

## FINANCIAL POLICY PANEL

**Tuesday 3 December 2019 at 6.00 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 Kate Chinn  
Councillor Nigel Collin  
Councillor Neil Dallen

Councillor David Gulland  
Councillor Colin Keane  
Councillor Barry Nash  
Councillor Clive Smitheram

Yours sincerely

A handwritten signature in black ink, appearing to read "K. Belden". The signature is fluid and cursive, with a long, sweeping tail.

Chief Executive

For further information, please contact Democratic Services, tel: 01372 732122 or [Democraticservices@epsom-ewell.gov.uk](mailto:Democraticservices@epsom-ewell.gov.uk)

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## **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 - 2019/20 (Pages 5 - 12)**

This report sets out an update on treasury management performance for the first six months of 2019/20.

This item includes a presentation from the Council's external treasury advisors – Link Asset Services.

### **3. CAPITAL PROGRAMME 2020/21 (Pages 13 - 24)**

This report summarises the proposed 2020/21 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2020.

### **4. S106 AND CIL UPDATE REPORT (Pages 25 - 32)**

This report provides an update on the funds held under Section 106 (S106) planning agreements and CIL (Community Infrastructure Levy).

### **5. MINUTES (Pages 33 - 36)**

The Panel is asked to confirm the Minutes of the Meeting of the Panel held on 10 September 2019 (attached) and to authorise the Chairman to sign them.

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## **TREASURY MANAGEMENT INTERIM REPORT - 2019/20**

<b>Head of Service/Contact:</b>	Lee Duffy, Chief Finance Officer
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	None
<b>Other available papers (not attached):</b>	Treasury Management Strategy 2019/20 CIPFA Prudential Code Code of Practice for Treasury Management in Local Authorities (CIPFA)

### **Report summary**

This report sets out an update on treasury management performance for the first six months of 2019/20.

### **Recommendation (s)**

**That the Panel:**

- (1) Receives the presentation from Link Asset Services – Treasury Solutions;**
- (2) Notes the performance on return of investments for the first six months of 2019/20;**
- (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 2019/20 agreed by Council in February aims to ensure maximum return on investments for the Council within reasonable risk constraints.

## **2 Background**

- 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 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 01 April 2019 to 30 September 2019.
- 2.3 The CIPFA Code also requires that adequate training be provided to members with responsibility for treasury management. To meet this requirement, an officer from Link Asset Services – Treasury Solutions will attend the meeting to provide a presentation to members on current treasury management issues.

## **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, currently amounts to around £19 million at September 2019 (£15m at September 2018, £30m at September 2017).
- 3.2 The current average balance is significantly lower than 2017 levels, because the Council deployed £20.1m of its cash balances to reduce the borrowing requirement associated with commercial property investments since 2017. By deploying cash balances in this way, the Council has minimised its borrowing with the Public Works Loan Board, which typically attracts interest payable at circa 3.0% in the current environment.
- 3.3 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).
- 3.4 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 3 to 6 months 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 2019/20 was budgeted at 0.8%. This amounted to total budgeted income for the year of £96,000, generated on reserves, working balances and cash flow.
- 5.2 The performance for the first six months of 2019/20 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	7.0	30.9	0.88
Fixed Rate Deposits	3.7	20.8	1.14
Interest Bearing Account	0.8	0.6	0.14
<b>Total Internally Managed</b>	<b>11.5</b>	<b>52.3</b>	<b>0.91</b>
<b>Externally Managed Funds</b>			
Aberdeen Asset Management	7.5	33.0	0.88
<b>Grand Total</b>	<b>19.0</b>	<b>85.3</b>	<b>0.90</b>

- 5.3 To date, £85,300 interest has been earned as at the end of September, which significantly exceeds the profiled budgeted income of £48,000 for the same period. Officers anticipate that this positive performance can be maintained over the second half of the year, as the Bank of England base rate has remained steady at 0.75% across the year to date.
- 5.4 The average return achieved for the first six months of 2019/20 of 0.90% compares favourably with the benchmark average seven day London Interbank Bid (LIBID) rate of 0.57%.

- 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 one year fixed rate investment with a return of 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 0.88% is higher than the benchmark of 0.57%. 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 one fixed term deposit of £5,000,000, invested at a rate of 1.3% with a maturity date of July 2020.
- 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 recent years and it 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 0.14% compared unfavourably to the benchmark of 0.57%. As such, the interest bearing account was utilised less frequently, typically when limits with other counter parties were reached.



## **7 Externally Managed Funds**

- 7.1 Aberdeen Asset Management plc, previously Scottish Widows, has been the Council's external fund manager since 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 conditions. However, the fund manager has still consistently produced returns above the benchmark.
- 7.3 The fund manager has advised an anticipated overall return on the fund of around 1.0% by the end of the year.
- 7.4 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.
- 7.5 Due to the performance of Aberdeen Asset Management plc over the past eleven years, officers intend to continue to use Aberdeen Asset Management plc as the 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.
- 8.2 Officers have entered into a fixed rate one year investment 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 Should a commercial property acquisition, funded through borrowing, materialise during the current year, officers will explore the option of using cash balances to reduce the external borrowing requirement. External borrowing typically attracts interest payable at circa 3.0% in the current environment.

- 8.4 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 higher than those offered from interest bearing accounts, and 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 Interest Equalisation Reserve

- 9.1 The interest equalisation reserve was established 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.
- 9.2 With base rates and investment returns remaining at relatively low levels, and with the Council's cash balances lower than prior years, the funds in this reserve may be needed to achieve budgeted general fund income in the coming years.
- 9.3 As agreed at Financial Policy Panel in September 2019, the balance on this reserve has been reduced from £631,000 to £400,000 at 30 September, with £231,000 transferred to the Property Income Equalisation Reserve to assist the Council in balancing its revenue budget over the four-year period of the next Medium Term Financial Strategy.
- 9.4 The level of this reserve will be re-assessed in the 2020/21 budget report in February 2020.

## 10 Financial and Manpower Implications

- 10.1 The Council's budget anticipates the equivalent of £96,000 of interest to help fund services in 2019/20 calculated as follows:

	Budgeted £	Forecast £
Interest earned in year	96,000	172,000
Less Interest credited to specific provisions	(58,000)	(58,000)
<b>Interest used to fund General Fund services</b>	<b>38,000</b>	<b>114,000</b>

- 10.2 The forecast interest at the end of 2019/20 is anticipated to outperform the budget, generating a surplus of £76,000 above the budgeted income. It is therefore anticipated that a contribution to the interest equalisation reserve can be made to fund services in future years.
- 10.3 **Chief Finance Officer's comments:** *Financial implications are set-out in the body of the report.*

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

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

**12 Sustainability Policy and Community Safety Implications**

- 12.1 None for the purposes of this report.

**13 Partnerships**

- 13.1 There is partnership working with the external fund manager and the treasury consultants, but no particular implications arise from this report.

**14 Risk Assessment**

- 14.1 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. The total value of the fund is currently £4.8bn.
- 14.2 The Treasury Management Strategy sets out that investment decisions must be based first and foremost on security, then liquidity and finally yield, in order to minimise risk.

**15 Conclusion and Recommendations**

- 15.1 Both internal and external investments for the first six months of 2019/20 have exceeded the benchmark of 7 day LIBID rate.
- 15.2 It is recommended that the Panel:
- 15.2.1 Receives the presentation from Link Asset Services – Treasury Solutions;
  - 15.2.2 Notes the performance on return of investments for the first six months of 2019/20;
  - 15.2.3 Notes the current investment decisions being made within the terms sets out in the Treasury Management Strategy.

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

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## **CAPITAL PROGRAMME 2020/21**

<b>Head of Service/Contact:</b>	Lee Duffy, Chief Finance Officer
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	<b>Annex 1:</b> Capital Bids Ranked in Order of Priority and Revised Programme <b>Annex 2:</b> Capital Reserves Forecast
<b>Other available papers (not attached):</b>	Capital bids S106 and CIL Update Report to FPP 3 December 2019

### **Report summary**

**This report summarises the proposed 2020/21 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2020.**

### **Recommendation (s)**

**That the Panel agrees with the advice of the Capital Member Group to submit the following 2020/21 capital programme to Council for approval in February, subject to the relevant policy committees first approving project appraisals:-**

- (1) Prioritised schemes totalling £908,000, funded from capital receipts of £651,000; S106 funds of £23,000; revenue reserves of £34,000; and a budgeted revenue contribution of £200,000.**
- (2) A Disabled Facilities Grant scheme totalling £600,000, 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:-

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

## **2 Background**

- 2.1 At its meeting on 30 July 2019, 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 Eber Kington, Neil Dallen, Colin Keane, Barry Nash, and David Gulland.
- 2.2 The Capital Member Group met in September and received a list of potential projects. Using the criteria set out in the report to S&R Committee in July, the Group 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 CMG focused on prioritised schemes for 2020/21 that meet at least one of the following agreed criteria:-
  - 2.5.1 Investment required to meet statutory obligations;
  - 2.5.2 Investment essential to maintain 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 twenty-six initial bids for 2020/21, totalling £3.429 million. Of these, eight bids totalling £766k were not selected to be taken forward by CMG and a further two totalling £565k were subsequently withdrawn by officers. The remaining sixteen bids were worked into detailed submissions for review by both senior officers at Leadership Team and by members on CMG.
- 3.2 After review and challenge of the sixteen remaining detailed bids at Leadership Team and CMG, eight were not supported, and the remaining eight have been put forward by CMG for the proposed programme. Appendix 1 comprises a summary of the capital programme recommended by the Capital Member Group.
- 3.3 The proposed programme for 2020/21 comprises:-

	£'000
Core Programme of Priority Works (funded by capital reserves and revenue*)	908
Scheme to be progressed subject to external funding being achieved	600
<b>Total</b>	<b>1,508</b>

- 3.4 The funding recommended comprises:-

	£'000
Use of Capital Receipts	651
Use of revenue contribution	200
Use of repairs and renewals reserve	34
Use of S106 developer contributions	23
Use of grants for externally funded schemes	600
<b>Total</b>	<b>1,508</b>

- 3.5 The draft 2020/21 revenue budget includes a £200k contribution to fund capital schemes, in order to slow the depletion of capital receipt reserves. This revenue funding is subject to Council approval in February of the proposed 2020/21 budget.

#### **4 Capital Reserves**

- 4.1 The forecast of capital reserves shows that the balance as at 31 March 2020 would be £2.81 million, if the proposed programme is supported.
- 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 in line with the current forecast.
  - 4.2.2 No new capital receipts are received over and above the £60k received to date.
  - 4.2.3 The proposed capital programme for 2020/21 proceeds as per annex 1.
  - 4.2.4 A £200k revenue contribution in 2020/21 to fund the proposed capital programme.
  - 4.2.5 External funding for the Disabled Facilities Grant is assumed at £600k for 2020/21.

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

- 5.1 A report to the panel on the same agenda provides an update of CIL and S106 balances. There are no projects to be funded by CIL within the proposed Capital Programme for 2020/21, and one scheme to be funded by S106. The update report highlights the limited balance of CIL and S106 funds currently available for funding capital schemes, due to existing commitments.
- 5.2 Uncommitted S106 balances, as detailed in the update report, stand at £1.34 million of which £1.13 million are restricted to Affordable Housing schemes. Uncommitted CIL balances stand at £1.3 million within the main fund, and £414k within the community fund.

#### **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 2020/21 requiring funding from capital reserves is as follows:-



<b>Scheme/Funding from Capital Reserves &amp; Revenue</b>	<b>2020/21</b>
	<b>£'000</b>
ICT Programme of Works	250
Clocktower Envelope Repairs	100
Hogsmill streams and horse pond repairs	292
Hook Road Multi-storey Car Park – Replacement surface covering to roof level	80
Playhouse refurbishment	128
Bourne Hall Bungalow Roof Covering	35
Outdoor Gym Equipment in Chessington Road	23
<b>Total</b>	<b>908</b>

6.3 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 2020/21:-

<b>Scheme</b>	<b>Estimate (£'000)</b>	<b>Funding</b>
Mandatory Disabled Facilities Grants	600	Better Care Fund DFG
<b>Total externally funded schemes</b>	<b>600</b>	

7.2 The amount in the table above is an estimate of the funding anticipated for 2020/21 and the exact amount is expected to be communicated in April 2020. Once the exact amount is confirmed, the budget in the capital programme will be adjusted accordingly.

7.3 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 Proposals

8.1 The Panel is asked to confirm the recommendation of the Capital Member Group:-

8.1.1 Schemes, identified in section 6, totalling £908k in 2020/21 and funded from capital reserves, revenue and S106 should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals;

8.1.2 Schemes identified in section 7 totalling £600k 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.

## 9 Financial and Manpower Implications

9.1 The policy committees will receive appraisals for 2020/21 projects in late January and early February, including revenue cost implications.

9.2 If all schemes are progressed between 2020 and 2023 the estimated level of capital receipts reserves will fall from £2.81 million at 1 April 2020 to £2.15 million at 31 March 2021. This is a sufficient level of contingency in the short term. For the longer term, the Council is building annual revenue contributions to fund capital expenditure, into the draft Medium Term Financial Strategy, in order to support a sustainable capital programme for the future. However members should note the following risks;

9.2.1 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.

9.2.2 Interest earned on cash balances and available to help fund services may reduce as capital reserves are depleted. The projected use of reserves over the period is up to £908k; with an average medium term rate of 1% over this period it could reduce revenue funding by £9,080 per annum.

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

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

10.1 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.

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

## 11 Sustainability Policy and Community Safety Implications

11.1 There are no specific issues for the purposes of this report.

## 12 Partnerships

12.1 There are no specific issues for the purposes of this report.

### **13 Risk Assessment**

- 13.1 The main risks are that (a) the additional investment from capital reserves will reduce the funding available to support 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.
- 13.2 With limited capital receipts available to fund investment, the CMG's 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.
- 13.3 In the long term the Council is considering alternative funding sources to finance capital investment or the further sale of Council assets. The Medium Term Financial Strategy will aim to address this by proposing revenue contributions to fund capital expenditure from 2020/21, in order to reduce the reliance on capital receipts.

### **14 Conclusion and Recommendations**

- 14.1 Capital Member Group recommends that the capital programme outlined in this report for 2020/21 be considered by Council in February.
- 14.2 That prioritised schemes totalling £908,000 for 2020/21 are added to the capital programme, funded from capital reserves and revenue, subject to the relevant policy committees receiving and approving project appraisals.
- 14.3 That schemes totalling £600,000 for 2020/21 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);

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# Appendix 1 - Summary of 2020/21 Capital Programme bids for inclusion

Bid Number	Proposed Capital Programme 2020/21 Schemes	Scheme Capital Expenditure				Feedback from CMG 13 November 2019	Criteria	Priority Ranking	Funding	
		2020/ 21	2021/ 22	2021/ 22	Scheme Total				Capital Receipts	Other Funding
		£'000	£'000	£'000	£'000				£'000	£'000
Community & Wellbeing Bid 1	The Disabled Facilities Grant Programme	600	600	600	1,800	Supported as it is externally funded and a mandatory function.	Externally Funded	1	-	1,800
Strategy & Resources Bid 9	ICT Programme of works	250	-	-	250	Supported as scheme is essential to maintain the fundamental ICT infrastructure required by the Council.	Business Continuity	2	250	-
Strategy & Resources Bid 2	Clocktower envelope repairs	100	-	-	100	Supported as the scheme is essential to maintain the structure to protect revenue income streams.	Business Continuity	3	100	-
Environment & Safe Communities Bid 5	Hogs mill streams and horse pond repairs	292	-	-	292	Supported assuming the Council is legally obliged to undertake these works. The Chief Legal Officer will investigate the Council's responsibilities and expenditure will be dependent upon there being a legal requirement upon the Council.	Statutory - awaiting Legal advice	4	292	-
Environment & Safe Communities Bid 3	Hook Road Multi-Storey Car Park - replacement surface covering to roof level	80			80	Supported as this scheme is essential to maintain the structure to protect revenue income streams.	Business Continuity	5	80	-
Community & Wellbeing Bid 5	Playhouse Refurbishment	128			128	Supported as business continuity and that the available repairs and renewals reserve funding be utilised first.	Business Continuity	6	94	34
Community & Wellbeing Bid 2	Bourne Hall Bungalow Roof Covering	35			35	Supported as this scheme is essential to maintain the structure to protect revenue income streams.	Business Continuity	7	35	
Community & Wellbeing Bid 3	Outdoor gym equipment in Chessington Road	23			23	Supported as it is externally funded by S106 receipts.	Externally Funded	8		23
<b>Total Potential Bids</b>		<b>1,508</b>	<b>600</b>	<b>600</b>	<b>2,708</b>				<b>851</b>	<b>1,857</b>

**Bids Not Meeting Assessment Criteria - as assessed by CMG - 13 November 2019**

Bid Number	Proposed Schemes	2020/ 21 Expenditure	Feedback from Leadership Team October 2019	Feedback from CMG 5 September 2019
Strategy & Resources Bid 1	Audio and Visual Equipment Replacement	88	Not supported as not considered essential for business continuity and given the immobility of the proposed system, we should await the outcome of the Asset Management Plan. Therefore defer until AMP agreed	Yes - CR1 & CR2 elements removed. Full bid must include options requiring considerably less investment. Options must be portable.
Strategy & Resources Bid 5	Town Hall Council Chamber Health and Safety works	27	Not supported as not considered a capital enhancement. The works could be undertaken through the backlog maintenance programme, and funded via the planned maintenance reserve, to be included in the April 2020 report to S&R Committee	Yes - full bid must include options such as not doing all of the windows. Why does the secondary glazing need to be replaced?
Strategy & Resources Bid 6	New Town Hall glass atrium roof in structural glazing	120	Not supported as the bid paperwork did not evidence the urgency of this scheme and that we should await the outcome of the Asset Management Plan. Therefore defer until AMP agreed.	Yes - full bid must include evidence of urgency. Could spot repairs be undertaken?
Environment & Safe Communities Bid 4	Longmead Depot - additional security works	29	Not supported as should be undertaken as business as usual revenue-funded works and addressed in this financial year.	Yes - full bid to provide further details as specified in initial bid.
Environment & Safe Communities Bid 9	Purchase of three Electric Vehicles for Community Services	79	Not supported as this scheme did not satisfy the spend-to-save criteria.	Yes - is there opportunity to link in with other boroughs/LGA for bulk discounts? What would be the costs of leasing the vehicles?
Community & Wellbeing Bid 7	Bourne Hall Ladies Toilet refurbishment	50	Not supported as not considered essential for business continuity. The works could be undertaken through the backlog maintenance programme, and funded via the planned maintenance reserve, to be included in the April 2020 report to S&R Committee.	Yes - include reduced cost option of procuring at same time as the men's toilets works; justify the increase in cost from bid submitted last year; explain any new health & safety issues having arisen in past 12 months; incorporate details of business plan to generate additional revenue/protection of revenue.
Community & Wellbeing Bid 8	Improving the efficiency and effectiveness of the Council's grass cutting operations	45	Not supported as this scheme did not satisfy the spend-to-save criteria.	Yes - be clearer about payback within 5 years; are there other revenue savings; include the option of leasing the vehicle as a comparison; include any complaints with regards grass cuttings.

**Bids withdrawn for consideration in this year's programme**

Community & Wellbeing Bid 4	Bourne Hall Replacement of Heating and Cooling Plant	540	Scheme withdrawn for this year.	Yes - provide breakdown of costs each of the components and the savings against each on; what are the annual revenue costs for gas and electric; spend to save; could the building be reconfigured to allow better efficiency within the building; what is the cost of doing nothing; likelihood of failure?
Environment & Safe Communities Bid 8	Hudson House	25	Scheme withdrawn for this year.	Yes - remove CCTV element and full bid to be submitted as a Spend to Save project, funded by increases in permit fees.

**Bids Not Progressed Following CMG 5 September 2019**

Strategy & Resources Bid 3	Town Hall air conditioning replacement	80	Not considered.	No - await outcome of Asset Management review
Strategy & Resources Bid 4	Old Town Hall flat roof	150	Not considered.	No - await outcome of Asset Management review
Strategy & Resources Bid 7	Town Hall refurbishment of ground floor toilets	60	Not considered.	Toilets are the staff toilets, not the public ones. No - await outcome of Asset Management review.
Strategy & Resources Bid 8	Climate change - energy/reduction	95	Not considered.	No - await output of the Climate Change Working Group.
Environment & Safe Communities Bid 2	Hook Road Multi-Storey Car Park - replacement of CCTV system and cameras	80	Not considered.	No - await outcome of Borough CCTV Review.
Environment & Safe Communities Bid 6	Electric Vehicle Charge Points	175	Not considered.	No - business case does not repay within 5 years.
Environment & Safe Communities Bid 7	CCTV	61	Not considered.	No - await outcome of Borough CCTV Review.
Community & Wellbeing Bid 6	Playhouse Bar Refurbishment	65	Not considered.	No - business case does not repay within 5 years.

## Annex 2 - Provisional Capital Programme Funding Summary

	Community Infrastructure Levy - 80%	Section 106 S106	Capital Grant-DFG	Capital Receipts	Repairs and Renewals Reserves	Residential Property Fund	Other Contributions	Borrowing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Available Capital Resources at 1/4/2019</b>	<b>3.95</b>	<b>0.22</b>	<b>0.55</b>	<b>4.18</b>	<b>0.27</b>	<b>1.37</b>	<b>0.00</b>	<b>55.65</b>	<b>64.94</b>
Anticipated Receipts in 2019/20	1.20	0.00	0.69	0.06	0.00	0.00	0.10	0.00	2.05
Funding the 2019/20 Capital Programme	-3.27	-0.01	-1.25	-1.43	0.00	-0.02	-0.10	0.00	-6.08
<b>Estimated available Capital Resources at 31/3/2020</b>	<b>1.89</b>	<b>0.21</b>	<b>0.00</b>	<b>2.81</b>	<b>0.27</b>	<b>1.35</b>	<b>0.00</b>	<b>55.65</b>	<b>60.91</b>
<b>Estimated available Capital Resources at 1/4/2020</b>	<b>1.89</b>	<b>0.21</b>	<b>0.00</b>	<b>2.81</b>	<b>0.27</b>	<b>1.35</b>	<b>0.00</b>	<b>55.65</b>	<b>60.91</b>
Anticipated Receipts in 2020/21	1.04	0.00	0.60	0.00	0.00	0.00	0.20	0.00	1.84
Proposed New Bids for 2020/21	0.00	-0.02	-0.60	-0.65	-0.03	0.00	-0.20	0.00	-1.51
<b>Estimated available Capital Resources at 31/3/2021</b>	<b>2.93</b>	<b>0.18</b>	<b>0.00</b>	<b>2.15</b>	<b>0.24</b>	<b>1.35</b>	<b>0.00</b>	<b>55.65</b>	<b>61.24</b>
<b>Estimated available Capital Resources at 1/4/2021</b>	<b>2.93</b>	<b>0.18</b>	<b>0.00</b>	<b>2.15</b>	<b>0.24</b>	<b>1.35</b>	<b>0.00</b>	<b>55.65</b>	<b>61.24</b>
Anticipated Receipts in 2021/22	1.04	0.00	0.60	0.00	0.00	0.00	0.30	0.00	1.94
Proposed New Bids for 2021/22	0.00	0.00	-0.60	0.00	0.00	0.00	0.00	0.00	-0.60
<b>Estimated available Capital Resources at 31/3/2022</b>	<b>3.97</b>	<b>0.18</b>	<b>0.00</b>	<b>2.15</b>	<b>0.24</b>	<b>1.35</b>	<b>0.30</b>	<b>55.65</b>	<b>62.58</b>

### Notes:

1. The majority of bids have been initially been allocated funding from Capital Receipts, however alternative funding sources could be used e.g Repairs and Renewals, CIL and Section 106.
2. Other contributions relates to the £100k revenue contribution to fund capital schemes in 2019/20; increasing by £100k each year.
3. CIL receipts are 80% of the total collected less earmarked funds.
4. Affordable Housing S106 funds have been excluded from the above figures as these are generally allocated to Registered Providers of social housing, and not able to be used to fund the Council's capital programme.
5. No expenditure has been entered for the residential (bar a carry forward from 18/19 of £19k) and commercial property funds but this will occur when opportunities arise. The timing of the expenditure cannot be forecast, therefore has been left blank at this time.
6. Borrowing is only available to fund the In-Borough Commercial Property Acquisition Fund.

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## **S106 AND CIL UPDATE REPORT**

<b>Head of Service/Contact:</b>	Lee Duffy, Chief Finance Officer
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Annexes/Appendices (attached):</b>	None
<b>Other available papers (not attached):</b>	None

### **Report summary**

This report provides an update on the funds held under Section 106 (S106) planning agreements and CIL (Community Infrastructure Levy).

### **Recommendation (s)**

That the Panel notes:

- (1) the current position on S106 funds held by the authority.**
- (2) the current position on CIL funds held by the authority.**

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

- 1.1 Council approved the Capital Strategy Statement on 19 February 2019 as Appendix 10 to the Budget Report. Section 106 and CIL funding supports the achievement of Key Priorities in the Corporate Plan where investment can be funded from developer contributions and CIL receipts.

## **2 Current Position: S106**

- 2.1 The Council currently holds funds from S106 agreements totalling approximately £2.2 million. From this balance £880k is committed within the capital programme for such items as affordable housing or earmarked for schemes awaiting further approval. Included within this balance is £90k that will to be transferred to Surrey County Council and other organisations, as the authority responsible for utilising these funds.

- 2.2 The current position of Section 106 funds held as at the end of September 2019 is summarised below:-

	£'000	£'000
<b>Section 106 funds held as at 1 April 2019</b>		<b>1,817</b>
Section 106 net receipts to 30 September 2019		402
<b>Balance of S106 Funds held as 30 September 2019</b>		<b>2,219</b>
Less:		
Funds held due to SCC and other organisations	(90)	
Funds committed and approved for specific schemes	(111)	
Funds held for Horton Chapel	(679)	
		(880)
<b>Unallocated S106 funds as at 30 September 2019</b>		<b>1,339</b>

- 2.3 The unallocated funds are held within various categories of expenditure as follows:-

<b>Breakdown of unallocated S106 balances</b>	<b>£'000</b>
Open Spaces	20
Affordable Housing	1,134
Open Space - Park & Gardens	13
Open Space - Outdoor Sports Facilities	142
Environmental Improvements	29
Community Facilities	1
<b>Total</b>	<b>1,339</b>

### 3 Current Position: CIL

- 3.1 The Council currently holds funds from CIL totalling approximately £6.16 million. The balance is split across three funds. 5% is held to fund the administration of the scheme; 15% is reserved for a community fund, split between a Civic Infrastructure Fund and Borough Investment Fund; and the remaining 80% is held for infrastructure provision to support new development in the Borough and can be accessed by both the County Council and the Borough Council.
- 3.2 The current balance of CIL across the three funds, and allocation of amounts committed to date are as follows:-

	<b>Main Fund (80%) £'000</b>	<b>Community Fund (15%) £'000</b>	<b>Admin Fee (5%) £'000</b>	<b>Total £'000</b>
<b>CIL funds held at 1 April 2019</b>	<b>4,453</b>	<b>804</b>	<b>133</b>	<b>5,390</b>
CIL receipts invoiced to 30 Sept 2019	1,377	258	86	1,721
Invoices outstanding at 30 Sep 2019	(761)	(143)	(47)	(951)
Receipt held as charge against property	(1)	0	0	(1)
CIL Payments made to 30 Sept 2019	0	0	0	0
<b>CIL Funds held at 30 September 2019</b>	<b>5,068</b>	<b>919</b>	<b>172</b>	<b>6,159</b>
<i>Less commitments:</i>				
Plan E contribution	(2,519)			(2,519)
Cemetery Extension	(689)			(689)
Paving outside Playhouse	(60)			(60)
Stoneleigh Station	(500)			(500)
Civic Infrastructure Fund 2018/19		(155)		(155)
Borough Investment Fund		(100)		(100)
Civic Infrastructure Fund 2019/20		(250)		(250)
Monitoring CIL scheme in 2019/20			(99)	(99)
<b>Unallocated CIL funds at 30 September 2019</b>	<b>1,300</b>	<b>414</b>	<b>73</b>	<b>1,787</b>

3.3 The Council generated £1.721m of Community Infrastructure Levy (CIL) for the period 1 April 2019 to 30 September 2019. This includes one sum for £920k. Large sums are collected in instalments so not all of the cash has been received at this date. Of the £951k of invoices raised but not yet collected, £176k relates to previous financial years and is being pursued by the Legal department.

3.4 A report to S&R Committee in April 2018 agreed a sum of £250k for a Civic Infrastructure Fund in 2018/19 and £100k for a Borough Investment Fund. The report also set out the procedures for applications to the funds. From the Civic Infrastructure Fund, 8 bids were approved, of which 3 completed in 2018/19, 3 are under way or close to completion, and 2 are on hold whilst further investigation into their viability takes place. The table below shows the expenditure to date against these projects:-

2018/19 Civic Infrastructure Fund Project	Allocated Budget	Revised Sum	Expenditure to 30/09/19	Notes
Bid 2 Green Lanes Stream Clearance	15,000	15,000	2,800	Works under way and should be completed in December.
Bid 5 Court Rec Play Equipment	21,240	21,240	18,142	Completed 2018/19, plaques added 19/20.
Bid 7 Horton Country Park Path Restoration	56,000	56,000	54,600	Retention of £1,400 held.
Bid 13 Auriol Park Table Tennis Tables	14,845	14,845	14,845	Completed 2018/19, plaques added 19/20.
Bid 4 Woodcote Green Bus Shelter	35,640	35,640	0	Shelter in use, awaiting real-time data feed not yet billed.
Bid 8 East Street Trees	23,000	23,000	1,120	On hold pending review.
Bid 9 Station Approach Street Works	30,035	30,035	0	On hold pending review.
Bid 10 West Street Lighting	53,900	61,271	61,271	Completed 2018/19

3.5 No bids for the Borough Investment Fund were processed during 2018/19 and a number are being agreed for 2019/20 – so far one of these has been paid out for £4,478 for the Epsom & Ewell District Scout Shop. Three further bids have been approved and the Council will pay the grants totalling £26,000 once invoices are received and approved for completed works.

3.6 The 2019/20 Civic Infrastructure Fund aims to build on the experience of the 2018/19 scheme and in April 2019 S&R Committee agreed a further £250k for 2019/20 projects. The new programme has now been agreed and the successful projects detailed below:-

2019/20 Civic Infrastructure Fund Project	Allocated Budget
Bid 8 Epsom Common Facilities	£26,000
Bid 12 Horton Country Park Bridleway Path Restoration	£75,646
Bid 13 2 <sup>nd</sup> Epsom Scouts Refurbishment of HQ	£27,000
Bid 15 Clarendon Park Replacement Swing	£11,546

Bid 16 Defibrillators across Epsom	£28,800
Bid 17 Wet Pour across borough playgrounds	£32,995
Bid 18 Mo-Ichido Martial Arts Club	£30,000
<b>Total</b>	<b>£231,987</b>

#### 4 Proposals for use of uncommitted S106 and CIL balances

- 4.1 The majority of uncommitted S106 balances are within the Affordable Housing category, the level of which currently stands at £1.1 million. This funding is used to facilitate the provision of affordable housing in the Borough where the project is not financially viable without additional funding. Officers work with providers to identify schemes where the affordable housing would not be deliverable without additional support.
- 4.2 Future CIL receipts are currently forecast at a level of £1.3m each year. To be eligible for funding from the CIL Main Fund (80%), schemes must meet the infrastructure types set-out in the Council's Regulation 123 list. The Regulation 123 list is currently being reviewed to ensure it meets the Borough's future needs. The Joint Infrastructure Group (JIG) considers schemes eligible for CIL funding and makes recommendations to Strategy & Resources Committee who approve the funding. The priority for allocating CIL funds will need to take into account future plans for growth across the borough, set out by the Local Plan.

#### 5 Financial and Manpower Implications

- 5.1 Section 106 and CIL receipts provide an opportunity for additional investment.
- 5.2 The relevant policy committee will need to ensure that there are no additional resource implications for new schemes that would have an adverse impact on budgets for other services. Some schemes may even reduce future maintenance liabilities.
- 5.3 **Chief Finance Officer's comments:** All financial implications are reflected in the body of this report.

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

- 6.1 Agreement under Section 106 of the Town and Country Planning Act 1990 comprises an agreement often associated with the grant of planning permission which confers a benefit to the community, e.g. where a housing development is to be permitted, the applicant or developer agrees to build or pay for a new school or additional leisure facilities for the community.
- 6.2 CIL is a local tax on new development that local authorities can choose to introduce to help fund infrastructure in their area. CIL provides a relatively straightforward mechanism for collecting contributions from new developments. This is guided by the Community Infrastructure Levy Regulations 2010 and subsequent Amending Regulations.
- 6.3 The Council maintains an Infrastructure Delivery Plan (IDP) and a draft Regulation 123 list, the latter identifying the types of community infrastructure that the Council envisages using CIL funding for. The IDP identifies the infrastructure improvements required to support growth and demonstrates that there is a sufficient 'infrastructure funding gap' to justify the need to collect CIL.
- 6.4 The establishment of CIL requires partnership working with infrastructure providers and partnership working is fundamental to the success and delivery of the objectives of the Borough.
- 6.5 Section 106 agreements will continue to be used where on-site community infrastructure is required. They will also continue to be used to secure affordable housing.
- 6.6 ***Monitoring Officer's comments:*** None for the purposes of this report.

**7 Sustainability Policy and Community Safety Implications**

- 7.1 There are no specific issues for the purposes of this report.

**8 Partnerships**

- 8.1 There are no specific issues for the purposes of this report.

**9 Risk Assessment**

- 9.1 This report forms part of on-going work on s106 planning agreements and CIL receipts that will lead to better management of expenditure funded from these monies.
- 9.2 The main risks at present are that investment funded from agreements is not properly prioritised, that investment is not made in a timely manner or that receipts are not claimed against agreements.

**10 Conclusion and Recommendations**

- 10.1 This report sets out the current S106 and CIL balances available to the Council.
- 10.2 The Panel are asked to note the current position on CIL and S106 funds held by the Council.

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

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**Minutes of the Meeting of the FINANCIAL POLICY PANEL held on 10 September 2019**

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**PRESENT -**

Councillor Eber Kingston (Chairman); ; Councillors Kate Chinn, Nigel Collin, Neil Dallen, David Gulland, Colin Keane, Barry Nash and Clive Smitheram

Officers present: Lee Duffy (Chief Finance Officer) and Brendan Bradley (Chief Accountant)

**1 DECLARATIONS OF INTEREST**

No declarations of interest were made by councillors regarding items on the agenda for the meeting.

**2 REVIEW OF RESERVES**

The Panel received and considered a report reviewing the level of the Council's reserves.

The Panel requested confirmation that the Audit Commission's suggested range for un-earmarked reserves was 5% to 100% of net operating expenditure, as stated in in the report. *(Post meeting note – officers have confirmed the Audit Commission's suggested range of 5% to 100%).*

The Panel queried the appropriateness of the Property Income Equalisation Reserve target balance and whether it was, in fact, over prudent.

The Chief Finance Officer explained that the target balance represented one year's rental income from each of the five commercial properties purchased in recent years using external borrowing. It was explained that the reserve would be needed to mitigate the risks of losing a tenant and associated rental income, as services to residents depended on this income and the Council would have to fund the annual borrowing costs. The reserve would also needed to mitigate the risk of having to undertake significant capital works at any of the properties in order to maintain tenants/rental income. The Chief Finance Officer confirmed his view that the target balance was appropriate and proportionate to the risks faced by the Council, and agreed to circulate a post meeting note with further detail.

The Panel also queried the level of reserves held principally for Insurance, Value Added Tax, and Property Maintenance.

The Chief Finance Officer explained that these reserve balances were required for the purposes set-out in the report, and considered that the balances were

appropriate and proportionate to the level of financial risk faced by the Council in the medium term.

Following consideration, the Panel agreed:

- (1) That the overall level of the Council's reserves and provisions were appropriate for the sound management of the Council's finances.
- (2) That the level of individual reserves and provisions were appropriate and it supported the transfers between reserves as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 of the report.

### 3 BUDGET TARGETS 2020/21 AND THE DEVELOPMENT OF THE MEDIUM TERM FINANCIAL STRATEGY FOR 2020-2024

The Panel received and considered a report that sought guidance on the budget targets for 2020/21 and the development of the Medium Term Financial Strategy 2020-2024.

The Panel queried the level of pay provision; the Chief Finance Officer explained that the provision was an estimate based on CPI inflation of 2% and that the actual figure would be agreed as part of the pay award at a subsequent Strategy & Resources Committee.

The Panel asked about progress on the work programme for addressing the funding shortfall identified within the next four year forecast. The Chief Finance Officer explained that a base review had identified savings that would be incorporated into the budget setting process. Star chamber meetings had been held with Heads of Service over the Summer and the outcome of this process would be reported to members in due course.

The Panel were informed that the Fair Funding Review had been delayed by the Chancellor of the Exchequer in favour of a one year settlement for 2020/21, with provisional individual settlements for Councils expected to be announced in December 2019. However, the Fair Funding Review could still adversely impact the Council's financial position from 2021/22, and the Medium Term Financial Strategy forecasts factored in the most likely scenario.

The Panel agreed that the minimum working balance target should remain at £2.5million.

Accordingly, the Panel agreed to recommend to Strategy & Resources Committee:

- (1) The following overall budget target for 2020/21:-
  - a) That estimates are prepared including options to reduce organisational costs by £544,000 in 2020/21 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 £290,000 additional revenue is generated from an increase in discretionary fees and charges, is based on minimum overall increase in yield of 3.0%, with the exception of car parking which is set at 6.0% as these charges are adjusted every two years;
- c) that a provision for pay award is made of £400,000 that allows for a 2% cost of living increase.
- (2) That further savings are identified for inclusion within the new Medium Term Financial Strategy for 2020-2024 to reduce the Council's net operating costs by a minimum of £1,825,000 over the period 2020/21 to 2023/24;
- (3) That Capital Member Group seeks to maintain a minimum capital expenditure programme to control the use of capital reserves between 2020 and 2024, subject to an appropriate prioritisation of spend to save and externally funded schemes.

COUNCILLOR EBER KINGTON (CHAIRMAN)

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