

FINANCE SCRUTINY COMMITTEE

27 June 2022

Present: Councillor M Turmaine (Chair)
Councillors K Clarke-Taylor, P Jeffree, A Khan, R Martins,
L Nembhard, G Saffery, B Stanton and R Wenham

Also present: Councillor Mark Watkin

Officers: Senior Democratic Services Officer
Head of Finance

1 Apologies for absence

There were two changes of membership for this meeting: Councillor Jeffree replaced Councillor Kloss and Councillor G Saffery replaced Councillor Walford.

2 Disclosure of interests

There were no disclosures of interest.

3 Minutes

The minutes of the meeting of Finance Scrutiny Committee held on 7 March 2022 were signed.

4 Training: The Role of Finance Scrutiny

The committee received a presentation of the Head of Finance. Following the presentation, the officer responded to questions.

5 Financial outturn 21/22 (Q4)

The committee received the report of the Head of Finance. The report informed the committee of the revenue and capital outturns for the financial year 2021/22 and provided an update on the reserves position. The committee was asked to review the recommendations for Cabinet and make any further comments.

The Head of Finance introduced the report and highlighted the key areas, in particular:

- There was a revenue underspend of £1.4 million with carry forward requests totalling about £1.4 million, which had resulted in a small underspend of £0.046 million which was proposed to be sent to the economic impact reserve.
- Part of this was an underspend in Community and Environmental Services totalling £0.35 million as support for the leisure provider. This was sustainable without additional support in-year and a report to Cabinet was forthcoming.
- Additional grant funding had been received for Housing and the resulting underspend would also be carried forward.
- The rephasing of some projects as part of the renewal fund had resulted in further carry forwards into the new financial year.
- There had been a significant variance in the capital budgets due to requests for re-phasing.
- There was an overspend in relation to Croxley Park which would be covered by the earmarked reserve for planned property maintenance.
- The major schemes to be rephased were Hart Homes, Riverwell, Woodside Sports Village and the Town Hall Quarter.
- Levels of reserves had fallen from £39.5 million to £27 million. This was primarily due to the planned draw down from business rates reserve to offset the impact of Covid on the levels of business rates.

The committee discussed the carry-forwards and asked for more detail about how these were justified. It was noted that in the majority of cases it was because an agreed policy objective had not yet been met. Reviews of requests were made by Leadership Board and Portfolio Holders and were challenged.

Members asked about the impact on revenue accounts of re-profiling of major capital projects which spanned several years. Where the projects were funded by borrowing; this would have a positive impact on revenue budget in the short term as it would reduce the level of borrowing and interest payments. The schemes highlighted were not invest-to-save schemes where delays would impact the achievement of savings in the revenue budget. There would be further rephasing of Riverwell and Hart Homes but these were typical of the delivery of these types of projects.

The committee considered the impact of how projects were managed and the need to carry forward funding. The joint ventures were being delivered in partnership and there were a variety of external factors that could impact the project delivery timing. When budgets were included in the capital programme, broad assumptions were made about timing but further due diligence was undertaken to ensure more robust cost projections during projects. Good project

management would mean the figures would be updated over time. There were also firm deadlines that needed to be met in the projects.

Turning to the rephrasing of the Woodside Sports Village, it was highlighted that the budget was over £8 million but the spend was £0.556 million, giving a variance of £7.8 million which was significant. The impact on the financial statements was considerable if the financial forecasting was not accurate enough. The officer advised that the project was still in the planning stage and construction had not yet commenced. She undertook to provide further information about this specific project for the committee.

The Portfolio Holder commented that the council had become much stronger in project management in recent years. Woodside was a very complex project and involved working with a number of groups. It was important to ensure that expenditure was not undertaken until it was clear that the right approach was being taken.

It was further noted that budget oversight was undertaken as part of the day to day project management but the committee only received budgetary updates on a quarterly basis.

Discussing the impact of the inflationary environment on capital projects, the committee was informed that this was less of a risk to the joint ventures as increased costs could be partially offset by the performance of the housing market and therefore the income that would be achieved by the joint ventures. An exercise was being undertaken to understand the inflation risk for each project within the capital programme and the sustainability of the contractors and sub-contractors.

RESOLVED –

that the Finance Scrutiny Committee supports the recommendations to Cabinet as set out in the report.

Action – Head of Finance

6 **Joint ventures presentation**

The committee received a presentation by the Head of Finance which covered:

- Company structures
- Company objectives
- Key deliverables / outcomes

- Link to council budgets
- Governance and oversight

Following the presentation, the officer responded to a number of questions.

Regarding the Hart Homes joint venture, the council provided funding as they could access preferential rates for borrowing which Watford Community Housing (WCH) could not. It was a way for both parties to take profits from the company and these were subject to taxation. The officer would check if there had been any initial equity from WCH.

Comparing the Hart Homes vehicle to direct delivery of affordable housing by the council, it was noted that the former allowed the council to deliver affordable housing at no cost. It also formed part of the council's place-shaping role. Councils had to have a Housing Revenue Account in order to deliver more than a certain number of homes and this would incur borrowing and interest costs which would need to be repaid through rental income.

Members noted the personal risks that officers assumed when acting as directors of the companies. They sought assurance that officers were given adequate protections and compensation. Officers received no additional remuneration but were provided with training on their responsibilities and the framework. The companies in question were limited companies which limited personal liability provided directors acted within the law and in good faith. Officers worked to the Nolan principles of Public Life including openness, integrity and accountability. Statutory officers of the council had recently been removed from director roles and replaced with other officers to avoid conflicts of interest. It was suggested that this topic could be considered by Audit Committee.

The reserves were there to protect the council and if a higher level was achieved, more could be put aside to smooth the income in future years.

The Riverwell joint venture was a 20-year partnership with an option to extend. Hart Homes did not have the same specified time frame but exit strategies were included in the legal documentation with appropriate distribution of any net assets.

The Portfolio Holder expanded on the arrangements for the Shareholder Board which had recently been established to enhance the governance arrangements. This would ensure the council's political leadership was more closely involved.

RESOLVED –

1. that the Finance Scrutiny Committee notes the presentation.
2. that Audit Committee be asked to review the governance and risk management arrangements in place for the joint ventures.

Action – Head of Finance

7 **2022/23 Work Programme**

The committee received a draft work programme which had been devised by officers in consultation with the Chair.

The Senior Democratic Services Officer introduced the report noting that there were a number of standing items reflecting the financial reporting cycles. The work programme provided an outline and it was for the committee to direct its focus. It was intended to be a flexible document and could be reviewed throughout the year. Further suggestions could be made to the Chair and/or Democratic Services.

RESOLVED –

that the work programme be agreed as drafted and kept under review.

Chair

The Meeting started at 7.00 pm
and finished at 8.30 pm