

**Minutes of the Meeting of the FINANCIAL POLICY PANEL  
held on 27 October 2016**

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**PRESENT -**

Councillor Eber Kington (Chairman); Councillors Richard Baker, John Beckett, Kate Chinn (as nominated substitute for Councillor Vince Romagnuolo), Graham Dudley, Omer Kokou-Tchri, Barry Nash and Keith Partridge

In Attendance: Dan Wilson, Head of Credit and Investments and Nazmin Miah, Senior Client Consultant, Capita Asset Services

Absent: Councillor Vince Romagnuolo

Officers present: Kathryn Beldon (Director of Finance and Resources), Brian Thompson (Interim Head of Financial Services), Lesley Shields (Senior Accountant) and Fiona Cotter (Democratic Services Manager)

**8 DECLARATIONS OF INTEREST**

No declarations of interest were made by Councillors regarding items on the Agenda.

**9 CAPITA ASSET SERVICES**

On behalf of the Panel, the Chairman welcomed Dan Wilson, Head of Credit and Investments and Nazmin Miah, Senior Client Consultant, Capita Asset Solutions, to the meeting. Mr. Wilson and Ms. Miah gave a presentation to the Panel which covered an economic summary, an interest rate outlook, the Council's investment position and options for borrowing.

In particular, the following points were noted:

Economic Summary and Interest Rate Outlook

- Whilst latest GDP figures were stronger than expected, the economic outlook remained uncertain following the referendum. The Eurozone continued to struggle and interest rates in the United States had not been increased as expected and were unlikely to be raised any time soon in view of the pending election;
- There was a concern that UK inflation could go considerably higher than forecast;

- Employment was good and consumer confidence was relatively high despite interest rates not being increased. There was a “feel good” factor as wages were currently growing by more than inflation;
- Government revenues had not increased as much as had been hoped. The pace of austerity had been slowed and this could affect interest rates and the cost of borrowing;
- In its August Inflation Report, the Bank of England had left its growth forecasts unchanged at 2% for 2016 but had greatly revised down its forecasts for 2017 to 0.8%. Inflation forecasts had been revised up significantly as a result of a fall in sterling and it was forecasted to rise 2% in 2017 and 2.5% in 2018 and 2019
- The UK Bank Rate forecast did not see matters improving any time soon and borrowing rates were unlikely to change materially in the short term;

#### Investment Position

- The Council’s internally managed funds provided good levels of liquidity and the external investment portfolio performance was strong;
- Enhanced Cash Fund Performances: Fund C was the strongest performer but could be more volatile so attracted a higher risk and investment in this fund needed to be weighed up against other options;

#### Borrowing Option

- Capital Financing Requirement was the underlying need to borrow for capital expenditure net of all capital receipts, grants and revenue contribution;
- The CIPFA Prudential Code, introduced in 2004 and updated in 2011, set out a number of criteria in regard to capital expenditure and borrowing, in particular that capital plans should be affordable and borrowing limits should be prudent and sustainable;
- There were a number of considerations to be taken into account before embarking on borrowing and a strategy was required. Factors to be taken into consideration included whether to borrow internally or externally, over what period and, in particular, what would be the authorised limit for borrowing. Once set, the authorised limit was the maximum amount which could be borrowed. It was crucial that this was set at the right level as it was a legal limit and any breach of it would have to be reported to Council.

Following questions, the Chairman on behalf of the Panel, thanked Mr Wilson and Ms. Miah for their attendance.

## 10 TREASURY MANAGEMENT - INTERIM REPORT

The Panel received and considered a report which updated members on treasury management performance for the first six months of 2016/17.

In regard to the Council's investments, the average rate of return from these for 2016/17 had been anticipated at 1.25%. However, returns on investments for the first six months provided an average annualised return of 1.09% (the table at paragraph 5.2 of the report referred).

Whilst both internal and external investments for the first six months of 2016/17 had exceeded the benchmark of the 7 day LIBID rate, the Council's external fund manager was out performing internal investments and had advised of an anticipated overall return on the fund of around 0.8% by the end of the year. It was noted that the Council had been very fortunate in the rate of returns generated by its external fund manager. The Council's Financial Strategy for Treasury Management set out that investment decisions had to be based first and foremost on security then liquidity and finally yield. Investments with the Council's external fund manager were considered low risk as the money invested in the fund was spread across a range of counterparties which limited the exposure of a significant sum being invested with a defaulting counterparty.

Officers were open to a conversation with the Chairman of the Panel regarding the Council's exposure to risk in terms of its investment strategy which was ultimately approved by Council on an annual basis. As long as Officers operated within the agreed strategy then responsibility for the implications of investments made in line with the strategy lay with members.

Finally, it was noted that the Council had not as yet considered borrowing for property development but that this was something that might be considered in the future.

Accordingly, the Panel

- (1) Endorsed the continuation of management of the Council's external funds by Aberdeen Asset Management plc;
- (2) Noted the performance on return of investments for the first six months of 2016/17; and
- (3) Noted the current investment decisions being made within the terms set out in the Treasury Management Strategy.

## 11 S106 AND CIL UPDATE REPORT

The Panel received a report which provided an update on the funds held under Section 106 planning agreements and Community Infrastructure Levy (CIL).

The Council currently held funds from S106 agreements totalling approximately £3.8m. From this balance £2m was committed within the capital programme for such items as affordable housing or earmarked for schemes awaiting further

approval. Included within this balance was £236,000 which needed to be transferred to Surrey County Council and other organisations as they were responsible for utilising these funds.

The Council currently held funds from CIL totalling approximately £2.8m. From this balance, following the Council's withdrawal of its contribution towards the Banstead Sustainable Transport Package, £556,000 was committed within the capital programme for such items as Plan E and revenue to fund delivery of the Local Plan in 2016/17 and 2017/18. The Council had withdrawn its contribution to the BSTP as it had not been demonstrated that the scheme would help to deliver new development within this Borough, specifically Epsom Town Centre.

It was highlighted to the Panel that there was a typographical error in paragraph 2.4 of the report. The figure quoted in this paragraph should have been £1,043 and not £859,000 (to match the amount of earmarked funds quoted in the table).

The Council currently held no S106 agreements which had reached their expiry dates. However, it was noted that, of the currently uncommitted contributions, a number currently had no use identified. Officers had delegated authority to spend up to £10,000 without reference to Committee but would discuss with the Chairman how S106 money might be allocated in the future.

The Panel was further requested to support the use of S106 funds to fund the increase in the cost (£8,500) of the scheme to replace multi-play equipment in Poole Road Recreation Ground from the following sources:

Received	Address	Conditions	£	Previous use of s106
01/11/2013	429 Kingston Road	Provision of open space facilities within the Borough	2,041.02	Park information boards
14/09/2010	87-87 Amis Avenue	Provision of open space facilities within the Borough	1,036.70	Flood works at Clarendon Park
31/10/2013	137-139 Chessington Road Ewell	Provision or improvement of public open space within the Borough	3,299.99	Playground equipment at Pemberley Chase. Poole Road Playground
16/04/2012	7 High Street Ewell	Provision of open space facilities within the Borough	1361.57	Park information boards

Received	Address	Conditions	£	Previous use of s106
15/03/2010	25 High Street Epsom	Provision of open space facilities within the Borough	760.72	Parks Bench Replacement
			<b>8,500.00</b>	

Accordingly, the Panel:

- (4) Noted the current position on S106 funds held by the authority;
- (5) Noted the current position on CIL funds held by the authority;
- (6) Supported the use of S106 funds for the increase in Poole Road Recreation Ground play equipment scheme (£8,500).

## 12 MINUTES

The Minutes of the Meeting of the Financial Policy Panel held on 13 September 2016 were agreed as true record and signed by the Chairman subject to noting that Councillors Steve Bridger and David Wood had in fact been in attendance as the nominated substitutes for Councillors Keith Partridge and Graham Dudley respectively.

*The meeting began at 7.32 pm and ended at 8.58 pm*

COUNCILLOR EBER KINGTON (CHAIRMAN)