



**FINANCE COMMITTEE MEETING
THURSDAY 27 FEBRUARY 2020**

No	Item	Summary of key Recommendations
3.	Minutes of Meeting held 16 January 2020	<i>Confirmed</i>
4.	Period 9 Management Accounts	<i>Information</i>
5.	Draft 3 Year Financial Plan 2020-2023	<i>Approve; Finance Committee oversight as preferred model of governance; input from independent adviser; dedicated project Manager to oversee; review in next financial year</i>
6.	Staffing Levels	<i>Information</i>
7.	Capital Programme Expenditure	<i>Information</i>
8.	PwC Financial Advice	<i>Approve and recommendations therein; Report detailing explanation/timeline of events surrounding Council's adverse financial situation from June 2019 to date, to be brought</i>

No	Item	Summary of key Recommendations
9.	Any Other Relevant Business (Notified In Accordance With Standing Order 12 (O))	
	9.1 Coleraine BID (Councillor McCaw)	<i>Chief Executive to contact Coleraine BID representatives</i>
	9.2 Head of Service meeting Friday 13 December, Flowerfield (Councillor Holmes)	<i>Information</i>

**MINUTES OF THE PROCEEDINGS OF THE MEETING OF
THE FINANCE COMMITTEE
HELD IN COUNCIL CHAMBER, CIVIC HEADQUARTERS ON
THURSDAY 27 FEBRUARY 2020 AT 7 PM**

In the Chair: Councillor Peacock

Members Present: Alderman Hillis and McCandless;
Councillors Beattie, Callan, Holmes, Knight-McQuillan,
McAuley, McCaw, McLean, C McShane, Schenning
and Scott

Officers Present: D Jackson, Chief Executive
R Baker, Director of Leisure & Development
A McPeake, Director of Environmental Services
D Wright, Chief Finance Officer
S Duggan, Civic Support & Committee & Member Services Officer

In attendance: J Davison, PwC

The Chair welcomed J Davison, PwC to the meeting.

1. APOLOGIES

Apologies were recorded for Alderman Duddy; Councillors Bateson and McGurk.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF MEETING HELD 16 JANUARY 2020

Proposed by Councillor Schenning
Seconded by Councillor Scott and

AGREED – that the Minutes of the Finance Committee meeting held Thursday 16 January 2020 were confirmed as a correct record.

In response to questions, the Chief Executive advised correspondence from Minister Hargey had been placed on the Council Agenda, Council's response would be available on the Members' Portal in due course.

MOTION TO PROCEED 'IN COMMITTEE'

Proposed by Councillor Holmes

Seconded by Councillor Callan and

AGREED – to recommend that Council move 'In Committee'.

4. PERIOD 9 MANAGEMENT ACCOUNTS

Confidential report, previously circulated presented by the Chief Finance Officer.

Causeway Coast and Glens Borough Council has approved annual budgets and delegated authority to officers to utilize these budgets in the provision of services to our rate payers.

Circulated was a management accounts report detailing the financial position as at period 9 of the 2019/20 financial year (up to 31 December 2019) together with a single page summary. Also included below from section 2 onwards is a commentary regarding individual areas of Council explaining deviations from budget. At the end of period 9 Council are currently in deficit by £231,816 compared to £605,091 at period 8.

Reserves Position

In terms of the reserves position of Council the deficit reported at 1.2 in the report contains an in year adjustment with regards Council's Minimum Revenue Provision which had been overprovided previously to the value of £639,999. This was in relation to private sector loans which Council has within its debt portfolio and is a one-off in year saving. At rate setting it was agreed that an applied balance be included within the budgets and this has been reflected in the management accounts. Taking this all into account the reported surplus against budget at period 8 means that the general reserve position is as set out below:

*Reserves at 31 March 2019 £3,762k
Deficit at period 9 £ (232)k
Applied balance at period 9 £(1,785)k*

Reserves at 31 December 2019 £1,745k

Overview of Period 9 position (to December 2019)

The net position for the 9 month period was £1,467,122 against a budget of £1,235,306, hence, showing an overspend of £231,816. In terms of

net cost of services (excluding rates, rates support grant, de-rating grant and transferred function grant) the position at period 9 was actual net cost of £37,348,996 against a budget of £37,324,108, the variance being £24,888 adverse, and an explanation of the rates support grant income variance is detailed below.

Explanation of variance

The Period 9 position includes an overspend in a number of service areas, the overspend being offset favourably by an adjustment to the Minimum Revenue Provision (MRP) of £640,000 due to the identification of an overprovision in previous years and the correction having been included in these accounts.

As set out in 1.3 above these accounts include the budgeted allocation of £1,785k from reserves therefore the effect on reserves as at period 9 would be a reduction of £2,017k bringing Council's general reserves to £1,745k.

Management intend, as previously reported, to capitalise severance costs and consequently an application for a direction to the value of £4m has been lodged with the Department for Communities, the initial notification of the granting of this direction is expected in early December although it is understood that the total applications received total £13.8m whereby the amount available is £8.5m. This will help to offset the application of reserves together with the MRP adjustment.

A further variance explanation of each service area was provided within the report, circulated.

The Chief Finance Officer advised, since writing the report, Council's financial position had improved from approximately £605,000 deficit to approximately £231,000 deficit. The Chief Finance Officer further advised the capitalisation of severance costs direction had now been approved by the Department to deal with the applied balance and reserves position.

Councillor Holmes stated he was glad to see an improvement in the deficit, Period 10 however, the PwC report noted caution for months 11 and 12. Councillor Holmes made observations on the management accounts and referring to a Sport and Wellbeing overspend, questioned whether anything was being done to have it resolved, in-year. Councillor

Holmes requested more detailed information on variations to be presented within the reports going forward.

The Director of Leisure and Development advised a number of measures were in place surrounding prioritisation of work and essential works, routine and scheduled works, evidenced by need.

Councillor Callan questioned whether there was still an issue with coding.

The Director of Environmental Services confirmed he was more confident with the budget set and alignment with actual, month to month. The Director of Leisure and Development concurred.

PwC representative advised he was unable to form strong conclusions, he felt careful allocation of individual budget sub codes on a line by line basis was required.

Councillor Callan advised he was concerned Council was not on top of the information. He stated there was a need surrounding the budget process going forward that tied into the 3-year financial plan.

The Chief Executive advised weekly dedicated Finance team meetings were being held with the Chief Finance Officer, Directors and himself, he would share a number of key conclusions with the Committee. The budget allocation process was accurate and there were effective bilateral Finance Business Partner and Director meetings concerning the management accounts and shared with Heads of Service and Managers.

In advance of the rates setting process, the medium term financial plan and macroeconomic forecast of cost assumptions, blending inflationary pressures with the opportunity for efficiencies and to increase income, would be placed before Council before the Summer.

The Chief Executive advised training would be available for Elected Members and Officers concerning Local Government Finance.

In response to comments regarding negative press, the Chief Executive advised of Council's robust media response and explanatory detail provided to reporters.

5. DRAFT 3 YEAR FINANCIAL PLAN 2020-2023

Confidential report, previously circulated, presented by the Chief Executive, the aim, to deliver a sustainable financial plan for the next 3 years of the Council.

The report set out a programme of proposed projects designed to ensure the sustainability and robustness of Council finances for the current term and beyond.

Objectives

- *Efficiency and improved effectiveness through transformation;*
- *Balance the budget by eliminating the current deficit on the provision of services;*
- *Increase income;*
- *Replenish reserves;*
- *Reducing the level of borrowing;*
- *Set rates to meet the level of service expected by the ratepayer.*

Key work strands

Transformation

- *Transformation plan to be agreed by the Council;*
- *Maximise use of technology;*
- *Consideration of alternative operating models.*

Operational efficiency

- *Service areas will be subjected to further operational efficiency reviews in the next 12 month period.*
- *Optimal operating models for Council services;*
- *Route optimisation delivered in Operations;*
- *End to end review of waste operations in line with regional waste strategy;*
- *Leisure management review completed;*

Centrally allocated cost savings

- *Review of cross-cutting costs: eg, overtime, utilities, insurance, ICT, fleet, fuel, travel, procurement.*

Capital Asset realisation and rationalisation (already underway)

- *Report presented to Finance Committee in November 2019, project team established;*
- *Disposal of Killyrammer in D1 process with Planning;*
- *Laurel Hill, Dunluce Centre, Waterworld main opportunities to generate capital receipts;*
- *Includes analysis of all Council owned facilities based on need and viability.*

Capital Programme (already underway)

- *Cap further borrowing, based upon an annual reduction of capital financing.*
- *Maintain annual investment of £1.85m in essential maintenance, fleet and ICT.*

- *Deliver projects currently at stages 3 and 4.*

Income generation

- *Rates income: Further work with Building Control / LPS / GIS to ensure optimum rate collection;*
- *Maximise grant income (both capital and revenue);*
- *Develop additional annual income opportunities throughout Council, eg, further development of caravan sites;*
- *Minimum of an inflationary increase will be proposed to Members;*
- *Maximise rental income from Council property.*

Financial healthcheck

This encompasses a review of:

- *Finance policies;*
- *Financial processes;*
- *Finance systems (link to HR systems);*
- *Capability to deliver the service (Structures – Tier 3 and Finance prioritised).*

Reporting and Performance

- *Further review of financial reporting to Council / Committee;*
- *Quality assurance of reports;*
- *Benchmarking against other Councils, linkage to Performance Improvement Plan;*
- *Boroughwide consultation on services.*
- *Comprehensive programme of internal and external communication.*

Macroeconomic / cost assumptions

A number of assumptions are required to forecast cost pressures:

- *Inflation on goods and services – Bank of England target is 2%, currently 1.5%;*
- *Interest rates – Bank of England base rate recently held at 0.75%;*
- *Economic growth - low. Recent increase in district GVA resulted in a cut to Rates Support Grant.*
- *National pay awards – averaging c.3%, pressure to increase and new living wage;*
- *Recycling contract costs increasing due to global pressures and end market pricing;*
- *Central government grant funding (eg, RSG) dropping each year;*
- *Cost of utilities, insurance and fuel increasing each year;*

- *Resourcing the growth deal.*

Governance

The Medium Term Financial Plan will be overseen by the Finance Committee who may wish to set up a joint Member / officer steering group to drive and advise the programme of work, with input from an independent adviser.

Rates estimate targets to be set by Council

Financial year	2020/21	2021/22	2022/23
Rates estimate	9.9%*	3.9%*	2.9%*

**illustrative – for Council direction / decision pending further analysis of projected income and expenditure.*

It is recommended that the Finance Committee considers the draft report and makes recommendations on its preferred model of governance to oversee its delivery.

The Chief Executive provided clarification of terminology used within the report.

Councillor Holmes stated concern for any sub-committee level of knowledge that would benefit all, he supported 16 Members of the Finance Committee as the preferred form of governance.

Proposed by Councillor Holmes
Seconded by Councillor Callan

- to recommend that Council approve the draft report, the preferred model of governance - for the Finance Committee (16no.) to oversee its delivery, with input from an independent adviser; that there is a dedicated Project Manager to oversee; that the arrangement is reviewed in the next financial year.

The Chair put the proposal to the Committee to vote.
Committee voted unanimously in favour.
The Chair declared the motion carried.

PwC representative commented there was a lot of work to do as a result of the plan, the outline priorities were excellent.

6. STAFFING LEVELS

Confidential report, previously circulated, presented by the Chief Executive, to compare the current staffing levels with those at the point of merger in April 2015.

It is recommended that the Finance Committee notes the report.

Councillor Holmes, referring to additional Planning staff, requested an efficiency ratio to measure the number of hours for the Planning Committee vs the number of applications.

7. CAPITAL PROGRAMME EXPENDITURE

Confidential report, previously circulated presented by the Director of Leisure and Development.

The purpose of the report was to present a 10 year Capital Investment Programme, which considers:

- *Working principles to be applied to the delivery of the Capital Programme.*
- *The reduction of annual debt financing.*
- *The reduction of Council's total borrowings.*

Background

A Capital Workshop was held for Members on the evening of 29th January 2020. A full copy of the material presented was circulated. The report summarised the content of what was presented and put forward next steps.

What is a Capital Project? *Procurement of assets that have a useful life exceeding 1 financial year is considered Capital Expenditure. Examples include;*

- *Computer Equipment ~ 3 year life.*
- *Plant, Machinery and Vehicles ~ 5 year life.*
- *Buildings ~ 40 year life.*
- *Drainage, Roads etc ~ 80 year life.*

Capital Projects are accounted for and can be paid for over the life of the asset – in contrast to operational and running costs which must be accounted and paid for annually. Annual revenue is used to service capital debt or build a capital fund.

Summary of Councils 4 Step Approval Process. Councils 4 Stage Capital Process incorporates the following stages:

- Approval Gateway for **Stage (1)** work; to undertake proportional Scoping, Feasibility and OBC Work (£ usually circa 1% total capital cost estimate and less for very large projects).
- Approval Gateway for **Stage (2)** work; approve OBC, complete Procurement to Final Tender Report and produce Final Business Case (£ usually circa 2% - 3% of total capital cost estimate and less for very large projects).
- Approval Gateway for **Stage (3)** work; approve / appoint winning tenderer, sign contract and manage construction (£ up to 110% of total capital cost estimate); **INVESTMENT DECISION.**
- Approval Gateway for **Stage (4)** work; approve handover of asset into service and manage operations.

Working Principles

In order to reduce Council's total borrowings and the annual debt financing, the following working principles were proposed;

1. *The Capital Programme is dependent upon affordability set by Council.*
2. *A proactive approach is applied to Council's existing assets i.e. the prioritisation of our own essential estate / fleet / IT.*
3. *The strict Application of Councils 4-Stage Capital Project Management System using objective a Business Case approach.*
4. *Within this term of Council, no further projects will be progressed into the 4 stage process unless:*
 - a. *The project addresses essential Health and Safety works.*
 - b. *The project is offered significant Grant Funding, which makes a project affordable.*
 - c. *The project is self-financing. The return from the investment is derived within an appropriate timescale.*

Sources and Financing of Capital

Capital can be Direct Capital or Annual Revenue Funded Capital.

Direct Capital comprises of Grant Aid and any Capital Asset Realisation resulting from the disposal of redundant / excess property.

Annual Revenue Funded Capital (ARFC) is also known as loan capital. For every £1m of Capital to be raised, circa £55k of Revenue per year for 25 years is needed to repay the loan.

The Revenue needed to pay for loans can come from 4 main sources;

- *Revenue Payments on Loans that expire in-year.*

- Revenue Savings on Operations.
- Revenue Income Increases.
- Revenue Increase from District Rates.

However the purpose of this report is to present an approach to Members, which considers primarily;

- The reduction of Council total borrowings.
- The reduction of annual debt financing.

Revenue Payments on Loans or Debt Financing

Entering into the 20/21 financial period, the debt financing costs are £9.65m to service the Council's total borrowings of £68.7m albeit council has approved further loans which if actioned immediately would increase this figure to £76.7m.

To alleviate current financial pressures, the annual reduction of debt financing, when balanced against required capital investment, should be considered within Council's ongoing financial planning.

Debt Financing Illustration. The reduction of the annual debt financing costs by £1m over a ten year period (1.25% annually), was depicted in the graph circulated.

Based upon the 1.25% annual reduction of debt financing, the following is achieved:

- Debt financing reduced from £9,334,365.32 in 2021 to £8,335,251.96 by 2030.
- An annual investment of £1.85m in 'Essential Maintenance, Fleet and IT' is maintained.
- Those projects at stages 3 and 4 are included in the Total sum.
- The delivery of a capital programme worth £36m net.
- The annual additional headroom allowing further capital investment is:

2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Committed	£1.495m	£4.974 m	£6.251 m	0	£2.08 7m	£2.874 m	£4.435 m	£8.862 m	£5.112 m

Reduction in Total Borrowings

Based upon the 1.25% annual reduction of debt financing, Council's total borrowings over a ten year period were depicted in the graph circulated,

the red line indicating Councils borrowing limit which is currently set at £80m.

Based upon the 1.25% annual reduction of debt financing, the following is achieved:

- *Total borrowings are reduced to £50.79m by 2030.*

The Current Capital Programme

The current capital programme at stages 1 – 4 is listed below. Based upon the 1.25% annual reduction of debt financing, the programme is not affordable subject to the receipt of grant funding and capital receipts

Summary

Next Steps

The Director of Leisure and Development stated a further report would be presented to the Corporate Policy and Resources Committee, seeking Members approval to set:

- Working principles to be applied to the Capital Programme.
- The reduction of annual debt financing.
- The reduction of Council total borrowings.

Subsequently the Capital programmes will require prioritisation and re-profiling.

Councillor Holmes referred to historic capital project overspend and urged careful consideration of spend.

Councillor C McShane referred to the shared campus provision and European Funding granted and considered utilising external funding to benefit Council.

PwC representative queried whether Council was exposed to interest rate fluctuations and referring to Treasury Management, sought information on use of cash balance.

The Chief Finance Officer advised the vast number of loans were fixed term, those from the private sector were at variable rate therefore exposure was minimal. He advised the cash balance interest rate received was 0.25% therefore Council were not proactive in drawing down capital loans maintaining cash balances at a minimal level thereby saving in terms of interest payable.

In response to Councillor Scott, the Chief Executive confirmed affordability of projects was subject to finance.

The Director of Leisure and Development advised the Market Yard entry was required to be updated on the spreadsheet since the last Council meeting and that he would clarify the figure against Garvagh Forest and respond to Councillor C McShane.

The Director of Environmental Services advised the Magilligan Ferry entry was required to be updated on the spreadsheet. In relation to concern expressed by Councillor McCaw, the Director of Environmental Services advised of provision in 2022/23 of £180,000 for Portstewart Town Hall.

Councillor Knight-McQuillan stated exact costs for the lifespan of projects was required.

8. PWC FINANCIAL ADVICE

Confidential report, previously circulated.

PwC put the issue of Applied Balance/MRP and the Period 12 expected position to the Chief Finance Officer for comment. The Chief Finance Officer advised Period 9 had been issued to Heads of Service, any significant committed expenditure was to be raised with him to enable projections to be dealt with.

PwC representative put a number of questions to Officers, he referred to accruals, accountability and budget holders, and advised of a need for a quarterly updated view for the end of the year.

The Chief Finance Officer advised the year-end position had a number of assumptions, based on current performance and would build this into the management accounts reports.

Regarding reporting actual versus budget, PwC representative queried how this related to last year's expenditure, in order to understand the trends.

The Chief Finance Officer advised this was within the Head of Service summary in the context of the current year.

In relation to the year to date overspend, the PwC representative stated consideration should be made of where the additional overspend over the zero based budgeting was, for example, sickness and was there anything missed? He advised the management accounts could show a

tracker of the physical actions implemented in achieving operational efficiencies.

The Chief Executive advised he would bring a report to the next Finance Committee meeting.

Alderman Hillis questioned how the zero based budgeting in Sport and Wellbeing and within Operations had been exceeded.

The Director of Environmental Services outlined an under provision in Period 9 had been pulled back in Period 10 and the year-end position was less than the zero based budgeting predicted. In the absence of the Director of Leisure and Development, he advised Sport and Wellbeing was in a similar position, however, not to the same extent.

Councillor McCaw stated he was pleased with the dashboard and at the core was an external, verified, independent body and CIPFA.

Councillor Holmes sought information on the rationale for Council's overspend. The Chief Executive advised Council's PwC representative, having external oversight, could bring a report back.

PwC representative offered to meet with any Elected Member who wished to meet with him. He further advised there was a good level of engagement and formal sign off from budget holders.

Proposed by Councillor Holmes
Seconded by Councillor Callan and

AGREED – to recommend that Council approve the PwC Observations: February report and recommendations therein;
- to recommend that Officers bring a report to the next Finance Committee, detailing an explanation of events surrounding Council's adverse financial situation in period 12 of 2018/19 financial year.

9. ANY OTHER RELEVANT BUSINESS (NOTIFIED IN ACCORDANCE WITH STANDING ORDER 12 (O))

* **Director of Environmental Services left the meeting at 9.20PM.**

In accordance with Standing Order 12 (o) the following Elected Members gave notice of Items to be considered as AORB.

9.1 Coleraine BID (Councillor McCaw)

How much are the court and legal proceedings regarding Coleraine BID costing the Council?

Can officers confirm that the proposed dialogue meetings regarding Coleraine BID are going ahead and that a prompt resolution is being sought?

The Chief Finance Officer outlined Council's role within the GB Legislation regarding levy collection on instruction of Coleraine BID.

Elected Members sought an early resolution to the matter to restore public confidence.

The Chief Executive undertook to contact representatives from Coleraine BID.

* **Chief Finance Officer left the meeting at 9.45PM.**

9.2 Head of Service meeting Friday 13 December, Flowerfield (Councillor Holmes)

- *What was the rationale behind the HoS meeting held on Friday 13th December in Flowerfield?*
- *The following comments were made under financial situation: "situation is dire", "no evident plan in place to redress it", "decimate services", "issue not being dealt with and we are facing a major financial issue next year", "the financial crisis could destroy us", "4 year plans from the HoS to run the service", "When is anyone going to tell the Cllrs that we are broke?"*
- *In light of these comments, is there any information being held back from Cllrs that is known to HoS?*
- *Will these HoS meetings be continuing?*

The Chief Executive advised the meeting was not a routine Head of Service meeting, Heads of Service were concerned of the impact of ongoing issues on Directors and sought to see how they could help. He advised Chatham House Rules were applied, the minute was not maliciousness and that stricter application of Agenda items at Head of Service meetings and minutes were now in place.

Councillor Holmes requested the Chief Executive's response was recorded in relation to, '*any information being held back from Cllrs that is known to HoS?*', the Chief Executive replied, there was none that he was aware of.

In response to a comment in relation to staff performance reviews, the Chief Executive provided information on the timetable for Directors and Heads of Service.

MOTION TO PROCEED '*IN PUBLIC*'

Proposed by Councillor Knight-McQuillan
Seconded by Councillor Callan and

AGREED – to recommend that Council move '*In Public*'.

This being all the business, the meeting closed at **10PM**.

Chair