Finance & Investment Advisory Committee

Minutes of the meeting held on 11 January 2024 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Maskell (Vice-Chairman)

Cllrs. Bayley, Clayton, Lindop, Malone, James Morgan, Scott, Silander and Williams

Apologies for absence were received from Cllrs. Hogarth and Kitchener

Cllrs. Perry Cole, Purves, and White were also present.

35. Minutes

Resolved: That the minutes of the meeting held 2 November 2023 be approved, and signed by the Chairman as a correct record.

36. Declarations of Interest

There were none.

37. Actions from Previous Meeting

The Head of Finance updated the committee on Action 2 – That Officers provide the split between posts being held vacant and those that could not be filled. There were 23 Full-Time-Equivalent vacancies. Of these, five were actively out for recruitment, with the rest held as vacancies. Two services, Internal Audit and Building Control, had experienced difficulty filling their posts, though recruitment was ongoing.

38. Update from Portfolio Holder

The Portfolio Holder updated the Committee on the Treasury Management Training held for members on 3 January 2024. The session was well attended, and covered a wide range of topics, including the role of Treasury Management, risks and opportunities, skills & knowledge, the current integrated Strategy, balance sheets, and managing inflation and labour force factors.

Members provided feedback on the training. They found it interesting and informative, and requested that similar training be provided in the future.

CHANGE IN THE ORDER OF AGENDA ITEMS

The Chairman, with the Committee's agreement, brought forward consideration of Agenda Item 12 – Treasury Management Strategy.

39. Treasury Management Strategy 2024/25

The Senior Principal Accountant presented the report, which set out the proposed Treasury Management Strategy for 2024/25, as required by the Local Government Act 2003. The Strategy set out the Council's policy for borrowing and managing its investments, though not commercial initiatives and loans to third parties, which were generally classed as non-treasury activities. She outlined the prudential indicators, the borrowing and repayment strategy, and the investment strategy for 2024/25. There were no major changes to the investment strategy.

In response to questions, the officer explained that the treasury management consultants Link Treasury Services Ltd did not control the strategy, and were not involved in day-to-day management. They provided information such as live ratings for banks and templates for reports. Members discussed the risks of exposure to unrated entities within the Strategy. The officer explained that the provisions for non-rated institutions were for unrated subsidiaries of larger banks, which could provide guarantees. These provisions also avoided the risk of violating the Strategy should an institution become unrated whilst the Council held money with it. They did not allow for the Council to lend money to unrated institutions in any circumstance – they only applied in specific scenarios. Members requested that a detailed clarification regarding the conditions for lending to each category of institution be provided with the next Treasury Management Update.

Members further discussed the Council's lending and borrowing. The Chief Officer for Finance & Trading explained that the Council did occasionally lend to other local authorities. These loans had very little risk associated, as there was a statutory obligation to repay them. Members noted that the Council was projected to borrow significantly more in the future than it had previously due to the scale of the capital programme, detailed in a separate report. This would require disciplined management. The Council's risk appetite had increased in this regard, though it was still highly risk-averse.

The Head of Finance clarified for Members that the council had just under £13m in debt, and just under £23m in reserves. These reserves were not cash held by the council, and could not be used to cover services if all income ceased. Investments could be recalled should access to all income streams terminate, though it was emphasised that this was extremely unlikely.

Resolved: That:

a) The report be noted, and the following comments be forwarded to Cabinet:

- Members would like further clarification regarding the Council's exposure to unrated organisations.
- The Council would be borrowing significantly more than it had in the past, and this would require diligent handling

40. Referral from Cabinet or the Audit Committee (if any)

There were none.

41. Discretionary Rate Relief

The Chief Officer for Customer & Resources presented the report, which set out the proposals for altering the criteria for awarding discretionary rate relief, and for continuing the awards from 2023/24 for a second year. The Non-Domestic Rating Act 2023 and associated regulations meant that rural rate relief cases no longer required "topping-up" from 50% relief, and thus the criteria only applied to rate relief for non-profit organisations, and top-up relief for charities and community amateur sport clubs. The total relief requested was around £212,000.

In response to questions, the officer clarified that applications for relief were made on a 2-yearly basis, but that the Chief Officer for Customer & Resources had delegated authority to field applications mid-year, if necessary.

Resolved: That

a) It be recommended to Cabinet that the criteria for granting discretionary rate relief from 1 April 2024, as set out in the appendix to the minutes, be approved; and that
b) It be recommended to Cabinet that the proposals for granting relief from business rates for 2024/25, as set out in the appendix to the minutes, be approved.

42. Cost Pressures and Cost Management of Capital Projects

The Portfolio Holder introduced the report, which outlined the cost pressures that the Council's capital projects had encountered, and the management measures enacted. Members had expressed concern regarding capital project overspend. The Portfolio Holder emphasised that much of this had come from unprecedented external factors that could not have been anticipated.

Members welcomed the report, and thanked the Portfolio Holder and the Strategic Head of Property and Commercial for preparing it.

The Construction Project Manager outlined the report, and corrected a typo in the fifth bullet point of Paragraph 3 – the total project cost for White Oak Leisure Centre was £22.27m. He set out some of the external factors that had impacted projects. These included the pandemic, Brexit, the Russo-Ukrainian War, high inflation, and rising labour and supply costs. Construction materials had undergone inflation of up to 30%, and interest rates from the Public Works Loan Board had increased from 1.5% in November 2021 to 5% in October 2023.

Capital projects were managed by officers, who procured consultants, design teams, and contractors in accordance with the Public Contracts Regulations 2015. Project teams were created for each project, with officers and specialised external advisors and consultants. All changes and options were put through a formal change control process, and the projects were all submitted through the committee process, to field Member feedback.

In response to questions, the officer explained that there were construction industry guidelines for contingency allowances, which tended to reduce as a project progressed and more information became available. For each project the Council took advice from the project team, including cost consultants and quantity surveyors, regarding the level of contingency considered appropriate dependent on the specific project context and information available at the time. The Council sought realistic and robust contingency amounts - raising the allowance would make certain projects unviable. Members were advised that work was ongoing on completing a property register for the Council.

Members asked questions regarding considering ending development projects before they were finished. They were advised that projects were complex and usually lasted many years, and that various factors during the project lifecycle could influence the journey. For example, the Bevan Place project was denied planning permission, and thus had stopped whilst alternative options were explored for the site. The officer further clarified the process following the conclusion of a project. A project closure and lessons report was presented to the Corporate Programme Board and Capital Projects Progress Meeting for all finished schemes. Officers would investigate mechanisms for sharing this information with all Members.

Members discussed the report. They noted their interest for the proposed information session, and hoped that it would provide insight into the Council's control protocols. They further discussed the asymmetrical relationship between the Council and utility providers. Members queried how many of the projects were within their original estimate budget, and it was agreed that a response would be provided.

Action: For the Construction Project Manager to provide Members with a list of which capital projects were within budget.

Resolved: That it be recommended that Cabinet:

(a) Notes the cost pressures SDC's capital projects have and can encounter as detailed in the report.

(b) Notes the cost management measures SDC has in place as detailed in the report.

(c) Endorses the continued use of the capital project cost management measures SDC employs.

(d) An information session is offered to members to help better understand project management protocols and approaches that the Council uses for its capital projects.

43. 12 Otford Road, Sevenoaks - Business Park Development Project

The Property Investment & Development Surveyor presented the report, which set out the proposed mixed-use commercial development project at 12 Otford Road, Sevenoaks. The scheme would regenerate the site and support economic development, and would be funded through external borrowing. The Council were considering multiple exit strategies, including building and holding the site; this would be finalised closer to the completion of the project.

The officer outlined the scheme in further detail. The site would combine industrial usage and a café with a drive-through, as well as parking. The café would be the core income stream, with a 15-year lease, with the industrial element as speculative income. It was anticipated that the planning application for the site would be submitted by September 2024, with approval by December 2024. The scheme aimed to be completed by Summer 2025. Risks for the development included poor ground conditions at the site, which would be mitigated with an investment of £400,000 in assessing the area and installing deep foundations, and market risks, which necessitated regular reappraisals and detailed design work.

In response to questions, the officer explained that the site was 3.2 acres in size, with the development encompassing 1.2 acres only. This would allow for a green buffer to be provided between the development and the Site of Special Scientific Interest (SSSI) which bordered the site. The officer clarified that the scheme was primarily to regenerate the area. If the scheme were to become unviable, within the Member-approved budget, then it would be brought back through the committee system for re-evaluation.

Members discussed the proposal. They noted their concern that a drive through café did not support the Council's ambition for Net Zero. The officer advised them that the site would also receive significant foot traffic, due to its proximity to other sectors, and that the drive-through was an additional factor. The site's inclusion in the Sevenoaks Town Neighbourhood Plan as the access point for a walking & wheeling route to Dunton Green would be considered before the site was progressed.

They further expressed concern regarding the compounding risk of developments sharing risk factors, such as market pressures. They noted that as detail was added to the scheme, these risks could be better addressed. The officer clarified the checks and balances in place to mitigate this also. Members discussed the possible exit strategies, and noted that it would be preferential for the Council to retain the site if possible.

Resolved: That it be recommended to Cabinet that:

(a) It be recommended to Council that the capital funding of the scheme as outlined at Appendix B (Project Costs & Funding) be agreed and it be noted that the scheme will only progress subject to financial viability being confirmed and planning permission granted.

(b) subject to approval of the recommendation by Council at (a) above, provision of the project cost estimated at £3,635,004 is made within the Capital Programme; and

(c) subject to approval of the recommendation (a) by Council, authority be delegated to the Strategic Head of Property and Commercial, following consultation with the Head of Legal Services and the Chief Officer Finance and Trading, to enter into necessary professional appointments/contracts to deliver the scheme.

44. Property Investment Strategy Update

The Chief Officer for Finance & Trading presented the report, which set out the progress of the Property Investment Strategy and its future direction. The Strategy was approved in 2014 to support the Council's aim to be more financially self-sufficient. Changes in regulations meant that the Strategy could no longer be included in the Capital Programme, and therefore the Council was not able to borrow to make more property investment purely for yield. Financial returns from the Strategy consisted of income from the properties owned by the Council, interest from loans to Quercus 7, and the dividend from Quercus 7, minus the annual contribution to the Investment Property Maintenance Reserve. Further investments were not possible at the time of the meeting.

In response to questions, the officer explained that the Council was not able to own housing for private rental, or invest in property outside of the district – these items were held by Quercus 7 to widen the portfolio. Car parks were not included in the Property Investment Strategy, as they were standalone capital schemes with their own budgets, and did not meet the criteria for the Strategy.

Members asked questions of clarification surrounding the disposal of properties within the Strategy. Any income from the sale of these assets could not be used for new investments made purely for yield. This would also mean that alternative income would need to be found to offset any reduction.

Resolved: That the report be noted.

45. Financial Monitoring 2023/24 - to the end of November 2023

The Head of Finance presented the report, which set out the Council's financial position to November 2023, and the forecast position until March 2024. The forecast was for an unfavourable variance of £334,000, which represented a significant reduction from the unfavourable variance of £1.489m reported in July 2023.

The officer highlighted some of the variances. The 2023/24 pay award was for £1,925 per person up to a certain pay grade, and had been included in the forecast variance. Measures had been implemented to reduce the variance in Direct Services. Interest receipts had a favourable variance, as interest rates were high. Vacancies in positions that were not being filled were used to offset some other areas. £1.3m of the £1.8m budget for the interim leisure centre contract was forecast to arise this year, with the remainder to be accounted for in 2024/25, but this would have nil effect on the bottom line as the cost was being funded initially from the Budget Stabilisation Reserve.

The capital programme was forecast to be underspent by £22.4 million against a budget of £33m, mainly due to delays following the refusal of planning permission for the development at Bevan Place.

Members discussed the forecast unfavourable variance associated with Direct Services overall, which was around £1m. The officer explained the factors behind this. The pay award had a significant impact, as had increased agency costs. The volume of household waste collected remained increased, whilst the volume of trade waste collected was down.

To address the unfavourable variance, several actions had been put in place. Any spend of over £5,000 would require approval from the relevant Chief Officer. Some posts would not be recruited to and would remain open. Furthermore, all teams were expected to propose 3 savings suggestions for discussion.

Resolved: That the report be noted.

46. Financial Performance Indicators 2023/24 - to the end of October 2023

The Head of Finance presented the report, which presented figures on nine internally-set financial performance indicators covering activities that support information provided in regular financial monitoring statements to October 2023. Staff absence meant that the indicators for November could not be prepared in time for the committee, but the committee were informed that the data was similar. The officer explained that the time to process changes in circumstances for Housing Benefit was not within target, due to absences and vacancies within the team. The team faced high workloads with insufficient resource, and prioritised ensuring new claims were processed within the target time instead.

Resolved: That the report be noted.

47. Capital Programme and Asset Maintenance 2024-27

The Head of Finance presented the report, which set out the Capital Programme for the next three years. He corrected an error within Appendix B to the report – the figure of £31.853m listed as Internal Borrowing Repaid for 2025/26 was in fact the Short Term Repaid External Borrowing for that year. He outlined the approved and new capital bids, the disposals programme, and the Capital Strategy for 2024/25. Separate reports would be presented to members for schemes of significant size or importance. It was proposed that the Asset Maintenance Budget be agreed at £662,000.

In response to questions, the officer clarified that new schemes would be added to the capital programme if approved. Changes in circumstances for existing programmes would be reported to Members. Certain schemes were projected to finish in the next three years, and the capital receipts from those schemes were included in the forecast.

Resolved: That the report be noted.

48. Fees & Charges Review 24/25

The Head of Finance presented the report, which set out the results of the first annual cross-organisation review of all fees and charges. This was the first time all fees and charges had been reviewed simultaneously; previously, most were only updated upon request. The fees had been adjusted where appropriate, based on both financial and non-financial considerations, such as central government restrictions, cost recovery, and the fees charged by other local authorities. It was anticipated that these adjustments would deliver additional income of £300,000 above the 2.5% budget assumption.

In response to questions, the officer explained that there was no blanket maximum increase – fees were modified to be appropriate considering service requirements and legal restrictions. Members noted their appreciation that a comprehensive review would be included in every year's budget process.

Resolved: that the report be noted.

49. Risks and Assumptions for Budget 2024/25

The Head of Finance introduced the report, which set out the risks and assumptions for the 2024/25 budget.

Members asked questions of clarification regarding the assumptions for future pay awards. The Chief Officer – Finance & Trading explained that discussions on the pay award for 2024/25 had not yet commenced, and noted that inflation was dropping which may result in a reduced award. The assumption would be revised when a more accurate position could be established.

The officer further advised that the actuarial evaluation of the pension deficit had reduced over each of the three-year periods in which it was repaid. Some risks had increased compared with previous years, but noted that others, such as Covid-19, had decreased significantly. Changes to the minimum wage would have a minimal budget impact to the Council, as there were few staff members within affected pay bands.

Resolved: That the risks and assumptions for the 2024/25 budget be noted.

50. Work Plan

The Work Plan was noted.

THE MEETING WAS CONCLUDED AT 9:04PM

CHAIRMAN