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Date: 3 December 2018

Notice of meeting

Cabinet

Date: Tuesday, 11 December 2018

Time: 7.00 pm

Place: Goddard Room, Council Offices, Knowle Green, Staines-upon-Thames

The members of the Cabinet	Cabinet member areas of responsibility
I.T.E. Harvey (Leader)	Leader and Council Policy co-ordination
A.C. Harman (Deputy Leader)	Deputy Leader and Communications
M.M. Attewell	Community Wellbeing
C. Barnard	Planning and Economic Development
J.R. Boughtflower	Corporate Management
M.P.C. Francis	Housing
D. Patel	Environment and Compliance
O. Rybinski	Customer Service, Estates and Transport
H.R.D. Williams	Finance

Spelthorne Borough Council, Council Offices, Knowle Green

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AGENDA

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- 1. Apologies for absence**
To receive any apologies for non-attendance.
- 2. Minutes** **5 - 10**
To confirm the minutes of the meeting held on 21 November 2018 as a correct record.
- 3. Disclosures of Interest**
To receive any disclosures of interest from councillors in accordance with the Council's Code of Conduct for members.
- 4. Leader's announcements**
To receive any announcements from the Leader.
- 5. Outline Budget 2019/20 - 2022/23 - Key Decision** **11 - 22**
Councillor Williams
To consider a report on the Outline Budget for 2019/20 to 2022/23.
- 6. Treasury Management Strategy - half yearly report** **23 - 34**
Councillor Williams
To receive the half yearly report on Treasury Management 2018/19.
- 7. Proposal for Local pay, terms and conditions** **35 - 58**
Councillor Boughtflower
To consider a report on a proposal to move to local pay, terms and conditions.
- 8. Urgent Action**
To note an urgent action undertaken by the Chief Executive.

On 8 November 2018 the Chief Executive in consultation with the Leader, agreed a letting within the Porter Building, Slough. This is not a Key Decision. The matter was considered as an urgent action because the lease had to be signed before the Cabinet was next due to meet.
- 9. Urgent items**
To consider any items which the Chairman considers as urgent.

10. Exempt Business

To move the exclusion of the Press/Public for the following item, in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.

**11. Exempt report - Acquisition of Property R - Key Decision
Councillor I.T.E. Harvey**

59 - 104

To consider the acquisition of a property for financial and asset investment purposes.

Reason for exemption

This report contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in the bidding process for the site by allowing other bidders to know the position of the Council. This in turn prejudices the Council by (i) distorting the bids process and (ii) prejudicing the opportunity for the Council to acquire a site through the Council for the prudent management of its financial affairs and provision of housing.

**12. Exempt report - Acquisition of Property S - Key Decision
Councillor I.T.E. Harvey**

105 - 140

To consider the acquisition of a property for financial and asset investment purposes.

Reason for exemption

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Minutes of Cabinet

21 November 2018

Present:

Councillor I.T.E. Harvey, Leader and Council Policy co-ordination
Councillor A.C. Harman, Deputy Leader and Communications
Councillor M.M. Attewell, Community Wellbeing
Councillor C. Barnard, Planning and Economic Development
Councillor J.R. Boughtflower, Corporate Management
Councillor M.P.C. Francis, Housing
Councillor D. Patel, Environment and Compliance
Councillor O. Rybinski, Customer Service, Estates and Transport
Councillor H.R.D. Williams, Finance

2534 Minutes

The minutes of the Cabinet meeting held on 26 September 2018 were agreed as a correct record.

2535 Disclosures of Interest

There were none.

2536 Leader's announcements

The following are the latest service updates from various Council departments.

"I would firstly like to mention remembrance, in which we commemorated the centenary of the end of the First World War with a special event for schools. We also planted 100 trees in Thameside, Laleham Park, and plan to plant a further 751 trees around the Borough over the coming months to remember the sacrifice of the 851 soldiers lost from the local area and provide a lasting legacy.

Thanks to our highly successful financial strategy, plans to extend the Greeno Centre in Shepperton to provide facilities for the most vulnerable in our communities have moved one step forward with planning permission granted.

Our sound financial position has also enabled us to progress a number of projects to provide much-needed housing in the Borough. Last month saw the completion of three new two-bedroom homes on the site of Churchill Hall in Sunbury, the first of three housing projects the Council is hoping to complete over the next 18 months.

As part of a long-term strategy to make the best use of assets, the Council has secured prior approval to convert part of the Council offices to residential use. Council staff will remain at the offices.

In October we celebrated the hard work and achievements of our local businesses in the first “Spelthorne means Business Awards” with a ceremony for the seven award categories held at Shepperton Studios.

In response to a petition presented to the Spelthorne Joint Committee on 8 October 2018, I agreed that Spelthorne Borough Council would fund a feasibility study on how best to tackle the significant issues which the residents of Stanwell Moor face around HGVs driving through the village.

Thanks to funding from Borough and County Councillors, new emergency throwlines have been placed at key locations along the River Thames in Spelthorne.

Along with the Elmsleigh and Two Rivers shopping centres and Staines-upon-Thames Business Improvement District (BID), Spelthorne Council supported Purple Tuesday, the UK’s first accessible shopping day, which aims to make shopping more inclusive and accessible for all.

In partnership with Spelthorne Council, Heathrow Community Fund and Tesco Bags of Help, Spelthorne Spartans Badminton Club have launched a fun new community project called Glow Badminton. An event is taking place on 17 November with 50% of the proceeds going to Children in need.

An awards ceremony was held on Monday 12 November to recognise the winners of the creative arts competition for children and young people called “What makes Spelthorne Special”. Over 60 young people attended the workshops held in the summer and 93 pieces of work were entered into the competition.

The Council is offering free car parking for late night shopping in Staines-upon-Thames on Thursdays evenings in Council-run car parks in the run up to Christmas.”

2537 Recommendation from the Audit Committee on Corporate Risk Management

Cabinet considered the recommendation from the Audit Committee on the Corporate Risk Register.

Resolved to approve the Corporate Risk Register as submitted.

Reason for the decision:

The Register summarises the Council’s most significant risks. It sets out the controls which have been put in place and identifies any further action which might be needed to mitigate risks.

2538 Authority Monitoring Report and five-year housing land supply statement

Cabinet considered the annual Authority Monitoring Report and draft five-year housing supply statement.

Local authorities are required to update annually a supply of deliverable sites sufficient to provide five years' worth of housing against their housing requirements. The Report monitors key issues using selected indicators, relating them to the saved Local Plan policies, the policies in the adopted Core Strategy and Policies DPD and progress on the implementation of sites in the Allocations DPD.

The Authority Monitoring Report was considered by the Local Plan Working Party at its meeting on 18 September 2018 and recommended to Cabinet for publication together with the statement of five-year housing land supply.

However, due to the need to include and update some of the base data informing housing trajectory and the five-year statement, Cabinet deferred consideration of these documents until this meeting. This data had now been incorporated in the documents.

Resolved to agree to publish the Authority Monitoring Report together with the draft Statement of five year housing supply.

2539 Meals on Wheels contract procurement for the supply of meals - Key Decision

Cabinet considered a report seeking approval for the procurement of the next 5 year contract for Meals on Wheels food with Apetito, our incumbent supplier.

The Council had two contracts with Apetito relating to the supply of Meals on Wheels; the contract for the supply of ready-made and cooked meals to clients expired on 31 July 2018, whilst the lease for vehicles used to deliver the food was due to end on 14 January 2019.

Historically these contracts had not run concurrently but aligning them by extending the contract for the supply of meals to terminate at the same time as the vehicle leasing arrangements, would make contract and supplier management more straightforward.

Alternative options considered and rejected by the Cabinet:

- Not to renew the contract and cease to provide Meals on Wheels for clients;
- Source the meals and vehicles from separate suppliers;
- Cook all meals fresh from scratch at the Fordbridge Community Centre

Resolved to:

1. approve the award of a new contract to Apetito for the supply of meals; and

2. approve final costs of the five year lease hire of 4 bespoke vans fitted with 'cook on board' oven facilities, of £126,134.

Reasons for decision

Apetito, the Council's incumbent supplier for the past 10 years plus, are able to supply a wide range of meals to suit the client group as well as the option to cook the meals in the ovens fitted in the delivery vehicles.

A market options review concluded that taking into account resources, quality of service and cost implications, best value for money would be achieved through continuing with the current arrangement.

Cabinet agreed delegated authority to proceed with the direct award for the lease of vehicles to Apetito, at its meeting on 18 July. The food and vehicle contracts will run concurrently.

2540 Capital Monitoring Report

Cabinet considered a report on the current level of capital spend covering the period April to September 2018.

Resolved to note the current level of capital spend.

2541 Revenue Monitoring Report

Cabinet considered a report on the current level of revenue spend covering the period April to September 2018.

Resolved to note the current level of revenue spend.

2542 *Calendar of Meetings 2019-2020

Cabinet considered a report on the Calendar of meetings for 2019-2020.

The meetings for 2019 to 2020 had been programmed to ensure that the Council makes decisions in a timely way to help with the implementation of its priorities and strategies, as well as fulfilling its constitutional and legal obligations.

Resolved to recommend the Calendar of meetings 2019-2020 to Council for approval.

2543 Urgent items

There were none.

2544 Exempt Business

Resolved to move the exclusion of the Press and Public for the following item in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.

2545 *Exempt Report - West Wing, Council Offices, Knowle Green, Staines-upon-Thames - Key Decision

[Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)]

Cabinet considered an exempt report seeking a recommendation to Council for approval of a budget for design fees for the conversion of the West Wing offices to 25 new apartments.

The conversion to residential units would help meet the wider objectives of the Council in increasing the provision of housing within the Borough.

Alternative options considered and rejected by the Cabinet:

- Not to approve a recommendation to Council on a budget for design fees.

Resolved to recommend Council to:

1. Approve a budget for design fees for the conversion of the West Wing offices to 25 new apartments;
2. Authorise the Head of Corporate Governance to enter into any legal documentation necessary to implement the redevelopment project; and
3. To delegate the appointment of the advisors and design team to the Group Head of Regeneration and Growth in consultation with the Portfolio Holder.

Reason for Decision

As part of the efficiencies being delivered by Project Lima the West Wing will become vacant by May 2019 and available for alternative uses. Its conversion to residential use will meet the wider objectives of the Council in increasing the provision of housing within the Borough.

The Council obtained Permitted Development Rights approval for conversion of the building from offices to residential use (25 apartments) on 17th October 2018.

The ongoing revenue stream (once the works have been completed) will assist in the future long term financial stability of the Council.

2546 Exempt Report - Investment Acquisition (Q) - Key Decision

This report was withdrawn.

NOTES:-

- (1) Members of the Overview and Scrutiny Committee are reminded that under Overview and Scrutiny Procedure Rule 16, the “call-in” procedure shall not apply to recommendations the Cabinet makes to the Council. The matters on which recommendations have been made to the Council, if any, are identified with an asterisk [*] in the above Minutes.**
- (2) Members of the Overview and Scrutiny Committee are entitled to call in decisions taken by the Cabinet for scrutiny before they are implemented, other than any recommendations covered under (1) above.**
- (3) Within five working days of the date on which a decision of the Cabinet or a Cabinet Member is published, not less than three members [one of whom must be the Chairman] of the Overview and Scrutiny Committee are able to “call in” a decision;**
- (4) To avoid delay in considering an item “called in”, an extraordinary meeting of the Overview and Scrutiny Committee will be convened within seven days of a “call in” being received if an ordinary meeting is not scheduled in that period;**
- (5) When calling in a Cabinet decision for review the members doing so should in their notice of “call in”:-**

 - Outline their reasons for requiring a review;**
 - Indicate any further information they consider the Overview and Scrutiny Committee needs to have before it in order to conduct a review in addition to the written report made by officers to the Cabinet;**
 - Indicate whether, where the decision was taken collectively by the Cabinet, they wish the Leader or his nominee (who should normally be the Cabinet Member) or where the decision was taken by a Cabinet Member, the member of the Cabinet making the decision, to attend the committee meeting; and**
 - Indicate whether the officer making the report to the Cabinet or the Cabinet Member taking the decision or his/her representative should attend the meeting.**
- (6) The deadline of five working days for “call in” by Members of the Overview and Scrutiny Committee in relation to the above decisions by the Cabinet is the close of business on 29 November 2018.**

Cabinet**11 December 2018**

Title	Outline Budget 2019-20 to 2022-23		
Purpose of the report	To make a Key Decision		
Report Author	Chief Finance Officer		
Cabinet Member	Councillor Howard Williams	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	<p>1. The net budgeted expenditure (before investment and use of reserves) for 2019-20 be set at a maximum level of £22.2m</p> <p>2. That Cabinet support the overall strategy set out in the report for addressing efficiencies and achieving medium term financial sustainability</p> <p>3. That the financial health indicators set out in paragraph 3.23 be agreed.</p>		

1. Key issues

- 1.1 The key issue facing Council continues to be their ongoing financial sustainability. In January 2016 the Council received confirmation that it would not receive any general Revenue Support Grant (RSG) to support its Revenue Budget from 2017-18 and that in 2019-20 it would in fact have a negative adjustment of £750k, meaning it would be paying that sum to the Treasury, effectively negative RSG. At the time of writing this report the Council has not received updated figures, these will be communicated on 6th December (after the date this report has been produced, officers will update Cabinet at the meeting on any key announcements), for grant allocations for 2019-20.
- 1.2 The technical Consultation on the funding settlement, which the Council responded to in September, indicated that the Government is minded to drop its proposal for negative grant allocations for 2019-20 which would reduce the Council's budget gap by £750k if confirmed. However, the indications from the Treasury is that beyond 2019-20 the Government will continue to look to make savings on the funding of local government. We therefore anticipate in the years beyond 2019-20 there will be steady reductions in the amount of business rates we as a borough council will be allowed to retain. These assumptions have been fed into our projections are a key factor in the increase in the budget gap in 2020/21 and 2021/22.

1.3 The financial year 2020/21 is a particularly uncertain year for funding as we are awaiting the outcome of:

a) the next Spending Review determining total level of funding for local government;

b) the Fair Funding review looking at how funding is distributed between Councils; and

c) implementation nationally of “75% Business Rates Retention” (the reference to 75% applies only above a baseline set by Government).

1.4 It is anticipated that one outcome of the Fair Funding Review is there will be a shift in funding from lower tier councils (i.e. districts and boroughs) to upper tier (i.e. counties and unitaries) in response to adult social care financial pressures. In turn this is likely to result in a shift in the proportions of business rates retained by councils from districts and boroughs to counties.

1.5 This funding reduction is one of the main drivers in the projected budget gaps summarised in Appendix A which will develop and which would not be sustainable if not addressed.

Projected Budget Gaps if mitigating actions not put in place:

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Estimated Gap	1,366	4,847	6,028	4,082

1.6 Sections 2 and 3 of the report below summarises the medium term financial strategy in place designed to generate offsetting income, deliver efficiencies and to mitigate the projected budget gaps. The Council, over the outline Budget period, is undertaking a significant housing delivery programme which will potentially deliver over 600 housing units across a range of tenures including emergency accommodation, single person homelessness, affordable housing and private rental housing all of which there is a need for our residents. Whilst once these housing units are completed they will deliver ongoing rental income streams which will improve the Council’s longer term financial position, in the shorter term the Council will need to finance the development costs of this housing delivery programme.

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Revenue impact of Development Properties	2,477	3,457	3,822	308

1.7 Given the funding gaps indicated above, it is particularly important that the Council continues to pursue its strategy of acquiring high quality income generating assets in order to offset the financing costs of the housing delivery programme and also to offset the impact of reducing central government funding and to enable the Council to continue to provide services to its residents at the levels they expect.

100% Business rates retention and the Fair Funding review

- 1.8 The Government shifted its proposals for implementing “100%” business rates retention to now proposing a “75%” retention model. The percentages refer to the amount of business rates retained across local government as a whole, there will continue to be a redistribution mechanism with councils with strong business rates tax bases such as the Surrey districts and boroughs paying significant tariffs to help fund councils with weaker tax bases relative to their need to spend. The 75% scheme is anticipated to be implemented nationally in 2020-21 Associated with this the Government has invited bids from groups of councils to pilot 75% schemes. Whilst the Surrey councils successfully bid to pilot in 2018-19 a 100% scheme, we have been obliged to bid for a 75% scheme. If the Surrey councils were successful it would allow the Surrey councils to retain approx. £20m of business rates in Surrey to support economic development with respect to the districts and boroughs share and to support financial transformation with respect to the County share. This would be a reduction from the £28m retained anticipated to be retained under the 100% scheme. However, as there is a smaller number of 75% pilots proposed than was the case for 100% scheme and given that a lot of areas are bidding the chances of becoming a pilot. The Surrey councils have submitted a pilot proposal for 2019-20 based on a similar set of principles as the current 100% scheme. We anticipate learning whether the Surrey councils have been successful on 6th December when the funding settlement details are announced.
- 1.9 Whilst it is noted above that the chances of the Surrey councils this time round being successful in becoming a bid is lower than proved the case for 2018-19 there is a backup plan which will help Spelthorne and some of the Surrey districts and boroughs, this is in the form of a parallel bid for a business rates pool. A business rates pool is where a top up council (i.e. a council which receives a transfer of business rates from other councils) combines with a group of tariff councils (i.e. councils which are making transfers to other councils) in such a combination that the 50% levy the tariff councils have to pay on any growth in their tax base above the baseline set by the Government is reduced to more or less zero. If the pool proposal were accepted Spelthorne would be one of four Surrey districts and boroughs combined with Surrey CC. This would enable us to potentially retain an additional £300k to £600k of business rates which are not ring-fenced.
- 1.10 The Government are committed to introducing their Fair Funding Review at the same time as the 75% retention scheme nationwide. The review is important as this will be reviewing the underpinning formulae which over the years have sought to achieve an element of resource equalisation by trying to take into account councils “need to spend” relative to the strength of their tax bases. The review will feed into the determination of the baseline positions set by the Government as to how much business rates should be retained initially (before growth) after taking into account tariff payments (for councils, such as the Surrey districts with strong tax bases) or top up receipts (for those councils with weaker tax bases relative to need to spend).

2. Options analysis and proposal

The Outline Budget needs to cover the following areas:

- (a) Zero or negative revenue grant support and other funding support from the Government including New Homes Bonus, and address the risks and volatility associated with increasing reliance on business rates retention and the potential for the amount of business rates allowed to be retained to be reduced in future years.
- (b) Anticipated external pressures such as statutory changes impacting over the outline budget period.
- (c) The impact of pressures on Surrey County Council cascading down as a result of reduced funding from the upper tier authority and its transformation proposals which may have knock on effects on districts and boroughs.
- (d) The short term impact of financing housing delivery
- (e) How we fund our corporate priorities by generating increased income streams
- (f) The level of Council Tax, which the Council wishes to levy
- (g) Future assumptions on interest rates and investment types.
- (h) The level of services that the Council wishes to provide and the level of revenue expenditure the Council wishes to incur in the provision of those services. This is particularly important in light of the significantly reduced grant the Council will now receive. To support the challenging process of prioritisation of budget spending and saving decisions it is proposed that serious consultation be given to undertaken a statistically robust budget consultation exercise to inform decision making.
- (i) The level and range of charges the Council should make for its services.
- (j) The use of revenue reserves (if any) the Council wishes to use to support that level of service.
- (k) The level of reserves the Council wishes to retain to provide investment income and ensure stability for the future.
- (l) The alternative use of reserves to generate future savings.
- (m) To review the Council's portfolio of assets to ensure that it is maximising value obtained from use of assets (both in terms of cost of maintaining those assets and income generated from them) and to review opportunities to rationalise the portfolio and generate additional income streams.
- (n) The level of capital expenditure which the Council wishes to support and how it will seek to borrow, including being prepared to borrow where there are robust business cases in support. This will be more fully expanded on in the new Capital Strategy document which will go to February Council for approval.

3. OUTLINE BUDGET 2019/2020 – 2022/2023

- 3.1 Attached as Appendix A is a summary of projected expenditure and possible financing to 31 March 2023. It will be seen that the amount needed to be funded from Council Tax is £9.460m, taking into account use of reserves and investment income. Service expenditure would total some £23.6m in 2019/20.
- 3.2 Council Tax rate increases for 2019-20 and future years are assumed to be on the basis that the Council will continue to seek to protect Council tax and increase Band D by £5 per annum (equates to 2.6%) rather than utilise the full 3% increase now allowed. This is in recognition of the pressures our residents are under and therefore seeking to set an increase broadly in line with inflation.
- 3.3 The Outline Budget projections take into account anticipated inflation on significant contracts which the Council has in place.
- 3.4 The projections currently assume an annual increase in pay awards of 2.5%. This reflects the anticipated move of the Council to local pay arrangements from April 2019 under which it will seek to, subject to affordability, slightly more than match the national pay increase. The national pay increase for 2019-20 for local government is 2%. The Council is looking to increase this by 0.5%.
- 3.5 The Outline Budget projections assume that the Government will continue to progress the roll out of Universal Credit. The projections assume the roll out will be fully completed by 2023-24 which results in the gradual loss of the £0.5m credit the Council receives for its efficiency in recovering overpayments. This is one of the key factors in pushing up the budget gap over the outline budget period.
- 3.6 Budget consultation exercise - one option to aid the Cabinet to make future difficult budget decisions between competing budget priorities would be to commission a statistically robust budget consultation exercise. It is proposed that this is considered in 2019-20 to assist with feeding into the budget process for 2020-21 when the gap is potentially more challenging. The consultation could focus around decisions on flood defence expenditure and other corporate plan priorities.
- 3.7 In response to the reducing funding levels, Cabinet and Management Team recognised in 2014 that a fundamental transformation programme "*Towards a Sustainable Future*" (TaSF) needed to be put in place to aim at making the Council a self-funding council by the end of the outline budget period.
- 3.8 The TaSF programme looks at maximising income streams from investments and the Council's assets, this will link with the Council's refresh Housing Strategy which is aiming to use Council assets to generate additional housing supply (easing the pressure on the housing and homelessness budget) and generate income streams for the Council. The project to reduce the space the

Council occupies as offices at Knowle Green is nearing completion, which will result in business rates and operational savings and in turn enables the Council to develop the West Wing for affordable housing.

- 3.9 Programme management streams have been put in place to manage the delivery of the strands set out above.
- 3.10 Currently the Council's treasury management investments are performing well with the core investments achieving an average of 5% in 2017-18. It is anticipated this level of performance can be maintained and has been built into the Outline Budget projections. The total funds allocated into medium term pooled funds is being increased which will result in higher levels of investment income which will help support the Revenue Budget. This level of performance will also help generate interest on the monies being set aside in the sinking funds building up to cover future needs to incur expenditure on our commercial assets such as capital refurbishments or to cover rent free periods.
- 3.11 The Council has made excellent progress with respect to taking opportunities to maximise income streams from assets. As result of recent acquisitions the Council has secured additional income from assets for a sustained period well beyond the outline budget period of around £5m per annum net of financing and management costs. The Council is growing its dedicated property unit to ensure that it continues to have the right mix of expertise to manage a significant commercial portfolio. The Unit will assist the Council in identifying and acquiring further income generating assets. The Council also uses a range of advisors to ensure it continually monitors the performance of its portfolio.
- 3.12 In 2019-20 the Council's commercial assets portfolio will generate a net (after paying interest, loan repayments, supervision costs, and sinking funds set asides) £9.6m to support the Council's revenue budget, see table below.

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Rental Income	(50,629)	(49,122)	(50,116)	(50,366)
Loan Interest Payable	23,028	22,911	22,760	22,370
Minimum Revenue Provision	11,052	11,334	11,624	11,921
Sinking Funds	6,405	4,840	5,840	6,735
Set aside for specific revenue purposes	555	555	555	555
Net Income (used to fund Revenue budget)	(9,589)	(9,482)	(9,337)	(8,785)

3.13 The projected increase in the sinking funds is summarised in the table below:

	2019-20	2020-21	2021-22	2022-23
	£'000	£'000	£'000	£'000
BP Main Site	3,190	3,690	4,190	4,290
BP SW Corner	655	805	955	1,105
Elmbrook House	223	273	323	373
12 Hammersmith Grove	2,208	3,108	4,008	4,908
Stockley Park	450	550	650	750
WBC4	0	200	400	600
Communications House	536	1,036	1,536	2,036
Thames Tower	1,121	1,961	3,011	4,061
Charter Building	1,543	4,023	5,213	7,013
Porter Building	677	1,362	1,562	1,652
Total	10,603	17,008	21,848	26,788

3.14 As mentioned above the Council is continuing to look at acquiring properties either directly or through appropriate delivery vehicles to enable it to provide temporary accommodation as an alternative to Bed and Breakfast accommodation which is expensive and has other issues and to deliver affordable housing and a range of tenure types across the Borough. During 2016-17 the Council set up Knowle Green Estates as its housing delivery company and through the company it seized the opportunity to purchase the Harper Hotel emergency accommodation establishment. The Council will be able to use all of the housing units at the Hotel for its own residents diverting them away from expensive alternative arrangements.

3.15 The Council will continue to take forward the strategies outlined above to help close the current estimated Budget Gaps. Additionally the following factors and actions are anticipated to help close the gaps:

- Further investment in medium term funds which increases investment returns
- Outcome of business rates retention/pooling/section 31 grants associated with business rates
- Continuing to look for acquisition opportunities to assist with our housing development plans
- Focus on cross cutting savings in areas such as printing, postage
- Reflecting ongoing savings arising from Knowle Green reconfiguration
- Reviewing the timing and financial impact of development property works
- Assessing one off use of new and existing grants
- Pursuing external funding from business partners

- Reviewing revenue contributions to finance the capital programme
- Root and Branch efficiency outcomes
- Additional income levels being generated by some service areas
- Prioritising growth proposals

The Level of Revenue Reserves to use in Support of the Council Tax

3.16 Reserves are financial balances set aside within the Council's balance sheet to enable future financing of revenue or capital expenditure. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves. The key general reserve is the General Fund.
- Funds to meet known or predicted liabilities and future spending are often referred to as earmarked or specific reserves. This purpose is reflected in the build-up of sinking fund reserves for our commercial assets.

The cash balances held in our reserves are invested to earn interest income which helps support the overall revenue budget and the provision of services.

3.17 The Council currently uses specific revenue reserves to finance expenditure in the following ways:

- a) Interest equalisation – is built up in years when investment returns are better than expected and used to support investment income in years when returns are lower.
- b) New Schemes Fund – the fund is now exhausted and it is not proposed to continue to provide a stream of funding toward specific revenue costs but instead we intend to put monies back into the fund to offset future years expenditure from those areas.
- c) The key focus is generating additional revenue income streams. It is recognised that whilst the projects to deliver a number of such streams are well under way they will take time to reach the point of delivering income. There is therefore the case that on the basis there is a clear strategy and plan for delivering income streams that in the interim, in order to avoid making short term cuts which ultimately in the longer term may not have been necessary that some use of reserves to help close the revenue gap would be sensible.
- d) The Housing Initiatives Reserve with a balance of £3m has been identified as being a source of funding for supporting Housing Strategy initiatives.
- e) Sinking funds for commercial assets to be built up to cover potential end of lease refurbishment and possible future void and rent free periods.
- f) The Local Environmental Assessment reserve has been set up to enable the Council to react to any environmental impacts on the Borough.

- 3.18 The Council will be looking to implement arrangements to make repair and renewal annual contributions for addressing maintenance of service assets – addressing issues early in a planned way is usually cheaper in the long run. As part of addressing this it is proposed to have a further additional stepped increase in planned maintenance of £250k in 2020-21 which will take the increase in the planned maintenance budget on an ongoing basis to £1m since 2017/18 This is helping to ensure that the Council is appropriately maintaining its operational assets supporting the delivery of services for residents.
- 3.19 Given that there may be timing differences between additional asset income streams and the need to invest to make schemes happen there may be a need for the Council to incur some borrowing. Given the relatively low rates the Council can obtain from the likes of the Public Works Loan Board (PWLB); Homes and Community Agency or the European Investment Bank it is more cost effective to borrow rather than draw down medium term investment funds. The Council's treasury management advisers Arlingclose have assisted in developing the Council's borrowing strategy and have been working closely with the Council to identify alternative commercial borrowing opportunities. It should be noted however that Council's cannot borrow to cover deficits in their Revenue Budgets.
- 3.20 At 1 April 2018 Revenue Reserves were as follows:

	2018 £'000
Revenue Grants Unapplied	1,836
Capital Fund*	1,443
Carry Forward Reserve	711
Housing Initiatives Fund	2,135
Bronzefield Maintenance Fund	272
New Schemes Fund (NSF)	1,221
Interest Equalisation	493
Building Control Reserve	65
Insurance Reserve	50
New Homes Bonus	50
Youth Council Reserve	20
Bridge Street Car Park Reserve	33
Business Rates Equalisation Reserve	4,198
Local Environmental Assessment Reserve	250
Sub Total	12,777
Asset Acquisition Reserves (incl. sinking funds)	13,748
Total	26,525

The capital element of the NSF is now exhausted but there is still the revenue element of £1.2m in the table above.

The Level of Capital Expenditure to be supported

- 3.21 Each year the Council approves a four-year Capital Programme, which is split between Housing and “Other Services.”

The ‘other services’ programme consists mainly of capital expenditure on leisure, assets, replacement vehicles and information technology.

The ‘other services’ capital programme has generally been financed from our capital receipts, i.e. money received in past years from the sale of assets such as the sale of the housing stock under the Local Stock Voluntary Transfer (LSVT) reserved right to buy receipts (RTB) and other ‘one off’ sales.

Commercial income generating assets acquisitions are funded through borrowing, however these are designed to ensure that they generate a net surplus in excess of borrowing costs in order to provide funds which can be used to support the revenue budget.

- 3.21 The Housing Capital Programme will be financed by a mixture of Right To Buy (RTB) receipts, the Social Housing Fund, grants from Homes England, S106 receipts and borrowing where required.

- 3.22 The Prudential Code, which came into effect on 1st April 2004, gave Council’s the scope to borrow to fund capital investment. The Council has used these powers to undertake borrowing to acquire assets for housing or economic wellbeing purposes where there has been a robust business case and where the loan costs are more than offset by revenue savings or additional income streams. The Council is actively looking at further opportunities for sustainable income streams. DCLG have recently published a consultation on ‘Proposed Changes to the Prudential Framework of Capital Finance’ with a response deadline of 22nd December. The outcome of this consultation won’t be known until the new year but it is likely that stronger rules around the use of borrowing and the Minimum Revenue Provision (MRP) will come into effect.

Financial Health Indicators

- 3.23 Spelthorne maintain a selected number of indicators useful for monitoring purposes. Targets are set for capital and revenue outturn, and for debtors and creditors. The current set of indicators is set out below:

- a) Revenue outturn against original budget target: +/- 1.5%.
- b) Capital outturn against original budget target: +/- 20%.
- c) Council Tax collection target: 98.5%.
- d) Business rates collection target: 98.5%.
- e) Sundry debts aged more than 90 days overdue no more than 13% of total debts.
- f) Payment of creditors within 30 days target: 96.5%.

- 3.24 Clearly we need to take account of the challenging economic climate on the achievability of the above indicators particularly the collection rate (which through business rates and council tax support will feed through directly into the Council's financial position and debt indicators and we will keep these indicators under regular review.

In addition to the above there are the existing Prudential and Treasury Management indicators which are reported on throughout the year.

Financial implications

- 3.25 As set out in the report above

Other considerations

- 3.26 Where service efficiency proposals are put forward to assist in balancing the Budget the Council will need to undertake appropriate equality impact assessments.

Timetable for implementation

- 3.27 A detailed Budget timetable is being issued to ensure that we are able to set a balanced budget for 2019-20 at the meeting of Council on 21st February 2019.

Background papers:

Appendices: Appendix A – Outline Budget Details

Outline Budget					
	18-19	19-20	20-21	21-22	22-23
	Original				
	£	£	£	£	£
Broken down over Portfolios					
Leader of the Council	1,404,000	1,523,200	1,420,400	1,428,600	1,436,800
Deputy Leader	563,400	563,400	563,400	563,400	563,400
Corporate Management	2,155,700	2,304,800	2,304,800	2,304,800	2,006,600
Housing	2,103,900	1,939,800	1,939,800	1,939,800	2,259,800
Finance	2,660,500	2,635,500	2,610,500	2,610,500	2,610,500
Customer Service, Estates and Transport	2,016,400	2,208,200	2,083,900	1,959,700	1,955,200
Planning and Economic Development	4,446,500	5,798,600	7,127,300	7,616,500	4,106,700
Environment and Compliance	5,691,200	5,805,900	5,943,700	5,995,500	6,047,200
Community Wellbeing	393,300	348,300	393,300	393,300	393,300
	21,434,900	23,127,700	24,387,100	24,812,100	21,379,500
Salary expenditure - vacancy monitoring	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Pay award		330,000	660,000	990,000	1,320,000
Efficiencies					
Pensions		0	0	0	0
As yet unidentified annual growth anticipated to come		450,000	850,000	1,250,000	1,650,000
Fees and charges					
Service Expenditure	21,134,900	23,607,700	25,597,100	26,752,100	24,049,500
NET EXPENDITURE	21,134,900	23,607,700	25,597,100	26,752,100	24,049,500
Interest earnings	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
Asset Acquisition Income	(31,305,500)	(50,629,000)	(49,122,100)	(50,115,900)	(50,365,800)
Debt Interest payable	14,395,300	23,028,200	22,911,200	22,759,800	22,369,500
Minimum Revenue Provision	7,344,700	11,051,700	11,334,400	11,624,100	11,920,500
NET EXPENDITURE AFTER INTEREST EARNINGS	10,669,400	6,158,600	9,820,600	10,120,100	7,073,700
Appropriation from Reserves:					
Set aside for Independent Living	(56,000)	0	0	0	0
Revenue Contributions to Capital Outlay	747,000	747,000	747,000	747,000	747,000
Refurbishments Reserve Contributions	1,700,000	6,405,000	4,840,000	5,840,000	6,735,000
BUDGET REQUIREMENT	13,060,400	13,310,600	15,407,600	16,707,100	14,555,700
Allocation from National Non-Domestic Rate pool	0	0	0	0	0
Retained Business Rates	(3,300,000)	(3,000,000)	(2,200,000)	(2,200,000)	(1,800,000)
Business Rates - Economic Development Set Aside	(1,000,000)	0	0	0	0
Negative RSG	0	0	750,000	750,000	750,000
New Homes Bonus Grant	(956,900)	(851,000)	(713,000)	(522,000)	(400,000)
NET BUDGET REQUIREMENT	7,803,500	9,459,600	13,244,600	14,735,100	13,105,700
Collection Fund (Surplus)/Deficit	(48,100)	0	0	0	0
CHARGE TO COLLECTION FUND	7,755,400	9,459,600	13,244,600	14,735,100	13,105,700
Tax base	39,280	39,981	40,481	40,987	41,499
Council Tax rate	197.44	202.44	207.44	212.44	217.44
Council Tax yield	7,755,400	8,093,700	8,397,300	8,707,200	9,023,500
Deficit/(surplus)	0	1,365,900	4,847,300	6,027,900	4,082,200
Year on year movement		1,365,900	3,481,400	1,180,600	(1,945,700)

Cabinet**11 December 2018**

Title	Treasury Management Half Yearly Report 2018/19		
Purpose of the report	To note		
Report Author	Anna Russell, Deputy Chief Accountant		
Cabinet Member	Councillor Howard Williams	Confidential	No
Corporate Priority	Financial Sustainability		
Recommendations	Cabinet is asked to note the treasury position achieved during the first six months of 2018/19 and the financial environment in global markets.		
Reason for Recommendation	Not applicable		

1. Introduction and Context

- 1.1 Treasury Management is “the management of the Council’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code), which requires the Council to report on performance of the treasury management function at least twice yearly (mid-year and at year end).
- 1.3 The Council’s Treasury Management Strategy for 2018/19 was reviewed and approved by Cabinet on 24 January 2018, and approved by Council on 22 February 2018, and has been consistently applied since the beginning of the financial year.
- 1.4 This report is an interim statement of treasury activities for the first six months of the financial year, to the end of September 2018. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risks.
- 1.5 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice. In England, MHCLG published its revised Investment Guidance which came into effect from April 2018.

- 1.6 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. Councils are required to approve their Capital Strategy by end of 2018/19. The Council is producing its Capital Strategy for 2018/19 for approval by full Council.

External Context – Economic background

- 1.7 Oil prices rose by 23% over the six months to around \$82/barrel. The UK Consumer Price Inflation (CPI) for September rose to 2.4% year on year as the effects of sterling's large depreciation in 2016 began to fade. The ONS labour market data for the quarter to August 2018 showed the unemployment rate at 4%, the lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.
- 1.8 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.
- 1.9 Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.
- 1.10 The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.
- 1.11 The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised at the time of writing this report, extending the period of economic uncertainty.

External Context – Financial markets

- 1.12 Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in

money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

External Context – Credit background

- 1.13 Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.
- 1.14 The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.
- 1.15 There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's. Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks

Local Context

- 1.16 With the purchase of properties starting with the BP international campus site in Sunbury during 2016/17, the Council now has significant levels of long-term borrowing, secured to fund the property acquisitions.
- 1.17 The Council's current strategy when making strategic asset acquisitions is to take advantage of the cheap borrowing rates available, whilst maintaining and supplementing when possible the investment portfolio that has been built up.
- 1.18 On 31 March 2018, the Council had capital expenditure of £273m including £258m (94%) on investment properties. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. This is summarised in Table 1 next.

Table 1: Capital Expenditure Summary as at 31 March 2018

	2017/18 £'000
Opening Capital Financing Requirement	416,250
<i>Capital expenditure</i>	
Property, Plant and Equipment	13,520
Investment Properties	258,229
Intangible Assets	370
Revenue Spend Funded from Capital under Statute	1,241
Total Capital Expenditure	273,360
<i>Sources of Finance</i>	
Capital Receipts	(1,250)
Government Grants and Contributions	(1,021)
Revenue contributions	(838)
Repayment of debt	(4,517)
Total Sources of Finance	(7,626)
Closing Capital Financing Requirement	681,984

1.19 The financing of capital expenditure in 2017/18 is shown in Table 2.

Table 2: Financing of Capital Expenditure

	2017/18 £'000
Total Capital Expenditure	273,360
<i>Financed by:</i>	
Capital Receipts	(1,250)
Government Grants and Contributions	(1,021)
Revenue Resources	(838)
Borrowing	(270,251)
Total Capital Financing	(273,360)

1.20 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2018 and the change over the period is shown in Table 3 next.

Table 3: Treasury Management Summary

	31/03/2018		30/09/2018
	Balance	Movement	Balance
	£m	£m	£m
Long-term borrowing	(651)	(374)	(1,025)
Short-term borrowing	(14)	6	(8)
Total borrowing	(665)	(368)	(1,033)
Long-term investments	21	-	21
Short-term investments	1	19	20
Cash and cash equivalents	5	36	41
Total investments	27	55	82
Net borrowing	(638)	(313)	(951)

- 1.21 Cash balances total £41m and short-term investments £20m, reflecting the increases in income generation. Managers are currently assessing the long-term availability of funds and investment opportunities so that more funds can be allocated to long-term investments.
- 1.22 The increase in borrowing and income highlights the need for review and strengthening of the Treasury Management function. The function is currently resourced as small proportions of existing posts, although the actual work required has increased significantly since the Council started acquiring and developing property. As well as internal assessment by Finance of staffing requirements, the Root and Branch team is currently reviewing the Treasury Management function. In addition, the Council is implementing a Treasury Management system, available through the existing Arlingclose service, which will help with cashflow projections and general Treasury Management administration,

2. Borrowing Strategy to 30 September 2018

- 2.1 At 30 September 2018, the Council held £1,033m of loans, an increase of £370m from 31 March 2018, including £1,008m long-term PWLB borrowing as part of its strategy for funding major acquisitions and developments. The 30 September 2018 borrowing position is show in Table 4 next.

Table 4: Borrowing Position

	31/03/2018		30/09/2018
	Balance	Movement	Balance
	£m	£m	£m
Public Works Loan Board	648	360	1,008
Local authorities - long-term	3	14	17
Local authorities - short-term			8
	14	(6)	
Total Borrowing	665	368	1,033

- 2.2 At 30 September 2018, the Council also had short-term borrowing totalling £19m. This reflected the cashflow impact of some of the costs associated with acquisitions. These funds were borrowed from other local authorities because of the short-term nature of the requirement and the affordable rates on offer.

- 2.3 The Council will also need to borrow additional funds on both a long- and short-term basis for any further strategic acquisition purchases that occur in the future. Work is ongoing with Arlingclose and the portfolio holder to ensure that the cheapest and most appropriate duration and source are secured.
- 2.4 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 2.5 Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

Investment Activity to 30 September 2018

- 2.6 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. However, the ability to maximise interest returns within these guidelines is paramount to generating sufficient funds to support the Council's revenue budget.
- 2.7 As at 30 September 2018, the Council's investment portfolio was a total of £68.8m, with £29.0m of this being short-term cashflow funds. A breakdown of the investments is given in **Appendix A**. It should be noted that one of the short-term loans to a local authority breached the £5m counterparty limit. This issue was identified soon after the trade, and procedures have been tightened to help prevent such a breach in future.
- 2.8 Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Council's aim to further diversify into more secure or higher yielding asset classes. The availability of funds for investment is dependent upon the timing of precept payments, receipt of grants and progress on the capital programme.
- 2.9 The pooled fund investments form a key part of the portfolio and a full list of these and their current performance is detailed in **Appendix B**.

Investment Performance Monitoring

- 2.10 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 2.11 The Council seeks professional advice from Arlingclose and closely adheres to the advice set out in the Ministry of Housing, Communities and Local Government (MHCLG) guidance. Given Spelthorne's dependency on investment returns to balance the budget, the Council's investment strategy is also kept under constant review and quarterly review meetings are held with Arlingclose, the Council's treasury advisor.
- 2.12 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements,

information on potential government support and reports in the quality financial press.

Conclusions and Outlook for the remainder of 2018/19

- 2.13 Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.
- 2.14 The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.
- 2.15 Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long-term average rate.

3. Financial implications

- 3.1 The financial implications are as set out in this report. The ability to maximise interest returns is paramount to generate sufficient funds to support the General Fund and even a small decline in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility commensurate with the high level of security and liquidity and minimal risk when making investment decisions.

4. Other considerations

- 4.1 The Council fully complies with best practice as set out in CIPFA's 2019 Treasury Management and Prudential Codes and in MHCLG's Guidance on Investments effective from April 2018.
- 4.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local projects deemed beneficial to the local community and which have been approved by the Council.

5. Timetable for implementation

- 5.1 Treasury management is an ongoing activity and normally there is no specific timetable for implementation.

Background papers: There are none

Appendices: Appendices A – B are attached

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Details of Investments Held as at 30 September 2018

Investment Type	Initial Inv. Amount £m	Yield %	Start Date	Maturity Date
<u>Pooled Investment Funds</u>				
<i>(see Appendix B for details)</i>				
Charteris Elite Equity Income	0.8	4.27*	11 May 2012	N/A
Schroders UK Corporate Bond	1.5	4.93*	11 May 2012	N/A
M&G Optimal Income Sterling	1.7	2.43*	13 Apr 2015	N/A
M&G Global Dividend	1.0	4.55*	27 Jun 2012	N/A
M&G Extra Income Fund	2.0	3.41*	15 Aug 2016	N/A
Schroders Income Maximiser	1.0	7.18*	06 Jul 2012	N/A
Schroders Income Maximiser	1.0	7.18*	24 Jul 2015	N/A
Schroders Income Maximiser	1.0	7.18*	26 Aug 2016	N/A
CCLA Property Fund (LAMIT)	1.5	5.67*	31 Mar 2013	N/A
CCLA Property Fund (LAMIT)	1.0	5.67*	30 Apr 2014	N/A
Investec Diversified Income	3.0	3.40*	25 Aug 2016	N/A
Threadneedle UK Equity Fund	2.0	2.93*	08 Sept 2016	N/A
Total	17.5	4.46*		
<u>Fixed Rate Deposits</u>				
Network Housing Group	2.0	3.60	28 Apr 2016	27 Apr 2021
Total	2.00	3.60		
Total - Core Inv. Portfolio	19.5	4.37	Average	
<u>Cash Flow Investments</u>				
Insight	5.0	0.67		Instant Access
Standard Life Investments	5.0	0.67		Instant Access
BNP Paribas	5.0	0.68		Instant Access
LGIM	5.0	0.68		Instant Access
CCLA	5.0	0.69		Instant Access
Invesco	4.0	0.66		Instant Access
Total	29.0	0.68		
<u>Local Authorities</u> **	20.0	0.87		
<u>Funding Circle</u>				
Loans to small businesses	0.3	5.00	16 Apr 2015	31 Mar 2019
Total Investments at 30/09/17	68.8	1.80	Overall average	

* Yields on pooled funds are estimates based on in-year performance or estimated performance when the fund was recently opened.

** Local authority investments includes one of £15m, a short-term loan until February 2019, and one of £5m, which is due back in April 2019.

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Pooled Funds as at 30 September 2018

Fund	Date of Purchase	Initial Investment £	Dividends Received to 30/09/18 £	Annualised Dividend Yield %	Capital Gain(+)/ Loss(-) at 30/09/18 £	Total Return at 30/09/18 £	Total Return %
Charteris Elite Premium Income Fund	11/05/12	800,120	-	4.27%	-76,785	-76,785	-9.60%
Schroders UK Corporate Bond Fund	11/05/12	1,500,000	112,491	4.93%	+176,056	+288,547	19.24%
Schroders Income Maximiser Fund	06/07/12	1,000,000	-	7.18%	+221,519	+221,519	22.15%
Schroders Income Maximiser Fund	24/07/15	1,000,000	-	7.18%	-6,983	-6,983	-0.70%
Schroders Income Maximiser Fund	26/08/16	1,000,000	-	7.18%	+55,057	+55,057	5.51%
M&G Global Dividend Fund	27/06/12	1,000,000	71,315	4.55%	+792,885	+864,200	86.42%
M&G Optimal Income Sterling	13/04/15	1,690,636	-	2.43%	+39,953	+39,953	2.36%
M&G UK Income Distribution Sterling	15/08/16	2,000,000	-	3.41%	-15,599	-15,599	-0.78%
Investec Diversified Income	25/08/16	3,000,000	59,453	3.40%	-121,015	-61,562	-2.05%
Threadneedle Inv Services - UK Equity	08/09/16	2,000,000	27,083	2.93%	+135,090	+162,173	8.11%
CCLA - The LAs Property Fund	31/03/13	1,500,000	83	5.67%	+506,690	+506,773	33.78%
CCLA - The LAs Property Fund	30/04/14	1,000,000	48	5.67%	+145,788	+145,836	14.58%
Value at 30/09/2017		17,490,756	270,473	4.46%	+1,852,656	+2,123,129	12.14%

Pooled Fund Performance to 30 September 2018

The Capital appreciation of these investments as at 30/09/18 equates to 10.59%. However, capital gains and losses may fluctuate throughout the period the investments are held. Any gains would only be realised when the funds are sold. Dividends are received at various times during the year, with some paid quarterly and others half yearly. The income yield for 2018/19 as at 30/09/18 is 1.55% and the estimated annualised income yield on these funds is expected to be in the region of 4.46%.

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Cabinet

11 December 2018



Title	Proposal to move to local pay, terms and conditions		
Purpose of the report	To make a recommendation to Council		
Report Author	Debbie O’Sullivan/Angela Tooth		
Cabinet Member	Councillor John Boughtflower	Confidential	No
Corporate Priority	This item is not in the current list of Corporate priorities but still requires a Cabinet decision		
Recommendations	<p>(a) To note the position on consultation with UNISON with a view to concluding a Collective Agreement on local pay awards and local terms and conditions</p> <p>(b) To consider the responses from UNISON and employees to the formal consultation period</p> <p>(c) To decide whether to recommend any changes to the proposals taking account of the consultation responses</p> <p>(d) To decide whether to proceed to implement the proposals to move to local pay awards and local terms and conditions by giving notice (dismissal and reengagement)</p> <p>(e) To delegate to the Chief Executive authorisation to implement the changes.</p> <p><i>NOTE: As detailed in point 2 below, consultation will continue with UNISON with a view to conclude a Collective Agreement. This Cabinet Report has been submitted in order for deadlines to be met should a Collective Agreement not be agreed.</i></p>		
Reason for Recommendation	In the light of consultation responses received to decide whether to proceed to implement changes to the method of deciding pay awards and to operate local pay, terms and conditions for all employees moving away from national arrangements for these matters.		

1. Proposals to move to local arrangements for pay awards, terms and conditions

- 1.1 Council on 19 July 2018 decided on proposals to move to local arrangements for deciding pay awards and local terms and conditions so that in future the council can fully take account of local circumstances and affordability with maximum flexibility. Council agreed a timetable and process for implementing a move to local pay and conditions from April 2019, including consultation with UNISON with a view to concluding a Collective Agreement to bring in the changes and formal consultation with the workforce on the proposals if required.

2. Progress towards agreeing a Collective Agreement

- 2.1 The Chief Executive has continued to consult with UNISON with a view to concluding a Collective Agreement on local pay awards and local terms and conditions. If a Collective Agreement is concluded the agreement would apply to the whole workforce and it would not be necessary to give notice to each individual member of staff to implement the change.
- 2.2 Consultation with UNISON has been ongoing since the summer, with positive dialogue and cooperation on both sides. Nevertheless it has not yet been possible to conclude an Agreement as there remain a number of points where the parties are not able to agree.
- 2.3 Efforts to conclude a Collective Agreement will continue until the Cabinet meeting in December, with a verbal update at the meeting. If an Agreement is not concluded by that time it would be necessary to proceed to implement the changes by other means in order to introduce the proposed changes by 1 April 2019 (this would be by dismissal and reengagement).

3. Information and Consultation with employees

- 3.1 Since the Cabinet meeting in July employees have been provided with full information on the proposals to move to local pay awards and local terms and conditions, the proposed timetable and the process. This has included briefings and updates at Staff Meetings, meetings at day centres, depot and nursery for employees based away from Knowle Green, information on Spelnet and in hard copy, responses to queries and concerns. Employees have been able to raise queries or concerns in a number of ways, and any concerns brought to management's attention have been responded to.
- 3.2 As a Collective Agreement was not concluded by the end of August 2018 a letter and the proposals were sent to all employees at the beginning of September, with a Formal Consultation period running from 3 September 2018 to 2 November 2018. During the Formal Consultation period employees were able to submit their responses to the proposals and also raise any queries that they might have. A set of Frequently Asked Questions (FAQs) has been available to employees to read alongside the formal proposals to answer queries and provide clarification. Any queries raised during the Formal Consultation period have been responded to. UNISON was also able to respond to the Formal Consultation.
- 3.3 The Formal consultation period was for a 2 month period, meeting the legal requirement for a period of at least 45 days consultation on proposals for changes of this kind. The longer period was to ensure that all employees had ample opportunity to consider the proposals, to raise any queries they might

have, and to make their responses. It also enabled discussions to continue towards reaching a Collective Agreement.

3.4 Employees have been able to respond to the consultation in a variety of ways including by using a template response form, by email, letter or other document. Secure mailboxes/wallets have been provided at locations away from Knowle Green with a sealed ballot box available for responses at Knowle Green.

3.5 Three queries emailed to HR during the consultation period were responded to directly. These were not a response to the proposals put forward but indicated a level of concern about pensions entitlement, continuity of service, a possible move to zero hours contracts and the working of Collective Agreements. Pensions entitlement, continuity of service and contract type are not affected by the proposals, with no proposal to move to zero hours contracts.

4. Responses to formal consultation

4.1 There have been only 2 responses from employees. UNISON have not responded to the Formal Consultation.

4.2 One response was a detailed response to each proposal. This was broadly supportive with suggestions that managers have discretion to award an additional pay award above the local Spelthorne pay award if justified, and objecting that UNISON represented all staff. The other response was in relation to the proposal to end the lease car arrangement as a staff benefit and the impact of this on a member of staff in terms of material change.

5. Options analysis and proposal

5.1 **Option 1** is to continue to apply national pay awards and national terms and conditions of service and not to move to local arrangements for pay awards and local terms and conditions. This option means that the Council will have to continue to implement national pay awards, with the second year of the national 2 year pay award payable in April 2019 and a restructuring of the pay spine from 1 April 2019. Any future changes to national terms and conditions would have to be implemented. It does not provide local control or increase future flexibility to take account of local circumstances or affordability.

5.2 **Option 2** is to agree a change to local Spelthorne pay awards and local Spelthorne terms and conditions, with some minor modification to the proposals to take account of points raised during consultation. The change would be implemented by giving notice to terminate current contracts and offering new contracts on local Spelthorne terms and conditions in their place.

5.3 **Option 3** is to agree a change to local Spelthorne pay awards and local Spelthorne terms and conditions as proposed, with the change implemented by giving notice to terminate current contracts and offering new contracts on local Spelthorne terms and conditions in their place.

5.4 Risks

There is a risk that moving to local arrangements for pay awards and local terms and conditions will be unsettling for staff with a negative impact on staff morale or retention. There is a risk of industrial action. Proceeding to change terms and conditions by dismissal and reengagement has the risk of claims of unfair dismissal or breach of contract. Communication with staff following the

Formal Consultation period mitigates these risks as does ensuring that statutory and contractual notice requirements are met. The level of responses to the Formal Consultation have not indicated widespread disquiet about the proposal to move to local pay awards and local terms and conditions, although it does not mean there will be no adverse impact. Complying with employment law requirements and statutory guidance from ACAS will help to minimise the risk of employment tribunal or other claims from employees.

- 5.5 There is a risk that some staff decide not to accept new terms and conditions and leave the Council at the end of the notice period at the end of March 2019, potentially causing difficulties in covering jobs and functions. This risk is minimised by communication with staff, by confirming that staff are valued and that it is not intended that anyone should lose their jobs as a result of the changes to terms and conditions.
- 5.6 **The proposal** is to take action to implement a move to local pay awards and local terms and conditions as set out in **Option 3** to ensure that the new arrangements can be introduced effective from 1 April 2019.

6. Financial implications

- 6.1 Employee salaries and wages represent the substantial majority of the Council's net budget with the impact of pay awards considered as part of budget setting each year (or later if national pay awards have been delayed). Decisions on national pay may be taken by the national bargaining groups at times which do not fit the Council's budget cycle or may be higher than budgeted locally, in which case balancing financial savings must be achieved. If local Spelthorne arrangements for pay awards are agreed they can be linked to the budget setting process and can take account of local circumstances and affordability, with pay awards implemented at the beginning of the financial year.

7. Other considerations

- 7.1 Pay arrangements and terms and conditions of employment must comply with UK legislation including the Equality Act and national minimum wage rates. Spelthorne ensures that employment policies, procedures and arrangements comply with the relevant legislation and statutory guidance.
- 7.2 Each council is a separate employer and it is open to Spelthorne to decide to move away from national terms and conditions to local ones. Such a move must comply with employment law and guidance. A Formal Consultation period on the proposals has taken place. Responses to the consultation from employees and the trades union must now be carefully considered to decide whether to go ahead with the proposed change, to remain with the status quo or to modify arrangements in the light of the consultation responses.
- 7.3 If the decision is taken to proceed to implement a change to terms and conditions it will be achieved by a process known as 'dismissal and reengagement', writing to each employee to bring their current contract of employment to an end and offering a new contract of employment on the new terms and conditions in its place. A notice period of 3 months is required to effect such a change for the whole workforce. The workforce remains the same size and shape at the end of the process with employees remaining in the same posts. It does not lead to any redundancies or changes to the size or shape of the organisation.

7.4 Staffing is not an Executive matter and therefore changes to staff terms and conditions of employment have to be agreed by Council or a delegation given specifically by the Council to the Chief Executive as Head of Paid Service.

8. Timetable for implementation

8.1 If a move to local arrangements for pay awards and local terms and conditions is agreed, letters will be sent to all staff before the end of December 2018, giving 3 months notice of the termination of their current contract of employment and offering a new contract of employment on the new terms and conditions to commence on 1 April 2019. The new arrangements for agreeing pay awards will be followed for the pay award effective from 1 April 2019. It is anticipated that letters to staff will be sent by 21 December 2018.

Background papers:

Responses to Formal Consultation

Appendices:

Cabinet report 18 July 2018

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Cabinet**18 July 2018**

Title	Proposal for future arrangements for terms and conditions for Spelthorne employees		
Purpose of the report	To make a recommendation to Council		
Report Author	Sandy Muirhead, Group Head, Commissioning and Transformation		
Cabinet Member	Councillor John Boughtflower	Confidential	No
Corporate Priority	This item is not in the current list of Corporate priorities but still requires a Cabinet decision		
Recommendations	<p>Cabinet recommends to Council:</p> <p>(a) To agree that the Council takes steps to move to local arrangements for agreeing future pay awards for all employees</p> <p>(b) To agree that the Council takes steps to move to local terms and conditions for all employees</p> <p>(c) To agree formal proposals for consultation with UNISON and employees</p> <p>(d) To agree a timetable and process for implementing the move to local pay and conditions from April 2019</p> <p>(e) To delegate to the Chief Executive (in consultation with the Leader) authorisation to formally conclude a Collective Agreement with UNISON on local pay awards and local terms and conditions</p> <p>(f) To delegate to the Chief Executive authorisation to consult directly with staff on local pay awards and local terms and conditions if a Collective Agreement with UNISON cannot be reached by 31 August 2018. This may run in parallel with any continuing consultation with UNISON to finalise the terms of any Collective Agreement.</p>		
Reason for Recommendation	In line with the need to be more self-sufficient as national funding has been withdrawn, the Council wishes to move to deciding local pay awards and operating local pay, terms and		

	conditions for all employees moving away from the national arrangements for these matters. This will mean that in future the Council can fully take account of local circumstances and affordability with maximum flexibility.
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1. Arrangements for pay awards and conditions of service

- 1.1 The Council currently applies national pay awards agreed by the national local government negotiating bodies. National pay awards set out the percentage pay award to be applied and other changes to the national pay spine. The emphasis is on pay award levels and changes to pay structures which address national issues and pay considerations rather than local circumstances, flexibility or affordability. The Council has little influence on the pay award and implementation arrangements agreed nationally, which must be applied.
- 1.2 Over the years the Council has made several pay decisions over and above national arrangements in order to retain a competitive edge in the local recruitment market and to take account of local circumstances. This has included an additional Spelthorne Allowance (currently called Spelthorne Pay Supplement) on top of national pay rates which is now incorporated into base pay and enhanced pay awards in some years (this incorporated the national inner fringe allowance added to spine points for councils just outside of London). These actions have ensured that Spelthorne pay rates have kept ahead of the national pay spine and the bottom point of the Council's pay spine has continued to be above the statutory national minimum wage (NMW) pay rate.
- 1.3 In contrast the bottom points of the national pay spine had fallen behind in relation to statutory national minimum pay rates and anticipated future movements in national minimum pay. Consequently the national pay award for 2018/19 has required considerable bottom loading to lift pay rates above the NMW rate. The Council has to implement some of this bottom loading even though our own pay rates are already comfortably above NMW rates and such bottom loading distorts local relativities in the first few pay grades.
- 1.4 The 2018/9 pay award is the first year of a two-year pay award agreement nationally. The second year pay award for 2019/20 is due to restructure the national pay spine from April 2019 to future proof national pay rates in relation to anticipated changes in the NMW. Due to previous local actions Spelthorne does not need to restructure the Spelthorne pay spine in this way and implementing the changes agreed nationally will cause significant difficulties with relativities at the bottom end of the pay scales, particularly in the direct services area of the Council.
- 1.5 Many councils in the South East have moved away from national pay awards to local arrangements and Spelthorne is now the only council in Surrey which is still subject to national pay awards. The Chief Executive and Management Team have concluded that continuing to be bound by national pay awards is no longer in the Council's best interests and believes that the Council should seek to move to local arrangements for pay awards, so that full regard can be taken of local circumstances and affordability. This is consistent with the need

for council budgets to use local solutions to balance the books in view of the loss of national funding.

- 1.6 As well as applying national pay awards the Council also applies national terms and conditions for all employees, as amended by Spelthorne. The national terms and conditions that apply are the Joint National Committee (JNC) for Chief Executives for Chief Executives, the Joint National Committee (JNC) for Chief Officers for the Deputy Chief Executives, Group Heads and specified professional posts and the National Joint Council (NJC) for Local Government Services for other posts.
- 1.7 It would be consistent with a move to local arrangements for agreeing pay awards to also move to local terms and conditions by incorporating the current national conditions of service that apply to Council employees into local Spelthorne terms and conditions of employment. This would transfer control for any future changes to the Council, enabling it to retain flexibility and take account of local circumstances if necessary. These wider terms and conditions of employment continue to be appropriate for the Council's needs and there is no requirement to change them.
- 1.8 The Pay Policy Statement agreed by Council for 2018/19 states that Spelthorne BC is considering a move from national pay to local pay and will commence consultation accordingly, with affordability and local flexibility to be taken into consideration. The Pay Policy states that should Council agree to proceed to local pay it would be effective for the 2019/20 Pay Policy effective from April 2019 and any national pay award for 2019/20 as part of a two year deal will not apply to the Council as a local arrangement may be in place.

Changing terms and conditions

- 1.9 Changing the terms and conditions of employment that apply to employees, including arrangements for agreeing pay awards, cannot simply be done unilaterally by employers. Formal consultation on the changes proposed is required. Following consultation, changes can be agreed with individual employees or, where the proposed changes are to apply to the whole workforce, a collective agreement can be reached with a recognised Trade Union which would mean that the changes would be applied to all employees (whether members of the Union or not). The Council recognises UNISON for the purposes of consultation and alerts employees in their contracts of employment that UNISON will be consulted in relation to proposed changes to terms and conditions which are then binding on all employees.
- 1.10 If it is not possible to reach agreement with employees (either through consultation with the Union or after direct negotiation with employees), employers may decide that they still need to proceed to change terms and conditions of employment for key operational or financial reasons. In that event, the mechanism is to give notice to bring current contracts of employment to an end and to offer new, changed conditions in their place. This is known as termination and reengagement. Although the mechanism is to achieve change by termination and reengagement the intention from the outset is that employment continues uninterrupted under new conditions.

2. Options analysis and proposal

- 2.1 **Option 1** is to continue to apply national pay awards and national terms and conditions. This option ties the Council to national decisions and to implementing the second year of the national 2 year pay award including restructuring of the pay spine. It does not provide local control or increase future flexibility to take account of local circumstances or affordability.
- 2.2 **Option 2** and **Option 3** are to formally consult with UNISON and employees on the proposal to move away from national arrangements for pay awards, terms and conditions and to move to local Spelthorne pay and conditions with effect from 1 April 2019. The proposals for change are set out in **Appendix 1**.
- 2.3 **Option 2** is to enter into consultation with UNISON with a view to agreeing a Collective Agreement to move to local Spelthorne arrangements for pay awards and local Spelthorne terms and conditions of employment from 1 April 2019, the agreement to apply to the whole workforce. If UNISON's agreement to the proposals is secured, it is proposed that the Chief Executive (in consultation with the Leader) is authorised to formally conclude a Collective Agreement with UNISON. In parallel with the formal consultation with UNISON, there would be informal consultation and engagement with the workforce about the proposals and information about the consultation with UNISON including via Spelnet and staff meetings.
- 2.4 Reaching a Collective Agreement with UNISON would enable the Council to move to local pay, terms and conditions without the need to formally consult with the whole workforce or give notice to all employees to change employee contracts. It is expected that the local branch of UNISON and Regional Officers from UNISON will be involved in the consultation. It is not known whether UNISON will agree a Collective Agreement to move away from national pay and conditions. It may become apparent that it is not possible to conclude a collective agreement in time to implement a Spelthorne pay award for 1st April 2019.
- 2.5 **Option 3** applies in the event that it is not possible to conclude a Collective Agreement with UNISON to agree a change to local Spelthorne pay awards and local Spelthorne terms and conditions. Under this option the Council would formally consult directly with all employees on the proposal to move to local pay, terms and conditions and would consider all the responses to the consultation with all employees and UNISON. There would be a report back to Cabinet and Council for a decision on whether to proceed to implement local pay awards, terms and conditions by giving notice to terminate current contracts and offering new contracts on local Spelthorne terms and conditions in their place. It is proposed that the Council proceed to Option 3 if it has not been possible to achieve a Collective Agreement (Option 2) by the end of August 2018.
- 2.6 **Risks**
- There is a risk that consultation on proposals to change pay, terms and conditions will be unsettling to staff with a negative impact on staff morale. There is a risk of industrial action. Proceeding to change terms and conditions by dismissal and reengagement has the risk of claims for unfair dismissal or breach of contract. If the employer fails to consult properly as required by regulations, employees may be able to claim a protective award of up to 90

days' pay for each employee. Proper consultation and engagement with staff, ensuring that there is adequate time for consultation and adhering to statutory and contractual notice requirements mitigates these risks. Any compensation would be likely to be limited as the Council would be offering reengagement on new terms which would be broadly comparable to existing terms.

- 2.7 There is a risk that some staff decide not to accept new terms and conditions and leave the organisation at the end of March 2019, potentially causing difficulties in covering jobs and functions. This is minimised by engagement and extensive consultation with the workforce and by confirming that staff are valued and it is not intended that anyone should lose their jobs as a result of the proposed change to local pay and conditions.
- 2.8 **The proposal** is to take action to move to local arrangements for pay awards, terms and conditions by consulting with UNISON and the workforce, using **Option 2** initially, moving to **Option 3** if required to ensure that changes can be implemented by 1 April 2019.

3. Financial implications

- 3.1 Employee salaries and wages represent the substantial majority of the Council's net budget with the impact of pay awards considered as part of budget setting each year (or later if the national pay awards are delayed). Decisions on national pay may be taken by the national bargaining groups at times which do not fit with the Council's budget cycle and national pay awards may be higher than budgeted locally, in which case balancing financial savings must be achieved. If local Spelthorne arrangements for pay awards are in place they can be linked to the budget setting process and be in place for pay awards to be implemented at the beginning of each April.

4. Other considerations

- 4.1 Pay arrangements and terms and conditions of employment must comply with UK legislation including the Equality Act and national minimum wage rates. Spelthorne ensures that employment policies, procedures and arrangements comply with the relevant legislation and statutory guidance.
- 4.2 Each council is a separate employer and it is open to councils to decide to move away from national terms and conditions to local ones. Such a move must be done in a way which complies with employment law and guidance. It is possible to reach a Collective Agreement with the recognised trades union, UNISON in Spelthorne's case, for a change to terms and conditions that applies to the whole workforce (option 2).
- 4.3 If it is not possible to reach a collective agreement Spelthorne could decide to consult with the whole workforce on proposals for a change to terms and conditions (option 3). A period of at least 45 days is required for consultation in that event. Responses to that consultation from employees and from the trades union must be carefully considered to decide whether to go ahead with the proposed change, to remain with the status quo or to modify arrangements in the light of consultation responses.
- 4.4 After consultation, if the decision is taken to proceed to implement a change to terms and conditions it may be achieved by a process known as 'dismissal and reengagement', writing to each employee to bring their current contract of

employment to an end and offering a new contract of employment with changed terms and conditions of employment in its place. A notice period of 3 months is required. This approach is a mechanism to achieve a change to terms and conditions which is supported by a strong business case. The workforce remains the same size at the end of the process with employees remaining in the same posts. It does not lead to any redundancies or other changes to the size or shape of the organisation.

- 4.5 Complying with employment law requirements and statutory guidance from ACAS will help to minimise the risk of employment tribunal or other claims from employees. Failure to do so will mean that any claims from employees may be successful with the risk of financial awards against the Council.
- 4.6 Staffing is not an Executive matter and therefore changes to staff terms and conditions have to be agreed by Council or a delegation given specifically by Council to the Chief Executive as Head of Paid Service.

5. Timetable for implementation

- 5.1 The timetable for implementation of a change to terms and conditions is attached at **Appendix 2**. The full period from now until the end of March 2019 is required in order to effect a change to terms and conditions of employment if the Council had to proceed by way of termination and reengagement (option 3) to start in April 2019.
- 5.2 A Collective Agreement with UNISON could be achieved in a shorter period (option 2). However if a Collective Agreement has not been achieved by the end of August 2018, the Council would need to commence formal direct consultation with all employees on the proposals by the middle of September 2018 in order to achieve a change to terms and conditions for a 1st April 2019 effective date by termination and reengagement (option 3). This formal direct consultation with all employees may run in parallel with any continuing consultation with UNISON to finalise terms of any Collective Agreement.
- 5.3 Starting formal consultation with all employees later than mid-September 2018 would mean that a move to local Spelthorne pay, terms and conditions could not be achieved by 1 April 2019.

Background papers: There are none

Appendices:

Appendix 1 Proposals for consultation: a proposal to move to local Spelthorne arrangements for pay awards and Spelthorne terms and conditions.

Appendix 2 Timetable for implementation

Appendix 1 Proposal to move from national pay and conditions to local Spelthorne pay and conditions with effect from 1 April 2019

Proposal: Spelthorne proposes to move to local Spelthorne arrangements for pay awards, terms and conditions with effect from 1 April 2019 with decisions made locally by the Council.

In the first instance Spelthorne will consult with UNISON with a view to reaching a collective agreement to move to local pay, terms and conditions. Consultation with all employees will follow. The details of the proposal are given in the table below.

Overview: Spelthorne pay awards, terms and conditions must be appropriate to recruit, retain and develop a skilled and flexible workforce to deliver services to the community and fulfil the Council's business objectives. The Council has the responsibility of balancing relevant factors in the light of the unique circumstances locally and retaining flexibility to deal with circumstances that might apply. Spelthorne considers that the best way to achieve this is to be able to apply local pay, terms and conditions to take full account of Spelthorne's local circumstances, including recognising the action taken in past years to improve Spelthorne pay rates compared to the national pay spine. The current position where national pay awards apply does not offer sufficient flexibility to take full account of local circumstances.

	Current position	Proposed arrangements	Reason for proposal for change
Arrangements for pay awards	Spelthorne applies the national pay awards agreed by the national local government negotiating bodies (the JNC for Chief Executives, the JNC for Chief Officers and the NJC for Local Authorities Services as appropriate).	To agree local Spelthorne pay awards in the light of local circumstances and affordability. Agreed % pay awards to be applied to all employees.	To move to pay award arrangements that take account of local circumstances rather than be bound by national arrangements which are decided on the basis of circumstances arising elsewhere in the country which may not apply to Spelthorne. To provide maximum flexibility to meet local needs and to ensure that Spelthorne is able to recruit and retain staff in the local recruitment market. To apply the same pay percentage award to all employees in recognition that all employees contribute to 'one Spelthorne'.

	Current position	Proposed arrangements	Reason for proposal for change
Effective date of pay awards	<p>National pay awards are effective from 1 April.</p> <p>National pay awards are implemented as soon as practicable after agreement is reached and backdated to 1 April when agreed later.</p>	<p>Spelthorne pay awards will be effective from 1 April.</p> <p>Spelthorne pay awards will be decided in advance of 1 April and will be payable in April salaries.</p>	<p>To ensure that, as far as possible, pay awards are agreed in advance of 1 April so that salary increases are paid from April.</p>
Pay award process	<p>National pay awards are agreed after a lengthy period of national negotiation which may include additional time required for the trades unions to ballot their memberships.</p> <p>Spelthorne has little influence on the national negotiations and local circumstances are not taken into account.</p>	<p>The Spelthorne pay award effective from 1 April will be decided by the Council at the same time as the Council's budget and council tax for the following financial year, by the end of February each year.</p> <p>Spelthorne Pay to be a standing item at consultation meetings with UNISON throughout the year. UNISON will be able to input information and views to be taken account when Cabinet/Council decide on the Spelthorne Pay Award.</p> <p>The Council will take into account a range of factors including local circumstances, affordability and relevant comparative information such as the likely national pay award, pay awards in other councils with local pay within Spelthorne's recruitment market and any changes in national minimum pay rates.</p>	<p>To ensure that local circumstances and affordability are taken into account fully.</p>

	Current position	Proposed arrangements	Reason for proposal for change
Pay spine	A national pay spine is set out with Spelthorne pay rates.	<p>The Spelthorne pay spine will continue unchanged.</p> <p>Spelthorne pay grades will continue to be made up of a number of points from the Spelthorne pay spine.</p>	No change required to Spelthorne pay spine. Spelthorne pay rates against each pay point are in excess of national rates.
Pay award for 2019	The national pay award for 2019 includes restructuring the national pay spine to take account of actions required in relation to minimum wage legislation.	<p>The pay award for 2019, effective from 1 April 2019 will be agreed to take account of local circumstances and relevant comparative information. There will be no restructuring of Spelthorne's pay spine.</p> <p>The national pay award for 2019/20 as part of a two year pay deal will not apply to Spelthorne as local pay award arrangements will apply.</p>	<p>Spelthorne pay rates are already above minimum wage rates consequently there is no need to take any further actions in relation to minimum wage legislation.</p> <p>Spelthorne's Pay Policy for 2019 states that where the national pay award includes any increase or deletion of scale points in relation to national pay scales the Council will not apply this to Spelthorne's pay scales as Spelthorne pay scales are already above the minimum wage and do not have significant compression issues due to not needing to make minimum wage adjustments.</p>

	Current position	Proposed arrangements	Reason for proposal for change
Terms and conditions of employment	Terms and conditions of employment are in accordance with the relevant national conditions as amended by Spelthorne. The national terms and conditions that apply are the JNC for Chief Executives (for the Chief Executive), the JNC for Chief Officers (for the Deputy Chief Executives, Group Heads and certain professional posts) and the NJC for Local Authorities Services (for other posts).	To operate local Spelthorne terms and conditions of employment. National provisions that are in operation will be adopted into local terms and conditions.	The majority of terms and conditions will remain unchanged as set out in individual statements of particulars (contracts of employment), Spelthorne employment policies, procedures, arrangements and Pay Policy Statement. Moving fully to local terms and conditions will provide maximum flexibility for the future to take account of local circumstances.
	National conditions which have not been amended by Spelthorne and directly affect terms and conditions of employment Sickness scheme Maternity leave and pay	Spelthorne terms and conditions will mirror national conditions in place at 31 March 2019.	It is not proposed to change the way these terms and conditions operate locally.

	Current position	Proposed arrangements	Reason for proposal for change
Sick pay and sickness scheme	As set out in the schemes of conditions of service, including sick pay and sick leave	<p>National arrangements at 31 March 2019 to be adopted into local Spelthorne terms and conditions from 1 April 2019.</p> <p>Any future statutory changes to be incorporated into Spelthorne terms and conditions.</p> <p>To confirm that it is a condition of employment that employees cooperate with referrals to the council's occupational health advisers if required and Absence Management Policy.</p>	To convert current arrangements into local terms and conditions.
Maternity and paternity leave and pay	As set out in the schemes of conditions of service, including for leave and pay	<p>National arrangements at 31 March 2019 to be adopted into local Spelthorne terms and conditions from 1 April 2019.</p> <p>Any future statutory changes to be adopted into Spelthorne terms and conditions.</p>	To convert current arrangements into local terms and conditions

	Current position	Proposed arrangements	Reason for proposal for change
Trade Union Membership	<p>The national bargaining groups negotiate with recognised trades unions.</p> <p>Confirmation of individual right to join a trade union or decide not to join a union</p>	<p>Spelthorne will continue to recognise UNISON for consultation and to represent the whole workforce, with regular consultation meetings scheduled throughout the year.</p> <p>Individuals may choose to join a trades union or choose not to join a union.</p>	<p>Confirm local arrangements as part of local terms and conditions.</p>
Car allowances for essential/casual users	<p>Essential User lump sum allowance and mileage rates</p> <p>Casual User mileage rates</p>	<p>Current arrangements to be adopted into local Spelthorne terms and conditions from 1 April 2019.</p> <p>To introduce a new allowance for electric vehicles which is currently not covered by national rates.</p>	<p>To convert current arrangements into local terms and conditions.</p> <p>National guidance on car allowance rates does not currently cover electric vehicles.</p> <p><i>Current arrangements for electric cars:</i></p> <p><i>Essential User – minimum rate currently £846 p.a/mileage rate 36.9p first 8500 miles then 13.7p over 8500 miles.</i></p> <p><i>Casual user rate – 46.9p first 8500 miles then 13.7p over 8500 miles – no change</i></p>
	Car allowances for posts on JNC terms and conditions	Spelthorne arrangements apply	No change

	Current position	Proposed arrangements	Reason for proposal for change
All other terms and conditions, employment policies and pay arrangements not listed		<p>There are no proposals to change other employment or pay arrangements which will be confirmed as local Spelthorne terms, conditions and arrangements.</p> <p>Continue as currently set out in statements of particulars (contracts of employment), Spelthorne employment policies, procedures, arrangements and Pay Policy Statement.</p> <p>This is applicable for NJC/JNC and CX terms and conditions</p>	<p>To convert current arrangements into local terms and conditions.</p> <p>Any future requirement to add, amend or change terms, conditions may be agreed by the Council following consultation</p>
Pension	Statutory pension scheme for councils	Pension arrangements remain unchanged with access to the Local Government Pension Scheme.	No change
Staff benefits		Spelthorne arrangements continue to apply.	No change

	Current position	Proposed arrangements	Reason for proposal for change
	Protected entitlement to a car lease or cash alternative for some posts	<p>A protected non-contractual benefit which applies to some individual members of staff where their post previously attracted this benefit.</p> <p>To remove the option of a lease car with a lump sum payment to apply to all protections in future at the same rates as currently.</p> <p>Any existing car leases to continue to run until the end of the current lease contract.</p>	<p>The majority of staff with this personal protection already choose to take a cash alternative instead of a lease car.</p> <p>To avoid the need to maintain car lease arrangements and related administrative time.</p>

	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019
Initial mtg with Unison for informal consultation, informal consultation	11.5.18											
Staff meetings for information and updates	16.5.18											
Unison mtgs (monthly) for ongoing consultation		07/06/28	30/07/18	TBC	04/09/18	04/10/2018 30/10/18	27/11/18	TBC	10/01/19	TBC	TBC	TBC
Report to Cabinet on formal decision regarding proposals for consultation			Briefing 2.7.18 Cabinet 18.7.18 Council 19.7.18									
Letter to UNISON formally proposing a collective agreement to move to local pay and conditions			After Council									
Consultation with UNISON on proposals with a view to agreeing a Collective Agreement			30/07/18	TBC								
Information to staff on proposals, on consultation with UNISON, staff engagement on proposals via Spelnet and staff meetings, informal consultation			After Council									

	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019
If Collective Agreement not concluded												
Information to all staff on proposals and about formal consultation process and ways to respond. If required include update on Collective Agreement discussions and formal consultation going forward					Beginning of September							
Formal consultation with workforce on proposals for change - minimum 45 days												
Deadline for responses to consultation							end Oct/beg Nov					
Collate responses to consultation							early Nov					
MAT consider responses to consultation							mid Nov					
Report to Cabinet/Council on responses to consultation on proposals and for decision on whether/how to proceed							Cabinet Briefing 26.11.18	Cabinet 11.12.18 Council 13.12.18				

	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019
Letters to employees giving information on Cabinet/Council decision, giving notice of termination and reengagement on local terms								By 21.12.18				
Notice period of 3 months Employees respond to letters												
New Spelthorne pay award arrangements, terms and conditions come into effect												1.4.19
Report to MAT on any staff not accepting new terms, any ET claims received												mid April

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