

Finance and Performance Scrutiny Sub-Committee

Held at:	Council Chamber - Civic Centre Folkestone
Date	Tuesday, 18 January 2022
Present	Councillors Gary Fuller, Peter Gane, Connor McConville (Chairman), Patricia Rolfe and Rebecca Shoob
Apologies for Absence	None
Officers Present:	Andy Blaszkowicz (Director of Housing and Operations), Kate Clark (Case Officer - Committee Services), Ewan Green (Director of Place), Charlotte Spendley (Director of Corporate Services) and Lee Walker (Capital and Treasury Senior Specialist)
Others Present:	None

12. **Declarations of interest**

Councillor Patricia Rolfe declared a DPI as she is a director of Oportunitas Ltd. A dispensation has been applied.

Councillor Peter Gane also declared a DPI as a director of Oportunitas with an applicable dispensation.

Councillor Rebecca Shoob declared a DPI as she is a director of Otterpool Park LLP. A dispensation has been applied.

All members remained in the meeting, taking part in discussions and voting on all items.

Councillor Gary Fuller declared a significant interest as a F&HDC housing tenant. He did not take part in discussions or voting on Agenda Item 5 (HRA Budget Monitoring Q3 2021/22) and Agenda Item 8 (Draft HRA Revenue and Capital Original Budget 2022/23).

13. **General Fund Revenue Budget Monitoring - 3rd Quarter 2021/22**

Monitoring Report C/21/65 provided a projection of the end of year financial position of the General Fund revenue budget, based on expenditure to the 30 November 2021.

Comments and questions raised by members included:

- Business rates appeal – Members noted the position following the revaluation of Dungeness B Power Station appeal. Officers advised that the Council are in a pooling arrangement with other Kent authorities and hoped that they would be able to advise on the long term impact with the quarter 4 projections.
- Development control fees – Members asked for clarification on the decreased income projected. Could be due to the types of applications received and fee variations. The Director of Place offered to provide further details.
- Waste contract – additional costs to Council, will these be settled by the contractor? Extra staff were recruited to Customer Services to handle increased calls. Time spent was from core officer base. Recharging is annual, no further details available at present.
- Decrease in Council Tax collection – general collection is going well, however the challenge has been securing courts dates although this situation is improving.

Proposed by Councillor Patricia Rolfe
Seconded by Councillor Peter Gane: and

RESOLVED:
To receive and note report C/21/65

(Voting: For 5; Against 0; Abstentions 0)

14. **General Fund Capital Programme Budget Monitoring 2021/22**

Monitoring report C/21/60 provided an updated projection of the current financial position for the General Fund capital programme profiled for 2021/22, based on expenditure to 30 November 2021 and identified variances compared to the latest approved budget.

Members were advised that the General Fund MTCP will be presented to Cabinet on 10 February 2021 and not 23 February as mentioned in the report.

Members commented on reprofiling figures which mainly affected larger proposed developments.

Disabled Facilities Grant – figure shown is an underspend, however all applications received had been dealt with.

Proposed by Councillor Patricia Rolfe

Seconded by Councillor Rebecca Shoob

RESOLVED:

To receive and note report C/21/60.

(Voting: For 4; Against 1; Abstentions 0)

Councillor Fuller left the Chamber and did not take part in discussions or voting on the following item.

15. HRA Budget Monitoring Quarter 3 2021/22

Monitoring report C/21/62 provided a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 November 2021.

Members sought clarification on provision and repayment of bad debts as well as the rephrasing of the Highview scheme.

Proposed by Councillor Peter Gane
Seconded by Councillor Patricia Rolfe

RESOLVED:

To receive and note report C/21/62.

(Voting: For 4; Against 0; Abstentions 0)

Councillor Fuller returned to the Chamber and took part in discussions and voting on the following items.

16. Treasury Management Strategy Statement 2022/23 and Treasury Management Monitoring Report 2021/22

Report C/21/61 set out the proposed strategy for treasury management for 2022/23 including Treasury Management Prudential Indicators. The report also provided an update on the council's treasury management activities that have taken place during 2021/22 against the agreed strategy for the year.

Mr Lee Walker, Capital & Treasury Senior Specialist, provided a presentation to members which is attached to these minutes.

The presentation was divided into three sections, Mr Walker asked members for comments and questions at each section as well as referring to the report.

Introduction and summary:

TM code changes – would member training be available? Tendering is progressing for TM advisory service and training will then be arranged.

Section A – TM Monitoring Report 2021/22

- Public Works Loan Board rate 4.69% seems high? This rate is for existing borrowing and advice from Arlingclose is that repaying higher interest loan debt would be cost prohibitive at present.

Section B – TM Strategy Statement 2022/23

- HRA debt – could this be redeemed? Council's policy is to improve current stock, build further homes and not to reduce the HRA Capital Financing Requirement. Housing values will increase further. The expanding asset base and increased revenue will compensate against the additional costs of borrowing. This will be reviewed in the HRA Business Plan.
- Liability Benchmark increasing rapidly? This shows capital investment costs for large developments namely Otterpool Park and Princes Parade. Ultimately revenue streams will have an impact on the net borrowing requirement leading to its reduction over time.

Members thank Mr Walker and the finance team for their hard work in preparing this report.

Proposed by Councillor Peter Gane
Seconded by Councillor Patricia Rolfe; and

RESOLVED:

To receive and note report C/21/61.

(Voting: For 5; Against 0; Abstentions 0)

17. Draft General Fund Budget 2022/23

Report C/21/67 set out the Council's Draft General Fund Budget for 2022/23.

The Director of Corporate Services, Mrs Charlotte Spendley, presented the report, referring to point 2.3. Also mentioning the funding gap of £1.11mn, some use of reserves would be required.

Members commented as follows:

- Rising energy costs – energy market is extremely volatile and this will be reviewed again ahead of the final budget being set.
- Members noted the tax base position at a slight increase, figures are to be finalised.
- Although there are savings to be made, these will not affect services.
- GF Reserves figure – no definitive figure to aim for, down to judgement, CIPFA do not provide specific guidance on reserve balances required
- Contingency levels? There is a small budget for contingencies which is monitored by the Corporate Leadership Team.

Mrs Spendley advised members that the budget consultation is open for comments and would ask members to encourage residents to respond. Also, a

short video has been produced explaining Council Tax, this is now live on the Council's website. A second video is being produced which will explain how to pay your Council Tax and assistance available for residents.

Proposed by Councillor Connor McConville
Seconded by Councillor Patricia Rolfe

RESOLVED:

To receive and note report C/21/67.

(Voting: For 4; Against 1; Abstentions 0)

Councillor Fuller left the Chamber and did not take part in discussions or voting on the following item.

18. Draft Housing Revenue Account Revenue and Capital Original Budget 2022/23

Report C/21/66 set out the Housing Revenue Account Revenue and Capital Budget for 2022/23 and proposes an increase in weekly rents and an increase in service charges for 2022/23.

Proposed by Councillor Connor McConville
Seconded by Councillor Patricia Rolfe

RESOLVED:

To receive and note report C/21/66.

(Voting: For 4; Against 0; Abstentions 0)

Prior to the closure of the meeting, members thanked all officers involved for their work in producing the complex reports.

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Finance & Performance Scrutiny Sub-Committee
18 January 2022

Treasury Management Strategy Statement 2022/23
(& 2021/22 Monitoring Report)

Local Authority Treasury Management - Introduction

- Treasury management (TM) is the management of the authority's cash flows, borrowing and investments, and the associated risks
- Governed by Statutory Guidance and CIPFA Codes
- Focus on risk management
- Now includes some non-treasury investment risk management requirements (commercial & service investments)

TMSS 2022/23 - Summary

- CIPFA revised Prudential & TM Codes
- Economic Background & Interest Rates
- Section A – TM Monitoring Report 2021/22
- Section B – TM Strategy Statement 2022/23

- TMSS 2022/23 – No major changes from 2021/22

CIPFA Prudential & TM Code Changes

- Stop LA's from borrowing for primarily for commercial investments
- Consider selling commercial investments
- Disclose commercial/service investment as % of net income
- Borrowing - Liability Benchmark Graph (already doing this)
- Pooled Funds = Commercial Investments unless for cash flow ✓
- Investment Counterparties – ESG consideration from 2023/24
- Quarterly monitoring reports
- Officer/Member skills/knowledge to be (better) documented
- Need to review & update FHDC Treasury Management Policies

CIPFA TM Code Change – ESG Considerations

- Specific requirement for LA to include ESG Policy for treasury investments
- Soft implementation for 2022/23
- Difficult to overlay intangible ESG measures for 2022/23
- CIPFA developing ESG scoring methodology during 2022/23
- LAs expected to set ESG policy for treasury investments for 2023/24

Economic Background & Interest Rates

- UK economy significantly impacted by Covid-19
- GDP Q3 2021 growth 1.3% - slowing down after recovery
- GDP forecast to reach pre-pandemic level Q1 2022
- Inflation at 5.1% (10 year high), peak about 6% in early 2022 then fall
- Unemployment falling and wages rising (post Covid)
- Bank Base Rate expected to rise up to 1% over 2022
- Gilts & other interest rates broadly unchanged over same period
- PWLB rate = Gilts + 0.8% (PWLB 10 year loan = 1.8%, 20 years = 2.2%)

Section A – TM Monitoring Report 2021/22 (Amendment – Borrowing Activity)

TM Monitoring Report 2021/22 – Borrowing

- Net borrowing has reduced by £10.6m (not £15.6m) despite rising CFR due to:
 - i) Higher than anticipated usable reserves at 31/03/21
 - ii) Delays to capital programme
 - iii) Short-term benefit of C-Tax and grant receipts

TM Monitoring Report 2021/22 - Borrowing

- Borrowing limited to two transactions so far:
 - i) 22/04/21 - £5m West Yorks Combined Authority one year fixed loan @ 0.1%
 - ii) 31/01/21 - £5m Leicester City Council forward deal two years fixed loan @ 0.4% (PWLB = 1.11%)
- Further borrowing in 2021/22 subject to capital programme

TM Monitoring Report 21/22 – Investments 1

- Investments increased from £18.8m to £34.4m at 30/11/21
- Investment balances have ranged from £18.8m to £41m
- About £15.6m strategic investments in pooled funds
- Liquid cash investments about £19m
- Returns on liquid cash investments close to nil
- HM Treasury DMADF interest rates nil or negative

TM Monitoring Report 21/22 – Investment 2

- 5 Pooled Funds – recovered previous losses
- Capital growth of £0.4m over the year to date
- Average yield of 4.38%
- Outlook for funds remains positive but price volatility remains a risk
- Meeting objective of above inflation returns

TM Monitoring Report 21/22

- Net GF Cost – projection is £276k lower than budget, reasons
 - i) Saving on borrowing cost = £208k
 - ii) Enhanced returns on pooled funds = £75k
- Full compliance with borrowing and investment limits
- Non-Treasury Investments performance distorted by Otterpool land holding (shown in next slide)
- Now includes Otterpool LLP accrued net interest
- Oportunitas modest but steady return

Non-Treasury Investments	Value 31/03/21	Value 30/11/21	Net Income (Expenditure) 2021/22	Rate of Return
	£m	£m	£'000	%
Investment Property				
Otterpool Property	64.9	65.3	(524)	(0.8)
Offices	17.4	17.4	357	2.1
Commercial Land	0.7	0.7	-	-
Commercial Units	1.8	1.8	126	6.9
Retail	2.2	2.2	(84)	(3.8)
Assets Under Construction	0.2	0.2	-	-
Total Investment Property	87.2	87.6	(125)	(0.1)
Subsidiary Company				
Oportunitas loan	4.3	4.3	210	4.9
Oportunitas equity	3.5	4.5	0	0
Total Oportunitas	7.8	8.8	210	2.4
Otterpool Park LLP	1.3	1.8	71	5.0
Total Subsidiaries	9.1	10.6	281	2.75
Total Non-Treasury	96.3	98.2	156	0.16

Section B – TM Strategy Statement 2022/23

TM Strategy Statement 2022/23

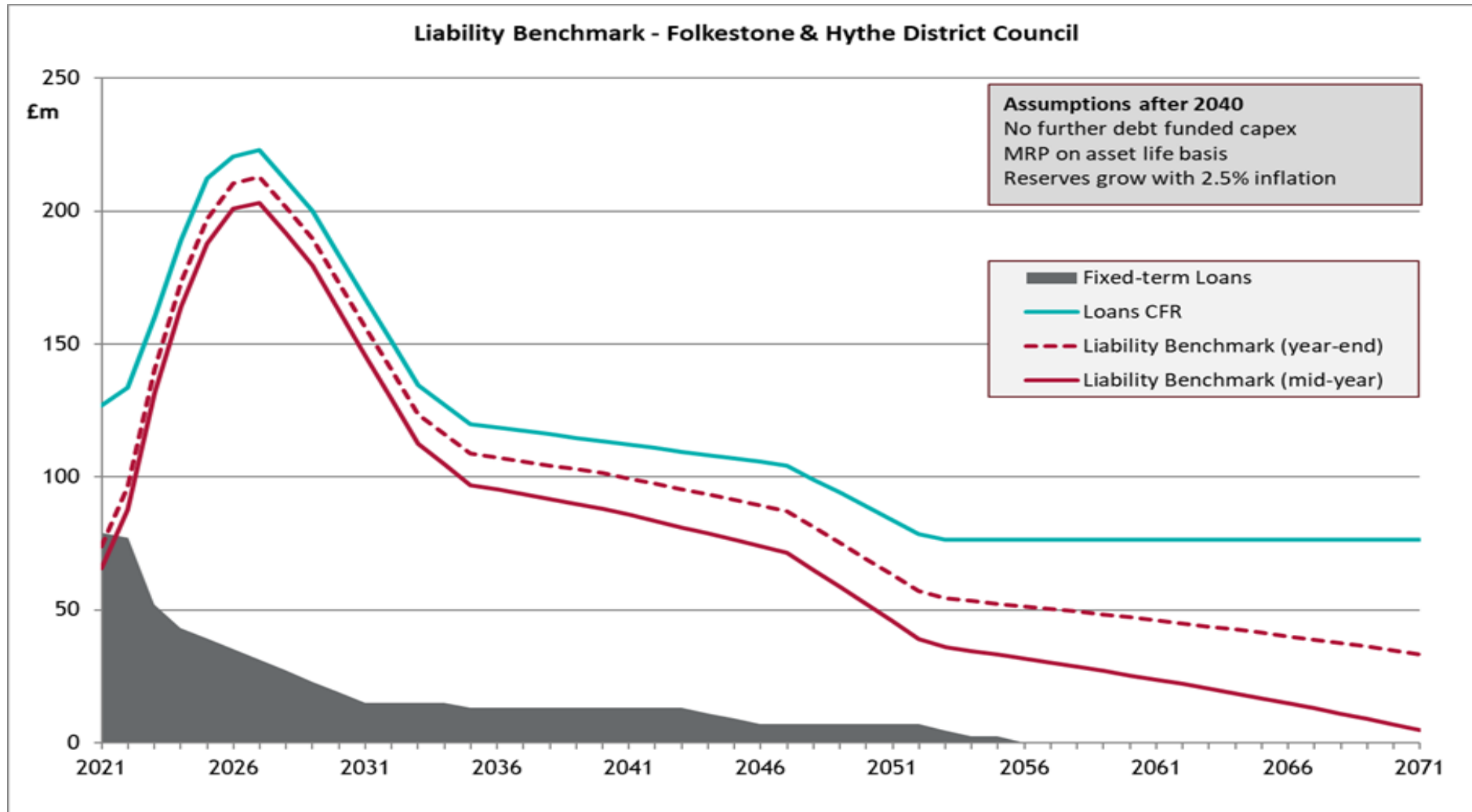
- Sets the strategy for borrowing & investments for year, but
- Considers projected balance sheet position to 2024/25
- Underlying increase in borrowing requirement
- Use of cheaper internal borrowing first
- Strategy continues to permit borrowing from a range of sources
- Better value with shorter duration loans, particularly from other LAs (up to 5 years)
- Otterpool forecast cash flows support borrowing for shorter durations to provide greater flexibility managing debt portfolio

TM Strategy Statement 2022/23

Table 9: Liability benchmark

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
CFR	126.9	133.5	160.3	189.0	212.4
Less: Balance Sheet resources	(66.7)	(52.1)	(34.7)	(31.0)	(30.5)
Net loans requirement	60.2	81.4	125.6	158.0	181.9
Plus: Liquidity allowance	18.8	15.0	15.0	15.0	15.0
Liability Benchmark	79.0	96.4	140.6	173.0	196.9

Borrowing - Liability Benchmark



TM Strategy Statement 2022/23 - Investments

- Objective remains = Security, Liquidity, Yield (SLY)
- Underlying borrowing need – keep investments short
- Retain £15m strategic investments in pooled funds (minimum reserves balances) – but Strategy limit = £25m
- Counterparty selection criteria unchanged
- Retain 5 year maximum duration Investment limits unchanged
- Negative interest rates remain a risk but receding

TM Strategy Statement 2022/23

- Treasury Management Prudential Indicators – risk management measures to support the borrowing and investment strategies
- Budget - net cost to GF in 2022/23 is £8k less than 2021/22
- Estimated increase in borrowing costs largely offset by additional investment income in 2022/23

Questions?