FINANCE SCRUTINY COMMITTEE

22 November 2021

Present:	Councillor Turmaine (Chair) Councillor Kloss (Vice Chair) Councillors Clarke-Taylor, G Saffery, Khan and Walford
Also present:	Councillor Watkin (Portfolio Holder for Finance)
Officers:	Head of Finance Head of Property Investment and Regeneration Democratic Services Officer (OE)

15 **Apologies for absence**

Apologies for absence had been received from the Director of Finance, Councillor Stanton and Councillor Parker. Councillor Martins was absent without apologies.

16 **Disclosure of interests**

There were no disclosures of interest.

17 **Minutes**

The minutes of the meeting of Finance Scrutiny Committee held on 13 September 2021 were signed.

18 **Training: Treasury Management**

The Head of Finance delivered the Treasury Management training.

19 **Finance Digest Quarter 2**

The committee received a report of the Head of Finance. The Head of Finance introduced the report. This was the second monitoring report of 2021/22 covering the period up to the end of September. The key areas highlighted were:

Revenue Summary

- There was a forecast unfavourable variance of £728k. This had increased from the forecast £487k at the end of Q1, with an increased variance of £241k.
- There was a decrease in the forecast expenditure for professional fees allocated to monitoring the council portfolio, however there were now new risks and adverse forecasts.
- There had been an increase in kerbside recycling costs due a market variation of £100k and an additional pressure of £56k on the community asset management team. In addition to this, there was £106k expenditure on independent reviews and a net change of £33k in net commercial rental income.
- There was also an increase of £41k due to small variations across the budget.
- The financial position was typical for the time of year. The forecast was said to be prudent and was expected to see improvement by the end of the year.
- There were some funds that had not been drawn down such as the forecast £350k allocated as additional support for leisure operators; this may not be needed by the end of the year.

Capital Summary

- There had been further slippage with a variance of £48.5 million against the original budget of £68.9 million.
- Significant contributors to this slippage included draw downs and loans into joint ventures.
- This was said to be typical as there are numerous long-term programmes and it was difficult to accurately time draw downs.

Reserve Summary

- Forecast General Balance was £2.0 million which was the risk assessed level.
- Earmarked reserves remained healthy even after funding the forecast shortfall of £728k from the Economic Impact Reserve.
- Data on debtors remained promising as a substantial amount of the outstanding debt had been received just outside the reporting period.

Staff Vacancies

- The council was in a similar position to the last report.

- Significant posts were being covered by interim employees and a review was being carried out to factor the vacancies in the budget for the next financial year.

Key Risks

- The Employers' Pay Award had not been confirmed but if it were to be confirmed, it would add an additional pressure of £205k which would be an ongoing pressure that would have to be built into the council's Medium Term Financial Strategy.

A question was asked by Councillor Khan regarding what was being done about staff vacancies, given fact that many of the role had been vacant since January 2021 and that these roles could have provided employment to local residents. The Head of Finance explained that some of the roles could have been filled since the publishing of the report but the question would be referred to Heads of Service so that a written response could be provided. It was also said that the council's position was not unusual within the sector.

There was also a question asked by the Chair regarding the degree of risk posed to projects if the highlighted unfavourable variance in the Capital summary continued. The Head of Finance responded by explaining that the majority of the variance was down to joint ventures including the venture with Hart Homes. Whilst there were concerns about operating in a high-inflation environments if the joint venture projects were delayed, the housing market had also increased which had previously offset the pressures.

RESOLVED –

1. that the committee has considered the 2021/22 Quarter 2 Finance Digest as shown in Annex A

2. that the committee notes both the revenue and capital forecast outturn positions.

20 **Capital Finance Framework**

The committee received a report of the Head of Finance. The Head of Finance introduced the report. This paper provided an update to members regarding government policy and regulations.

Since 2020 there had been a number of reviews and reports that commented on the adequacy of the capital finance framework and in July 2021 the Ministry of Housing, Communities and Local Government (subsequently renamed the

Department for Levelling Up, Housing and Communities - DLUHC) published a policy paper titled ‘Local authority capital finance framework: planned improvements.’

The paper set out the actions proposed to address the perceived inadequacy through a ‘lines of control’ model. The model could be found in the Capital Finance Framework, paragraph 4.1.5 and the planned actions that underpinned the model were as follows:

- Improving the role of DLUCH as an effective steward of the local government capital finance system (detect and manage)
- Improving local practices and capability (detect and manage)
- Putting in place appropriate tools to intervene with local authorities where necessary (manage)
- Ensuring that the Capital framework is fit-for-purpose to constrain financial risk and drive sound decision making (prevent)

Full details could be found in the Capital Finance Framework, paragraph 4.1.6.

There were also proposed updates to the Prudential and Treasury Management Codes of Practice. This included proposals to amend reporting requirements, including increasing the required frequency of reporting on prudential indicators to members from at least twice a year to quarterly and the reinforcement of existing Treasury Management guidance that required cash to be managed as ‘one pot’. The latter point was supported by the creation of new Treasury Management prudential indicator – the ‘Liability Benchmark.’ The draft guidance for calculating the ‘Liability Benchmark’ had been seen by the Head of Finance and would form part of the Treasury Management Strategy and the Capital Investment Strategy which would go before Cabinet in January 2022.

Public Works Loans Board lending terms and conditions had been updated in November 2020 along with guidance for applicants. The guidance was later revised in August 2021; key points are as follows:

- The revised terms and conditions prevented the use of PWLB borrowing to finance investments made on a debt for yield basis; any income must be invested in causes specifically linked to the core functions of the local authority.
- Any local authority’s capital expenditure after 26 November 2020 must comply with the revised terms or lose access PWLB borrowing, even if funded from other resources.
- Selling an existing investment to acquire another investment asset would result in access to PWLB being withdrawn; however, authorities with

commercial property may invest in the repair, renewal and updating of their existing commercial properties.
- Investment in an asset for regeneration purposes would be allowed but any surplus income must be invested in causes linked to the core functions of the local authority.

Under the Capital Finance and Accounting Regulations 2003, local authorities must set aside MRP for the repayment of debt. This is an annual charge to the revenue account. A consultation was expected to be launched shortly in respect of proposed strengthening of the regulations moving forward. Until the outcome of the consultation was known, it was not possible to assess any potential financial impact.

The Chair asked when the conclusion of the process was likely to be. The Head of Finance responded saying that draft guidance was expected in December 2021 and the council's draft Treasury Management policy which was due to go out on 25 November 2021 noted that changes may be made at a later date due to these proposed changes to the Capital finance Framework. With regards to the Treasury Management and Prudential Code changes, there was an expectation of a soft implementation period in year 2022-23 with full compliance expected from 2023-24.

The MRP timeline would be different due the need for legislation. This meant that it was not likely to be implemented before April 2023.

Councillor Saffery asked whether the government had provided any indication of alternative forms of revenue for councils and whether the new Secretary of State was likely to impact the proposed changes. The Head of Finance informed the committee that there had been no significant changes brought forward by the Secretary of State to date. With regards to the council shifting to alternative revenue streams, the government had taken the view that local authorities has taken too much risk with investing in commercial assets, however this was not true across the board and formed part of the criticisms posed by the local authorities in response to the proposed changes. There was also the idea that it may not be right for local authorities to make use of cheap borrowing from PWLB to invest in commercial property as this would inflate the property market. This was thought to be part of the reasoning for the government's proposed changes. This being said, the Head of Finance raised the issue of the income gap that would undoubtedly be increased if local authorities had to divest commercial assets and the impact the decreased revenue would have on service delivery.

The Portfolio Holder asked the Head of Finance if any authorities had actually fallen into financial difficulty due to poor commercial investment. The Head of

Finance explained that some authorities had faced some financial challenges with investments into joint ventures and wholly owned companies, however the council commercial portfolio had managed to withstand the impact of COVID and was still financially viable.

21 **Introduction to PIB and Croxley Park updates**

The committee received a presentation from LSHIM representatives Sean Brew and Ben Thompson. The presentation was introduced by the Head of Property Investment and Regeneration. This was a presentation giving an overview of the council's commercial portfolios, namely the core portfolio and Croxley Business Park.

Watford Borough Council's core portfolio was said to be 69 assets and the portfolio had been diversified since 2016. This diversification meant that the core portfolio consisted of fewer retail assets and some assets were now based in areas outside of Watford. Diversification was said to be an important theme as it had protected the council's from some of the risks posed by the decline of the retail sector. The total contracted rent from the core portfolio was £7.53 million in 2021.

The council had acquired a 40 year lease of Croxley Business Park. At the time of the presentation, there was 61 tenancies with a total contracted rent of £11.5 million. Healthcare companies were said to the predominant occupiers at the Business Park. Occupancy had increased since COVID-19 restrictions had been relaxed; full occupancy would be 2400 people working at the Business Park and there were 1200 people currently working. This was higher than the national average. Despite the pandemic causing some issue with cashflow management i.e. collecting rent from occupiers, rents at the Business Park remained healthy due to the high quality of office spaces and the buoyancy of the industrial sector.

RESOLVED –

that the update be noted.

22 **Exclusion of the press and public**

RESOLVED –

that, under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during consideration of the item there would be disclosure to them of exempt information as defined in

Section 100(1) of the Act for the reasons stated on the agenda in terms of Schedule 12A.

23 **Property Investment Board update**

The committee received a presentation on the Property Investment Board:

Members discussed and the officers responded to questions and comments.

RESOLVED –

that the presentation and the forum's comments be noted.

24 **Croxley Park update**

The forum received a presentation on the Croxley Business Park:

Members discussed and the officers responded to questions and comments.

The Portfolio Holder formally commended the work of LSHIM as their work had been crucial in supporting the council's financial sustainability.

RESOLVED –

that the presentation and the forum's comments be noted.

Chair

The Meeting started at 7.10 pm
and finished at 8.50 pm