

## FINANCIAL POLICY PANEL

Tuesday 5 December 2017 at 7.30 pm

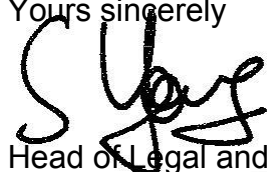
Committee Room 1 - Epsom Town Hall

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

Councillor Eber Kington (Chairman)  
Councillor Richard Baker  
Councillor John Beckett  
Councillor Neil Dallen

Councillor Graham Dudley  
Councillor Omer Kokou-Tchri  
Councillor Barry Nash  
Councillor Vince Romagnuolo

Yours sincerely



Head of Legal and Democratic Services

For further information, please contact Fiona Cotter, tel: 01372 732124 or [fcotter@epsom-ewell.gov.uk](mailto:fcotter@epsom-ewell.gov.uk)

### AGENDA

#### 1. 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

#### 2. TREASURY MANAGEMENT - INTERIM REPORT (Pages 3 - 10)

This report sets out an update on treasury management performance for the first six months of 2017/18.

#### 3. CAPITAL PROGRAMME 2018/19 (Pages 11 - 22)

This report summarises the proposed 2018/19 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2018.

**4. MINUTES** (Pages 23 - 26)

The Panel is asked to confirm the Minutes of the Meeting of the Panel held on 12 September 2017 (attached) and to authorise the Chairman to sign them.

## Treasury Management – Interim Report

<b>Report of the:</b>	Director of Finance & Resources
<b>Contact:</b>	Lee Duffy, Head of Financial Services
<b><i>Urgent Decision?(yes/no)</i></b>	No
<b><i>If yes, reason urgent decision required:</i></b>	N/A
<b>Annexes/Appendices (attached):</b>	None
<b>Other available papers (not attached):</b>	Treasury Management Strategy Report 2016/17 Treasury Policy Statement Guidance Notes and Procedures Prudential Code Code of Practice for Treasury Management in Local Authorities (CIPFA) ODPM (CLG) Investment Guidance

### Report Summary

This report sets out an update on treasury management performance for the first six months of 2017/18.

### Recommendation (s)

That the Panel:

- (1) Agrees for Aberdeen Asset Management plc to continue to manage the Council's external funds;
- (2) Notes the performance on return of investments for the first six months of 2017/18;
- (3) Notes the current investment decisions being made within the terms sets out in the Treasury Management Strategy.

## 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.

- 1.2 The Treasury Management Strategy for 2017/18 agreed by Strategy & Resources Committee in March aims to ensure maximum return on investments for the Council within reasonable risk constraints.

## **2 Introduction**

- 2.1 The Council's Treasury Management Policy accords with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services.
- 2.2 The current policy requires officers to produce an interim report on investment performance to a meeting of the Financial Policy Panel. This report covers the performance of the treasury management function for the period 1st April 2017 to 30<sup>th</sup> September 2017.
- 2.3 The Audit Commission report "Risk and Return", prompted by the problems experienced by the Icelandic Banks, identified that regular engagement of elected members in the Treasury Management function is good practice.

## **3 Overview of Treasury Management**

- 3.1 The treasury function deals with the management of cash funds held by the Council. The level of funds held during the year will vary but, on average, amounts to around £30 million.
- 3.2 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies that are offering high investment returns but are at high risk of defaulting (for example the Icelandic Banks in 2008).
- 3.3 Before an investment decision is made, officers will investigate any proposed counterparty to ensure its financial rating makes it eligible for investment. Even if the institution meets the criteria as set out in the financial strategy, independent advice will be sought from our external financial advisors before the investment is made.

## **4 Security, Liquidity and Yield**

- 4.1 The Council's investment strategy and practice is to put security of investment at a higher priority than rate of return/yield. The day to day practice continues to be reviewed and refined, within the boundaries of the approved policy, in response to challenging market conditions. The cornerstones of current policy/practice are:
  - 4.1.1 to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
  - 4.1.2 generally, to restrict lending to the short-term (typically one year or less) or to cover precept dates for the remainder of the year

- 4.1.3 to update financial limits to each institution depending the quality of their financial ratings.

## 5 Current Performance

- 5.1 The average return from investments for 2017/18 was anticipated at 0.56%. This amounted to total budgeted income for the year of £168,000, generated on reserves, working balances and cash flow.
- 5.2 The performance for the first six months of 2017/18 on the Council's investments were as follows;

	Average Investment (Apr-Sept) £'m	Interest Received (Apr-Sept) £'000	Average Rate of Return %
<b>Internally Managed Funds</b>			
Money Market Funds	5.4	4.3	0.14
Fixed Rate Deposits	10.8	48.3	0.90
Interest Bearing Account	0.7	0.1	0.01
<b>Total Internally Managed</b>	<b>16.9</b>	<b>52.7</b>	<b>0.62</b>
<b>Externally Managed Funds</b>			
Aberdeen Asset Management	18.3	40.5	0.44
<b>Grand Total</b>	<b>35.2</b>	<b>93.2</b>	<b>0.53</b>

- 5.3 Despite low returns investments for the first six months met the profiled budgeted income for the same period, with an average annualised return on investments of 0.53%.
- 5.4 The average return achieved for the first six months of 2017/18 of 0.53% compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of 0.11%.
- 5.5 The Council has achieved this performance by following the strategy of investing the majority of its long to medium term funds with its external fund manager, Aberdeen Asset Management and investing in a number of one year fixed rate investments with a return of around one percent. Short term funds have been invested in money market funds or in an interest bearing instant access account. .

## **6 Internally Managed Funds**

### **Money Market Funds**

- 6.1 Money market funds are pooled investments that allow instant access to these monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty.
- 6.2 The return made on money market funds of 0.14% is higher than the benchmark of 0.11%. Investment in money market funds has been limited to short term investments from surplus funds which will need to be called back with no notice required.

### **Fixed Rate Term Deposits**

- 6.3 As at the end of September the Council had three fixed term deposits of £2,500,000, these investments are one year fixed rate deposits, invested at rates of 1%, 0.85% and 0.77% with maturity dates between October 2017 and February 2018.
- 6.4 The current strategy and recent guidance obtained from our independent financial advisors is to limit fixed term investments to a period of one year until there is improved stability within the financial markets.

### **Interest Bearing Accounts**

- 6.5 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 6.6 Rates achievable on this account have been cut significantly in the last 12 months and is now only used if other investments have reached their counterparty limits. The risk on these investments is higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 6.7 The return made on interest bearing accounts of 0.01% compared to the benchmark of 0.11%.

## **7 Externally Managed Funds**

- 7.1 Aberdeen Asset Management plc, previously Scottish Widows, has been the Council's external fund manager since 31<sup>st</sup> October 2007. .

- 7.2 Initially, the external fund manager produced some exceptional returns for the Council. Since October 2009 returns have fallen back as opportunities to deliver significant returns have become very limited due to difficult market condition. However, the fund manager has still consistently produced returns above the benchmark.
- 7.3 The Council has adopted a policy of investing the majority of our medium to long term funds with this fund manager. This has two benefits to the Council: the first is it minimises the Council's risk, as the funds invested with Aberdeen Asset Management plc are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding; the second benefit is that Aberdeen Asset Management plc are able to attract more favourable rates due to the size of the fund and having access to detailed information regarding the various institutions.
- 7.4 Due to the performance of Aberdeen Asset Management plc over the past eight years it is proposed that the Council continues to use Aberdeen Asset Management plc as its external fund manager and review the position again in 12 months.

## **8 Treasury Management Policy**

- 8.1 In previous years the Council has recognised the increased levels of risk due to the uncertainty in the financial markets and consequently restricted the number of investments held over a fixed term. It still remains unlikely that there will be an increase in interest rates in the near future, so at present the majority of the funds are being maintained over the short term.
- 8.2 Officers have entered into a number of fixed rate one year investments and are in the process of exploring other types of investments that potentially can increase yields without significantly increasing the risk to the capital invested.
- 8.3 The Council continues to use Money Market Funds for internal investments as they minimise exposure to counterparty risk. Current returns on these funds are slightly lower than that being offered from interest bearing accounts, but these funds also allow for maximising investment of short term cash surpluses during the year and also improve the efficiency of cash flow management.

## **9 Financial and Manpower Implications**

- 9.1 The Council's budget anticipates the equivalent of £168,000 of interest to help fund services in 2017/18 calculated as follows:

	<b>Budgeted £</b>	<b>Forecast £</b>
Interest earned in year	168,000	179,000
Contribution from Interest Equalisation Reserve	52,000	41,000
<b>Total Interest Available</b>	<b>220,000</b>	<b>220,000</b>
Less Interest credited to specific provisions	63,000	63,000
<b>Interest used to fund General Fund services</b>	<b>157,000</b>	<b>157,000</b>

- 9.2 The forecast interest at the end of 2017/18 is anticipated to be at £179,000 compared to £168,000 assumed within the budget. Interest credited to specific provisions will remain close to budget at £63,000. It is therefore anticipated that no additional contribution will be required from the interest equalisation reserve to fund services.

## 10 Interest Equalisation Reserve

- 10.1 The interest equalisation reserve was set up several years ago to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.
- 10.2 With base rates and investment returns at historically low levels and with no immediate sign of these increasing, the funds in this reserve are needed more than ever.
- 10.3 The balance on this reserve at the start of 2017/18 was £630,000, the budgeted position shows that the balance will reduce to £578,000 at the end of this financial year. The forecast position means that the year-end balance on this reserve will be around £589,000.
- 10.4 The level of this reserve will be re-assessed in the 2018/19 budget report in February 2018.

## 11 Equalities and Other Legal Implications

- 11.1 There are no particular equalities or other legal implications for the purpose of this report.

## 12 Partnerships

- 12.1 There is partnership working with the fund manager and the treasury consultants.
- 12.2 The report seeks approval to continue with the use of Aberdeen Asset Management plc as the Council's fund manager with a further revision in 12 months.



**13 Risk Assessment and Conclusions**

- 13.1 Investments with our external fund manager are considered low risk as the money invested in the fund is spread across a range of counterparties, this limits the exposure of a significant sum being invested with a defaulting counterparty.
- 13.2 The Financial Strategy for Treasury Management, sets out that investment decisions must be based first and foremost on security, then liquidity and finally yield.
- 13.3 Both internal and external investments for the first six months of 2017/18 have exceeded the benchmark of 7 day LIBID rate.
- 13.4 Returns and interest rates are expected to stay at a low level both for this year and next year.

**Ward(s) Affected: (All Wards);**

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## Capital Programme 2018/19

<b>Report of the:</b>	Director of Finance and Resources
<b>Contact:</b>	Sue Emmons
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	<b>Annexe 1:</b> Recommended Capital Programme <b>Annexe 2:</b> Two year Capital Reserves Forecast
<b>Other available papers (not attached):</b>	Capital bids Notes of Capital Member Group

### Report Summary

This report summarises the proposed 2018/19 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2018.

### Recommendation (s)

That the Panel agrees with the advice of the Capital Member Group to submit the following 2018/19 capital programme to Council for approval in February, subject to the relevant policy committees first approving project appraisals:-

- (1) Prioritised schemes totalling £1,225,000, funded from capital receipts of £1,225,000, less any S106, CIL or revenue reserves subsequently identified; with a further commitment of £250,000 for 2019/20;
- (2) An additional scheme totalling £588,000, subject to external funding sources

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

- 1.1 The Council's Medium Term Financial Strategy includes the following in regards to investment in services:-

- 1.1.1 Prioritise capital investment to ensure retained property is fit for purpose.
- 1.1.2 Maximise the use of external funding opportunities to deliver improvements to the community infrastructure, including affordable housing.
- 1.1.3 Maintain a minimum uncommitted level of capital reserves of £1 million at 31 March 2018.

## **2 Background**

- 2.1 At its meeting on 27 June 2017, the Strategy and Resources Committee considered appointments to a Capital Member Group (CMG) to assist in the formulation of the new capital programme. Accordingly, the Committee appointed Councillors John Beckett, Eber Kington, Omer Kokou-Tchri, Barry Nash and Clive Smitheram.
- 2.2 The Capital Member Group met in September and agreed the arrangements for the capital programme review and received a list of potential projects. The Group agreed the criteria for progressing bids and excluded outline projects that would not qualify under the approved capital strategy.
- 2.3 Project appraisals were updated by budget managers and full bids considered by the Leadership Team in October. The officer group suggested amendments to the bids and also advised on a prioritisation of the proposals.
- 2.4 In November the Capital Member Group met to validate the bids and to recommend the schemes that should be progressed through the policy committees in January.
- 2.5 In reviewing the capital programme they focused on prioritised items for 2018/19 covering the following schemes:-
  - 2.5.1 Investment required to meet statutory obligations;
  - 2.5.2 Investment essential for service delivery;
  - 2.5.3 Investment that can be funded from external funds and is classed as a high priority (section 106 agreements or grants);
  - 2.5.4 Investment that will provide net revenue savings (spend to save).
- 2.6 The Medium Term Financial Strategy also requires that the Council retains a minimum level of capital reserves of £1 million.

### 3 Draft Programme

3.1 The Capital Member Group received bids for 2018/19 of £1.813 million, £1m less than proposals suggested for 2017/18. One of the bids includes a further sum of £250k for 2019/20. After review and challenge of the bids taken forward, all 16 bids were supported by the Group. Appendix 1 comprises a summary of the capital programme recommended by the Capital Member Group.

3.2 The proposed programme for 2018/19 comprises:-

	<b>£000s</b>
Core Programme of Priority Works (funded by reserves or grant)	1,225
Schemes to be progressed subject to external funding being achieved	588
<b>Total</b>	<b>1,813</b>

3.3 The funding recommended comprises:-

	<b>£000s</b>
Use of Capital Receipts for Core Programme	Maximum of 1,225
Use of Revenue Reserves for Core Programme	TBC
Use of S106 developer contributions	TBC
Use of Community Infrastructure Levy contributions	TBC
Use of grants for externally funded schemes	588
<b>Total</b>	<b>1,813</b>

3.4 Sections 5 and 8 detail proposals to fund elements of the 2018/19 capital programme from revenue, CIL and S106 in place of the capital receipts currently earmarked for those schemes. This would result in the call on capital receipts being reduced for 2018/19 by the sum agreed. This will not increase the 2018/19 programme beyond the £1.813m for which agreement is being sought.

### 4 Capital Reserves

4.1 The forecast of capital reserves shows that the balance as at 31 March 2018 would be £3.1 million.

4.2 The capital reserves forecast at Annexe 2 has been updated for the next two years using the following assumptions:-

- 4.2.1 The current approved capital programme is delivered this year;
- 4.2.2 No new capital receipts are received, nor does it take into account the potential for replacing use of capital receipts with revenue, CIL or S106 funds, as detailed in sections 5 and 8.
- 4.2.3 The proposed three year capital programme (2018-2021) proceeds, as per Appendix 1. Currently there is no call on capital reserves for the third year.
- 4.2.4 External funding for Disabled Facility Grant is assumed at £588,000 per annum.

## **5 Community Infrastructure Levy (CIL) and S106**

- 5.1 The Council has been administering CIL since July 2014. £476,009 of the current receipts have been earmarked for financing Plan E - Phase 1 and it is proposed that further receipts be used for subsequent phases, and the potential Kiln Lane Link Road.
- 5.2 Officers have sought external advice regarding the use of CIL funding for the cemetery expansion project agreed for the 2016-17 capital programme. Subject to the advice received, the intention is to replace the planned use of capital receipts to fund this scheme with CIL funding, enabling the earmarked capital receipts of £654k to be returned to the capital receipts reserve for future years. If we are able to proceed a proposal will go to the next Joint Infrastructure Group meeting.
- 5.3 Advice is also being sought as to the validity of using CIL contributions to fund a number of projects within the 2018-19 capital programme. Where a project is identified as being an appropriate scheme to be funded by CIL, the capital receipts earmarked for that scheme will be returned to the capital receipts reserve.
- 5.4 Officers are reviewing S106 agreements with uncommitted funds to ensure that use of S106 funding is prioritised for projects where appropriate, to preserve capital receipts. Where S106 funding is agreed, the capital receipts earmarked for that scheme will be returned to the capital receipts reserve.

## **6 Core Programme Funded from Capital Reserves**

- 6.1 The Capital Member Group carefully considered the bids submitted and confirmed that only prioritised schemes should be considered for funding from capital reserves or schemes where investment would generate savings. This required a pay-back within 5 years (7 years for energy initiatives).
- 6.2 The proposed core programme proposed for 2018/19 requiring funding from capital reserves is as follows:-

<b>Scheme/Funding from Capital Reserves</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000s</b>	<b>£'000s</b>
Installation of LED Lighting Various Sites	75	
Repair of St Marys Churchyard Flint Faced Wall	77	
ICT Programme of Work	60	
ICT – Document Management System replacement	50	
Replacement of Customer Relationship Management system and Data Warehouse	250	250
H&S Improvement Works Ashley Centre Car Park	165	
Ashley Centre Carpark levels 4 a & b waterproof coverings	227	
Playhouse replacement of stage floor and changing rooms refurb	66	
Poole Road Pavilion boiler, pump and plant replacement	50	
Bourne Hall replacement of old defective air conditioning unit	25	
Financial Management System Upgrade	65	
Renewal of Town Hall lift controls	80	
Upgrade of carpark credit card machines	35	
<b>Total proposed capital programme funded from reserves</b>	<b>1,225</b>	<b>250</b>

6.3 One project includes expenditure profiled for 2019/20, therefore progressing this project will commit funds for that year's capital programme.

6.4 The CMG noted that the schemes would be considered by the policy committees in January as part of the capital programme review.

## 7 External Funding

7.1 The Council receives a fixed government grant allocation for disabled facility grants (DFG) via the Better Care Fund. The following table shows capital schemes where external funding has been identified to enable schemes to proceed in 2018/19:-

<b>Scheme</b>	<b>Estimate (£000)</b>	<b>Funding</b>
Mandatory Disabled Facility Grants	588	Better Care Fund DFG
<b>Total externally funded schemes</b>	<b>588</b>	

- 7.2 It is proposed that this scheme be added to the capital programme, subject to support by the relevant policy committee, receipt of external funds and the identification of funding for any revenue implications within approved budgets.

## **8 Schemes Funded from Revenue**

- 8.1 Should any surplus revenue funds arise following the Council's recent purchases of investment property, consideration could be given to applying such funds to supplement the capital programme. This approach would enable earmarked capital receipts to be returned to the capital reserve, thereby mitigating the risk of capital reserves falling below the £1m minimum threshold in future years.

## **9 Proposals**

- 9.1 The Panel is asked to confirm the recommendations of the Capital Member Group:-
- 9.1.1 Schemes, identified in section 6, totalling £1,225,000 in 2018/19 and £250,000 in 2019/20 and funded from capital reserves should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals;
- 9.1.2 Schemes identified in section 7 totalling £588,000 be included in the capital programme subject to support for the project appraisals by the relevant policy committees and subject to external funding being received before expenditure is committed.

## **10 Financial and Manpower Implications**

- 10.1 The policy committees will receive appraisals for 2018/19 projects in late January and early February, including revenue cost implications.
- 10.2 The 2018/19 programme includes £250k funding for a new CRM and Data Warehouse system. Although £250k for this project is included in the 2018/19, it assumes a further £250k of expenditure in 2019/20.



10.3 If all schemes are progressed between 2018 and 2020 the estimated level of reserves will fall from £3.1 million at 1 April 2018 to £1.6 million at 31 March 2020, before any use of CIL, S106 or revenue funding is taken into account. This is a sufficient level of contingency, however members should note the following risks;

10.3.1 Should additional unavoidable projects arise during the period, schemes may either need to be shelved, assets disposed of to generate additional receipts or a borrowing strategy considered.

10.3.2 Interest earned on cash balances and available to help fund services has already reduced due to low interest rates, but will fall further as capital reserves are depleted. The projected use of reserves over the period is £1.475 million, with an average medium term rate of 1% over this period it will reduce revenue funding by £14,750 per annum.

10.4 **Chief Finance Officer's comments:** *All financial implications have been included within the body of this report.*

## 11 Legal Implications (including implications for matters relating to equality)

11.1 Investment is needed in Council buildings and other assets to ensure that working environments are suitable and that health and safety standards are maintained towards users of the service.

11.2 **Monitoring Officer's comments:** *There are generally no legal implications arising from this report. Where works are proposed on grounds of health & safety, it is important to have proper regard to our statutory obligations before making a decision.*

## 12 Risk Assessment

12.1 The main risks are that (a) the additional investment from capital reserves will provide reduced funding support for service delivery in future years, or (b) support from government grants will reduce, affecting the ability to continue to invest in statutory services and that investment is not sufficient to meet statutory obligations or meet the highest resident priorities.

12.2 With limited capital receipts available to fund investment, the CMGs proposals try to balance the risk by measuring essential investment needs against resource limitations. Business case investment has been prioritised where it demonstrates a payback within 5 years or 7 years for renewable energy projects.

12.3 In the long term the Council will need to consider alternative funding sources to finance capital investment or the further sale of Council assets.

### **13 Conclusion and Recommendations**

- 13.1 Capital Member Group recommends that the capital programme outlined in this report for 2018/19 be considered by Council in February.
- 13.2 That prioritised schemes totalling £1,225,000 for 2018/19 and £250k for 2019/20 are added to the capital programme, funded from capital reserves, S106, CIL or revenue contributions to capital, subject to the relevant policy committees receiving and approving project appraisals.
- 13.3 That schemes totalling £588,000 for 2018/19 are included in the capital programme, subject to external funding sources and subject to support for scheme appraisals by the relevant policy committees.

**Ward(s) Affected: (All Wards);**

Annex 1 - Capital Bids Ranked in Order of Priority and Revised Programme

Priority	Committee	Criteria	Officer Submitting Bid	Bid Number	Project Put Forward as a Potential Bid	Scheme Capital Expenditure 2018/19	Scheme Capital Expenditure in 2018/19 Funded from Capital Reserves	Scheme Capital Expenditure			Funding					Full Bid Required?	Comments from Capital Member Group- 6 September 2017	Comments from Leadership Team- 11 October 2017
								2019/20	2020/21	Scheme Total	Capital Reserves	Repairs & Renewals Reserves	Govt Grant	Funding- Public bodies	Other External Funding- S106, CIL, etc.			
						£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
1	C&W	Externally funded-High Priority	Rachel Jackson	Community & Wellbeing Bid 1	Disabled Facilities Grant (DFG) Programme	588	-	588	588	1,764	-	-	1,764	-	-	Yes	Full bid needed.	
2	Env	Service Enhancement	Joy Stevens / Richard Chevalier	Environment Bid 4	Ashley Centre Car Park - Health & Safety improvements	165	165	-	-	165	165	-	-	-	-	Yes	Full bid needed. Members would like us to investigate whether any of these works can be coordinated with the work being done by the Ashley Centre and include this information in the final bid as an attachment. Can the full bid be split between health & safety required to meet current building regulations and other improvements.	Can the final bid re submitted without the revenue costs, i.e the £50k Stairwell redecoration and £2k height restriction sign. Can we also check whether or not the fire protection doors are covered in the planned fire safety works.
3	Env	Business Continuity	Sue Bonner / Rod Brown	Environment Bid 2	Repair to St Mary's Churchyard Flint faced wall	77	77	-	-	77	77	-	-	-	-	Yes	Members would like to see evidence showing that we have approached the Church of England for any possible contribution towards the costs prior to formal support for this bid. Can the bid also include confirmation that we are happy with the structural engineer's report.	
4	Env	Service Enhancement	Joy Stevens / Richard Chevalier	Environment Bid 3	Ashley Centre Car Park - Upgrade level 4a & 4b with deckshield waterproof coverings	227	227	-	-	227	227	-	-	-	-	Yes	Full bid needed.	Please incde a briefing note to the final bid with further information about the current condition of the car park.
5	S&R	Business Continuity	Joy Stevens / CRM Project Board	S&R Bid 2	Replacement of CRM and Data Warehouse	250	250	250	-	500	500	-	-	-	-	Yes	Full bid needed. Members would like some assurance that the new CRM will last longer than five years before end of life.	We need to make sure we understand the internal staff resources required for the implementation of the new CRM.
6	C&W	Business Continuity	Andrew Lunt	Community & Wellbeing Bid 5	Playhouse- Replacement of stage floor surface	36	36	-	-	36	36	-	-	-	-	Yes	Full bid should include estimates of the longevity of the two different options. Can we add a bit more information about the squeaking floors in the final bid?	Preference for option 2 as it was considered better value for money.
7	C&W	Business Continuity	Andrew Lunt	Community & Wellbeing Bid 4	Playhouse- Refurbishment of existing 1st floor changing rooms	30	30	-	-	30	30	-	-	-	-	Yes	Full bid required. Is a like for like replacement the best option? If the design is changed will it last longer?	
8	C&W	Service Enhancement	Andrew Lunt	Community & Wellbeing Bid 2	Energy Improvements - LED Replacement lighting Bourne Hall	55	55	-	-	55	55	-	-	-	-	Yes	The initial bid mentions the difficulty of access for general maintenance. Members would like to know whether easier access for future replacement is included in this scheme? Can the full bid also include details of any Health & Safety incidents.	Can we add some images to the final bid. Please also include any revenue savings that we may get from the scheme.
9	S&R	Business Continuity	Judith Doney	S&R Bid 5	ICT programme of work	60	60	-	-	60	60	-	-	-	-	Yes	Full bid needed. Some elements of this bid may be revenue expenditure. Assuming the £10k for Uniform, £8k for Confirm and £10k for car park system server are revenue. Can we ensure that the final bid only has capital expenditure.	Can a breakdown of the £60k be added to the final bid?
10	S&R	Business Continuity	Judith Doney	S&R Bid 3	Document Management System replacement	50	50	-	-	50	50	-	-	-	-	Yes	Full bid needed.	
11	C&W	Business Continuity	Ian Dyer	Community & Wellbeing Bid 3	Poole road Pavilion- Replacement of boilers, pumps and plant room equipment	50	50	-	-	50	50	-	-	-	-	Yes	Can the full bid show income and usage data for the past 3 years for the facility?	
12	C&W	Business Continuity	Andrew Lunt	Community & Wellbeing Bid 6	Bourne Hall- Replacement of old defective air conditioning to banqueting suites	25	25	-	-	25	25	-	-	-	-	Yes	Full bid required. Can we ensure that local companies have an opportunity to bid. This is an opportunity to encourage local SME's	
13	S&R	Business Continuity	Lee Duffy / Chris Morgan	S&R Bid 1	Financial Management System Upgrade	65	65	-	-	65	65	-	-	-	-	Yes	Full bid needed.	Is there an opportunity to add intelligent scanning? Can we check whether storage costs are included in the price? Can we clarify whether there will be additional revenue costs for moving this on to the cloud?
14	S&R	Business Continuity	Andrew Lunt	S&R Bid 4	Renewal of Town Hall lift controls	80	80	-	-	80	80	-	-	-	-	Yes	Full bid needed.	
15	Env	Spend to Save	Richard Chevalier	Environment Bid 1	Energy Improvements - LED Replacement lighting Hudson House	20	20	-	-	20	20	-	-	-	-	Yes	Full bid needed. Members would like the full bid to include actions being taken on anti social behaviour.	Remove the CCTV costs to ensure that the bid is a spend to save scheme.
Not considered	Env	Business Continuity / Service Enhancement	Richard Chevalier	Environment Bid 5	Upgrade of Car Park credit card machines	35	35	-	-	35	35	-	-	-	-	Bid received 03/11/2017	Not available at CMG meeting.	Not available at Leadership Team meeting.
Total Potential Bids						1,813	1,225	838	588	3,239	1,475	-	1,764	-	-			

Bids That Were Rejected at Initial Bid Stage

		Service Enhancement	Joy Stevens / Richard Chevalier	Environment Bid 5	Hope Lodge Extension to Car Park Bid	-	-	110	-	110	110	-	-	-	-	No	Members would only consider a full bid to be submitted to the next round if costings met the criteria of 5 years payback.	
		Service Enhancement	Ian Dyer	Community & Wellbeing Bid 7	Court Recreation Ground Energy Improvements - Flood light LED Replacement to tennis courts and 3G football pitch	13	13	-	-	13	13	-	-	-	-	No	This is a revenue scheme and won't be considered as part of the capital programme	
		Service Enhancement	Ian Dyer	Community & Wellbeing Bid 8	Poole road Recreation Ground Energy Improvements - Flood light LED Replacement to running track and sports areas	13	13	-	-	13	13	-	-	-	-	No	This is a revenue scheme and won't be considered as part of the capital programme	
						26	26	110	-	136	136	-	-	-	-			

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## Provisional Capital Programme Funding Summary

	Community Infrastructure Levy	Section 106	Capital Grant-DFG	Capital Receipts	Repairs and Renewals Reserves	Residential Property Fund	Insurance Fund	SCC	Borrowing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Available Capital Resources at 1/4/2017</b>	3.835	2.285	0.095	4.893	0.338	2.000	0.038	0.054	60.794	74.332
Receipts to 31/10/2017	0.435	0.006	0.588	0.000						1.029
	4.270	2.291	0.683	4.893	0.338	2.000	0.038	0.054	60.794	75.361
Funding the 2017/18 Capital Programme	(0.476)	(0.634)	(0.683)	(1.867)	(0.069)	(2.000)	(0.038)	(0.054)	(0.794)	(6.615)
Funds returned from completed/cancelled schemes				0.073						0.073
2017/18 Planning Capacity - Revenue	(0.080)									(0.080)
<b>Estimated available Capital Resources at 31/3/2018</b>	<b>3.714</b>	<b>1.657</b>	<b>0.000</b>	<b>3.099</b>	<b>0.269</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>60.000</b>	<b>68.739</b>
<b>Estimated available Capital Resources at 1/4/2018</b>	3.714	1.657	0.000	3.099	0.269				60.000	68.739
Anticipated Receipts in 2018/19	0.000	0.000	0.588	0.000	0.000					0.588
Proposed New Bids	0.000	0.000	(0.588)	(1.225)	0.000					(1.813)
<b>Estimated available Capital Resources at 31/3/2019</b>	<b>3.714</b>	<b>1.657</b>	<b>0.000</b>	<b>1.874</b>	<b>0.269</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>60.000</b>	<b>67.514</b>
<b>Estimated available Capital Resources at 1/4/2019</b>	<b>3.714</b>	<b>1.657</b>	<b>0.000</b>	<b>1.874</b>	<b>0.269</b>				<b>60.000</b>	<b>67.514</b>
Anticipated Receipts in 2019/20	0.000	0.000	0.588	0.000	0.000					0.588
Proposed New Bids	0.000	0.000	(0.588)	(0.250)	0.000					(0.838)
<b>Estimated available Capital Resources at 31/3/2020</b>	<b>3.714</b>	<b>1.657</b>	<b>0.000</b>	<b>1.624</b>	<b>0.269</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>60.000</b>	<b>67.264</b>

## Notes:

1. Bids have been initially been allocated to funding from Capital Receipts, however alternative funding sources could be used e.g Repairs and Renewals, CIL and Section 106.
2. An initial review has been carried out of available S106 funds. This shows that none of the bids prima facie, qualifies for use of the those funds though a further review will be carried out.
3. Many of the bids are in the nature of Repairs and Renewals and potentially could be funded from the Repairs and Renewals Reserve.
4. CIL must be applied to fund infrastructure to support the development of the Council's area. A review of the potential to fund any of the schemes from CIL will be carried out.
5. Members have approved £60 million to fund the Commercial Property Acquisition Programme within the Borough and this is included in this funding summary.
6. The Council's subsidiary company, EEPIC has approval for a further £300 million for out of Borough Commercial property. The £300m is not included in the above summary.

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**Minutes of the Meeting of the FINANCIAL POLICY PANEL held on  
12 September 2017**

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**PRESENT -**

Councillor Eber Kington (Chairman); Councillors Richard Baker, John Beckett, Neil Dallen, Graham Dudley, Omer Kokou-Tchri, Barry Nash and Vince Romagnuolo

Officers present: Lee Duffy (Head of Financial Services) and Fiona Cotter (Democratic Services Manager)

**4 DECLARATIONS OF INTEREST**

No declarations of interest were made by councillors regarding the item on the Agenda.

**5 BUDGET TARGETS 2018/19**

The Panel received and considered a report, which updated the financial forecast and recommended financial targets for preparing the draft budget for 2018/19 and financial planning for 2019/20 and 20/21.

As a result of the reduction in Government grant funding over recent years, the Council had reduced actual spending in cash terms. The Council was no longer in receipt of Revenue Support Grant and faced a tariff adjustment in 2019/20 that was effectively negative Revenue Support Grant. It was not yet clear what would happen in 2020/21 in this regard. The Head of Financial Services stated that a report was due to go the next Strategy and Resources Committee meeting regarding the recently announced Localisation of Business Rates pilot scheme. Officers were clear that their position was that they would seek to ensure that any pilot scheme sought to redress the impact of negative Revenue Support Grant. The Panel again expressed its frustration with the Government's approach to funding public sector services.

The Panel was pleased to note that the Auditors again intended to issue an unqualified audit opinion in respect of the Council's financial statements. It was confirmed that £2.5m was the agreed minimum level of unspecified reserves. This approach was approved by the Auditors and the amount was consistent with that held by other authorities of this size. Whilst the current general fund balance was £834,000 above this, the Council still faced a number of financial uncertainties. It was unclear whether negative Revenue Support Grant would continue and escalate, for example, and the Council still needed to find £1.5m in savings over the next three financial years.

Cost reductions in the region of £90k still needed to be identified in 2018/19. This shortfall was based on a number of assumptions, in particular that the County Council would be reducing its financial contribution to services provided by this Council and the loss of transitional Business Rate Relief. Many authorities appeared to be banking on the localisation of Business Rates propping up services but Officers were sceptical and did not believe the Council should rely on this.

Provision of £100k had been made in 2018/19 and 2019/20 to mitigate the potential impact of benefit reforms on services such as homelessness or benefits – it was a contingency. However, the contingency for Service Changes and Pressures reduced to £100k by 2020/21. This was because certain items had been moved from capital and reclassified as revenue expenditure (IT and bin replacement).

In regard to the New Homes Bonus, the new eligibility criteria assumed a level of growth before it kicked in and the assumption had been made that it would be difficult for this Council to meet the threshold thereby leading to a significant reduction in this source of funding to only £196k in 2020/21.

It had been assumed that homelessness grant funding had been secured in 2018/19 of £131k per annum for three years but the Head of Financial Services was seeking confirmation of this as such funding had been an element of Revenue Support Grant which this Council no longer received. No assumptions had been built in regarding homelessness in general as significant growth had already been built into the budget for this. No provision had been included for income for the acquisition of new commercial properties as this was still subject to member approval at meetings due to take place next week. Income from the two commercial properties already in Council ownership had been taken into account in the forecast net cost of services in 2017/18 of £8,365k. Likewise, it was not appropriate to include any provision for an increase in members' allowances over and above RPI until the report of the Independent Remuneration Panel had been received and considered by the Council.

In terms of income generation, it was reiterated that some property was already generating income. The Council had been successful in a bid to the Local Government Association to assist in looking at other income generation streams. It was hoped that this work would commence in October. However, the Chairman again cautioned against committing significant amounts of Officer time in chasing small amounts of income. It was again confirmed that the saving in relation to the disposal of the Ebbisham Centre was a half year saving. The crucial savings in relation to its disposal would be in relation to maintenance liabilities.

Going forward, the report reiterated the key features of the on-going programme, which had been implemented to deliver the necessary savings and additional income required to meet the funding shortfalls:

- Continuation of delivery of savings identified in the Council's Efficiency Plan;



- A base review of the year-end position at the relevant time, identifying any potential savings, additional cost pressures and areas where savings could be developed. These would be used to update the four year financial plan;
- Generation of additional income from investment in commercial property and the realisation of cost reductions in the operation of Council owned property;
- Delivery of an Income Generation Plan that would identify new income streams for the Council and also highlight areas where further income could be increased from existing services.

The greatest financial risks continued to appear to be further potential funding cuts from Central Government and from Surrey County Council for services provided by this Council. It was noted that whilst the pay restriction in the public sector had been relaxed resource constraints would need to be taken into account in any pay award. The Panel would receive an updated position on the budget for 2018/19 at its meeting in December.

Finally, the Chairman pointed out that under his Chairmanship, the Capital Member Group would not “seek to limit” but, so far as it was within its control to do so, *would* limit the number of schemes included within the capital expenditure programme to enable retention of the agreed minimum level of capital reserves.

Accordingly, the Panel recommended to the Strategy and Resources Committee:

- (1) The following overall revenue budget target for 2018/19:-
  - a) estimates are prepared including options to reduce organisational costs by £588,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5 million in accordance with the medium term financial strategy;
  - b) that at least £200,000 additional revenue is generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3.0%;
  - c) that a provision for pay award is made of £228,000 that represents an increase to the staffing budget of 1.5%;
- (2) That further savings and efficiencies be identified to address the budget shortfalls of £90,000 in 2018/19, £577,000 in 2019/20 and £791,000 in 2020/21;
- (3) That the Capital Member Group limits schemes included within the capital expenditure programme that enable the retention of agreed minimum level of capital reserves.

**6 MINUTES**

The Minutes of the Meeting of the Financial Policy Panel held on 25 May 2017 were agreed as a true record and signed by the Chairman.

*The meeting began at 7.30 pm and ended at 8.19 pm*

COUNCILLOR EBER KINGTON (CHAIRMAN)