year 2015/16. Year to date, **six (6)** have been Achieved, **three (3)** are On Target, **five (5)** Not Met, and **one (1)** has been deleted as agreed at S&R call over - '**Undertake refurbishment at Horton Chapel'**

Achieved Actions

Progress Report One:

- Review and update Cost Reduction Plan and include year two savings in 2014/15 budget, MR3

Progress Report Two:

- Implement cost savings for 2015/16, MR6

Progress Report Three:

- Monitor impact of parking charging regime and set charges in consultation with local businesses, EV1
- Work proactively with land owners to encourage the opportunities sites identified in Plan E to be brought forward for development, EV4
- Set budget targets for 2016/17 to keep the tax level below the Surrey average, MR1
- Prepare Financial Plan 2016-2020, MR1

ECONOMIC VITALITY: Promote the economic vitality of Epsom & Ewell

KP Code	Our objective is ….	Responsible Officer/ Committee	Action 2015/2016	Progress as at February	Risk	Mitigation	Current Action Status
EV1	Encouraging a vibrant and successful retail and business environment in the Borough	Joy Stevens (from 1 April 2015)/Strategy & Resources	Monitor impact of parking charging regime and set charges in consultation with local businesses	Action has been achieved	Lack of buy-in from relevant stakeholders Problems engaging with business communities	Work with stakeholders to ensure their views are taken on board Continue to monitor data provided to increase the level of car park usage	Achieved 

ECONOMIC VITALITY: Promote the economic vitality of Epsom & Ewell							
KP Code	**Our objective is ….**	**Responsible Officer/ Committee**	**Action 2015/2016**	**Progress as at February**	**Risk**	**Mitigation**	**Current Action Status**
EV4	Making progress in delivering Plan 'E' (which provides a detailed vision for the future of Epsom Town Centre over the next 15 to 20 years)	Mark Berry/Strategy & Resources	Planning application submitted and determined for new retail store and housing on Depot Road and Upper High Street (Rolled Forward from 2014/2015) Subject to approval new retail store and housing in place on Depot Road and Upper High Street	Following the termination of negotiations for a new retail store on Upper High Street work limited work has been done on delivery of this project in the last quarter. There is the prospect of the relocation of the fire station and this could be a catalyst to re-start negotiations for the delivery of a different food store and the preliminary work around other key elements of the brief. Development of a mixed-use on the former Tesco site is anticipated subject to planning permission but proposals are at an early stage of preparation. Other aspects of Plan E continue to progress satisfactorily. No movement since December 2015.	Lack of buy-in from partners Impact of the current economic climate	Engage with partners to ensure projects are delivered on time	Not Met
		Mark Berry/Strategy & Resources	Work proactively with land owners to encourage the opportunities sites identified in Plan E to be brought forward for development	Action has been achieved as agreed at S&R Call over.	Lack of buy-in from partners Impact of the current economic climate	Engage with partners to ensure projects are delivered on time	Achieved

ECONOMIC VITALITY: Promote the economic vitality of Epsom & Ewell							
KP Code	**Our objective is ….**	**Responsible Officer/ Committee**	**Action 2015/2016**	**Progress as at February**	**Risk**	**Mitigation**	**Current Action Status**
		Mark Berry/Strategy & Resources	Implement the agreed plan and deliver the junction improvement at the Spread Eagle	Detailed designs for the highway works are under preparation with further consultation with key stakeholders taking place. Public realm improvement options will be worked up once details and costings are available. Work on site is anticipated to commence in late June 2016. No movement since December 2015.	Lack of buy-in from partners Impact of the current economic climate	Engage with partners to ensure projects are delivered on time	Not met

MANAGING RESOURCES: Utilise the Council's limited resources in the most efficient way							
KP Code	**Our objective is ….**	**Responsible Officer/ Committee**	**Action 2015/2016**	**Progress as at February**	**Risk**	**Mitigation**	**Current Action Status**
MR1	Keeping our Council Tax below the average of the Surrey districts	Kathryn Beldon/ Strategy & Resources	Set budget targets for 2016/17 to keep the tax level below the Surrey average	Budget Targets have been agreed by Policy Committees in October/November 2015. Council on track to maintain the Council Tax level below the average in Surrey.	Increased demand for services for the vulnerable Government funding cuts / changes to local government funding Reduced service revenues Savings targets not delivered	Regular scrutiny of high risk budgets (including housing and homelessness, local council tax support, income from fees and charges) Enhanced monitoring an forecasting of business rates Corporate Budget Monitoring Future savings/additional income streams have been agreed in principle.	Achieved 

MANAGING RESOURCES: Utilise the Council's limited resources in the most efficient way

KP Code	Our objective is ….	Responsible Officer/ Committee	Action 2015/2016	Progress as at February	Risk	Mitigation	Current Action Status
		Kathryn Beldon/ Strategy & Resources	Prepare Financial Plan 2016-2020	Members have agreed in principle additional income/savings for the next four years which will assist with balancing the future year deficits. The Financial Plan will be presented to Council in February with the Corporate Plan.	None identified	Regular scrutiny of high risk budgets. Awareness of changes in local government funding streams Delivering the agreed work streams to inform future cost reduction/income generating plans. Greater awareness of the financial pressures facing the council both at officer and member level.	Achieved
MR2	Continuing to ensure all our activities are customer focused and provide good value for money	Joy Stevens/ Strategy & Resources	Implement service changes agreed	From End of January 2016 minor CRM changes which can be carried out in house are now being undertaken.	Customer Services & ICT staff time	Identify and implement achievable measures	Not Met

MANAGING RESOURCES: Utilise the Council's limited resources in the most efficient way

KP Code	Our objective is ….	Responsible Officer/ Committee	Action 2015/2016	Progress as at February	Risk	Mitigation	Current Action Status
MR4	Maximising revenues generated by and minimising costs associated with all Council assets and activities	Andrew Lunt/ Strategy & Resources	Implement changes to deliver venues subsidy targets	The venues are to be the subject of a service review, commencing in late February 2016. The outcomes of this review will be reported the Audit, Crime & Disorder and Scrutiny Committee as well as the Leisure committee in due course.	Poor market conditions Unable to meet income targets Unable to meet cost reduction targets	Service review Business Planning Budget Monitoring	Not Met
MR7	Directing resources (financial, human and physical) towards the delivery of the objectives and targets set out in this plan	Frances Rutter/ Strategy & Resources	Prepare Corporate Plan 2016-2020	The Corporate Plan is out for consultation. The Community Equality Impact Assessment document (CEIA) is also out for consultation with Equalities Forum members. Proposed targets for the Four Key Priorities are being considered by service heads before being sent for approval by the various policy committees for approval in March.	(see below)	(see below)	On Target
	Risk	• Failure to develop a coherent Corporate Plan linked to risk management strategies due to time constrains • Lack of buy in from stakeholders resulting in failures to address key objectives around the Corporate Plan and KPIs identified • Failure to review objectives identified and lack of a consistent risk management approach across the Council • Failure to clearly define risks associated with objectives identified; Failure to set out accountabilities, remedial actions for objectives that are not likely to be achieved and failure to set guidelines as to how to execute risks management plans associated with failing objectives. • Failure to identify ways of continuously improving service delivery.					

MANAGING RESOURCES: Utilise the Council's limited resources in the most efficient way

KP Code	Our objective is ….	Responsible Officer/ Committee	Action 2015/2016	Progress as at February	Risk	Mitigation	Current Action Status
	Mitigation	• Design and execute a coherent Corporate Plan and risk management process by integrating both process: • Integrate business risk management with our Corporate Plan processes; • Articulate the desired outcomes within our Corporate Plan so that they are understood throughout the Council; • Establish Key Performance Indicators (KPIs) designed to drive performance and behaviours consistent with our Corporate Plan strategy; and reward effective articulation and management of key risks proven to generate substantial savings. • Ensure process ownership questions are addressed with clarity so that roles, responsibilities and authorities are properly understood. Design and execute a consistent process to monitor and reassess KPIs and identify gaps in the management of those risks, based upon changes in business objectives and in the external and internal operating environment. • Define risk management strategies with clear accountabilities and action plans for building and executing risk management capabilities and improving them continuously. • Continuously monitor performance information provided to councillors and decision-makers in order to assist them as they manage key risks.					

SUSTAINABILITY: Encourage energy efficiency, reduced waste and cleaner forms of transport

KP Code	Our objective is ….	Responsible Officer/ Committee	Action 2015/2016	Progress as at February	Risk	Mitigation	Current Action Status
S2	Further reducing the environmental impact of Council operations	Doug Earle / Nigel Campbell/ Strategy & Resources	To reduce electricity consumption to 1.9m KWHs	There is a continued reduction in energy, but targets need to be reviewed and re-assessed with the reduction staff and lack of resources.	Agreed investments not implemented Adverse weather conditions	Robust arrangements in place to ensure implementation	On Target
		Doug Earle / Tony Foxwell/ Strategy & Resources	To reduce gas consumption to 2.5m KWHs	There is a continued reduction in energy, but targets need to be reviewed and re-assessed with the reduction staff and lack of resources.	Agreed investments not implemented Adverse weather conditions	Robust arrangements in place to ensure implementation	Not Met
		Doug Earle / Tony Foxwell/ Strategy & Resources	To reduce mains water use in line with agreed targets	Leaks rectified in Town hall, Longmead centre and Horton Country Park. Continue to introduce water saving measures throughout, new infra-red taps installed at Ewell Court House, smaller cisterns etc.	Agreed investments not implemented	Robust arrangements in place to ensure implementation	On Target

New Corporate Plan 2016 to 2020

Strategy & Resources Committee's Provisional Targets for 2016 to 2017

Key Priority	We will do this by…	Targets for 2016/17	Targets to be achieved by
Managing our Resources	Identifying new sources of revenue and maximising our existing income	• At least 98.4% of Council Tax collected • At least 99.0% of Business Rates to be collected • At least three business cases which will generate long term income streams to be submitted to the Capital Member Group for prioritisation as part of the 2017/18 capital bid process • Collect £2.3 million of receivable rents • Process new Housing Benefit claims within an average time of 22 days • Process Housing Benefit change of circumstances within an average time 11 days	31 March 2017
	Delivering further efficiency savings and cost reductions	• Development and implementation of a new procurement strategy, revised contract standing orders and implementation of e-tendering package • Implementation of the agreed ICT proposals for partnership working with Elmbridge Borough Council and undertake progress review • Review and implement alternative options for delivery of payroll service	31 March 2017

Key Priority	We will do this by….	Targets for 2016/17	Targets to be achieved by
Managing our Resources	Providing services digitally	• New and improved website to go live • At least 30% of housing clients to complete applications digitally • Revenues and benefits self-serve functionality available	31 October 2016 30 November 2016
	Maximising returns from properties and other investments	• To procure at least two residential units generating no less than 6% return on investment • At least an additional £50,000 income to be generated from investment properties	31 March 2017
	Developing multi-skilled and motivated staff	• Review and implement a performance pay and staff appraisal scheme • LGA "light touch" Decision Making Accountability (DMA) review to be undertaken	March 2017 Autumn 2016
Supporting Businesses and our Local Economy	Maintaining strong links with local business leaders and representative organisations	• To hold at least three business breakfasts • At least three additional businesses represented at the business breakfasts meetings	31 March 2017

Key Priority	We will do this by….	Targets for 2016/17	Targets to be achieved by
Supporting Businesses and our Local Economy	Delivering an affordable Economic Development Strategy	• Prepare a draft business plan for the proposed BID for consideration by Members in January 2017	31 January 2017
		• Commence the delivery of the agreed public realm improvements as part of the phase 1 highway works within Epsom town centre	30 June 2017
	Promoting our Borough as an excellent place to do business	• Develop business content for Epsom and Ewell and other stakeholder websites	30 April 2017

THE DRAFT EPSOM & EWELL ECONOMIC DEVELOPMENT STRATEGY

Report of the:	Head of Place Development
Contact:	Julia Owen/ Karol Jakubczyk
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annex 1: Draft Epsom & Ewell Economic Development Strategy
Other available papers (not attached):	Strategy & Resources Committee Report: An Overview of the Epsom & Ewell Economic Development Strategy 29 September 2015

REPORT SUMMARY

The Council has prepared a draft Borough-wide Economic Development Strategy, which serves as a framework for delivering sustained prosperity. The draft Strategy identifies a series of actions and interventions that can be pursued through the Council's economic development, town centres management and planning functions.

RECOMMENDATION	*Notes*
That the Committee considers the scope and content of the Draft Economic Development Strategy and subject to any amendments and additions agree to recommend its adoption by Council.	

1 Implications for the Council's Key Priorities, Service Plans and Community Strategy

1.1 The current Corporate Plan 2012-2016 identifies promoting the economic vitality of the Borough as a key priority for the Council. The Economic Development Strategy will work in tandem with other Council policies and initiatives, such as the Local Plan, to ensure that the Borough continues to be a sustainable place to live and do business. It will also link to any relevant priorities agreed in the new Corporate Plan.

2 Background

2.1 Over the years the Borough Council has sought to create a healthy environment for economic development to take place. During this period our approach has principally been set out within Local Plan policy and delivered through the development management process. More recently we have also taken proactive steps to introduce town centres management. Whilst our approach towards business development has yielded some success, such as the expansion of the WS Atkins HQ and the relocation of Nuffield Health, the growing challenges to our local and national economy require us to have a more proactive economic development role.

2.2 During September 2015, the Strategy & Resources Committee received a report setting out how the Council could expand its commitment to economic development. Specifically that report set out the work behind the preparation and production of a Borough-wide Economic Development Strategy. The Members of the Committee were invited to comment on proposed content of the then emerging Strategy. In particular, their views were sought on the proposed interventions and outcomes. The Committee identified some minor additions and amendments to be incorporated into the emerging Strategy.

2.3 Following the Committee's decision, work continued on the preparation and production of a draft Economic Development Strategy. The final draft of this document is included under Annex 1 of this report.

3 The Emerging Epsom & Ewell Economic Development Strategy

3.1 The draft Economic Development Strategy provides the Council with a framework within which it can take actions to help deliver sustained prosperity. To this end the Strategy identifies a series of actions and interventions that we can pursue through our economic development, Town Centres management and planning functions. The performance of the Strategy will be primarily monitored through the Local Plan Annual Monitoring Report (AMR)[1]. This is currently the subject of reports to the Licensing & Planning Policy Committee. An extract from the Local Plan AMR, focussing upon economic development indicators could be presented to the Strategy & Resources Committee.

3.2 The draft Strategy focusses upon five themes. These were selected following consultation with Members and the local business community. The themes seek to reflect and develop the Borough Council's priorities already set out in the Corporate and local Plans. The five themes are:

- Improving accessibility and infrastructure;
- Support commercial and retail vitality;

[1] The Local Plan Annual Monitoring Report is an established reporting mechanism, published at the end of the financial year. There is likely to be a close relationship between the indicators used to monitor the performance of the Local Plan and those related to the Corporate Plan's economic development objectives. Equally, many of the projects will be lead through the Council's Planning Policy Team, it would be logical to utilise existing reporting structures.

- Maintain good links and building partnerships with the business community;
- Widening the choice of commercial property; and
- Skills development

3.3 The Strategy's themes are set out within an Action Plan, which identifies a variety of different interventions that the Borough Council can undertake under each theme. For example, in order to improve accessibility and infrastructure the Borough Council can contribute to the delivery of transport improvement schemes such as the Kiln Lane Link and Epsom Town Centre improvements. The Action Plan continues by identifying specific outcomes; the performance monitoring regime and who the lead Officer is likely to be. The Action Plan is included at the end of the draft Strategy (included under Annex 1).

4 Financial and Manpower Implications

4.1 Staff resources have been allocated to oversee the implementation of the Economic Development Strategy. The majority of the tasks will fall to the Council's Planning Policy Team, which sits within the Place Development Department. This includes Economic Development expertise and the recently appointed Town Centres Manager, both of whom will have key roles in implementing the emerging Strategy.

4.2 It is anticipated that some of the interventions will require additional sources of funding. A key task will be identifying and drawing upon appropriate external funding sources, such as from the County Council and Local Enterprise Partnership, to deliver those interventions.

4.3 ***Chief Finance Officer's comments***: *This strategy will need to be delivered within existing budgets. Funding for additional investment (eg Incubator Units) will require individual business cases.*

5 Equalities and Other Legal Implications

5.1 There are implications arising from the interventions/outcomes identified in the draft Strategy. The full implications arising from each item will be considered at the appropriate time.

6 Sustainability Policy and Community Safety Implications

6.1 Ensuring that there are opportunities for local economic growth is an important component of maintaining the Borough as a sustainable place where people can live and work. This is a key aspect of sustainable development as defined by national planning policy.

7 Partnerships

7.1 The Corporate Plan and the draft Economic Development Strategy requires that we maintain existing and develop new partnerships, such as those with the Gatwick Diamond Initiative and the Coast to Capital LEP. This is likely to include those we already have with organisations such as Surrey County Council, in addition to new partnerships with business.

8 Risk Assessment

8.1 Changes in national and local economic environments, changes to the way essential community infrastructure is funded and amendments to national planning policy are making it increasingly important that we are proactive about economic development. Without positive interventions and outcomes we run the risk of unplanned for growth, which is not compliant with our strategy and vision for the Borough. By preparing a Borough-wide Economic Development Strategy we will minimise the risk of unbalanced and unsustainable growth.

9 Conclusion and Recommendations

9.1 That the Committee considers the scope and content of the Draft Economic Development Strategy and subject to any amendments and additions agree for its adoption.

WARD(S) AFFECTED: All

Economic Development Strategy

Epsom & Ewell Borough Council

Introduction

1.1 The Borough of Epsom & Ewell is far more than a dormitory area, serving as a commuter town to the City. There is a vibrant local economy in the retail, engineering, credit, leisure and race horse training sectors. The Borough is home to a number of major international and national headquarters, to small independent enterprises and everything in between.

1.2 Regularly voted in the top ten of best places to live in the UK, the Borough boasts a significant amount of protected green space and has excellent road and rail links, with central London less than 30 minutes distant and access to the rest of county facilitated by the adjacent M25.

1.3 The Council's aim is for the Borough to remain affluent, by anticipating and responding to changes in employment and business patterns and stimulating both. The area needs to keep its high income and highly skilled residents, while also continuing to invest in skills provision and graduate retention.

1.4 The Epsom and Ewell Economic Development Strategy provides a framework for delivering sustained prosperity setting out the Council's ambitions, key priorities and related actions for the economic development across the Borough. It builds upon Local Plan policies that have consistently set out to create a healthy environment for economic development to take place.

1.5 The five themes selected for this strategy support commercial and retail vitality, maintaining good links with the business community, ensuring that there is availability and choice of business accommodation, supporting skills development and working with the Gatwick Diamond Initiative and Coast to Capital Local Enterprise Partnership to secure inward investment and infrastructure funding in the area. They have been developed based on elected Councillors' priorities, the Local Plan and, the Corporate Plan plus with input from local business key stakeholders and consultants. The themes have been identified as the areas that will have the greatest positive impact on the Borough and with which the Council has the greatest influence.

1.6 In formulating this strategy we have worked closely with the local business community and with other relevant partners including the County Council, Coast to Capital Local Enterprise Partnership, the Gatwick Diamond Initiative, and the Surrey Chambers of Commerce.

1.7 The Action Plan included at the end of the Strategy sets out in greater detail the interventions that the Council will undertake to meet the range of objectives for securing continued economic prosperity for the Borough. The Action Plan also identifies which parts of the Borough Council will lead on the delivery of these objectives and the mechanisms for monitoring their performance. In most cases performance monitoring will be carried out in tandem with the Local Plan – which shares a number of key objectives with this Strategy.

1.8 The following section of the Strategy provides an informal overview of the Interventions.

Interventions

Improve accessibility and infrastructure

How will we do this?
- Deliver Kiln Lane Link Road
- Deliver Plan E Highway improvements

2.1 The construction of an underpass at the end of Kiln Lane under the railway will have a major impact on easing traffic in the Borough's main business areas and will relieve traffic in the town centre. There is an acute need to improve circular journeys and to reduce congestion at the existing two road rail crossings which serve east-west traffic.

2.2 Plan E is a comprehensive development framework covering Epsom town centre. It covers a range of transport and public realm improvements which will reduce congestion, make the town centre safer, more attractive and vibrant, and enhance the cultural and leisure offer. The Plan E infrastructure improvements will in parallel enhance vehicular, cycle and pedestrian connectivity, enabling the A24 to remain fluid and improve the public realm in general.

Benefits	Risks and issues
Epsom town centre would be able to attract more businesses and customers, while the surrounding areas would become more easily accessible for both private and public transportation. Increasing pedestrian connectivity, easing access to shops and leisure facilities across the Town Centre	Dependant on third parties (Highway Authority and Railway) Dependant on funding from LEP

Widen the choice of commercial property

How will we do this?

- Produce flagship employment sites programme
- Introduce a Business Growth incubator

2.3 There are a number of employment sites which have scope for innovative development. They can provide Epsom and Ewell with a good mix of high quality sites and premises, fundamental to securing economic growth diversification. The aim will be to have a suitable choice of sites available for accommodating inward investors and expanding local businesses, for maintaining high quality office stock and in parallel, and creating a diverse range of small business accommodation which is fit for purpose

2.4 The area has a notable concentration of creative practitioners, with the presence of the UCA and elements of Nescot. A business growth hub would be a catalyst for further development of the new high value industries within the area. It would bring positive benefits for the revitalisation of the town centre, help with the creation of new businesses and assist existing businesses, including those which are home based. It could increase graduate retention and prevent the exodus of existing socio-economic wealth.

Benefits	Risks and issues
Revitalisation of the town centre, Creation of new businesses and assist existing businesses Increase graduate retention and prevent the exodus of existing socio-economic wealth.	There are funding issues associated with the introduction of a Growth Hub (including acquisition of a suitable building).

Secure Business Investment and growth in the Borough

How will we do this?

- Deliver an employer attraction and retention programme

2.5 There is a need to create the profile needed to attract high quality inward investment and new employment, particularly from international sources. This will require proactive area promotion and the aftercare and support needed to ensure the retention and where possible expansion of key businesses in order to retain and create high quality jobs

Benefits	Risks and issues
Existing businesses stay and expand in the Borough Attract new businesses set up in the area, creating jobs and using local services	A highly competitive area with neighbouring boroughs all looking to secure new inward investment Surrey County Council's recently launched Invest In Surrey service requires local authority funding to participate in the marketing programme

Support skills development

How will we do this?

- Promote locally available Skills Programmes and initiatives

2.6 It is essential that the local workforce fully prospers by having the skills to sustain and benefit from higher value activity that the borough needs to attract and develop. The local HE and FE institutions have scope to align learning and skills provision with business needs if the objectives and profile of the new economic opportunities can be clearly defined. Opportunities to provide work placements for those in higher education and recruitment of graduates in local knowledge based businesses could be intensified. More widely in the local economy, more opportunities for apprenticeships and getting employed people into vocational training could be grasped.

Benefits	Risks and issues
Increase graduate retention within the borough and help prevent the exodus of existing knowledge based workers	Requires coordination and engagement and strong working relationships with key stakeholders, including the local education and training providers – these have not been easy to establish in the past.

Develop Town Centres

How will we do this?

- Support the establishment of an Epsom Town Centre BID (Business Improvement District) if this is something businesses want
- Improve the Ewell business environment
- Improve the Stoneleigh business environment

2.7 A BID is a business-led and business funded body formed to improve a defined commercial area. The Council's role is to promote and facilitate the process. The benefits of BIDs cited by the businesses they represent include businesses decide and direct what they want for the area, increased footfall, improved staff retention, area promotion. A BID can only be formed following consultation and a ballot in which businesses vote on a BID Proposal or Business Plan for the area. The ballot is run by the local authority (or outsourced by the local authority to a third party).

2.8 Epsom's marketplace is a huge asset to the Borough and to the town centre in particular. The Council aims to maximise the use of the marketplace for food, craft and other markets and for community events. Income created through commercial use of the marketplace is invested in environmental improvements and other events to make the town centre more attractive, to drive footfall and enhance the offer in the town centre.

2.9 Ewell village and the Stoneleigh Broadway retail areas have an important contribution to make in enhancing and maintaining the economic vibrancy of the borough. Support will be given to businesses to improve the business environment.

Benefits	Risks and issues
The BID will provide an important level of resources for the regeneration of the town centre and could provide an effective vehicle for taking forward parallel initiatives which may be located in the town centre.	For a BID to go ahead the ballot must be won on two counts: straight majority and majority of rateable value. This ensures that the interests of large and small businesses are protected. Identifying the USP of Epsom.

Lobby for Zone 6 status for Epsom Railway Station

How will we do this?

- The arguments for Epsom being in Zone 6 are many and the Council will continue to support its inclusion.

2.10 Businesses report to the Council that one of their biggest drawbacks in recruitment for central Epsom is the town centre lying outside of Zone 6 and the railway station not accepting the Oyster card. Likewise retailers bemoan the difficulty in attracting shoppers etc from London for the same reason.

Benefits	Risks and issues
Increase out of Borough footfall to central Epsom Increase level of available quality employees	This is a commercial decision by a business over which the Council has little influence.

EPSOM AND EWELL ECONOMIC DEVELOPMENT PLAN

POTENTIAL INTERVENTIONS AND OUTCOMES (Draft 07/03/2016)

Strategic Objectives	Proposed Interventions	Outcomes Sought	Lead Officer	Monitoring
Improved accessibility and infrastructure	• Kiln Lane Link Road • Plan E Public Realm Proposals • Inclusion of Epsom within Oyster Zone – Zone 6	• Proven funding case and successful implementation • Improved attractiveness of Epsom as a business location	• Place Development Manager	• Local Plan Annual Monitoring Report (AMR)
Widening the Choice of Commercial Property	• Flagship Employment Sites Programme • Identify wider SME business property needs and develop a small business workspace strategy and action plan • Development of a feasibility study and business case for a start-up incubator facility in the town	• External funding to bring forward development sites • Strengthened property offer for attracting inward investors • Business incubation / start up facility for the creative hub • Enhanced workspace provision for small businesses • Creation of a master plan for Longmead & Nonsuch Trading Estates and East Street / Utilities opportunity site	• Planning Policy Manager	• AMR
Business Investment and Growth	• Development of existing business engagement programme • Working with partners to identify how we will secure inward investment for the Borough • Develop business content for the	• Secure opportunities for inward investment from multinationals into the Borough • A realignment of employment towards private sector led growth • Reduced dependency on London for employment	• Economic Development Officer	• Economic Vitality Officers' Group (EVOG) – reporting to Strategy &

	EEBC and other stakeholder websites	• Retention and support of existing business in the Borough • Securing a diverse, self-sufficient local economy		Resources (S&R) Committee
Skills Development	• Support for local skills programmes and initiatives • Survey of skills needs and apprenticeship opportunities as part of ongoing business engagement activity	• Local Jobs aligned through better skills alignment towards local residents • Higher than average graduate retention • Diversified employment base	• Economic Development Officer	• EVOG / S& R reporting
Town Centres	• Support the establishment of an Epsom Town Centre BID • Improve the Ewell Business environment • Improve the Stoneleigh business environment	• Regenerating the Borough's high streets and retail centres • Economic diversification • Improved quality of life	• Town Centres Manager	•
Partnership Building	• Continue to develop partnership working with Surrey County Council, Gatwick Diamond Initiative and the Coast to Capital LEP with a view to maximising investment, funding and interventions in the Borough	• Maximisation of funding attracted to Epsom and Ewell initiatives • Maximisation of borough and sub-regional economic benefits	• Economic Development Manager	• EVOG

TREASURY MANAGEMENT

Report of the:	Director of Finance and Resources
Contact:	Lee Duffy, Head of Financial Services
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	Treasury Management Strategy Statement
Other available papers (not attached):	Treasury Policy Statement Guidance Notes and Procedures

REPORT SUMMARY

This reports sets out the updated Treasury Management Strategy Statement 2016/17 to 2018/19.

Notes

RECOMMENDATION (S)

That the Committee:

(1) Approves:

- **(a) the Capital Prudential Indicators and Limits for 2016/17 to 2018/19 contained within the Treasury Management Strategy Statement (Section 2);**
- **(b) the Treasury Management Strategy 2016/17 to 2018/19 and the treasury Prudential Indicators contained within it (Section 3);**
- **(c) the Investment Strategy 2016/17 contained within the Treasury Management Strategy Statement (Section 4);**
- **(d) the treasury management practices as set out in Appendix 2 to the Treasury Management Strategy Statement; and**

(2) Recommends to Council the adoption of the updated Treasury Management Strategy Statement 2016/17 to 2018/19.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Council's Treasury Management Strategy supports the achievement of the Council's Medium Term Financial Strategy. The Council holds investments an average balance of around £20m, but fluctuates depending upon the level of reserves and cash flow surpluses. Depending on investment returns, the Council uses around £200,000 of interest per annum to finance Council services or to maintain the value of provisions for future expenditure and commitments.

2 Background

2.1 The Treasury Management Strategy sets out the management of risks associated with the treasury management service.

2.2 The Council is required to prepare a Financial Strategy for Treasury Management in line with CIPFA Prudential Code and Code of Practice on Treasury Management.

2.3 A number of Treasury Management indicators and limits were approved by Council in February 2016.

2.4 The Treasury Management and Investment Strategies set out in the Annexe to this report are compliant with CIPFA Code of Practice on Treasury Management

3 Treasury Management Strategy 2016/17 to 2018/19

3.1 The Treasury Management Strategy is set out in the attached Annexe to this report.

3.2 The focus of the new strategy remains primarily on safeguarding sufficient of the Council's balances in secure and liquid investments to ensure overall stability. However, it is recommended that on the overall balance of funds of c£20 million, £2.5 million could be diverted in the interest of securing higher return and providing a more substantial return for the Council's revenue account.

3.3 The new strategy allows for a number of options will be explored to generate returns in excess of current levels. These options include extending the investment portfolio through **longer term investments** and the **use of property funds**. For example an investment of £2.5 million with an annual yield of 5% will generate income of £125,000 which is six times the current average.

3.4 Included within the Strategy are the borrowing limits and borrowing and investment parameters required by the Prudential Code which were approved by Council on 11 February 2016.

4 Treasury Management Arrangements

4.1 Since November 2007 all external funds have been managed by one fund manager currently Aberdeen Asset Management. The majority of internal funds have been invested in two Money Market Funds, two interest bearing accounts and in several fixed term deposits.

4.2 An interim report on the performance of investments for 2015/16 was given to the Financial Policy Panel on 13 October 2015. A further report will be presented to this Committee in June 2016 detailing the overall performance of investments for the year.

4.3 The overall investment returns for 2015/16 are estimated at 0.77%. Both externally and internally managed investments are expected to be above the seven day London Interbank Bid (LIBID) benchmark.

4.4 The Council will continue to use Money Market Funds for investing short term funds. Current returns on these accounts are at similar levels to that being offered by interest bearing bank accounts, but these accounts also allow for amounts invested to be recalled or increased during the year with no notice required, improving the efficiency of the treasury management function and spreading the investment across a number of counterparties held within the fund. The individual performance of the internally invested funds in 2015/16 will be assessed against alternative funds as part of the end of the year performance review.

5 Treasury Management Policy

5.1 In accordance with the requirements of the Prudential Code and the revised CIPFA Code of Practice on Treasury Management, the Treasury Management Policy and Practices were updated and presented to this Committee in March 2015. There are no changes to update in the policy.

6 Proposals

6.1 The Committee is recommended to approve each of the key elements of these reports:

6.1.1 The Prudential Indicators and Limits for 2016/17 to 2018/19 contained within the Treasury Management Strategy Statement (Section 2).

6.1.2 The Treasury Management Strategy 2016/17 to 2018/19 and the treasury Prudential Indicators contained within the Treasury Management Strategy Statement (Section 3).

6.1.3 The Annual Investment Strategy 2016/17 contained within the Treasury Management Strategy Statement (Section 4).

6.1.4 The treasury management practices as set out in Appendix 2 to the Treasury Management Statement

7 Financial and Manpower Implications

7.1 Expenses on the Treasury Management Strategy and Policy will be managed within the budget provision of £34k for fund management fees and for treasury management advice.

7.2 The treasury management arrangement will help secure the Council's investment (currently £24m) and assist in generating budgeted returns to help fund services during the year.

8 Legal Implications (including implications for matters relating to equality)

8.1 There are no implications for the purpose of this report.

8.2 ***Monitoring Officer's comments:*** *None for the purposes of this report*

9 Partnerships

9.1 The Council works in partnership with the fund manager and the treasury consultants. The extent of the working relationship with the fund manager will be reviewed as part of the tender process.

10 Risk Assessment and Conclusion

10.1 The attached Annexe sets out the Financial Strategy for Treasury Management, which aims to ensure maximum return on investments for the Council within reasonable risk constraints

WARD(S) AFFECTED: All

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2016/17

Treasury Management Strategy Statement

1. Introduction

1.1 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 commensurate 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 the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

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

Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report: This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report: This 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 Financial Policy Panel for the

Treasury Management Strategy Statement

mid year report and Strategy & Resouces Committee for the Annual Treasury Management report.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will 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 investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

1.4 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 responsibe for scrutiny. When reporting the interim treasury management performance for the financial year members of Financial Policy Panel receive a presentation from either the Council's treasury management advisors or its external fund manager, further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Policy on the use of external service providers

The Council uses Capita 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 our external service providers.

Treasury Management Strategy Statement

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.

2. The Capital Prudential Indicators 2016/17 – 2018/19

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in 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. The table below summarises the capital expenditure forecasts and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Expenditure	3,485	5,534	1,031	1,093	386
Financed by:					
Capital receipts & reserves	612	1,921	695	779	100
Capital grants	245	291	286	286	286
Other contribution	757	3,077	0	0	0
Revenue	1,871	245	50	28	0
Net financing need for the year	**3,485**	**5,534**	**1,031**	**1,093**	**386**

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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

Treasury Management Strategy Statement

The Council is asked to approve the CFR projections below:

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Financing Requirement					
CFR – non housing	nil	Nil	nil	nil	nil
Total CFR	**nil**	**Nil**	**nil**	**nil**	**nil**
Movement in CFR	**nil**	**Nil**	**nil**	**nil**	**nil**

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).

The CFR for the Council over the next three years is zero; this means that the Council does not have a requirement to make MRP to the General Fund.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Fund balances/reserves	3,333	2,933	2,933	2,933	2,933
Capital receipts	4,082	3,421	2,726	1,947	1,847
Earmarked reserves	6,342	6,753	5,153	5,153	5,153
Other	3,776	5,000	4,000	4,000	4,000
Total core funds	**17,533**	**18,107**	**14,812**	**14,033**	**13,933**
Working capital *	**3,847**	**4,500**	**4,000**	**4,000**	**4,000**
Expected investments	**21,380**	**22,607**	**18,812**	**18,033**	**17,933**

** Working capital balances shown are estimated year end; these may be higher mid-year*

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:

Actual and estimates of the 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.

	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Ratio	-2	-2	-1	-1	-2

The estimates of financing costs include current commitments and the proposals in this budget report.

Estimates of the incremental impact of capital investment decisions on council tax: This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Council tax - Band D	1	3	1	1	0

3. Treasury Management Strategy

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 the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2015, with forward projections are summarised below.

Treasury Management Strategy Statement

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Actual debt at 31 March	**nil**	**nil**	**nil**	**nil**	**nil**
The Capital Financing Requirement	**nil**	**nil**	**nil**	**nil**	**nil**

Total investments at 31 March					
Investments	**21,380**	**22,607**	**18,812**	**18,033**	**17,933**
Investment change		+ 1,227	- 3,795	- 779	- 100

Within the 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 2016/17 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 purposes.

The Director of Finance and Resources 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 the budget report.

3.2 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.

Operational boundary	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**

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

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.

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2. The Council is asked to approve the following Authorised Limit:

Authorised limit	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	5,000	5,000	5,000	5,000

3.3 Prospects for Interest Rates

The Council has appointed Capita 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 gives our central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Q1 2016	0.50	1.70	3.20	3.00
Q2 2016	0.50	1.90	3.20	3.00
Q3 2016	0.50	2.00	3.30	3.10
Q4 2016	0.50	2.10	3.30	3.10
Q1 2017	0.75	2.20	3.50	3.30
Q2 2017	0.75	2.30	3.50	3.30
Q3 2017	1.00	2.40	3.60	3.40
Q4 2017	1.00	2.60	3.60	3.40

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2.2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3 followed by a slight recovery in quarter 4 to an initial reading of +0.5%. The Februaryr Bank of England Inflation Report included a forecast for growth to remain around 2.2% – 2.4% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. However, these forecasts are approximately 0.2% lower than those of the November Inflation Report. Investment expenditure is also expected to support growth. However, since the second half of 2015, most worldwide economic statistics have been weak and financial markets have been particularly volatile in early 2016. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK and this theme was maintained in the February Inflation Report.

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The February Inflation Report was notably subdued in respect of the forecasts for inflation in the near-term; this was expected to barely get back up to the 1% level within the next 12 months but was expected to marginally exceed the 2% target on the 2-3 year time horizon. The increase in the November Inflation Report forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero. There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There is also the uncertain impact of the EU referendum which may take place as early as June 2016.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 1 of 2017. There is downside risk to this forecast i.e. it could be pushed further back and the markets are currently betting on a quarter 1 2018 increase.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3 and retreated to +0.7% in quarter 4. However, the uninterrupted run of strong monthly increases in non-farm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

Euro Zone. In January 2015 the European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected Euro Zone countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the Euro Zone and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. 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 later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy 2016/17 – 2018/19

The Council does not envisage any borrowing need during the period of planning shown in this report.

4. Annual Investment Strategy

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to

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institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that 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 this end 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.

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.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Appendix 2 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.

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 Director of Finance and Resources 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 Capita Asset Services, our treasury consultants, 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

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(notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a 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:

- Banks 1 - good credit quality – the Council will only use banks which:

    i. are UK banks; and/or

    ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i. Short term – *F1*

    ii. Long term – *A-*

    iii. Viability / financial strength – *C* (Fitch / Moody's only)

    iv. Support – *3* (Fitch only)

- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies - The Council will *use* all societies which:

    i. meet the ratings for banks outlined above;

    ii. Have assets in excess of *£1bn (or are both)*

- Money Market Funds – *AAA*
- Enhanced money market funds (EMMFs) with a risk score of 1.5
- UK Government (including gilts and the Debt Management Account Deposit Fund)
- Local authorities, parish councils etc

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- Supranational institutions
- Pooled property funds – up to £2.5m

A limit of 50% will be applied to the use of Non-Specified investments.

Country and sector considerations:- Due care will be taken to consider the country, group and sector exposure of the Council's investments.
The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch . The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

No minimum credit rating applies to the UK.

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

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):

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	**F1 / AAA / B / 1**	**£2.5m**	**5yrs**
Banks 1 category medium quality	**F1 / AA- / B / 2**	**£2.5m**	**3yrs**
Banks 1 category lower quality	**F1 / A- / C / 3**	**£2.5m**	**1yr**
Banks 2 category – part nationalised	**N/A**	**£2.5m**	**1yr**
Limit 3 category – Council's banker (not meeting Banks 1)	**N/A**	**£2.5m**	**1 day**
DMADF	**AAA**	**£2.5m**	**6 months**
Local authorities	**N/A**	**£2.5m**	**1yr**
Money market Funds	**AAA**	**£2.5m**	**liquid**
Enhanced money market funds with a credit score of 1.5	**AAA**	**£2.5m**	**liquid**

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The proposed criteria for Specified and Non-Specified investments are shown in Appendix 4 for approval.

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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2017. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

2016/17 0.60%
2017/18 1.25%
2018/19 1.75%
2019/20 2.00%
2020/21 2.25%
2021/22 2.50%
2022/23 2.75%
2023/24 2.75%
Later years 3.00%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit: total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 364 days			
	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Principal sums invested > 364 days	8.0	8.0	8.0

For its cash flow generated balances, the Council will seek to utilise interest bearing accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

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4.1 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.

4.2 External fund managers

Around £20m of the Council's funds are externally managed on a discretionary basis by Aberdeen Asset Management.

The Council's external fund manager(s) will comply with the Annual 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: -

	Fitch	Moodys	Standard and Poors
Long term	A-	A2	A
Short term	F1	P1	A-1

The fund manager's view on interest rates and opportunities for gilts / bonds is as follows:

Markets have been in turmoil following the year end, although there has been some respite in more recent weeks. The last two months have been about policy deliberation setting the tone for further divergent central bank action, as the global backdrop deteriorated. Aside from the Federal Reserve raising rates in December, sentiment has turned dovish across most other central banks, in particular the ECB, BoJ and more importantly the MPC.

The Monetary Policy Committee (MPC) is now firmly on hold citing both weaker domestic and global growth. The further deterioration in the price of oil is now likely to lead to a more subdued rise in inflation than the committee was originally predicting in the November Inflation Report. Recent economic data has generally been disappointing, with industrial production also falling. Combined with uncertainty over the EU referendum, this means market pricing of rate hikes has been pushed out into 2017. Recent comments from the MPC have cited wage growth being weaker with labour costs rising less than expected which for now warrants a more cautious approach, and that there is little tolerance for further downside surprises which would suggest that some members may even consider rates may need to be cut further.

In review the fund performance has been at the lower end of expectations, credit spread widening was very much a theme last year which added some volatility to the funds ABS exposure in the second half, although the overall positioning of the fund remained defensive. Increases were made to the floating rate note exposure in both senior and covered bonds in anticipation of yields trending higher particularly with expectations of an earlier US rate rise. We have adjusted some of our ABS exposure to shorter WAL assets as well as reducing both credit card and auto loan exposure preferring more stable MBS assets. More recently we have been looking to add 3 year senior floating rate notes and covered bond issuance for some yield carry, although we have been adding to our fixed rate ABS assets where there has been value over other assets.

Looking through 2016, it will be very much a case of seeking out value opportunities across all asset classes in order to meet our return expectations, which remain conservative but are in line with last year at 0.70%-0.90% on a gross basis. Our return target is based on our central case that rates are not likely to rise before Q2 2017.

Appendices

1. Economic background
2. Treasury Management practices
3. The treasury management role of the section 151 officer

APPENDIX 1: Economic Background

THE UK ECONOMY

UK GDP growth rates of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2.2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3 and then picking up to +0.5% (2.2%) in quarter 4.

The Bank of England's February Inflation Report included a forecast for growth to remain around 2.2% – 2.4% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The November 2015 Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. According to the February 2016 Inflation Report, CPI inflation is now expected to get back to around 1% by the end of 2016 but not get near to 2% until the latter part of 2017.

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However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments have led to the Bank of England lowering the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted. For now, the Bank of England is forecasting further falls in unemployment to circa 4.8%.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK may not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q1 2017. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, perhaps as early as June, rather than in 2017; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

THE GLOBAL ECONOMY

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3 and then retreating to +0.7% in Q4.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up

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the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

The Eurozone (EZ). In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. The initial reading for Q4 is 0.3% also. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016 in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to

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corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.
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CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 12 February 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2017.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

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However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in February 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2018.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and USA resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU. The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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APPENDIX 2:
EPSOM & EWELL BOROUGH COUNCIL TREASURY MANAGEMENT PRACTICES

TMP1 Credit and Counterparty Risk Management

General statement

The Director of Finance and Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/ suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

[1] Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Epsom & Ewell Borough Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into other financing arrangements.

Epsom & Ewell Borough Council will ensure it has adequate though not excessive cash resources, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

[2] Interest Rate & Inflation Risk Management

Epsom & Ewell Borough Council will manage it exposure to fluctuations in interest rates with a view to containing its interest cost, or security its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements*.

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

[3] Credit and Counterparty Risk Management

Epsom & Ewell Borough Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investments activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* and listed in the Treasury Management Strategy. It is also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter other financing arrangements."

[4] Legal and Regulatory Risk Management

Epsom & Ewell Borough Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 [3] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation".

[5] Fraud, Error and Corruption, and Contingency Management

Epsom & Ewell Borough Council will ensure that it has identified the circumstances which may expose it to the risk of loss though fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends."

[6] Market Risk Management

Epsom & Ewell Borough Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

The CLG issued Investment Guidance in 2010, 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 adopted the revised Code at the Strategy & Resources meeting on 30 March 2010

Treasury Management Strategy Statement

and applies its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its Treasury Management Practices (TMPs). This part, TMP 1(3), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual 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 *AAA* by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's 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. This criterion is:

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	Fitch (or equivalent)	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1 / AAA / B / 1	P-1 / Aaa / B	A-1 / AAA	£2.5m	5yrs
Middle Limit Category	F1 / AA- / B / 2	P-1 / Aa3/ B	A-1 / AA-	£2.5m	3yrs
Lower Limit Category	F1 / A- / C / 3	P-1 / A3 / C	A-1 / A	£2.5m	1yrs
Building Society	Meet banks criteria or assets in excess of £1bn and are an 'eligible institution'			£2.5m	9 months
DMADF	AAA			£2.5m	6 months
Money Market Funds	AAA			£2.5m	no limit
Enhanced Money Market Funds				£2.5m	no limit
Other Local Authorities				£2.5m	1yr
Supranational				£2.5m	5yrs
Gilts				£2.5m	10yrs
Guaranteed Organisations				£2.5m	length of guarantee

Non-Specified Investments – 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 Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. 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.	50% of money invested through external fund manager. Restriction of 5yrs maximum maturity 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity
a.	**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	50% of money invested through external fund

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	Non Specified Investment Category	Limit (£ or %)
	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.	manager. Restriction of 10yrs maximum maturity
b.	***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.***	In this instance balances will be minimised as far as is possible.
c.	**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 were originally considered Eligible Institutions and have a minimum asset size of £*1bn*, but will restrict these type of investments to *12 months*	£2.5m per institution
d.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum of 50% on investments over 1yr
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the parent bank having the necessary ratings outlined in (e) above and a guarantee from the parent company.	£2.5m per institution
f.	**Share capital or loan 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. There is a higher risk of loss with these types of instruments. .	Maximum £2.5m per institution, subject to minimum rating of AA- (long term)
g.	**Pooled 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.	Maximum £2.5m per fund

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. This criterion is outlined in the tables above.

In respect of category g , this will only be considered after obtaining external advice and subsequent Member approval.

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 Capita Asset Services as and when ratings change, and

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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 Resources, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The terms of the fund managers' investment policies are in accordance with strategy detailed above and are detailed in the contract with the fund manager. The performance of the manager is reviewed at least annually by the Director of Finance and Resources and the manager is contractually required to comply with the annual investment strategy.

TMP2 Performance measurement

The Council has a number of approaches to evaluating treasury management decisions: -

a. Monthly reviews carried out by the treasury management team

b. Reviews with our treasury management consultants & external fund manager

c. Annual review after the end of the year as reported to Strategy & Resources Committee

d. Half yearly monitoring report to Financial Policy Panel

e. Quarterly monitoring reports

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the investment portfolio. This report contains the following: -

a. average investments held during the financial year and average interest rates

b. investment strategy for the year compared to actual strategy

c. explanations for variance between original strategies and actual

d. comparison of return on investments to the investment benchmark

e. compliance with Prudential and Treasury Indicators

The performance of investment earnings will be measured against the following benchmarks: -

a. In house investments
7 day LIBID

b. External fund manager
7 day LIBID

Epsom & Ewell Borough Council's policy is to appoint external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

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The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Capita Asset Services to assist in this respect.

TMP3 Decision – making and analysis

Epsom & Ewell Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the scheduled to this document."

The Treasury team will ensure that the following records will be retained*:* -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment transactions
- Confirmations from borrowing institutions where deals are done directly
- Contract notes received from fund manager
- Fund manager valuation statements

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Processes to be pursued:

- Cash flow analysis
- Investment maturity analysis
- Ledger reconciliation
- Performance management information

TMP4 Approved instruments, methods and techniques

Epsom & Ewell Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and within the limits and parameters defined.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

Allocation of responsibilities

(i) Full council

- approval of annual strategy.

(ii) Strategy & Resources Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- 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 annual monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Financial Policy Panel

- receiving and reviewing half yearly monitoring report and acting on recommendations

(iv) Director of Finance and Resources

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

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Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. (Dealer 1) Production of transfer note. (Dealer 1)
Bank	Entry of transaction onto bank (Finance Officer)
Authorisation/Payment of Deal	Approval and payment. (Dealer 2)
Accounting Entry	Processing of accounting entry (Exchequer Team) Reconciliation of cash control account. (Exchequer Team)
Bank	Bank reconciliation (Exchequer Team)

Statement of the treasury management duties/responsibilities of each treasury post

The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Director of Finance and Resources. This person will carry out the following duties: -

- 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.
- The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness.

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- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

The Head of Financial services

The responsibilities of this post will be: -

a) execution of transactions

b) adherence to agreed policies and practices on a day-to-day basis

c) maintaining relationships with counterparties and external service providers

d) supervising treasury management staff

e) monitoring performance on a day-to-day basis

f) submitting management information reports to the responsible officer

g) identifying and recommending opportunities for improved practices

The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly on treasury policy, activity and performance.

The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.

b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

c) Giving advice to the responsible officer when advice is sought.

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Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.

b) Reviewing division of duties and operational practice.

c) Assessing value for money from treasury activities.

d) Undertaking probity audit of treasury function.

Absence Cover Arrangements

Six officers within the Finance Team have the authority to place deals, with a further two officers able to input trades onto the system ready for authorisation.

Dealing

The following posts are authorised to deal: -

- Head of Financial Services
- Chief Accountant
- 3 Senior Accountants
- Accountant

TMP6 Reporting requirements and management information arrangements

Epsom & Ewell Borough Council will ensure that regular reports are prepared and considered on the implementation of its treasury managements policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implementations of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the council will receive:

- an annual report on the strategy and plan to be pursued in the coming year.
- a mid-year review on the current performance of the treasury management function.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

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TMP7 Budgeting, accounting and audit arrangements

The Director of Finance and Resources will prepare, and Epsom & Ewell Borough Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management functions, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangement.*

Epsom & Ewell Borough Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Epsom & Ewell Borough Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and cash flow management

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Director of Finance and Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring.

TMP9 Money Laundering

Epsom & Ewell Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

Treasury Management Strategy Statement

TMP10 Staff training and qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Council

b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Director of Finance and Resources to ensure that all staff under his authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP11 Use of external service providers

Epsom & Ewell Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies.

Treasury Management Strategy Statement

TMP12 Corporate governance

Epsom & Ewell Borough Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

Treasury Management Policy Statement

Treasury Management Strategy Statement

Annual Investment Strategy

Minimum Revenue provision policy statement

Annual Treasury Review Report

Treasury Management monitoring reports (e.g. half yearly, quarterly)

Annual accounts and financial instruments disclosure notes

Annual budget

3 Year Capital Plan

Minutes of Council / committee meetings

Treasury Management Strategy Statement

APPENDIX 3:

Approved countries for investments

AAA

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

AA+

- U.K.

Treasury Management Strategy Statement

APPENDIX 4:

The treasury management role of the section 151 officer

The S151 (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.

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BACKLOG MAINTENANCE YEAR END UPDATE AND PROPOSALS FOR 2016-17 BUDGET

Report of the:	Director of Finance & Resources
Contact:	Tony Foxwell
Urgent Decision?(yes/no)	no
If yes, reason urgent decision required:	To update on current position and agree proposals for 2016-17
Annexes/Appendices (attached):	Annexe 1: Current position
Other available papers: (not attached):	

REPORT SUMMARY

The report indicates current position at year end 2015-16 in relation to the backlog maintenance programme.

RECOMMENDATION (S)	*Notes*
(1) Receives the end of year progress report on the backlog maintenance programme. **(2) Notes changes made to the programme under officer delegated authority** **(3) Requests approval to carry forward all unspent monies and schemes as indicated in Annex 1 assuming there are sufficient funds within the General Fund at year end** **(4) Officers be authorised to make adjustments to the recommended programme, within the overall budget, as a result of improved estimates becoming available where adjustment is less than £20k**	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 Ensuring that assets are protected and enhanced supports the delivery of the Council's key priorities.

1.2 The programme supports a number of specific key priorities including measures to enhance sustainability and combat the impact of climate change.

2 Background

2.1 A mid-year progress report was presented to Financial Policy Panel in October 2015 which included changes to proposed schemes. These schemes are shown in Annexe 1. The changes were ratified by Strategy and Resources.

2.2 Annexe 1 shows the 2015/16 current position and includes minor changes to scheme budgets as well as current and forecast spend on schemes.

2.3 Due to financial restrictions minimal works have been carried over the past 6 months with the exception of emergency works of a Health & Safety nature. For example, the hard standing to the front of the Playhouse had become damaged by tree roots and works were carried out on an emergency basis prior to the Pantomime season commencing.

2.4 Officers have delegated authority to make adjustments to schemes of up to £20,000 subject to the programme being completed within the approved budget. Since the reschedule of schemes referred to in 2.1 above, 4 additional schemes have been included in the programme as follows:

2.4.1 Minor improvements to reduce water consumption – leaks at the Town hall £5,439

2.4.2 Upgrade to intruder alarms – Town Hall, The Wells, Alexandra Recreation ground, King Georges Field, Gibraltar Recreation Ground, Auriol Pavilion, Horton Country Park £12,506

2.4.3 Path repairs – Alexandra Recreation ground £4,409

2.4.4 Relay uneven paving in front of the Playhouse - £7,166

3 Backlog schemes – 2015/16

3.1 Annexe 1 contains the 2015/16 position of actual spend and forecast outturn for the current year schemes. A summary is shown at 4.1 below.

3.2 A number of non-committed schemes were put “on hold” during the year in response to the requirement to limit non-essential spend across all services. It is proposed that these schemes will be carried into 2016/17. The total value of these is £127,000 and these are marked up as “To be carried over” on Annexe 1. These will be funded from drawdown from the property maintenance reserve assuming there are sufficient funds available within the General Fund at year end.

3.3 Works on some approved schemes are still in progress across the two financial years. A further drawdown form the property maintenance reserve will be made in 2016/17 to cover these remaining costs. The actual value of these will not be known until after the year end but is likely to be less than £20,000. Underspending from schemes which have either come in under budget or are not progressing will be transferred to and remain within the Property maintenance reserve.

4 Financial and Manpower Implications

4.1 2015/16 planned funding and forecast spend of schemes

	£000s Budget	**£000s Forecast spend**
Backlog maintenance base budget	175	175
Regulatory works base budget	30	25
Watercourses works base budget	5	5
Repairs and renewals reserve funding (Longmead Social centre redecorations)	19	19
Car park fencing	3	3
Borough Boards	3	3
Planned drawdown from Property reserve	215	14
S106 drawdown re path works at Watersedge and Longmead	40	12
Total available budget	**490**	**256**

4.2 The property maintenance reserve as at 1 April 2015 was £221,000. The forecast drawdown of £14,000 to cover 2015/16 shortfall will give a forecast balance to be available for future years of £207,000.

4.3 ***Chief Finance Officer's comments:*** *The revised budget schedule at Annexe 1 referred to in 3.2 sets out the up to date revised budget position for all current year schemes. Funding of these schemes is set out in 4.1*

Underspends from works will be moved and retained in the Property Maintenance Reserve. These funds will only be released once approval and prioritisation had been sought.

The 10 year asset management plan will come to this Committee in June. This will include a breakdown of forthcoming works for financial year 16/17.

5 Legal Implications (including implications for matters relating to equality)

5.1 ***Monitoring Officer's comments***: It is important that works to address legal & regulatory requirements are given appropriate prioritisation when works are planned and undertaken.

6 Sustainability Policy and Community Safety Implications

6.1 Some of the works in the programme will contribute to the achievement of relevant objectives.

7 Partnerships

7.1 There are no implications for the purposes of this report.

8 Risk Assessment

8.1 The risks associated with completion of the programme are judged to be manageable.

8.2 Any emergency works will be funded from drawdown from Property maintenance reserve.

9 Conclusion and Recommendations

9.1 This report sets out progress on the backlog maintenance programme and changes made within delegated authority.

9.2 Any unspent provisions will be made available for 2016/17 scheduled schemes, including emergency schemes, via the Council's Property Maintenance Reserve at year end.

9.3 Unspent budget provision for works in progress will be carried forward via the Council's Property Maintenance Reserve at year end

WARD(S) AFFECTED: All

Backlog Maintenance Schedule Annexe 1

Site	The works	Original budget (including carryforward and S106 schemes)& agreed FPP items dated 13.10.15	Revised budget 2015/16 (incl. changes since FPP)	Actual spend (incl outstanding commitments)	forecast spend	Notes	Priority	Criteria
Backlog schemes								
Contingency	Emergency works	89,309	108,107		0	To be allocated as required		
Bourne Hall	Stream	2,097	3,007	3,007	3,007	complete	1	**A**
Bourne Hall	Conquest Art works	8,500		0	0	As per FPP report now no longer required as conqust Art moving premises - remove from schedule	3	**C**
Bourne Hall lodge	Roof replacement & render repairs	20,000	20,000	0	0	To be carried over	1	**A**
Ewell High Street	Car park resurfacing	35,000	35,000	0	0	To be carried over		
Hudson House Car Park	Fencing	3,115	3,115	3,115	3,115	Completed. Funded from car parks budget	1	**A**
Ashley centre car park	Relining car park level 4	2,000	2,000	1,960	2,400	As per FPP 13.10.2015 Complete	1	**A**
Cox Lane	External redecs and repairs	0	0	0	0	On hold		
Cox Lane	Faulty Fire Alarm	1,000	1,000	0	1,222	Complete	1	**A**
Cemetery	Hard Surfaces- repairs to paving walkways etc	12,000	11,831	11,831	11,831	Complete	1	**A**
Longmead Depot	Repairs to concrete and repainting	30,000	30,000	0	0	To be carried over	3	**C**
Ebbisham Centre	Heating and Cooling valves Ebbisham Centre	0	0	0	0	On hold		
Ebbisham Centre	Upgrade to ventilation in the Zone	20,000	13,662	13,662	13,662	Complete		
Longmead Day Centre	Reapirs and redecoration to walls, floors and ceilings	18,700	18,370	18,370	18,370	Works approved under delegated authority. Completed	1	**A**
Various	minor improvements to reduce energy consumption	10,000	5,500	6,625	6,625	Ongoing		
Various	Hard Surfaces- repairs to car parks, parks paving walkways etc	18,000	14,846	14,846	26,846	Essential H&S works to prevent slips trips and falls. In progress.	1	**A**
various	minor improvements to reduce water consumption		5,000	5,439	5,439	complete	2	**B**
Various	Emergency repairs to walls and fences	20,000	20,000	26,929	26,929	In progress, various issues are addressed through the year as raised by public and prioritised under H&S. On hold except where there are health and safety issues.	1	**A**
Various	Borough Boards	3,200	3,850	3,850	3,850	Complete	2	**C**
Various	Upgrade intruder alarms	0	12,500	12,506	12,506	Complete	1	**A**
Longmead estate	Path repairs	20,000	0		0	Need approval before we can commit funding from RHA		
Watersedge	Path repairs	20,000	12,398	12,398	12,398	Issues raised by public under Health & safety. Complete.		
Various	Resurfacing works	15,000	15,000			To be carried over		
Alex Rec main pavilion	Damp proofing works	30,000	30,000	0	0	To be carried over	1	**A**
Alex rec	Top pavillion refurbishment	12,000	12,000	0	0	To be carried over	2	**B**
Alex rec	Path repairs	0	4,409	4,409	4,409	Completed	1	**A**
Playhouse	Boiler Replacement	7,400	8,560	8,560	8,560	Completed	2	**B**
Playhouse	Take up and relay uneven paving around trees		7,166	7,166	7,166	Completed		
Town Hall	Kitchen refurbishments	20,000	20,000	20,000	20,000	In progress		
Town Hall	External redecorations	37,694	37,694	37,694	37,694	Completed		
	Sub totals	**455,015**	**455,015**	**212,367**	**226,029**			
Regulatory property maintenance works								
Various	Asbestos inspections and works	15,000	15,000	5,072	15,000	Urgent asbestos surveys carried out		
Various	Fire risk assessments and associated works	10,000	10,000	11,336	5,000	Essential works to ensure fire safety		
Various	Remedial electrical works	5,000	5,000	3,396	5,000	5 yearly electrical tests rolling programme		
Various	Watercourses works	5,000	5,000	0	5,000			
	Sub totals	**35,000**	**35,000**	**19,804**	**30,000**			
	Totals	**490,015**	**490,015**	**232,171**	**256,029**			

Priority	
1	Essential - Health and safety / legislative
2	Important - Business impact, but not critical
3	Asset management - Maintenance of buildings quality, not urgent

Criteria	
A	Health and safety / legislative
B	Business continuity
C	Asset management
D	Efficiency measures

key
Carry over to next year
Completed
Regulatory property maintenance works
Works in progress - remaining funds are to be carried over

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ACTION SURREY PARTNERSHIP: REQUEST FOR FUNDING

Report of the:	Head of Housing and Environmental Services
Contact:	Rod Brown
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	
Other available papers (not attached):	

REPORT SUMMARY

Action Surrey is collaboration between all eleven Surrey districts delivering the statutory requirement on the Council to promote Home Energy Conservation under the Home Energy Conservation Act 1995. A **contribution of £6,000 has been requested from each of the partnering Local Authorities to continue providing this service to Borough residents for 2016/17 and 2017/18.**

RECOMMENDATION (S)	*Notes*
That the Committee approves the expenditure of £3,000 per annum for 2016/17 and 2017/18 to renew the contract with Action Surrey and this to be funded from the Corporate Projects Reserve	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 Key Priority – Quality of Life; The provision of energy efficiency measures such as loft and cavity wall insulation and efficient boilers along with advice on staying healthy and keeping warm in the winter months play a key role in improving 'the quality of life of all residents, but particularly the most vulnerable in our society'

1.2 The Council has a statutory duty to promote Home Energy Conservation under the Home Energy Conservation Act 1995 and complete a return which is currently completed on behalf of the Council by Action Surrey.

2 Background

2.1 Action Surrey is part of Thameswey Sustainable Communities Ltd and forms Surrey's Low Carbon Community network. It is a collaboration between the 11 Surrey Districts to deliver CO_2 emission reductions from the private housing stock in each participating locality. In addition to reducing CO_2 emissions, Action Surrey's intent is to save all residents money on their fuel bills and assist those vulnerable residents in fuel poverty to keep warm. Action Surrey manages a network of local trusted installers who can install a variety of measures.

2.2 Funding for the first 3 years of the partnership was met by the Climate Change Area-based Grant from DEFRA. During this initial period, this Council has forged a strong partnership with Action Surrey; the Council regularly refers residents to the Action Surrey One Stop Shop Service. Crucially, Action Surrey identifies, project manages and oversees any funding opportunities from Central Government, Surrey County Council and the Surrey Downs Clinical Commissioning Group. This work has been essential in providing a reliable and consistent service to this Borough's residents as well as fulfilling the Council's statutory duties under the Home Energy Conservation Act 1995 (HECA), which includes submission of an HECA Report.

3 Proposals

3.1 Action Surrey has requested £6,000 from all the partnering Local Authorities to continue its support for 2016/17-2017/18. This is in order to maintain Action Surrey's core services to householders and to build on what has already been achieved. This amounts to £3,000 per year/per authority (i.e. £6,000 for each authority). This will also fulfil local authority responsibilities under the Home Energy Conservation Act 1995.

4 Financial and Manpower Implications

4.1 The Council does not have the knowledge within existing staff to provide this statutory requirement and would be unable to absorb the service provided by Action Surrey without additional resources.

4.2 The funding opportunities available for Home Energy Conservation are better accessed by Action Surrey as a Surrey Wide Partnership with the expertise and time available to submit bids which often have short deadlines.

4.3 It is proposed that the £6,000 funding would come from the Area Based Grant totalling £35,000 which is currently held within the Corporate Project Reserve. This originated from the Area Based Grant originally intended to fund an aerial thermal imagine project which is no longer required for this purpose.

4.4 **Chief Finance Officer's comments:** *The Council holds £35,000 of Area Based Grant within the Corporate Projects Reserve and can be used to fund this service for 2 years, however if this is going to be a service that we continue to support then the long term funding will need to be identified.*

5 Legal Implications (including implications for matters relating to equality)

5.1 A decision to not continue to fund Action Surrey would mean the Council would no longer be part of the Surrey Wide partnership. As a result the Council would no longer be able to sign post vulnerable residents for advice and assistance, and would potentially miss grant funding opportunities. This would in turn mean that the HECA report by default will be a zero return.

5.2 **Monitoring Officer's comments:** *Under the Home Energy Conservation Act 1995, local housing authorities are "energy conservation authorities". Energy conservation authorities have a statutory duty to prepare a report setting out the conservation measures that the authority considers practicable, cost-effective and likely to result in significant improvement in the energy efficiency of residential accommodation in the area, The report is to include*

5.2.1 an assessment of the cost of the energy conservation measures set out in it,

5.2.2 an assessment of the extent to which carbon dioxide emissions would be decreased as a result of those measures, and

5.2.3 a statement of any policy of the authority for taking into account, when deciding whether to exercise any power in connection with those measures, the personal circumstances of any person.

5.3 The report described above may contain other matters. The report is to be published and sent to the Secretary of State. The Secretary of State may request progress reports, and may take steps to assist and encourage the measures in the report to be implemented. Guidance has been issued in relation to the Act.

6 Sustainability Policy and Community Safety Implications

6.1 Action Surrey provide advice to residents on energy conservation which is one of the Council's main sustainability objectives

7 Partnerships

7.1 This is a strong example of partnership working across all the Surrey Boroughs providing value for money and an equitable service to all residents.

8 Risk Assessment

Risk	Level	Mitigation
Not renewing with Action Surrey would lead to reputational damage from other Surrey Councils, central government and the wide public. Penalties unlikely but the council is likely to be identified for criticism by central government, environmental and anti-poverty groups.	**M**	The Home Energy Conservation Act (HECA) requires this council to prepare a report setting out the energy conservation measures that the authority considers practicable, cost-effective and likely to result in significant improvement in the energy efficiency of residential accommodation in its area. Although a report could be prepared, it would indicate that the Council is unlikely to contribute to energy conservation measures within the borough.
Not renewing with Action Surrey would deny local residents access to specialist advice and direction to suitable contractors. This may have a reputational risk through adverse local publicity.	**M**	There is no existing capacity to provide this advice from existing resources. There is some information available free of charge via the internet and other sources but this is unlikely to be of the quality and reliability of that provided by Action Surrey.
The Council and borough residents miss out on future funding opportunities (as part of the wider Surrey Energy & sustainability Partnership) which would help reduce energy use and CO_2 emissions. This would be because we would not have access to Action Surrey's expertise on bid writing or the critical mass to make bids successful.	**L**	It is unlikely that the Council would have access to Action Surrey's assistance. Successful bids tend to be awarded where there is evidence of co-ordination. Limited internal resources could be directed to drafting a bid.

9 Conclusion and Recommendations

9.1 All other 10 Local Authorities have given a commitment to fund Action Surrey for the next 2 years.

9.2 The Green Deal (the Governments flagship scheme for Home Energy Conservation measures) did not prove to be a national success. As a result the Government announced in August 2015 that the scheme would be discontinued. In addition, the Energy Company Obligation (ECO) funding scheme imposed on major energy suppliers to support domestic energy efficiency improvements has also been scaled back. This puts greater responsibility on local authorities.

WARD(S) AFFECTED: ALL

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OUTSTANDING REFERENCES

Report of the:	Democratic Services Manager
Contact:	Fiona Cotter
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	List of Outstanding References as at date of meeting
Other available papers (not attached):	None

REPORT SUMMARY

This report lists the references to officers outstanding as at 5 April 2016.

RECOMMENDATION (S)	*Notes*
That the outstanding items be noted.	

WARD(S) AFFECTED: N/A

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Date of reference/Item	Title and nature of report back	Officers	Original Timescale	Position as at last meeting	Latest Position
Council 21/02/12 **Council 17/07/12** **25/09/12** Min 35 **19/03/13** Min 90 **30/01/14** Min 76 **23/09/14** Min 47	Horton Chapel	Chief Executive	As appropriate	Previous commitment given to keeping members informed of progress via Members Briefing. Committee received a requested update at its meeting in September 2014.	Report to next meeting.
23/09/14 Min 40	Housing Benefit Staffing Resources – review of staff & financial resource agreed for 2013/14 to assist in transition to Universal Credit as part of the of budget process.	Head of Revenues and Benefits	Future Meeting	It was agreed to use £132,000 of the Corporate Projects reserve over the next three years to finance the additional resources required in the benefits team and noted that a further report would be provided to the Committee when more information was available on the Universal Credit roll out and the effects on benefit staff resources were known.	No change

Annual reports

The Committee will receive the following reports annually:

Date of Reference/item	Title and nature of annual report	Responsible Officer	Next report to be received
23/09/14 Min 34 **(exempt from publication)**	Insurance claims – Annual Report	Head of Corporate Risk	September 2015 (Report to next meeting)
30/01/14 Min 66	Personalisation and Prevention Fund Funding - progress in relation to allocations to date and in relation to any tranche of money for 2015/16.	Head of Operational Services	June 2016

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AGENDA ITEM 17
ANNEXE 2

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