JOINT EXECUTIVE ADVISORY BOARD

8 January 2018

* Councillor Jenny Wicks (Chairman)

* Councillor Adrian Chandler
* Councillor Nils Christiansen
* Councillor Andrew Gomm
* Councillor Angela Goodwin
* Councillor Angela Gunning
Councillor Liz Hogger
* Councillor Christian Holliday
Councillor Gordon Jackson
* Councillor Jennifer Jordan
* Councillor Nigel Kearse
* Councillor Sheila Kirkland
Councillor Julia McShane
Councillor Bob McShee
* Councillor Mike Parsons
* Councillor Dennis Paul
* Councillor Tony Phillips
Councillor Mike Piper
* Councillor David Quelch
* Councillor David Reeve
Councillor Matthew Sarti
* Councillor Pauline Searle
* Councillor Jenny Wicks
Councillor David Wright

*Present

Councillors Geoff Davis and Susan Parker were also in attendance.

6 ELECTION OF CHAIRMAN

The Joint Executive Advisory Board
RESOLVED:
That Councillor Jenny Wicks be elected as Chairman for the meeting.

7 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors Liz Hogger, Gordon Jackson, Julia McShane, Bob McShee, Mike Piper and Matthew Sarti. In accordance with Council Procedure Rule 23(i), Councillors Caroline Reeves and Tony Rooth acted as substitutes for Councillors Julia McShane and Mike Piper respectively.

8 LOCAL CODE OF CONDUCT - DISCLOSABLE PECUNIARY INTERESTS

There were no declarations of disclosable pecuniary interest.

9 COMMUNITY RIGHT TO BID

The Board received an overview from the Principal Corporate Services Solicitor on the community right to bid for and buy local land considered to have community value. This included information on what constituted an asset of community value (ACV), how land could be listed as such, and by whom. All local authorities had a duty to maintain lists of ACVs, and the Board’s attention was drawn to the current lists of successful and unsuccessful nominations received by this Council, as published on its website. The Board suggested that details of ACVs should also be published on the Surrey interactive map.

The Board noted that numbers of nominations were low, and that successful nominations would not necessarily progress through to successful bids. None of the nominations received by this Council appeared to have resulted in a successful bid. The Board suggested that parish councils should be contacted with information about the process, to raise awareness and encourage nominations.

10 CAPITAL AND INVESTMENT STRATEGY INCORPORATING THE GENERAL FUND CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS (2018-19 TO 2021-22), AND TREASURY MANAGEMENT ANNUAL STRATEGY REPORT (2018-19)

The Lead Councillor for Finance and Asset Management provided the Board with an overview of the capital and investment strategy, incorporating the general fund capital programme and prudential indicators (2018-19 to 2021-22) and the treasury management annual strategy report (2018-19). The joint treasury management and capital report followed a new recommendation from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Communities and Local Government (DCLG) for a capital strategy, and detailed financial and non-financial investments, as well as investments in subsidiaries such as North Downs Housing (NDH). The report covered management of value for money (VFM), level of risk, investments, liquidity and yield of financial and non-financial investments, as well as this Council's borrowing strategy.

The Board heard that capital bids totalled £125 million, of which one bid was for £81 million for student accommodation. The remaining £44 million comprised twenty bids. All the bids had been considered by the corporate management team (CMT), and the Joint EAB budget task group. The new bids, which would be considered by the Executive on 23 January 2018, would increase the underlying need to borrow through the general fund to £419 million. The Board's attention was drawn to comments received on the bids from the Joint EAB budget task group, and to officers' responses.

The Lead Councillor for Finance and Asset Management explained that it was anticipated that this Council would run down its investments and externally borrow £30 million in 2018-19. There were options around delivery mechanisms and the role of the housing revenue account (HRA) in funding schemes. New local indicators had been introduced to demonstrate the sustainability of this Council's financial position, and a new approval process had been developed for capital bids, in line with best practice, which included parameters for investment schemes. The programme was split between essential and investment schemes, and it was proposed that limits should be set on essential schemes. The key impact of the capital programme on the revenue account was the borrowing and interest costs. The MRP for 2018-19 was estimated at £1.2 million. In respect of treasury management, interest paid was estimated to be £6.3 million, of which £5.1 million was HRA. Investment income was estimated to be £1.6 million, and the weighted average investment rate was 1.63%.

The Head of Financial Services explained that local authorities were able to borrow for anything related to their function and purpose in order to finance capital expenditure. The power to borrow existed where the authorised debt limit was below the capital financing requirement, and the capital financing requirement showed that there was a need to borrow to fund particular capital expenditure projects. DCLG was clarifying its guidance around borrowing to invest but it had always been illegal to borrow to invest in financial markets. Borrowing in advance of need was permitted under the guidance, and could be for any capital purpose.

The Principal Group Accountant informed the Board that the authorised borrowing limit was the maximum external borrowing permitted, as determined by this Council. The approved limit for this financial year was £525m, including both the general fund and HRA, and the borrowing level was derived from this Council's capital financing requirement. Currently there were no plans to borrow up to the capital financing requirement but there was flexibility to do so if required. Furthermore, a request could be made to Full Council to revise the limit if necessary during the year. The only externally set borrowing limit was the debt cap set by the government for the HRA. When the prudential framework was introduced, limits for the general fund ceased, and councils were able to determine their own affordability levels.

The Head of Financial Services informed the Board that this Council had begun the process of setting local performance indicators that would assess its financial sustainability in relation to its balance sheet. The indicators were the same as those used by the Local Government Association (LGA). The local limit for capital expenditure increase was predicated on the affordability of borrowing and interest costs from the general fund revenue account, and income generated from schemes. The joint treasury management and capital report proposed splitting the capital programme between essential and investment schemes. Essential schemes were those required in order to maintain assets, run services or provide investment in infrastructure for the borough, and a limit would be set on them, as the costs fell on taxpayers in terms of increased council tax. Investment schemes were those which would generate an income stream in excess of financing costs, for example the crematorium rebuild. The additional income stream or saving from investment schemes could then be used to invest further in the general fund.

Capital receipts and reserves were financing improvements towards existing council housing stock but also significantly financing new-build affordable housing within the HRA. There was scope in the regulations to spend housing capital receipts on regeneration subject to certain criteria, which included approval from the Secretary of State. For some regeneration schemes therefore, the role of the HRA could be considered in financing the upfront costs of bringing those sites forward for regeneration and/or financing new build affordable housing within the sites. Guildford Park, for example, provided a range of housing, including 40% affordable units, as well as market housing. The HRA was funding the clearance of the site and the building of the units, with the sale of the market units generating capital receipts, whilst the car park element was being funded through the general fund. The Board heard that this Council could only borrow to finance its own capital expenditure in line with its functions as an authority and strategic objectives set out in the Corporate Plan. However, it could lend on to one of its subsidiary companies, e.g. North Downs Housing, to some form of associate of the council, or to a housing association, through joint ventures in which it had a shareholding.

The approval process for capital bids was being revised so that business cases would need to evidence much more rigorous criteria. The proposal was to adopt the procedure in the HM Treasury green book, which is what the Treasury used to assess significant public sector expenditure projects. The green book stated that projects should be undertaken where they had a positive net public benefit, which need not be financial. This Council would set its own investment criteria, and in order to determine the level of return required, each project would be risk weighted, with payback periods, peak debt costs and interest costs identified. In addition, consideration would be given to whether the MRP for debt repayment was being set aside from the revenue account. Over time, and if no new debt was accrued, the debt would then be reduced. In reality new debts were taken on whilst older ones reduced, though currently the HRA debt was not being reduced.

The Principal Group Accountant informed the Board that schemes were listed on the provisional programme to provide an early indicator of spending before looking at their financial viability in detail, at which point a full business case, with capital receipt and revenue assumptions, would be taken to the Executive. Projects that were not financially viable would be removed from the capital programme. This provided a prudent approach to considering what the capital requirement might be, what types of schemes were under consideration, and what level of investment they might entail.

The Board heard that over the last two years, officers had been encouraged to include benefits and income assumptions within their bids, even if that just covered debt costs, as well as non-financial benefits. Some bids had been listed on the capital programme for a number of years, and officers had not looked to see what income streams were attached to them. For example, decking at Millbrook car park had been listed for around seven years, but the income stream had not been predicted within the revenue budget, which would then finance the project's capital costs. Similarly, with the North Street project, the expenditure was listed on the capital programme, but no assumptions for receipts or income were listed on the revenue budget. The capital bidding process was being adapted so that both positive and negative assumptions would be included. The Board welcomed a suggestion from the Head of Financial Services that overarching limits could be developed so that schemes would have to evidence a positive net present value on a risk-weighted basis.

The capital and investment strategy gave provision for this Council to invest 100% of its surplus funds in non-specified investments. The Principal Group Accountant explained that this did not mean that such investments would be risky. As an example, this Council had a large portfolio of covered bonds, which were taken out for 3-5 years, so were included as long-term, non-specified investments under the DCLG investment guidance.

In respect of bid no: 111 (A331 Hotspots), it was confirmed that the bid was for this Council's share of the project, which was being undertaken in conjunction with the Enterprise M3 Local Enterprise Partnership (LEP), and funded in partnership with them.

In respect of bid no: 129 (Rodboro Buildings – Electric Theatre Through Road and Parking), the Head of Financial Services confirmed that this Council would speak to its tenant prior to the expiry of the current lease, but as there were still five years to run on the lease, it was still too soon to do that. The Board also expressed some concern over the cost of the bid.

In respect of bid no: 130 (Castle Grounds Cottage), it was confirmed that the bid had been withdrawn.

In respect of bid no: 139 (Guildford Bike Share), the Board heard that the proposed scheme had been taken to the Borough EAB for its consideration, and sponsorship opportunities would be identified by the chosen operator and would form part of the procurement process and contract.

In respect of bid no: 145 (48 Quarry Street, Museum – Works to Remedy Structural Defects) the Board asked for more detail on the building survey, and queried whether the floor had been overloaded by a tenant using the premises as office accommodation.

In respect of bid no: 177 (Feasibility Study into Decking of Millbrook Car Park and Implementation), the Board suggested that the feasibility could also consider the addition of one or two extra layers to the scheme for housing, including affordable housing, as well as car parking. The Head of Financial Services agreed to forward the suggestion on to relevant officers, but pointed out that the site was on a conservation site and a 3B flood plain. The Board suggested that developing the site solely as a car park would be a missed opportunity, and wanted to see housing and community use considered within the feasibility study. The Board suggested that the feasibility study should also consider a project undertaken in Bath, where a three-storey underground car park had been constructed next to the River Avon. The Board recommended that the revenue bid for the feasibility study be approved, and that the outcome of the feasibility study and proposals for construction be referred to the Borough EAB for further consideration prior to the project being approved for transfer from the provisional to the approved capital programme.

In respect of bid no: 205 (Hydro Private Wire), the Board noted that officer comments were not yet available.

In respect of bid no: 211 (Parks and Countryside Roads, Paths and Car Parks Repairs and Renewal Funds), the Board suggested that consideration be given to the use of crushed stone as a resurfacing material. The Lead Councillor for Finance and Asset Management agreed to raise this with the relevant officers.

In respect of bid no: 229 (Millmead Fish Pass), the Board was appreciative of the comments officers had provided in response to queries from the Joint EAB budget task group.

In respect of bid no: 255 (Crematorium Rebuild VAT Implications), the Board heard that there was no scope to claim back VAT from HMRC for this project. Furthermore, there would be no financial benefit to phasing the scheme.

In respect of bid no; 264 (Old Manor House), the Board noted that the bid was for the replacement of windows in a Grade 2 listed building, and encouraged officers to consider the estimate carefully, to ensure best value for money.

Having considered the report, the Joint EAB in recommending the capital and investment strategy to the Executive, asked the Executive to note the following:

(1) That, in respect of Bid No 177 – Feasibility Study into Decking of Millbrook Car Park & Implementation, the Joint EAB recommends that the revenue bid for the feasibility study be approved, and that the outcome of the feasibility study and proposals for construction be referred to the Borough EAB for further consideration prior to the project being approved for transfer from the provisional to the approved capital programme.

(2) That, in respect of Bid No 211 – Parks & Countryside Roads, Paths & Car Parks, the Joint EAB recommends that consideration be given to the use of an alternative to tarmac as a resurfacing material, for aesthetic reasons, for example, stone chippings.

11 EXCLUSION OF THE PUBLIC

The Board
RESOLVED:
That under Section 100A(4) of the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the 1972 Act.

12 GENERAL FUND CAPITAL PROGRAMME BID NOS. 97, 169, 261 AND 268 - DETAILS OF PROPOSALS

The Board commented on particular aspects of Bid Nos. 97, 169 and 268.

In relation to bid no: 268 (Student Accommodation Investment), the Board expressed concern around the level of funding required, and was keen to see the benefits of the investment quantified. The Board was also supportive of the strategic objectives set out in the bid but wanted to keep as much control and flexibility as possible, with regards to the affordability of the rents charged and the income levels obtained. The Board also noted that whilst the student accommodation investment contributed towards the achievement of one of its local plan targets, it still fell short of fully achieving the target.

In respect of bid No: 268 (Student Accommodation Investment), the Joint EAB recommended:

(a) that the Business Case be submitted to the Borough EAB for further discussion prior to its consideration by the Executive; and

(b) that, following consideration by the Executive, the Business Case be referred to Full Council for final approval before the project is transferred from the provisional to the approved capital programme.