Performance and Audit Scrutiny Committee

Minutes of a meeting of the **Performance and Audit Scrutiny Committee** held on **Thursday 28 July 2022** at **5.00 pm** in the **Conference Chamber, West Suffolk House,** Western Way, Bury St Edmunds IP33 3YU

Present **Councillors**

Chair Ian Houlder

John Augustine	Andy Neal
Nick Clarke	Robert Nobbs
James Lay	Peter Thompson
Victor Lukaniuk	Phil Wittam

In attendance
Sarah Broughton, Cabinet Member for Resources and Property

122. **Substitutes**

No substitutions were declared.

123. **Apologies for absence**

Apologies for absence were received from Councillors Elaine McManus, Karen Richardson and Cliff Waterman.

124. **Minutes**

The minutes of the meeting held on 26 May 2022 were confirmed as a correct record and signed by the Chair.

125. **Declarations of interest**

Members' declarations of interest are recorded under the item to which the declaration relates.

126. **Public participation**

There were no members of the public in attendance on this occasion.

127. **Annual Financial Resilience Management Report 2021 to 2022**

The Committee received report number FRS.WS.22.003, which had been considered by the Financial Resilience Sub-Committee on 11 July 2022. The report set out West Suffolk Council's Annual Treasury Management and Financial Resilience Report for 2021 to 2022, which included tables summarising the interest earned and the average rate of return achieved during 2021 to 2022; investment activity during the year; investments held as at 31 March 2022; borrowing and temporary loans and capital borrowing budget 2021 to 2022.

The budget for investment income in 2021 to 2022 was £45,000 which was based on a 0.25% target average rate of return on investments. Interest actually earned during the financial year totalled £96,451.98 (average rate of return of 0.395%), against a budget for the year of £45,000; a budgetary surplus of £49,451.98. The report included assumptions on borrowing for the capital projects included within it and was based around the following main projects:

- Western Way development;
- Mildenhall Hub;
- West Suffolk Operational Hub;
- Toggam Solar Farm; and
- Investing in our Growth Fund.

The report also included a summary of the capital borrowing budget for 2021 to 2022; borrowing and income – proportionality; borrowing and asset yields.

During the financial year 2021 to 2022 the councils underlying need to borrow in investing in its communities increased by just over £6m. With £10m of external borrowing taken out in the year, the level of internal borrowing has reduced by £3.9m. This would help to reduce the level of interest rate risk the council was currently exposed to.

The Sub-Committee had scrutinised the Annual Treasury Management and Financial Resilience Report (2020 to 2021), and asked questions to which responses were provided. Discussions were held on the £10m external loan and how would the Council rebuild its cash balances over the longer term.

The Performance and Audit Scrutiny Committee considered the report and asked questions to which responses were provided. In particular discussions were held on who decided on which bank(s) the council placed its money for investment; the asset value of the solar farm; and at what point would the council look at selling the solar farm if income decreased significantly.

In response to a question raised relating to the £10m external loan and whether it was being used for a specific reason, officers referred the Committee to paragraph 4.7 on page 13 of the report which set out the council's capital finance requirements. This was made up of all projects based on the need to borrow externally. To date, the council had been able to use internal cash available. The £10m would be used towards that future capital finance requirement.

Members did not raise any issues at this time to be brought to the attention of Cabinet.

Councillor Phil Wittam then moved the recommendation, which was duly seconded by Councillor Robert Nobbs and with the vote being unanimous, it was

Recommended

That subject to the approval of Cabinet and Council the Annual Treasury Management and Financial Resilience Report 2021 to 2022, being Report number: FRS/WS/22/003, be approved.

128. **Treasury Management Report (June 2022)**

[Councillor Peter Thompson arrived at 5.58pm during the consideration of this item.]

The Committee received Report No: FRS/WS/22/004, which had been considered by the Financial Resilience Sub-Committee on 11 July 2022. The Service Manager (Finance and Procurement) gave a PowerPoint presentation which set out the investment activity for the first three months of the 2022-2023 financial year.

The 2022-2023 Annual Treasury Management and Investment Strategy sets out the Council's projections for the current financial year. The budget for investment income for 2022 to 2023 was £45,000, which was based on a 0.25% target interest rate of return on investments.

At the end of June 2022, interest earned during the first quarter of the financial year amounted to £90,077.11 against a profiled budget for the period of £11,250, a budget surplus of £78,827.11.

External borrowing as at 30 June 2022 was £13,875,000, a reduction of £125,000 from 1 April 2022, which relates to the repayment plan for the recent PWLB £10m 40-year loan, with the council's level of internal borrowing increasing slightly to £41,536,828 as a t 30 June 2022. Overall borrowing, both external and internal was expected to increase over the full financial year.

The presentation set out cashflow forecasts; PWLB rates and forecast rate trends.

The Service Manager (Finance and Procurement) explained that future reports would include a section on "liability benchmark". At the end of 2021 a CIPFA consultation was issued with a proposal to include a new indicator for the "liability benchmark" in the Treasury Management Code. The liability benchmark was effectively the net borrowing requirement of a local authority, plus a liquidity allowance over the long-term life of any external loans. This showed the funding position of a local authority after taking into account reserves and the working capital cash position. It then measured current and committed external borrowing against that need and reflected the current capital programme.

The Sub-Committee had scrutinised the investment activity for 1 April 2022 to 30 June 2022, and asked questions to which responses were provided.

The Performance and Audit Scrutiny Committee considered the report and asked questions to which responses were provided. In particular discussions were held on forecast rates; interest rates, external borrowing and the Western Way Development.

In response to a question raised on when the interest forecast was made, officers explained that forecasts were done every year as part of the annual budget setting process based on current and predicted interest rates at that point in time.

In response to a question as to whether the council should consider further external borrowing whilst interest rates were still low, officers explained the council could reasonably go out to the market and fix interest rates. However, the markets were currently volatile and there was the uncertainty of a recession. Therefore, our external advisors were not recommending any long-term borrowing at this moment in time.

In response to a question raised relating to the £5m loan made to Thurrock Borough Council in December 2021 and the recent article by the "Bureau of Investigative Journalism", officers advised that the exposure to the council was considered low. Advice from Arlingclose was that clients with an existing exposure to Thurrock retain all the standard protections for lenders to local authorities. All authorities, including Thurrock had access to the PWLB for refinancing irrespective of other activity. Therefore, the risk of lending was at worst a delay in receiving funds back without interest, rather than a loss of principal.

Councillor Robert Nobbs then moved the recommendation, which was duly seconded by Councillor Victor Lukaniuk and with the vote being unanimous, it was

Recommended

That subject to the approval of Cabinet and Council the Treasury Management Report (June 2022), being Report number: FRS/WS/22/004, be approved.

129. **Work programme update**

The Committee received report number: PAS/WS/22/012, which updated members on the current status of its rolling work programme of items for scrutiny during 2020-2021 (Appendix 1).

The Committee was informed that the Council's Treasury Advisors, Arlingclose had been invited to provide training to members of the Performance and Audit Scrutiny Committee on treasury management, which would take place at 4pm on 29 September 2022.

The Director (Resources and Property) advised members that Mark Hodgson, Associate Partner for Ernst Young who had been the Council's external auditor would be replaced by David Riglar who would be attending the Committee's September 2022 meeting.

The Committee **noted** the contents of its forward work programme and the training to be provided by Arlingclose at 4pm on 29 September 2022 prior to the Committee's meeting at 5pm.

130. **2022 to 2023 Performance Report (Quarter 1)**

[Councillor Andy Neal left the meeting at 6.28pm during the consideration of this item.]

The Committee received Report number PAS/WS/22/013, which set out the impact of Covid-19, the Quarter 1 performance and the 2022 to 2023 revenue and capital positions.

The Covid-19 outbreak had had a significant impact on the council's financial position. Whilst the council was now in the process of recovering from the pandemic, the effects were likely to be felt for years to come. In addition, the cost-of-living crisis, which the Ukraine War had exacerbated, was not only impacting on communities and businesses, but also adversely putting pressure on the council's budgets.

All of these elements, as well as national public behavioural changes in travel, shopping and working created by these issues, had had an adverse impact on businesses, retail and public services nationally. Income generation for public services across the UK had been severely impacted by a combination of all these challenges we well as recent issues, such as national and local lockdowns. West Suffolk Council was not alone in continuing to face these issues although there were good signs of recovery by services and areas – some stronger than others. This included income from leisure and cultural events; trade waste and the garden waste service. In addition, other services were recovering, such as car parks and markets. However, the challenges outlined effected services and localities in different ways.

For 2022 to 2023 the central government funding which had helped to partly mitigate the effects of the pandemic, such as the Sales, Fees and Charges Compensation and the Covid-19 Support Grant were no longer available, meaning the council had to make provision to fully cover any reduced income and increased costs from within its own budgets. As part of the 2022 to 2023 budget setting process the made had made provision for the sum of around £0.5m in its budgets for the ongoing impacts of Covid-19. This provision was to be funded by a contribution from the council's general fund (a reserve fund that the council traditionally kept at around £5m to meet emergency issues such as this) and had been factored into the year-end forecasts in the report.

Attached to the Quarter 1 performance and forecast year-end financial position for 2022 to 2023 were a number of appendices as follows:

- Appendix A: Key Performance Indicator Dashboards
- Appendix B: Income and expenditure report
- Appendix C: Capital programme
- Appendix D: Earmarked reserves
- Appendix E: Strategic risk register
- Exempt Appendix F: Aged debt over 90 days

The Service Manager (Policy, Projects and Performance) explained that a lot of the changes behind the key performance indicators were behavioural, and it was hard to get to the evidence as to why people were changing their behaviour. Therefore, officers would be looking at a deeper dive into the evidence available to try and ascertain the changes in performance. She then drew the Committee's attention to a number of key performance indicators as follows:

- Cross-cutting performance: local economic context
  - Shop vacancy rates in West Suffolk towns were all below the national average of 12 per cent or in the case of Newmarket, the same as the national average.

- Housing and Strategic Health:
  - Households in bed and breakfast accommodation – these were below target and down from the previous quarter.
  - Households in temporary accommodation – this was above target.
  - Homelessness prevention cases – this was at its lowest for four years.
  - Discharge of homelessness duty into private rented sector – this was the highest for 12 months.
  - Youth homelessness – this was increasing, and officers would be keeping an eye on this indicator.

- Resources and Property:
  - Business rates collection was back to pre-COVID levels.
  - Fraud collection by Anglia Revenues Partnership was above 2021-2022, but below pre-COVID levels.
  - Use of e-forms for revenues and benefits – this was high due to energy rebate applications.
  - Low void levels in the commercial estate.

- Governance:
  - Sick days were high due to COVID absences.

- Regulation and environment:
  - Toggam solar farm had generated electricity at its highest rate since 2018-2019.

The Committee considered the report in detail and asked a number of questions to which responses were provided. In particular discussions were held on investments in Barley Homes; the council's general fund; managing the council deficit and the current volatile market.

In response to a question raised relating to e-forms and whether the trend would continue to increase, officers advised it was hoped the trend would continue to increase. For example, work on council tax had shown an increase in the take-up of direct debit payments.

The Committee discussed the cost-of-living crisis etc. meaning the council was likely to see more people presenting as homeless and questioned what the council was doing in terms of resourcing the team in order to cope with an increase in cases. In response officers agreed to provide a written response.

At the conclusion of the discussions, the Committee **noted** the forecast 2022 to 2023 revenue and capital positions as detailed in Report number PAS/WS/22/013 and attached appendices.

131. **Exclusion of press and public**

With the vote being unanimous, it was

Resolved:

That, under Section 100(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as prescribed in Part 1 of Schedule 12A of the Local Government Act 1972, and indicated against each item and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

132. **2022 to 2023 Performance Report (Quarter 1): Exempt Appendix F: Aged Debt Over 90 Days Monitoring (paragraphs 1 and 2)**

The meeting moved into private session to allow for the Committee to pose specific questions on the information which related to the aged debt over 90 days, as set out in this exempt Appendix.

Once the discussion was concluded, the Committee then moved back into the open session of the meeting.

133. **Re-admittance of press and public**

The press and public were re-admitted to the meeting.

The meeting concluded at 7.17pm

Signed by:

Chair