

FINANCE ADVISORY GROUP

Minutes of the meeting of the Finance Advisory Group held on 2 November 2011 commencing at 9.30 am

Present: Cllr. B Ramsey (Chairman)

Cllr. Mrs A Firth, Cllr. M Fittock, Cllr. J Grint, Cllr. P McGarvey and
Cllr. J Scholey

22. APOLOGIES FOR ABSENCE

There were no apologies for absence.

23. NOTES OF MEETING OF THE GROUP HELD ON 27 JULY 2011

The notes of the meeting of 27 July 2011 were agreed as a correct record.

24. DECLARATIONS OF INTEREST

There were no declarations of interest.

25. MATTERS ARISING INCLUDING ACTIONS FROM LAST MEETING

The Head of Finance and Human Resources informed the group that the government had asked local authorities for suggestions to streamline bureaucracy. The current format of the statement of accounts would be put forward as area where requirements could usefully be reduced.

The responses to the actions were noted.

26. BUILDING CONTROL BUDGET

The Head of Environmental and Operational Services explained that the Building Control Service had changed significantly in the past 3 years since it had moved from Development Services. The Service has moved from a £40,000 loss to a £58,000 surplus. Over the same period £188,000 savings had been made including from performing house condition surveys on behalf of the Housing Service, absorbing the emergency planning and street naming and numbering roles, further savings and from joint management with Tonbridge and Malling Council. An income of £430,000 was forecast from statutory fees in 2011/12.

The Building Control and Emergency Planning Manager explained that the team did not work under the same conditions as the private sector and had a statutory duty to be available as a building control service. The Council could charge for neither disabled access applications nor enforcement services. The Council had a duty to provide visits at particular stages of a development. The Government had clarified that the budget for fee-based services could not realise a profit within each year, rather than looking over a rolling 3 year

period, as previously. New rules also meant that invoice estimates had to be sent to customers beforehand on the basis of cost recovery only. Complex, bespoke cases had fees determined on an hourly rate. In response to a question, Officers confirmed the hourly rate took account of the full cost of providing a Building Control Officer.

A Member asked what effect the economic situation had on their work. Fee income had decreased but the workload was slightly up. This contrasted with Tonbridge and Malling Council, which the Building Control and Emergency Planning Manager also managed, whose workload had fallen.

70% of their work was fee-earning. Although this could not be used to subsidise other statutory functions, it did contribute to the Council's overheads. The Building Control and Emergency Planning Manager also believed that the Council promoted high quality, safety and sustainability by taking on fee-paying work. The Head of Environmental and Operational Services added that they had increased their discretionary work such as energy certificates for commercial buildings, the code for sustainable homes standard and partnerships with developers for plan-approval.

There were 2 vacant posts in the team. Officers did not expect to fill these unless the workload increased.

The Chairman commended the Officers on an excellent job, with a good balance of work.

27. KENT AND MEDWAY INVESTMENT FUND

The Head of Community Development presented the report to the Group. Kent County Council (KCC) had invited Sevenoaks District Council to take part in the Kent & Medway Investment Fund, which they presented as a chance to combine investment and regeneration. The next development phase of the Kent & Medway Investment Fund would set the investment strategy and objectives for the Fund. This phase would involve a commitment of £25,000. Following this stage, if the Council decided to join the fund, a ten year investment of £2 million would be required in either cash or property.

The Group was informed that if they chose to enter the scheme at a later stage then there would likely be financial penalties for taking less risk. The Council would also have less input into the setting of objectives and this could decrease chances of the regeneration involving areas within the Sevenoaks district. Membership of the Fund provided no guarantees that local projects would be helped. A Fund Manager would ensure that the best investment return was secured, which may not benefit regeneration projects.

Some Members were concerned whether it would be beyond the Council's powers to make this investment. The Chairman was concerned whether KCC's proposal to make an investment from the Pension Fund amounted to a Council investing in itself. He had written to the KCC Head of Financial Services but had not received a response. The Head of Community

Development said that, if Members were interested in investigating the scheme further, legal advice would have to be taken.

Officers confirmed that any assets contributed would no longer be considered Council assets but would be replaced with a share of investment in the Fund. It was unlikely any property could be bought back and, if it were, it would have to be at the market value at the time.

A Member noted that Officers had not been looking for investments similar to this. It would involve moving £2 million of assets from a 6 month to 10 year investment and from a low to medium or high risk one. In response to Members' queries, Officers confirmed the money would have to come from the general fund reserve and that it ran counter to the Council's current investment strategy, which aimed to be low risk. A Member added that the general fund reserve balance had already been set as low as most Councillors were happy for it to be.

Several Members believed it to be a seriously misguided investment opportunity and very high risk. They believed the premise of combining investment and regeneration to be flawed because of the contradictory aims.

A Member suggested that the proposal could have some benefits. The KCC pension fund had a history of investing in Kent and there had been other examples of regeneration being very effective. However it was still unclear what regeneration would entail in this case. He was also concerned that the Council would not have the leadership of the Fund.

It was suggested the 10% to 12% returns from the fund would be exceptionally difficult to achieve. The management cost was also higher than average as the £500,000 annual fee amounted to a 2% charge when the average was currently 1%. The fund would also attract stamp duty and corporation tax.

It was agreed that capital preservation should be the top priority and as a result the Group would not recommend investment in this Fund.

Resolved: That. Members' views be forwarded to Cabinet for consideration.

At 10:57 a.m. the Chairman adjourned the meeting for the convenience of Members and Officers. The meeting resumed at 11:03 a.m..

28. INVESTMENT STRATEGY UPDATE

The Principal Accountant tabled an up-to-date investment portfolio and current lending list. In view of the current turmoil in the Euro zone, the Council had been advised by Sector Treasury Services not to invest for periods longer than 3 months. The exceptions to this were the UK Government and related entities, semi-nationalised institutions and money market funds. Sector had

stated no changes were needed to existing investments, but as they matured it was recommended they moved to a maximum of 3 months duration.

The Principal Accountant drew Members' attention to the investments with Clydesdale Bank. The bank was now rated as only A+ in the longer term and hence ceased to meet the Council's minimum credit rating requirement. The Council has £4 million invested with them in total. It would be difficult to find a suitable place for these investments when they matured as limits with most institutions satisfying the minimum credit rating requirement had been reached, whilst other institutions were only interested in single deposits of £5 million and over.

He presented 4 options to the Group and sought Members' views.

The first option was for highly secure government investments, such as Treasury bills, lending to local authorities or the Debt Management Office's Account Deposit Facility. Rates of return for the Debt Management Office were currently 0.25% for any maturity date up to one year, whilst those for Treasury bills varied between 0.42% for one month, up to 0.50% for six months,

Rates for lending to local authorities could be higher as the current lending to Newcastle Upon Tyne City Council returned 1.25%, but such opportunities were difficult to find.

The second was to increase the lending limit to any institution from £6 million. This would require an amendment to the Council's Investment Strategy.

A third option was to reduce the minimum credit rating requirement for institutions in which the Council would invest, which was currently AA-. This would also require a change to the Investment Strategy. Members did not support this proposal.

Finally he proposed the opening of one or more money market funds, which consisted of high quality, Sterling denominated, short term debt and debt related instruments. All such funds were rated AAA and provided returns between 0.59 and 0.81%. This included the fund manager's fees for sums of £5 million and above. They operated similarly to unit trusts and there was instant access to the cash deposited in them. A factsheet about the Ignis Sterling Liquidity Fund was circulated.

In response to a question he confirmed he had not investigated index-linked gilts but was not sure whether they could be readily accessed.

Members suggested that a Debt Management Office Account could be useful in the short-term while Officers continued to investigate the option of investment in money market funds.

The Principal Accountant updated the Group with the latest information on recovery of the Icelandic investment. The test cases had been successful in the Icelandic Supreme Court and he expected this to apply to the Council's case. Between 95-98% was expected back on the investment and the interest up to the receivership filing date. However, this was dependent on the

realisation of the bank's assets which could take until 2018. The Local Government Association was continuing to observe the situation to protect the Council's position.

Resolved: That the report be noted.

29. FINANCIAL RESULTS 2011/12 - TO THE END OF SEPTEMBER 2011

The Finance Manager highlighted that the overall year-end forecast was £60,000 better than the budget. Services had continued to try to make further savings, but some savings from partnership working were not expected to be achieved for the full year. The Chairman noted that property-related income was a significant risk area.

The Head of Finance and Human Resources confirmed that the workload for the Benefits Team was still very high.

In response to questions, the Head of Finance and Human Resources confirmed the Environmental Health Partnership had now been agreed by both the Council and Dartford Borough Council. Licensing had not met its target for partnerships but the Head of Environmental and Operational Services was looking for alternative savings. The risk with Building Control had been brought to Members' attention in the Service Plans being considered by the Select Committees.

A Member enquired why the CCTV budget contained £48,000 for a contribution from Kent Police which had not been provided. Officers clarified that although Kent Police had been asked for a contribution, the Council had been told Kent Police did not provide financial contributions to any Council's CCTV. The Social Affairs Select Committee had instead suggested Kent Police provide 16 man-hours for the CCTV room so it could be fully staffed again.

30. FINANCIAL PERFORMANCE INDICATORS 2011/12 - TO THE END OF SEPTEMBER 2011

Officers confirmed the indicators were mostly on target.

The Chairman asked what effect the move from 10 to 12 Council Tax Payments per year would have. The Head of Finance and Human Resources stated it would affect cash-flow but she was more concerned by the expected localisation and 10% reduction in funding for council tax benefit from 2013/14. A joint letter of concerns had been sent by local authorities in Kent

31. FORWARD PROGRAMME

No additions were made at this stage.

32. REFERRALS FROM PERFORMANCE & GOVERNANCE COMMITTEE:

Performance Monitoring: LPI DS 002 – Total Trading Account Position (27 September 2011)

Members were directed to the commentary in the item on Financial Results to the end of September. Graphs were circulated showing the rise in the cost of diesel since April 2010. Officers also told the Group that fees for waste disposal had risen. Savings were expected to be made from moving the Direct Services team from Task software to AGRESSO.

Members considered the possibility of buying fuel in bulk, in advance. The Head of Finance and Human Resources confirmed the Council did have storage tanks which allowed it enough fuel for emergencies and which held more than some neighbouring districts. Fuel futures had not been considered but Officers could investigate this.

Members agreed that it would be helpful to consider further the finances of Direct Services.

Action: Direct Services to be added to the Forward Programme for discussion in March 2012.

33. ANY OTHER BUSINESS

No other business was discussed.

THE MEETING WAS CONCLUDED AT 12.10 pm

Chairman