

Minutes of the Meeting of the FINANCIAL POLICY PANEL held on 5 December 2017

PRESENT -

Councillor Eber Kington (Chairman); Councillors John Beckett, Neil Dallen, Barry Nash, Vince Romagnuolo and Clive Smitheram (as nominated substitute for Councillor Richard Baker)

Absent: Councillor Richard Baker, Councillor Graham Dudley and Councillor Omer Kokou-Tchri

Officers present: Lee Duffy (Chief Finance Officer), Brendan Bradley (Chief Accountant) and Fiona Cotter (Democratic Services Manager)

7 DECLARATIONS OF INTEREST

No declarations of interest were made by councillors regarding the items on the Agenda.

8 TREASURY MANAGEMENT - INTERIM REPORT

Prior to considering a report that updated members on treasury management performance for the first six months of 2017/18, the Panel received a presentation from Nazmin Miah, Senior Client Consultant of Link Asset Services. The presentation covered a market update, the Council's investment options and potential changes in the treasury management sector affecting local authorities.

The presentation highlighted that there was significant uncertainty in the economy and the market was very fragile. Borrowing was cheap at the moment but investment on cash returns low in the near term. The majority of Council's investment portfolio consisted of a mix of liquid funds, which yielded 0.57%. The Aberdeen fund was an ultra-short fund that provided a constant, steady yield. The portfolio also invested in a Building Society with a BBB+ rating, which was yielding well.

In respect of current developments in treasury management, it was highlighted that the CIPFA Treasury Management Code and Prudential Code had been revised and were due to be published imminently. These had last been reviewed in 2011 and one of the aims of the review was to address the "commercialism" agenda and "non-treasury" investments.

A Government consultation on the capital framework was due to close shortly. Local authorities were required to follow DCLG investments guidance. It

appeared that the requirements would be fair. Local authorities already had the power of competence and would now be able to exercise this in respect of investments as long as decisions were proportionate.

Prior to taking her leave of the meeting, the Chairman thanked Ms. Miah for the presentation, stating that the Council was very proud of its finance team but it was helpful to know that additional help was at hand.

The Strategy and Resources Committee agreed the Treasury Management Strategy for 2017/18 at its meeting in March 2017. Current policy required Officers to produce an interim report on investment performance and this report covered the period 1 April 2017 to 30 September 2017.

The Chief Finance Officer highlighted that the Council had reduced the amount of money invested with Aberdeen Asset Management plc and utilised the money rather than borrowing at 2.5%. This did not preclude re-investment of funds at a later date should the markets change.

Despite low returns, investments for the first six months met the profiled budgeted income for the same period, with an average annualised return on investments of 0.53%. The return made on money market funds of 0.14% was higher than the benchmark of 0.11%. Investment in money market funds had been limited to short-term investments from surplus funds which would need to be called back with no notice required. Current strategy and recent guidance obtained from the Council's independent financial advisors was to limit fixed term investments to a period of one year until there was improved stability in within the financial markets.

The necessity to hold around £589,000 by year-end in the Interest Equalisation Reserve was queried. The reserve enabled variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year. Without this reserve, the Council would currently have to find £41,000 from elsewhere to maintain service delivery. The level of this reserve was kept under review and periodically re-assessed. However, with base rates and investment returns at historically low levels, and with no immediate sign of these increasing, the funds in this reserve could erode at a time when the funds in it were needed more than ever.

Having noted the performance on return of investments for the first six months of 2017/18 and the current investment decisions being made within the terms set out in the Treasury Management Strategy, the Panel supported the decision to continue to place the management of the Council's external funds in the hands of Aberdeen Asset Management plc.

9 CAPITAL PROGRAMME 2018/19

A report was presented to the Panel summarising the proposed 2018/19 Capital Programme, seeking the Panel's guidance prior to its submission to Council in February 2018.

The Chairman highlighted that the Capital Programme had been the subject of intense scrutiny by members on the Capital Member Group which had resulted in the proposals before the Panel.

The report highlighted that the following schemes, totalling £1,225,000 in 2018/19 and £250,000 in 2019/20, were proposed for inclusion in the capital programme to be funded from capital reserves, subject to the relevant policy committee receiving and approving project appraisals:

Scheme/Funding from Capital Reserves	2018/19	2019/20
	£'000s	£'000s
Installation of LED Lighting Various Sites	75	
Repair of St Marys Churchyard Flint Faced Wall	77	
ICT Programme of Work	60	
ICT – Document Management System replacement	50	
Replacement of Customer Relationship Management system and Data Warehouse	250	250
H&S Improvement Works Ashley Centre Car Park	165	
Ashley Centre Carpark levels 4 a & b waterproof coverings	227	
Playhouse replacement of stage floor and changing rooms refurb	66	
Poole Road Pavilion boiler, pump and plant replacement	50	
Bourne Hall replacement of old defective air conditioning unit	25	
Financial Management System Upgrade	65	
Renewal of Town Hall lift controls	80	
Upgrade of carpark credit card machines	35	
Total proposed capital programme funded from reserves	1,225	250

The report also highlighted that the Council received a fixed government grant allocation for disabled facilities grants via the Better Care Fund to the tune of £588,000.

Capital reserves were considered the appropriate funding stream for the ICT work programme. Senior management were well aware of the risks and challenges in this area and members were assured that reports on individual elements of various work streams, particularly the Customer Relationship Management System and Data Warehouse, would be reported to committee as appropriate.

The Chief Finance Officer highlighted the risks of sustaining the capital programme going forward as capital reserves depleted and that should any surplus revenue funds arise following the Council's recent purchases of investment property, consideration could be given to applying such funds to supplement the capital programme. This approach would enable earmarked capital receipts to be returned to the capital reserve, thereby mitigating the risk of capital reserves falling below the minimum threshold in future years. The Panel noted this as an option. The report highlighted that, currently, if all schemes were progressed between 2018 and 2020, the estimated level of reserves would fall from £3.1m at 1 April 2018 to £1.6m at 31 March 2020. This was before any use of CIL, S106 or revenue funding was taken into account.

In regard to the use of CIL, all parties needed to be mindful of the agreed process: in particular, the County Council had a call on these receipts.

Accordingly, the Panel agreed with the advice of the Capital Member Group and submitted the following 2018/19 Capital Programme to Council for approval in February 2018, subject to the relevant policy committees first approving project appraisals:

- (1) Prioritised schemes totalling £1,225,000, funded from capital receipts of £1,225,000, less any S106, CIL or revenue reserves subsequently identified with a further commitment of £250,000 for 2019/20;
- (2) An additional scheme totalling £588,000 subject to external funding sources.

10 MINUTES

The Minutes of the meeting of the Financial Policy Panel held on 12 September 2017 were agreed as a true record and signed by the Chairman.

The meeting began at 7.30 pm and ended at 8.24 pm

COUNCILLOR EBER KINGTON (CHAIRMAN)