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Legal and Democratic Services



FINANCIAL POLICY PANEL

Tuesday 30 November 2021 at 6.00 pm

Place: 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 Colin Keane (Chair)
Councillor John Beckett
Councillor Kate Chinn
Councillor Alex Coley

Councillor Nigel Collin
Councillor Neil Dallen
Councillor Jan Mason
Councillor Clive Woodbridge

Yours sincerely

A handwritten signature in black ink that reads 'K. Beldan'.

Chief Executive

For further information, please contact Democratic Services, tel: 01372 732000 or 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. MINUTES (Pages 5 - 6)

The Panel is asked to confirm the Minutes of the Meeting of the Panel held on 7 September 2021 (attached) and to authorise the Chairman to sign them.

3. INTERIM TREASURY MANAGEMENT PERFORMANCE (Pages 7 - 14)

This report provides an update on treasury management performance for the first six months of 2021/22.

4. REVIEW OF RESERVES (Pages 15 - 32)

This report presents a review of the Council's reserves and financial standing.

5. CAPITAL PROGRAMME 2022/23 (Pages 33 - 46)

This report summarises the proposed 2022/23 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2022.

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Minutes of the Meeting of the FINANCIAL POLICY PANEL held on 7 September 2021

PRESENT -

Councillors John Beckett, Kate Chinn (Connected to the meeting virtually), Alex Coley, Nigel Collin, Neil Dallen, Jan Mason and Clive Woodbridge

Absent: Councillor Colin Keane

Officers present: Brendan Bradley (Chief Accountant), Sue Emmons (Senior Accountant) and Tim Richardson (Committee Administrator)

1 DECLARATIONS OF INTEREST

No declarations of interest were made in relation to Items of business to be discussed at the meeting.

2 MINUTES

The Minutes of the previous meeting of the Financial Policy Panel held on 2 February 2021 were agreed as a true record and signed by the acting Chair.

3 STRATEGIC FINANCIAL PLANNING – 2022/23

The Panel received a report seeking guidance on the approach to be used in preparing the budget for 2022/23.

The report requested the Panel's support for the proposed budget setting strategy and highlighted that the forecast balanced position for 2022/23 is contingent on many uncertain factors, which may change throughout the budget process, including:

- That the Government delays implementation of its Fair Funding Review, as expected.
- That the Council is able to deliver all the savings already included within the Financial Plan.
- No new growth in expenditure.

The following matters were raised by Councillors:

- a) The Council's progress in implementing the new staffing structure and recruiting to vacant posts - **Action – the number of posts currently vacant to be circulated to FPP members.**
- b) The level of revenue reserves, including the Business Rates Equalisation Reserve and whether these reserves could be re-purposed;
- c) The potential impact of central government's Fair Funding Review on the Council's budget position and forecast reserve levels;
- d) The deliverability of savings within the Medium Term Financial Strategy;
- e) The extent to which income from Council services, in particular car parks, is recovering.
- f) The adequacy of resources allocated to the Local Plan and planning appeals.

Following consideration, the Panel resolved:

- (1) To support the 2022/23 budget setting strategy, as set-out in this report;**
- (2) To support the budget setting timetable at Appendix 1.**

The meeting began at 6.00 pm and ended at 6.20 pm

TREASURY MANAGEMENT - INTERIM REPORT 2021/22

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	None

Summary

This report provides an update on treasury management performance for the first six months of 2021/22.

Recommendation (s)

The Panel is asked to:

- (1) Receive the presentation from Link Asset Services – Treasury Solutions;**
- (2) Note the performance on return of investments for the first six months of 2021/22;**
- (3) Note the current investment decisions being made within the terms sets out in the Treasury Management Strategy.**

1 Reason for Recommendation

- 1.1 The 2021/22 Treasury Management Strategy, agreed by Council in February, aims to ensure maximum return on investments for the Council within reasonable risk constraints. The Strategy requires a mid-year treasury management performance report to be brought before Financial Policy Panel – the recommendations ensure this requirement is met.

2 Background

- 2.1 The Council's Treasury Management Strategy ("the Strategy") is consistent with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services. It supports the achievement of the Council's Medium Term Financial Strategy.
- 2.2 The Strategy 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 2021 to 30 September 2021.
- 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 provide a presentation to members on current treasury management issues.
- 2.4 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 £24 million at September 2021 (£18m at September 2020).
- 2.5 Since 2017, the Council has deployed £26m of its cash balances to reduce the borrowing requirement associated with commercial property investments. 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 1.7% in the current environment.
- 2.6 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).
- 2.7 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.

3 Security, Liquidity and Yield

- 3.1 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:

- 3.1.1 to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
- 3.1.2 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;
- 3.1.3 to update financial limits to each institution depending on the quality of their financial ratings.

4 Current Performance

- 4.1 The average return from investments for 2021/22 was budgeted at 0.75%. This amounted to total budgeted income for the year of £115,000, generated on reserves, working balances and cash flow.
- 4.2 The performance for the first six months of 2021/22 on the Council's investments is as follows;

	Average Investment (Apr-Sept) £'m	Interest Received (Apr-Sept) £'000	Average Rate of Return %
Internally Managed Funds			
Money Market Funds	19.3	0.3	0.003
Fixed Rate Deposits	0.0	0.0	0.000
Interest Bearing Account	4.9	0.2	0.010
Total Internally Managed	24.2	0.5	0.005
Externally Managed Funds			
Abrdn/Aberdeen Asset Management	0.0	0.0	0.000
Grand Total	24.2	0.5	0.005

- 4.3 By the end of September, only £500 interest had been earned, which falls significantly short of the profiled budgeted income of £57,500 for the same period. The shortfall is because the Bank of England base rate has remained at all-time lows of just 0.10% throughout the period, which has limited returns available in the market. Officers anticipate that it will be difficult to achieve the budgeted income over the second half of the year.

- 4.4 Despite the shortfall in budgeted income, the average return achieved for the first six months of 2021/22 of 0.005% compares favourably with the benchmark average seven day London Interbank Bid (LIBID) rate of -0.083% (minus 0.083%).
- 4.5 Should interest income remain under budget at year end, a contribution from the Interest Equalisation Reserve to the General Fund may be required.

5 Internally Managed Funds

Money Market Funds

- 5.1 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.
- 5.2 The return made on money market funds of 0.003% is higher than the benchmark of -0.083%. Investment in money market funds has meant that cash balances could be called back with no notice required.

Fixed Rate Term Deposits

- 5.3 The Council had no fixed term deposits to September 2021. The current strategy has been to hold cash balances in more liquid Money Market Funds, to ensure the Council can access its cash balances quickly if required to in the current uncertain environment.
- 5.4 The market rate for fixed term deposits (up to one year in duration) is starting to increase, with rates around 0.25%. Officers are currently looking to make a 6 month fixed term sustainable deposit in line with guidance obtained from our independent advisors.

Interest Bearing Accounts

- 5.5 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.
- 5.6 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.
- 5.7 The return made on interest bearing accounts of 0.01% compared favourably to the benchmark of -0.083%.

6 Externally Managed Funds

- 6.1 Abridn/Aberdeen Asset Management has been the Council's external fund manager since October 2007.
- 6.2 The main benefit to the Council of using external fund managers is to minimise the Council's risk, as the funds invested 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.
- 6.3 During the pandemic, officers have been using money market funds to hold cash balances instead of the external fund manager, as the money market funds allow the Council to access cash balances more quickly if required to in the current uncertain environment.
- 6.4 Beyond the pandemic, due to its reliable performance over the past fourteen years, officers expect to continue to utilise Aberdeen Asset Management as the external fund manager when required.

7 Sustainable Investments

- 7.1 The EU Sustainable Financial Disclosure Regulation (SFDR) came into force on 10 March 2021.
- 7.2 This requires asset managers and financial advisors to be more transparent about the way they integrate sustainability risks and opportunities within their investment processes and provide greater disclosure on a funds environmental and social features.
- 7.3 The EU has devised a classification system, which labels funds as either:
 - Article 6 – Explains how sustainability risks are integrated in investment processes
 - Article 8 – Specifically promotes sustainability characteristics, such as environmental and social characteristics, along with good governance
 - Article 9 – Generating sustainable outcomes is the primary investment objective
- 7.4 The money market funds invested in by the Council are compliant with Article 8, apart from one. This fund is currently working towards Article 8 compliance with the aim of being fully compliant by the end of the year.

8 Treasury Management Strategy

- 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 The current strategy is to hold cash balances in the more liquid money market funds, to ensure the Council can access its cash balances quickly if required to in the current uncertain environment.
- 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. 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 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 The balance on this reserve at 30 September was £400,000.
- 9.3 Should interest income remain under budget at year end, a compensating contribution from this reserve to the General Fund may be required.
- 9.4 With base rates and investment returns remaining at very low levels, the funds in this reserve may also be needed to achieve budgeted general fund income in the coming years.

10 Risk Assessment

Legal or other duties

10.1 Impact Assessment

- 10.1.1 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.

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.

10.2 Crime & Disorder

10.2.1 None.

10.3 Safeguarding

10.3.1 None.

10.4 Dependencies

10.4.1 None.

10.5 Other

10.5.1 None.

11 Financial Implications

11.1 The Council's budget anticipates the equivalent of £57,000 of interest to help fund services in 2021/22, calculated as follows:

	Budgeted £	Forecast £
Interest earned in year	115,000	8,000
Total Interest Available	115,000	8,000
Less Interest credited to specific provisions	58,000	58,000
Interest used to fund General Fund services	57,000	-50,000

11.2 The forecast interest at the end of 2021/22 is anticipated to underperform the budgeted income by £107,000. It is therefore anticipated that a contribution from the interest equalisation reserve may be required to fund the deficit in 2021/22.

11.3 **Section 151 Officer's comments:** Financial implications are set-out in the body of the report. The 2022/23 income budget will need to be set to take account of post-Covid economic conditions and market returns.

12 Legal Implications

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

12.2 **Legal Officer's comments:** None for the purposes of this report.

13 Policies, Plans & Partnerships

- 13.1 **Council's Key Priorities:** The following Key Priorities are engaged:
Effective Council
- 13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 13.3 **Climate & Environmental Impact of recommendations:** None.
- 13.4 **Sustainability Policy & Community Safety Implications:** None.
- 13.5 **Partnerships:** There is partnership working with the external fund manager and the treasury consultants, but no particular implications arise from this report.

14 Background papers

- 14.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2020-21 Treasury Management Year-End Performance – Strategy & Resources Committee, 27 July 2021
- Budget Report 2021/22 – Full Council, 16 February 2021

Other papers:

- Treasury Management Strategy 2021/22
- CIPFA Prudential Code
- Code of Practice for Treasury Management in Local Authorities (CIPFA)

REVIEW OF RESERVES

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	1 – Reserve policies and recommended minimum balances

Summary

This report presents a review of the Council's reserves and financial standing.

Recommendation (s)

The Panel is asked to:

- (1) Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;**
- (2) Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report;**
- (3) Support the transfer of the uncommitted balance on the Interest Equalisation Reserve back to the Corporate Projects Reserve.**

1 Reason for Recommendations

- 1.1 The recommendations will ensure that the Council maintains an appropriate level of reserves for the sound management of the Council's finances.

2 Background

- 2.1 The Medium Term Financial Plan 2020-24 (MTFP), including the Medium Term Financial Strategy (MTFS), was approved by Full Council in February 2020 following a review of the Council's financial standing.
- 2.2 The MTFS includes the following objectives for budgets, revenue reserves and investment:

- 2.2.1 Produce a balanced revenue budget each year;
- 2.2.2 Maintain a prudent level of strategic reserves and a minimum balance of £1m in the corporate projects reserve;
- 2.2.3 Utilise reserves proactively to manage major risks to the Council's finances;
- 2.2.4 Maintain a minimum working balance of £2.5m at 31 March 2024.
- 2.2.5 Maintain a minimum uncommitted level of capital reserves of £1m at 31 March 2024.
- 2.3 The MTFP presented a trend analysis of the Council's revenue and capital reserves from 2012 to 2019 and an overview of reserves held at March 2019.
- 2.4 Since the MTFP was approved in February 2020, the Council's finances have been subjected to an unprecedented level of uncertainty due to Covid-19 and other external factors. These pressures have increased the level of financial risk faced by the Council. It is therefore more important than ever to understand the level of reserves held, as reserves are increasingly likely to be required in the coming years.
- 2.5 The purpose of this report is to review the current level of reserves; to understand the known risks facing the Council; and to recommend a minimum level of reserves to be held.

3 Reserves

- 3.1 In local government, reserves play a crucial role in sound financial management. They typically exist to enable Councils to invest in service transformation for the future, or to respond to unexpected events or emerging needs.
- 3.2 Reserves have been built up by EEBC over a number of years, mainly either through accumulated surplus of income over expenditure or one off grants.
- 3.3 Reserves held by EEBC are distinguished between general fund and capital; there is clear guidance and statutory rules for how these two different types of reserves can be applied.
 - 1. General Fund Revenue Reserves
- 3.4 The Council's general fund accounts for the day to day running of Council services. General fund reserves can be applied to fund revenue expenditure and can also be used to fund capital expenditure.

- 3.5 However, these reserves should not be utilised as a source of long term funding for revenue expenditure on an ongoing basis; this would be unsustainable as the reserves would eventually deplete.
- 3.6 General fund reserves are split between the working balance (which is unearmarked) and strategic reserves (which are earmarked for specific purposes).

1A. General Fund Working Balance (Unearmarked reserve)

- 3.7 The working balance accounts for the day to day running of Council services and is maintained to safeguard the Council against potential financial risks beyond those for which specific earmarked reserves have been created.
- 3.8 The 'normal' level of un-earmarked reserves should reflect the long term needs of the Council and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross annual expenditure and the extent to which long term service contracts reduce the Council's flexibility to respond to financial shocks. Previously the Audit Commission had suggested that a yardstick for normal unearmarked reserves is somewhere between 5% and 100% of net operating expenditure.
- 3.9 The working balance currently stands at £3.38m, however latest projections at Quarter 1 show this is forecast to reduce to £2.5m by the end of 2021/22, which is the minimum balance targeted by the MTFs.
- 3.10 At between £2.5m-£3.38m, the balance on this fund would represent between 29% to 39% of the council's net operating expenditure budget of £8.61m for 2021/22.
- 3.11 Given that the working balance is within the Audit Commission's previous recommended range, and is around the average for district councils of a comparable size, the current working balance level is considered appropriate for this Council.

1B. Strategic General Fund Reserves (Earmarked reserves)

- 3.12 Strategic reserves, also known as earmarked reserves, are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each strategic reserve, the purpose and usage should be clearly defined.

- 3.13 The Council has managed to increase the level of strategic reserves significantly over the last 10 years. This increase has been necessary to reflect and manage the corresponding increased risks around the present funding sources for services. In particular, compared to 2010 the Council is more reliant now on higher risk income from investment properties and fees and charges to fund services. These higher risk income streams have replaced previously 'guaranteed/lower risk' grant funding from Central Government, which was cut significantly across the 2010's.
- 3.14 The pandemic has also created a significant demand on strategic reserves to fund recent losses of income from services and assets. For 2021/22 the Council expects to transfer c£0.5m from strategic reserves to cover the revenue budget deficit. Furthermore, across 2022/23 and 2023/24, the Council will be required to fund the c£7m collection fund deficit that arose during 2020/21.
- 3.15 This report categorises the strategic reserves across three types;
- 3.15.1 Contingencies that are unavailable for general use
 - 3.15.2 Ringfenced grants or funds that are available only for specific uses
 - 3.15.3 Un-ringfenced grants or funds that are available for general use
- 3.16 The following table shows a breakdown of the strategic revenue reserves totalling £25m at 31 March 2021.

General Fund Revenue Reserves	Balance at 31 March 2021	Forecast transfers	Uncommitted Balance
	£'000	£'000	£'000
General Fund Working Balance	3,383	-883	2,500
Strategic Earmarked Reserves			
Repairs and Renewals	390	69	459
Insurance	443	-25	418
Property Maintenance	548	-134	414
VAT Reserve	199	0	199
Business Rates Equalisation Reserve	9,306	-7,421	1,885
Commuted Sums	1,447	0	1,447
Property Income Equalisation Reserve	5,495	14	5,509
Subtotal - Contingencies unavailable for general use	17,828	-7,497	10,331
Residential Property Acquisition Fund	1,066	-280	786
Community Safety	108	-1	107
Sports & Leisure Development Projects Fund	87	-5	82
Housing & Planning Delivery Grant	88	-88	0
Personalisation, Prevention & Partnership	73	0	73
Partnerships	28	0	28
Flexible Housing Support Grant	385	-385	0
Homelessness Reduction Act	19	0	19
HIA Hardship Fund	125	-35	90
Mortgage Rescue/Arrears Funding DCLG	9	0	9
Surrey Homeless Alliance Funding DCLG	1	0	1
Basic Payments Scheme	141	0	141
Covid Grants Reserve	121	-121	0
Subtotal - Ringfenced funds for specific use	2,251	-915	1,336
Corporate Project Reserve	4,673	-2,068	2,605
Interest Equalisation	400	0	400
Subtotal - Unringfenced funds available for general use	5,073	-2,068	3,005
Total Strategic Earmarked Reserves	25,152	-10,480	14,672
Total Revenue Reserves	28,535	-11,363	17,172

2. Capital Reserves

- 3.17 Capital receipts reserves are only available to finance future capital expenditure. The Panel will consider capital reserves separately after the Capital Member Group has prepared the draft 2022/23 capital programme. The capital reserves are used to invest in services and are monitored closely along with other funding sources such as community infrastructure levy (CIL) and section 106 planning funds.

4 Committed Use of Revenue Reserves

4.1 Of the Council's revenue reserves, the Council has already committed the need to use £10m of strategic reserves as well as a projected £883,000 of general fund working balances, as set-out in the following table:

Description	Date agreed/reported	£'000	Funded from
Unfunded Forecast Deficit on General Fund 2021/22	Quarter 2 Budget Monitoring	329	Corporate Projects Reserve
Additional Planning resources	July 2021	190	Corporate Projects Reserve
Deficit on Business Rates 2020/21	July 2021	6,600	Business Rates Equalisation Reserve
Covid-19 Grants	July 2021	121	Covid Grants Reserve
Additional resources for Local Plan	March 2021	742	Corporate Projects Reserve
Feasibility Studies for property and investment opportunities	March 2021 & October 2020	160	Corporate Projects Reserve
South Street	March 2021	280	Residential Property Acquisition Fund
Support increased numbers of homelessness	February 2021	385	Flexible Housing Support Grant
Deficit on Business Rates	February 2021	808	Business Rates Equalisation Reserve
Funding for impact of Covid	February 2021	306	Corporate Projects Reserve
2021/22 Property Maintenance Programme	January 2021	105	Property Maintenance Reserve
Planning Appeals	December 2020	96	Corporate Projects Reserve
Housing and Planning Delivery Grant for Local Plan	July 2019	88	Housing and Planning Delivery Grant
Other smaller committed sums		270	
Subtotal – Committed Use of Strategic Reserves		10,480	Strategic Reserves
Projected Use of General Fund Working Balance		883	General Fund Working Balance
Total Committed/Projected Use of General Fund Reserves		11,363	GF Reserves

5 Review of Strategic (Earmarked) Reserves

- 5.1 The Council recently underwent a Local Government Association (LGA) Finance Peer Review. The LGA Peers' report made specific reference to the Council's state of reserves, as follows:
- 5.2 *"The Council's track record for financial management and a healthy overall level of revenue reserves, the Council also demonstrates a positive overview from the CIPFA resilience index for 2019/20.*
- 5.3 *Arriving into this COVID period in a healthy financial position has helped the Council significantly. Thanks to the way in which the Council has managed its finances over a number of years, this reserves position has also afforded the Council an opportunity to take a considered, strategic approach to recovery/renewal. The time afforded to the Council from this reserves position is limited as it is made possible only through the use of reserves to support revenue expenditure, which the Council recognises can be used only once."*
- 5.4 This feedback from the LGA Peers provides a positive context for the present review of reserves.
- 5.5 An assessment of each reserve is made in Appendix 1 showing:-
- 5.5.1 The policy for each reserve
- 5.5.2 The objective of each reserve
- 5.5.3 The recommended minimum balance
- 5.6 Each reserve has a clearly specified and defined use either as a contingency, as part of the council's financial risk management, or to meet specific funding commitments in future years.
- 5.7 As previously stated at 3.15, strategic reserves are split between three categories. The following section reviews each category in turn and considers the scope for releasing funds or the need to strengthen individual reserves with a balance of over £200,000.
- I. Strategic Reserves - Unringfenced funds available for general use
- 5.8 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way out of the pandemic and to address impending changes in government funding arising from the Fair Funding Review. The following reserves are included within this category.
- Corporate Projects Reserve
- 5.9 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:

- 5.9.1 Spend to save one-off costs - some of the Council's spend to save initiatives involve one-off pump priming costs which cannot be contained within the base budget.
- 5.9.2 Funding for one-off corporate priority projects
- 5.9.3 Partnership funding - grants of contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (for example, government new burdens grants).
- 5.10 The balance on the Corporate projects reserve at 31 March 2021 was £4,673,000.
- 5.11 The Council is expected to drawdown £2 million from this reserve in the next couple of years, which reduces the uncommitted balance to around £2.6m.
- 5.12 The opportunities replenish funds into this reserve have significantly reduced in recent years, due to reductions in funding from new homes bonus grant, which has been the main source of funding for this reserve in the past.
- 5.13 The Council's MTFS recommends a minimum balance of £1m is held in this reserve to enable the Council to continue to invest in projects as set out above.**

Residential Property Acquisition Fund

- 5.14 This fund was created in 2016/17, mainly from new homes bonus funding. The fund has been used to purchase residential properties to support the council's housing activities. The remaining fund balance at 31 March 2021 was £1,066,000, with £280,000 of this balance committed to fund works to the Council's property on South Street.
- 5.15 As no new properties have been identified for acquisition since 2018/19, it is proposed that the criteria for using this fund should be reviewed to ensure it continues to effectively assist the Council to manage homelessness and reduce operational costs.**

II. Strategic Reserves - Ringfenced funds/grants for specific use

- 5.16 The Council holds a number of funds to deal with specific policy areas, risks or liabilities, which typically have conditions attached to the funding. The ability to redeploy these funds for alternative use is restricted due to the conditions attached; the funds are therefore only available for specific uses, and not for general use. The total of these types of reserves at 31 March 2021 is £1.1m, broken down as follows;

- 5.17 As these reserves/balances can only be used for specific activities and are limited in their application, it is recommended that no transfers are made from these to other reserves, nor would it be appropriate to set individual minimum balances.

III. Strategic Reserves – Contingencies unavailable for general use

- 5.18 The final category of strategic reserves is those classed as contingencies, which are funds set aside to allow the Council to respond to particular circumstances. If these resources were unavailable to mitigate potential losses/costs, then the Council would be required to find alternative funding from cuts to services within the general fund.
- 5.19 These reserves make up the largest proportion of our uncommitted strategic earmarked reserves (£11m) and are reviewed individually as follows.

Property Income Equalisation Reserve

- 5.20 Nearly half of the £11m uncommitted balances is held within the Property Income Equalisation Reserve. The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from investment properties purchased in previous years with the support of external borrowing. The reserve's target is to hold sufficient funds to cover the potential loss of 1 years rental income for each property acquired in this way, which totals £5.5m
- 5.21 Following contributions made in 2020/21, the reserve's target balance of £5.5m has now been attained.
- 5.22 It is anticipated in the coming years that the Council is likely to experience pressure on this reserve, as changes in tenant demands as a result of the pandemic may adversely impact the income the Council is able to generate from its investment properties.
- 5.23 As such, it is recommended that the Council continues to maintain a minimum target balance on this reserve equating to one year's rental income from properties financed with the use of external borrowing.**

Business Rates Equalisation Reserve

- 5.24 This reserve was established back in 2013 to mitigate new risks associated with the introduction of the current redistribution mechanism of retained business rates. It was created to manage variations to estimates of retained business rate income.
- 5.25 The reserve balance at 31 March 2021 is £9.3 million. However, due to the statutory mechanism for redistributing collection fund deficits, this reserve will be required to fund the c£7m collection fund deficit that arose during 2020/21, bringing the Business Rates Equalisation Reserve uncommitted balance down to £1.9 million.

5.26 The current financial plan anticipates a further £0.5m use from this reserve over the next three financial years, to offset expected business rate reductions in funding over this period that may arise from the Fair Funding and Business Rate Retention Reviews.

5.27 In the context of potential future cuts to the Council's business rates funding, it is considered prudent to maintain a minimum balance on this reserve to compensate for at least two years' of business rates retained income falling below the funding baseline. On this basis, it is recommended that a minimum balance of £1m is set for this reserve.

Recreation Commuted Sums

5.28 This reserve holds down payments of £1.4m which the Council received upon the historic transfer of land. The funds must be used to fund future maintenance of specific open spaces. As such, the funds are held within the Council's treasury investment portfolio and the interest earned is credited to the Community and Wellbeing Committee's open spaces budget to fund on-going grounds maintenance costs. **As the funds are contractually restricted in this way, no changes are recommended to balances currently held.**

Repairs and Renewals Fund

5.29 This reserve holds funds set-aside in previous years for the replacement or repair of plant, equipment and vehicles owned by the council.

5.30 The level of reserve reflects past contributions to the fund from service budgets, less spending authorised. It is not based on a detailed assessment or forward plan of items that will need replacement or repair. This provides greater flexibility for managers to review their assets outside of the normal budget process. It also enables them to make a case to fund one-off items for which there is a service requirement that cannot otherwise be met within the constraints of revenue budgets or funded from capital. Since most vehicles are covered by a separate maintenance contract, recently funded items have mainly been plant and equipment.

5.31 The balance on the reserve at 31 March 2021 was £390,000.

5.32 The 2021/22 budget includes contributions of £69,000 into the reserve. As the reserve is funded by budgeted contributions from service budgets, **no minimum balance is recommended for this reserve.**

Interest Equalisation Reserve

5.33 The Council's revenue budget currently relies on a budgeted £115,000 of interest being generated by the Council's treasury investment. Returns on investments are subject to external economic factors, and the Interest Equalisation Reserve has previously allowed the Council to manage fluctuations in the interest earned.

The £115,000 budgeted interest income is low by historical standards, and as such, the associated financial risks to the Council of underachieving this budget are limited. **As such, it is considered that the Interest Equalisation Reserve balance of £400,000 could be transferred to the Corporate Projects Reserve, to be available for funding corporate initiatives.**

Insurance Reserve

- 5.34 The Council maintains this reserve as a provision for any uninsured losses (e.g. sums below the council's insurance excess limits) on all unsettled claims, which can go back several years. The reserve is reviewed annually based on broker assessments of potential liabilities and the current balance of £443,000 is sufficient to meet the forecast of outstanding liabilities based on the most recent March 2021 assessment.
- 5.35 The Council's base budget requires an ongoing contribution from this reserve at £25,000 per annum to fund the increase costs of insurance, therefore to ensure at least the next four years are covered, **a £100,000 minimum balance is recommended for this reserve.**

Property Maintenance Reserve

- 5.36 This reserve was established to provide additional resources to deal with backlog repairs to council property.
- 5.37 The Council now has a base budget of £205,000 per annum for prioritised repairs to buildings and other assets such as hard surfaces. This budget is additional to the programmed and reactive maintenance works that are covered under the facilities management contract. Work is prioritised by the Council's Senior Surveyor in consultation with the Head of Property and Regeneration, and the programme is reported annually to Strategy and Resources Committee. Part of the budget is left uncommitted at the start of the year, to finance any unforeseen urgent unplanned works.
- 5.38 Any unspent maintenance budget is transferred at year end to the Property Maintenance Reserve, so the funds are set-aside to finance completion of the maintenance programme in the following year(s).
- 5.39 The uncommitted balance on this reserve is £414,000. **It is recommended that the Council maintains a minimum balance on this reserve of £250,000, to provide sufficient cover for unforeseen works.** The recommended minimum balance equates to just over one year of the annual maintenance budget.

6 Proposals

- 6.1 It is proposed that the Panel:

- 6.1.1 Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;
- 6.1.2 Review the individual reserve and contingency balances and consider whether to support the recommended minimum balances in the report;
- 6.1.3 Support the transfer of the uncommitted balances on the Residential Property Acquisition Fund and Interest Equalisation Reserve back to the Corporate Projects Reserve.

7 Risk Assessment

Legal or other duties

7.1 Impact Assessment

- 7.1.1 The Council holds reserves both as a contingency against unforeseen expenditure and as provisions for known, future expenditure. The Council's reserves are actively managed as part of the MTFS. Any significant reduction in the level of reserves would naturally carry the risk of reducing the Council's financial resilience and the ability to deal with unforeseen circumstances.
- 7.1.2 The level of reserves has enabled the Council to manage the financial impact of Covid-19 in a planned and structured way. The prospect of further funding cuts through central government's Fair Funding and Retained Business Rates Reviews means that the retention and ability to use strategic reserves to smooth out any funding reductions changes has become even more critical as reductions to the net budget become harder to deliver.
- 7.1.3 This report does not cover the Council's long-term liabilities. The Council has long term debt of £90.3m (£64.4m of which is externalised with the Public Works Loan Board), acquired when purchasing commercial properties. This debt must be repaid within the next 50 years alongside interest which is payable annually. The Council has made provision within the revenue budget to fund the necessary interest and debt repayments.
- 7.1.4 The Council also has a pension fund liability (£46.2m at 31 March 2021 on an IAS19 basis) which is managed through the payment of additional monetary contributions each year. The pension scheme is managed by Surrey County Council as part of the Surrey Pension Fund. The next triennial valuation of the pension fund will be at 31 March 2022 - this valuation will determine the additional monetary contributions payable from 2023/24 onwards.

7.2 Crime & Disorder

7.2.1 None arising directly from the contents of this report.

7.3 Safeguarding

7.3.1 None arising directly from the contents of this report.

7.4 Dependencies

7.4.1 None arising directly from the contents of this report.

7.5 Other

7.5.1 None arising directly from the contents of this report.

8 Financial Implications

8.1 Financial implications are set-out in the body of the report.

8.2 **Section 151 Officer's comments:** Although the Council has a healthy level of reserves and balances, over the next couple of years these are expected to be utilised to fund services at unprecedented levels in recent memory.

8.3 The uncertainty caused by the pandemic and the outcome of the Fair Funding Review poses greater risk to the Council's finances. However, by agreeing to maintain a minimum level of reserves for specific funds this provides the Council with greater resilience to mitigate any further unplanned costs/losses.

8.4 This report should be read in conjunction with the financial planning report also included on the agenda for this meeting.

9 Legal Implications

9.1 None arising from the contents of this report.

9.2 **Monitoring Officer's comments:** None arising from the contents of this report.

10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

10.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

10.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

10.5 **Partnerships:** None arising from the contents of this report.

11 Background papers

11.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2021/22 Budget Report to Full Council, 16 February 2021
- Review of Reserves Report to Financial Policy Panel, 10 September 2019.

Other papers:

- None.

<u>RESERVES/CONTINGENCIES</u>	<u>Minimum Balance</u> <u>£000</u>	<u>Policy</u>	<u>Objective</u>
REVENUE STRATEGIC RESERVES			
CONTINGENCIES UNAVAILABLE FOR GENERAL USE			
Repairs and Renewals Fund	None	Provides funding for replacement of certain vehicles, plant and equipment	(1) Provides for the replacement of plant and equipment which cannot be funded within revenue budget. (2) Manages the risk of unplanned expenditure at Council properties, including health and safety requirements, where there is no separate budget.
Insurance	100	Provides funding for self-insured losses	(1) Reserve on outstanding insurance claims (2) £100,000 held for risks on LB Sutton Partnership (3) Smooths impact of variations in insurance costs on general fund (4) Provision of £85,000 for MMI mutual run down
Property Maintenance Reserve	250	Funding held for funding prioritised backlog property repairs	(1) To fund approved programme where works not completed by the year-end and budget available (2) Used to finance urgent unplanned works where approved programme cannot be rescheduled
VAT Reserve	199	Provides funding for unplanned VAT liabilities	(1) To manage the risk that the Council exceeds the 5% threshold for VAT on commercial trading activity (2) To meet other potential VAT liabilities (3) The balance on this reserve should be at a level that can provide funding for 2 years of the potential annual VAT liability.
Business Rates Equalisation Reserve	1,000	Provides funding to offset future deficits charged to the General Fund	Reserve used to protect funding from the Council's share of localised business rates, used to smooth the impact of changes such as increase in appeals. The reserve should be maintained at a minimum balance of £1 million to compensate for years when retained business rate income fall below budgeted baseline levels.
Recreation Commuted Sums	1,447	Sums held following the transfer of land to the Council and used to finance additional maintenance costs	Principal sum invested so that interest earned can be used to fund on-going recreation grounds maintenance liabilities
Property Income Equalisation Reserve	5,509	The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from properties acquired through borrowing	The reserve to be maintained at a level to cover the potential loss of one year's rental income from each property acquired through the use of external borrowing.

<u>RESERVES/CONTINGENCIES</u>	<u>Minimum Balance</u> <u>£000</u>	<u>Policy</u>	<u>Objective</u>
UNRINGFENCED FUNDS AVAILABLE FOR GENERAL USE			
Interest Equalisation Account	Transfer to Corporate Projects Reserve		
Corporate Project Reserve	1,000	General corporate contingency (revenue funds) against additional scheme costs and spend to save initiatives.	(1) To provide contingency funding or high risk projects and developments (2) To fund or meet one-off costs on spend-to-save schemes (revenue funding) (3) To hold revenue funding for corporate projects where funded from partnerships or grants, including New Homes Bonus
RINGFENCED GRANTS OR FUNDS FOR SPECIFIC USE			
Residential Property Acquisition Fund	None	A limited fund of £3 million for the purchase of properties to use as temporary accommodation.	A specific fund created at S&R on 27 January 2016, for the purchase of suitable properties for use as temporary accommodation, to generate an income stream, reduce emergency temporary accommodation costs incurred and provide a long term asset value growth.
Community Safety Partnership	N/A	To fund Community Safety activities agreed with Surrey County Council and Surrey Police	To deliver objectives set by the Community Safety Partnership
Sports & Leisure Development Projects Fund	None	External funding set aside to support sports & leisure development projects	Funding for Sports & Leisure Development Projects; BMX/skateboard maintenance, youth diversion, Let Get Active 50+ and community football coaching
Housing and Planning Delivery Grant	N/A	Provides funding for planning development expertise	(1) Resourcing work/expertise for the local development plan (2) Procurement of expertise for the implementation of the Community Infrastructure Levy
Prevention, Personalisation and Partnership Fund	N/A	Surrey County Council funding for District initiatives supporting adult social care from March 2013 to March 2017	Funding from ring fenced grant for local authorities to undertake new public health functions
Partnership Fund	N/A	Local Partnership Fund, Young Peoples Partnership Fund, Yells Fund	Local Partnership Fund £2k, Young Peoples Partnership Fund £7k, Yells Fund £2k, Stronger Communities £11k, Health £6k
Flexible Housing Support Grant	N/A	Grant funding used to support homelessness prevention measures	The funding is to be used on preventing homelessness and to offset reduced rental income on temporary accommodation arising from benefit changes
HIA Hardship Fund	N/A	Supports the provision of the Home Improvement Agency Service	Fund exists to provide funding for the Home Improvement Agency Service
Other	N/A		
REVENUE WORKING BALANCES			

<u>RESERVES/CONTINGENCIES</u>	<u>Minimum Balance £000</u>	<u>Policy</u>	<u>Objective</u>
General Fund Revenue Account - Working Balance	2,500	The Council's working balance	(1) Provision for unforeseen expenditure (2) Used to support the Revenue Budget in the Medium Term Financial Strategy / Four Year Financial Plan (3) Interest on balance used to finance the General Fund revenue account.

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CAPITAL PROGRAMME 2022/23

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	Appendix 1: Capital Bids Ranked in Order of Priority and Revised Programme Appendix 2: 5-year Capital Programme Appendix 3: Capital Reserves Forecast

Summary

This report summarises the proposed 2022/23 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2022.

Recommendation (s)

The Panel is asked to agree:

With the advice of the Capital Member Group to submit the following 2022/23 capital programme to Council for approval in February 2022, subject to the relevant policy committees first approving project appraisals:-

- (1) Prioritised schemes totalling £112,000, funded from a budgeted revenue contribution of £87,000; and repairs and renewals reserve of £25,000;**
- (2) A Disabled Facilities Grant scheme totalling £600,000, subject to external funding sources.**

1 Reason for Recommendation

- 1.1 To seek the Panel's approval to submit the proposed capital programme for 2022/23 to Council in February 2022.

2 Background

- 2.1 At its meeting on 27 July 2021, 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 Colin Keane, Neil Dallen, Alex Coley, John Beckett and Kate Chinn.
- 2.2 The Capital Member Group met in September and received a list of twenty-seven 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 Senior Management Team in November. The officer group suggested recommendations for the funding of the bids and also advised on a prioritisation of the proposals.
- 2.4 On 10 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 2022/23 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, CIL receipts or grants);
 - 2.5.4 Investment that will provide net revenue savings (spend to save).
 - 2.5.5 Where the scheme is consistent with the Council's Climate Change Action Plan, subject to affordability, supported by a robust business case and value for money can be demonstrated through a maximum payback period of 10 years.
- 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-seven initial bids for 2022/23, totalling £4.51 million. Of these, nineteen bids totalling £2.8 million were not selected to be taken forward by CMG. Of the remaining eight bids, seven were worked into detailed submissions for review by both senior officers at Senior Management Team and by members on CMG. One of the bids for adaptation works to the Longmead Depot was withdrawn by officers, as an alternative solution to the space issue has been implemented.

- 3.2 After review and challenge of the seven remaining detailed bids at Senior Management Team and CMG, three were not supported, and the remaining four 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 CMG recommended that two of the bids not put forward for the proposed programme for 2022/23, the Padel Tennis Courts and ICT Programme of Works should be taken separately to their respective policy committees (Community and Wellbeing and Strategy and Resources) to enable more detail to be included and considered by those committees before the final approval is given to progress the schemes. For ICT, a proposed four-year rolling programme, in line with the Four Year Corporate Plan, will be presented to Strategy & Resources Committee, detailing financial implications and funding options.
- 3.4 The proposed programme for 2021/22 comprises:-

	£'000
Core Programme of Priority Works (funded by capital reserves and revenue)	112
Disabled Facilities Grant Scheme to be progressed subject to external funding being achieved	600
Total	712

- 3.5 The funding recommended comprises:-

	£'000
Budgeted revenue contribution to capital	87
Use of repairs and renewals reserve	25
Use of grants for externally funded schemes	600
Total	712

- 3.6 The draft 2022/23 revenue budget includes a £400k 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 2022/23 budget. As the proposed capital programme for 2022/23 only requires £87k of the planned revenue contribution, it is recommended that the balance of £313k be held in a reserve to be used for future capital programmes.

4 Five-year Capital Programme 2022/23 to 2026/27

- 4.1 CMG considered the five-year capital programme which has been compiled through drawing information from the Asset Management Plan for buildings and other known capital expenditure requirements. This programme is set out in Appendix 2.
- 4.2 The five-year programme provides a forecast of the Council's anticipated capital expenditure need over the next five years but is not an exhaustive list as further items are expected to be added over time as future schemes are identified through other workstreams such as the Climate Change Action Plan, ICT investment requirements and Annual Plan cycle.
- 4.3 Similarly, some schemes may be removed from the programme if strategic asset reviews recommend an alternative approach or Council priorities change. Each year, the forthcoming annual programme will be reviewed by Capital Member Group through the annual capital budget setting process, and the 5-year plan updated accordingly.

5 Capital Reserves

- 5.1 The forecast of capital reserves shows that the balance as at 31 March 2023 would be £2.99 million, if the proposed programme is supported.
- 5.2 The capital reserves forecast at Appendix 3 has been updated for the next five years using the following assumptions:-
- 5.2.1 The current approved programme for 2021/22 is delivered this year in line with the current forecast.
- 5.2.2 The proposed capital programme for 2022/23 proceeds as in appendix 1.
- 5.2.3 All the schemes within the proposed five-year capital programme detailed in appendix 2 are agreed and delivered.
- 5.2.4 The only new capital receipts received is £400k in 2022/23 this financial year, in line with current forecast.
- 5.2.5 £25k of community centre repairs and renewals reserve is used to fund the walk-in freezer at the Wellbeing Centre.

5.2.6 A £400k planned revenue contribution in 2021/22 to fund the proposed capital programme with a balance of £313k held in a reserve for future years.

5.2.7 External funding for the Disabled Facilities Grant is assumed at £600k for the next five year.

5.3 The provisional capital programme funding summary shows that the Council's capital receipts reserve would run out by 31 March 2024 should all schemes in the five-year programme progress. In order to maintain the minimum balance of capital receipts at the MTFS recommended level of £1m, consideration will need to be given to options including reducing the proposed capital programme and identifying alternative and/or additional funding sources.

6 Proposals

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

6.1.1 Schemes, identified in section 3, totalling £112k in 2022/23 and funded from planned revenue contributions and repairs and renewals reserve should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals;

6.1.2 The scheme identified in section 3 for £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.

7 Risk Assessment

Legal or other duties

7.1 Impact Assessment

7.1.1 None for the purposes of this report.

7.2 Crime & Disorder

7.2.1 None for the purposes of this report.

7.3 Safeguarding

7.3.1 None for the purposes of this report.

7.4 Dependencies

7.4.1 One project within the proposed capital programme is dependent upon external funding. As a statutory duty, there is a high likelihood that the Disabled Facilities Grant will be granted, and if the amount differs to that agreed in the programme, the scale of the programme will be amended accordingly.

7.5 Other

7.5.1 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 10 years for renewable energy projects.

7.5.2 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 each year, in order to reduce the reliance on capital receipts.

8 Financial Implications

8.1 The policy committees will receive appraisals for 2022/23 projects in late January, including revenue cost implications.

8.2 If all schemes are progressed between 2022/23 and 2026/27 the capital receipts reserves will be exhausted by 31 March 2024. 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.

8.3 **Section 151 Officer's comments:** All financial implications have been included within the body of this report.

9 Legal Implications

9.1 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.

9.2 Legal Officer's comments: none arising from the contents of this report.

10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

- 10.3 **Climate & Environmental Impact of recommendations:** the environmental impact of schemes proposed for the 2022/23 capital programme has been considered through the bid appraisal process.
- 10.4 **Sustainability Policy & Community Safety Implications:** none for the purposes of this report.
- 10.5 **Partnerships:** none for the purposes of this report.

11 Background papers

11.1 The documents referred to in compiling this report are as follows:

Previous reports:

- Capital Member Group report to strategy & Resources on 27 July 2021.
- Medium Term Financial Strategy – appendix 1 of the Budget and Council Tax Report 2020-21 to Council on 13 February 2020.

Other papers:

- Capital bid paperwork.

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Appendix 1 - 2022/23 Capital Programme final bids for consideration

Criteria	SMT Rank	Officer Submitting Bid	Bid Number	Project Put Forward as a Potential Bid	Scheme Capital Expenditure 2022/23	Scheme Capital Expenditure in 2022/23 Funded from Capital Reserves	Full Bid Required?	Comments from CMG - 08.09.21	SMT Feedback	Comments from CMG - 10.11.21
					£'000	£'000				
Externally Funded	1	Rod Brown	Community & Wellbeing Bid 1	The Disabled Facilities Grant Programme	600	-	Yes	Supported as externally funded and statutory provision.	Supported as externally funded and statutory provision.	Supported as externally funded and statutory provision.
Business Continuity	2	Rod Brown	Environment & Safe Communities Bid 2	Ashley Centre Car Park Expansion Joints Phase 2	37	37	Yes	Bid appraisal should address whether works could be deferred.	Bid supported as business continuity.	Bid supported as business continuity.
Business Continuity	3	Ian Dyer	Community & Wellbeing Bid 9	Wellbeing Centre - Replacement of Boilers and Controls	50	50	Yes	Bid appraisal should consider eco-friendly options such as ground/air source heat pumps.	Bid supported as business continuity, but alternative options not supported as cost prohibitive.	Bid supported as proposed in the detailed bid paperwork, as business continuity.
Business Continuity	4	Ian Dyer	Community & Wellbeing Bid 12	Wellbeing Centre - Walk-in freezer	25	25	Yes	Bid appraisal should consider whether there is an off the shelf option that may be more cost effective.	Bid supported as business continuity, but funding should come from the repairs and renewals reserve.	Bid supported as business continuity, but funding should come from the repairs and renewals reserve.
Total Potential Bids					712	112				

Bids Recommended for Deferral/Removal

Service Enhancement	5	Ian Dyer	Community & Wellbeing Bid 4	Installation of 2 padel tennis courts in Court Rec	180	180	Yes	Further information required as to how the courts would operate and generate sufficient income to be considered spend to save.	Bid does not meet spend to save scheme requirements, therefore approval should be subject to securing external funding.	Withdraw from the 2022/23 programme and consider via a separate report to Community & Wellbeing Committee which looks at preferred location and funding options.
Business Continuity	N/A	Rod Brown	Environment & Safe Communities Bid 4	Ashley Centre car park - overcoating waterproof membrane	510	510	Yes	Only proceed if works are urgent and cannot be deferred. Would concrete repairs and expansion joint work reduce the need for these works?	Recommend that this is deferred until the impact of other repairs works to the car park are assessed.	Recommend that this is deferred until the impact of other repairs works to the car park are assessed.
Business Continuity	N/A	Judith Doney	Strategy & Resources Bid 1	ICT Programme of works	250	250	Yes	Bid appraisal should consider nature of ICT spend; revenue or capital; and include a business case for each scheme.	Recommend that the bid is withdrawn and HoS takes a separate report to S&R Committee.	Recommend that the bid is withdrawn and HoS takes a separate report to Strategy & Resources Committee.
Total Potential Bids					940	940				

Bids That Were Withdrawn

Service Enhancement		Ian Dyer	Environment & Safe Communities Bid 1	Longmead Depot Health and safety works and insulation	60	60	Yes	The bid refers to Covid-19 health and safety issues - are these still required following the removal of social distancing requirements?	Bid withdrawn by submitting officer as the original meeting room has been able to be reinstated, reducing the need for the additional space identified in the initial bid.	The bid refers to Covid-19 health and safety issues - are these still required following the removal of social distancing requirements?
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Appendix 2 - five year Capital Programme for consideration

Asset/Project	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Disabled Facilities Grant Programme	600	600	600	600	600	3,000
Alexandra Recreation Ground Main Pavilion	0	160	0	0	0	160
Ashley Centre Multi Storey Car Park	37	885	300	0	0	1,222
Auriol Pavilion	0	25	0	0	55	80
Bourne Hall	0	970	0	0	0	970
Cemetery Public Conveniences	0	25	0	0	0	25
Cox Lane Centre	0	80	0	0	0	80
Ewell Court House	0	50	0	0	85	135
Gibraltar Recreation Ground Pavilion	0	27	0	0	0	27
Harrier Centre	0	90	0	0	0	90
Horton Country Park Public Conveniences	0	30	0	0	0	30
Horton Country Park West Park Cottage	0	40	0	0	0	40
Hook Road Multi Storey Car Park	0	315	130	0	80	525
Longmead Depot	0	40	0	0	0	40
Epsom Playhouse	0	375	100	70	0	545
Town Hall	0	665	60	0	0	725
Wellbeing Centre	75	99	0	0	0	174
Epsom & Ewell Borough Council Total	712	4,476	1,190	670	820	7,868

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Appendix 3 - Provisional Capital Programme Funding Summary

	Community Infrastructure Levy - 80%	Section 106	Capital Grant-DFG	Capital Receipts	Repairs and Renewals Reserves	Residential Property Fund	Budgeted Contributions	External Funding	Borrowing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Available Capital Resources at 1/4/2021	6.31	0.25	0.37	3.51	0.39	1.26	0.00	0.00	49.57	61.65
Anticipated Receipts in 2021/22	1.20	0.00	0.79	0.00	0.07	0.00	0.30	0.00	0.00	2.35
Funding the 2021/22 Capital Programme	-1.63	-0.15	-1.15	-0.92	-0.03	0.00	-0.26	0.00	0.00	-4.15
Estimated available Capital Resources at 31/3/2022	5.88	0.09	0.00	2.59	0.43	1.26	0.04	0.00	49.57	59.85
Anticipated Receipts in 2022/23	1.04	0.00	0.60	0.40	0.07	0.00	0.40	0.00	0.00	2.51
Proposed New Bids for 2022/23	0.00	0.00	-0.60	0.00	-0.03	0.00	-0.09	0.00	0.00	-0.71
Estimated available Capital Resources at 31/3/2023	6.92	0.09	0.00	2.99	0.47	1.26	0.35	0.00	49.57	61.65
Anticipated Receipts in 2023/24	1.04	0.00	0.60	0.00	0.07	0.00	0.50	0.00	0.00	2.21
Proposed New Bids for 2023/24	0.00	0.00	-0.60	-3.03	0.00	0.00	-0.85	0.00	0.00	-4.48
Estimated available Capital Resources at 31/3/2024	7.96	0.09	0.00	-0.04	0.54	1.26	0.00	0.00	49.57	59.38
Anticipated Receipts in 2024/25	1.04	0.00	0.60	0.00	0.07	0.00	0.60	0.00	0.00	2.31
Proposed New Bids for 2024/25	0.00	0.00	-0.60	0.00	0.00	0.00	-0.59	0.00	0.00	-1.19
Estimated available Capital Resources at 31/3/2025	9.00	0.09	0.00	-0.04	0.61	1.26	0.01	0.00	49.57	60.50
Anticipated Receipts in 2025/26	1.04	0.00	0.60	0.00	0.07	0.00	0.70	0.00	0.00	2.41
Proposed New Bids for 2025/26	0.00	0.00	-0.60	0.00	0.00	0.00	-0.07	0.00	0.00	-0.67
Estimated available Capital Resources at 31/3/2026	10.04	0.09	0.00	-0.04	0.68	1.26	0.64	0.00	49.57	62.24
Anticipated Receipts in 2026/27	1.04	0.00	0.60	0.00	0.07	0.00	0.75	0.00	0.00	2.46
Proposed New Bids for 2026/27	0.00	0.00	-0.60	0.00	0.00	0.00	-0.22	0.00	0.00	-0.82
Estimated available Capital Resources at 31/3/2027	11.08	0.09	0.00	-0.04	0.75	1.26	1.17	0.00	49.57	63.88

Notes:

1. The majority of bids have been initially been allocated funding from Budgeted Contribution and Capital Receipts, however alternative funding sources could be used e.g Repairs and Renewals, CIL and Section 106.
2. Budgeted contributions relates to the revenue contribution to fund capital schemes; increasing by £100k each year until they reach a level of £750k pa.
3. Should all schemes within the 5-yr programme be agreed, there would be insufficient capital receipts to fund the programme.
4. CIL receipts are 80% of the total collected less funds already earmarked.
5. Affordable Housing S106 funds have been excluded from the above figures as these are generally allocated to Registered Provided of social housing, and not able to be used to fund the Council's capital programme.
6. No expenditure has been entered for the residential 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.
7. Borrowing is only available to fund the In-Borough Commercial Property Acquisition Fund.

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