



RHONDDA CYNON TAF COUNCIL FINANCE AND PERFORMANCE SCRUTINY COMMITTEE
Minutes of the meeting of the Finance and Performance Scrutiny Committee held on Thursday, 26 September 2019 at 5.00 pm at the Council Chambers, The Pavilions, Cambrian Park, Clydach Vale, Tonypany, CF40 2XX.

County Borough Councillors - Finance and Performance Scrutiny Committee
Members in attendance:-

Councillor M Powell (Chair)

Councillor G Holmes Councillor W Lewis
Councillor J Williams Councillor J Cullwick
Councillor G Caple

Officers in attendance:-

Mr C Hanagan, Service Director of Democratic Services & Communication
Mr P Griffiths, Service Director – Finance & Improvement Services
Mr A Wilkins, Director of Legal Services
Ms S Davies, Head of Finance - Education and Financial Reporting
Mr S Gale, Director of Prosperity & Development

County Borough Councillors in attendance:-

Councillor M Adams

11 Declaration of Interest

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

12 Apologies

Apologies for absence were received from County Borough Councillors A. Fox, A. Davies- Jones, S. Bradwick, T. Williams, R. Yeo, G. Thomas, S. Rees- Owen and M. Diamond.

13 Minutes

It was **RESOLVED** to approve the minutes of the 23rd July as an accurate reflection of the meeting.

14 Treasury Management - overview session for all Elected Members

Airlingclose Ltd provided Members with training in respect of treasury management.

Members were provided with a summary of the Council's Loans as at 31/8/2019 and were reminded that the role of Elected Members is to set parameters in respect of the Council's borrowing strategy and to set limits on the Council's activities. Members were told that, as the long term interest rates come down, the Council will usually take the opportunity to borrow money from external sources. Airlingclose reminded Members that some of the Council's debt is legacy debt; however, this creates a good blend of fixed rate debt.

Councillor Cullwick raised a query in respect of the Council's total debt and sought clarification as to the total amount outstanding. Airlingclose confirmed that, as at the 31/08/19, the Council's total debt was £359,322,166. Members were reminded that whilst debt is a burden that has to be repaid, it also provides opportunities to invest in the Council's infrastructure and in doing so improve services and facilities available to local residents and businesses. It was emphasised that it is reasonable for a Local Authority to borrow money; however, the debt has to be affordable. Discussions continued and Councillor Caple queried whether there is a ceiling on the debt allowed by a Local Authority. Airlingclose emphasised that Members set the ceiling and that Officers will give Members a guide as to what is affordable.

Discussions continued in respect of RCT investments. Members were informed that RCT total internal investments amount to £17,040,000. Airlingclose advised the Committee that instead of borrowing and having reserves invested, the Council decided to decrease the amount of borrowing. It was emphasised that it is the responsibility of Elected Members to set the parameters around Council investments. Members were told that some Local Authorities are becoming more commercial; however, this borrowing is seen as high risk.

Airlingclose continued by advising Members in respect of the regulatory framework and the role of the Elected Member. Discussions began in respect of the daily use of treasury management. Members were reminded that treasury management is used by everyone on a daily basis and includes activities such as paying household bills. In respect of public bodies, every Local Authority should create and maintain a capital strategy, a treasury management policy statement, Treasury Strategy Statement, Treasury Management Practices, Non-Treasury Investment Practices and set Treasury Management Indicators (TMIs) for treasury risks. Every full Council should receive a Treasury Management Strategy and TMIs for the coming financial year as well as mid-year and end year reports. The Cabinet and Finance & Resources Committee decide the implementation of the policy, whilst the Chief Finance Officer carries out the execution of decisions. Scrutiny plays a key role by carrying out the checks and balances and this is done at the Audit Committee (e.g. as part of Internal Audit reviewing the Council's treasury management arrangements) as well as the Finance and Performance Scrutiny Committee.

Members were reminded that capital expenditure plans should be prudent, affordable and sustainable. Members were told that investments at a Local Authority level should consider security (i.e. the minimum risk of loss of invested monies), liquidity and yield. Airlingclose cautioned that the responsibility for borrowing, investments and risk management remains with the Authority and Elected Members.

Discussions continued in respect of the CIPFA Prudential Code for Capital Finance. Members were advised that CIPFA are the guidance body on Treasury Management and produce a guidance code in respect of Treasury Management activity; however, it was emphasised that the responsibility lies with the individual Local Authority. Members were told that the Welsh Government also produces guidelines on Local Government investments that state Local Authorities should prepare at least one investment strategy per year and the strategy must be approved by full Council and it can be amended subsequently and should also be published online.

Discussions continued in respect of the role of the Council and Elected Members. Members were advised that the role of the Council is to set the budget and capital programme, including debt and investment interest and Minimum Revenue Provision. Full Council must also approve the Prudential Indicators linked to Capital, approve the Treasury Management Strategy, the Treasury Management Indicators and receive mid-year and annual reports as a minimum.

In respect of Elected Members, the role of a Councillor is to decide the Council's appetite for risk and return, review policies/strategies, approve division of responsibilities, receive and review reports and to carry out effective scrutiny.

Discussions ensued in respect of current market projections. Members were informed that any movement by the Government in respect of Brexit would impact upon interest rates, for example, cuts to interest rates could result in further borrowing opportunities for the Council. Members were reminded that the stock movement in the USA, Germany and Europe could also determine low interest rates. The Local Authority's role is to manage exposure to interest rates in a secure way.

Following the presentation, Members were provided with the opportunity to ask further questions. Councillor Adams raised a query in respect of the future of interest rates in the UK. Airlingclose advised that due to the impact of Brexit and a slow-down in the USA economy, the forecast is for further cuts to be made to interest rates.

Discussions continued and Councillor Cullwick queried whether economic activity in China would have an effect on interest rates in the UK. Members were advised that the Chinese economy has gone through a period of rapid expansion; however, there are concerns in respect of the level of debt that China is incurring and this could potentially result in a

long period of low interest rates for the UK economy.

In respect of the Chinese economy, Councillor Adams queried the effect on the UK economy if China were to default on their borrowing activities. Airlingclose advised Members that when there is a slow-down in the economy, there would be an increase in the number of companies defaulting. Airlingclose assured Members that the Council has minimal exposure to companies who are likely to default.

Councillor Caple raised a further query in respect of the benefit for pension funds for infrastructure investments. Airlingclose advised that this would potentially benefit the pension fund; however, it is not their area of expertise.

Discussions continued and Airlingclose pointed out to Members an example of the key questions that they should be asking in respect of Treasury Management. This included questions such as how investments are prioritised and is the Council's borrowing affordable.

The Chair raised a further query in respect of the impact of Brexit on currency fluctuation. Members were advised that the biggest impact on the British pound came after the 2016 Brexit referendum result and that the impact from Brexit had already been priced into the market.

The Chair concluded the discussion by thanking Airlingclose for providing Members with such a detailed training programme. The Chair asked Airlingclose if the presentation slides could be distributed to Members following the meeting.

Following discussion, Members **RESOLVED** to acknowledge the information in respect of Treasury Management.

15 Treasury Management Annual Report 2018/19

The Head of Finance - Education and Financial Reporting presented the report of The Director of Finance and Digital Services in respect of the Annual Treasury Management Review, which had been presented to Council on the 31st July 2019 (attached to the report at Appendix 1).

Following the observations made by the Head of Finance – Education and Financial Reporting, Committee raised a number of questions in respect of the report.

Councillor J. Williams commented that the training provided by Airlingclose had been really useful to have prior to receiving the annual Treasury Management Report. Discussions continued and Councillor Cullwick queried the increasing percentages in respect of the Council's debt. The Head of Finance - Education and Financial Reporting advised Members that the debt in the portfolio was taken a while ago and reassured Members that the Council continuously monitors its

maturity portfolio.

A further query was raised by the Chair in respect of a fall in unemployment figures and an increase in wages. The Chair questioned whether these figures were misleading as they were not providing any real benefit to the economy. The Head of Finance - Education and Financial Reporting advised Members that the statistics aim to provide contextual information for the economy as a whole and that within this the Council continues to take a low risk strategy to ensure exposure to any capital loss is minimised.

Discussions continued and the Chair sought clarity on the decreased borrowing requirement of £45.1M during the year largely as a result of re-profiling 21st Century Schools schemes. The Head of Finance - Education and Financial Reporting advised Members that the three year Capital Programme is set based on a number of assumptions, including the timing of expenditure on multi-million pound projects. The Head of Finance went on to indicate that the robust project and financial management arrangements in place identify changes to assumptions during the year that are then subsequently used to refresh borrowing requirements. The Head of Finance added that the decrease in borrowing requirement during the year has not impacted on the delivery of schemes.

Following consideration of the report, Members **RESOLVED** to acknowledge the information contained within the report.

16 Food Register Working Group update

The Chair of the Food Register Working Group, Councillor J. Williams, presented the report to Members, which provided the findings and recommendations of the Food Register Working Group.

The Service Director of Democratic Services and Communication reminded Members that subject to their agreement, the report will be presented to the Cabinet and subsequently to full Council.

Following discussion, Members **RESOLVED** to acknowledge the recommendations of the Scrutiny Working Group.

17 Engagement on the Council's Budget 2020/21

The Service Director of Democratic Services & Communication presented the report to Committee in respect of the approach to resident engagement and consultation for the 2020/21 budget and updated Corporate Plan 2020-2025.

Members were informed that the approach taken over the last few years has led to increased engagement in the budget setting process through a more interactive and varied approach.

The proposed approach for the 2020/21 budget consultation seeks to

continue the positive approach, by ensuring that all residents and service users have every opportunity to provide feedback, via a wide range of methods, on the 2020/21 budget and also on the updated Corporate Plan. The Service Director of Democratic Services & Communication advised Members that the consultation would be presented to senior officers and Cabinet Members later in the financial year for their deliberations.

Members were then provided with the opportunity to ask questions. Councillor J. Williams began by referencing last year's consultation in respect of the budget and emphasised that some questions last year were ambiguous and lacked clarity. The Service Director of Democratic Services & Communication advised Members that the Committee's feedback has been noted and will be taken account of as part of seeking the Committee's views on the 2020/21 budget. The Service Director went on to indicate that the wording of public facing budget consultation questions will need to continue to be written clearly and set complex questions in an easy to understand way to ensure it can be completed by a wide range of external stakeholders. The Service Director added that the Council's approach to public facing budget consultation has a proven track record of attracting increasing numbers of respondents alongside high quality responses, and expressed on-going appreciation to all those who have taken part in recent years. Discussions continued and the Chair queried whether the Council engages with secondary schools in respect of the budget. The Service Director of Democratic Services & Communication confirmed that the Council does engage with schools and emphasised that a variety of methods are used during the consultation process.

Following discussion, Members **RESOLVED:-**

1. To acknowledge the proposed approach in respect of resident engagement and consultation of the 2020/21 budget and updated Corporate Plan 2020-21;
2. To support that the Council's statutory requirements regarding consultation on the Council Tax Reduction Scheme and Council Tax levels will be met via the proposed new approach; and
3. To agree that the Service Director Democratic Services & Communication reports the comments and observations of the Committee to the Cabinet when agreeing the budget strategy for 2020/21.

18 Community Infrastructure Levy ('CIL')

The Director of Prosperity and Development presented his report to Members to seek Committee's comments to be forwarded onto Cabinet in respect of the contents of the CIL Annual Monitoring Report.

In accordance with the Community Infrastructure Levy Regulations 2010 (as amended), the Director attached to his report at Appendix A the CIL Annual Monitoring Report detailing the CIL income and expenditure.

Members were informed that CIL receipts have been relatively low over the past four years of its implementation. This is partly as a result of development being undertaken in the first few years of implementation of the Council's charging schedule being granted planning permission prior to CIL being implemented.

Members noted that for those significant sites in CIL residential Charging zones 2 and 3 that are not already built or already benefiting from planning permission there are a few strategic sites that should be forthcoming in the near future. The Director advised Members that there are also a small number of sites that are unlikely to come forward in the near future due to significant deliverability and viability concerns. The Director proposed to undertake a full review of the operation of CIL as part of the forthcoming review of the Council's Local Development Plan.

Whilst some amendments are needed to the Council's updated Regulation 123 List, the broad thrust of the List remains the same in that it proposes highway and education projects that support and mitigate the growth anticipated through the Council's Local Development Plan. It was emphasised that the minor changes are considered appropriate to assist in funding schemes that support growth in the County Borough.

The Director of Prosperity and Development advised Members that, subject to receipt of legal advice, it is recommended that an additional CIL policy be introduced from 1 January 2020 whereby the Council will not apply CIL to any domestic extension. A CIL liable extension application involves checking the CIL form is completed correctly, measuring floor plans, updating back office systems, issuing notices and responding to queries, together with monitoring the CIL liable extensions for commencement of work, which is undertaken on a quarterly basis. Given that since the implementation of CIL in RCT, no CIL has been received to date from residential extensions; this is not an effective use of officer time and does not represent value for money for Council Tax payers. In addition to the cost placed on the Council, the requirement places a burden on applicants as they are required to complete an additional form at the time of submitting their planning application and apply for CIL exemption prior to commencing work on site just for a house extension that in most cases places no additional burden on strategic infrastructure. It was emphasised that the officer time saved will outweigh any potential CIL Levy received.

Members were subsequently provided with the opportunity to ask questions. Councillor Cullwick queried whether CIL is likely to increase in the next year. The Director of Prosperity and Development confirmed that there have been more residential developments since CIL was introduced and the Council are hopeful that CIL receipts will increase. A further query was raised by Councillor Cullwick in respect of the effect of CIL on tourism in the County Borough. The Director of Prosperity and Development advised Members that tourism and infrastructure will need

to be accounted for in the Local Development Plan, however, it was emphasised that if Members want to amend any items in the 123 List then they can make this recommendation to the Cabinet.

Discussions continued and Councillor J. Williams requested that Members receive training in respect of CIL. The Director of Prosperity and Development confirmed that this could be arranged.

The Chair raised a further query in respect of homeowners who build their own homes. The Chair queried whether CIL could be applied retrospectively. The Director of Prosperity and Development confirmed that if anything is done retrospectively, then the homeowner would be liable to pay CIL. The Local Authority could arrange for favourable repayment terms, however, there is no flexibility in terms of CIL.

Councillor Adams queried whether VAT could be claimed back on a self-build property and suggested that that the Council should be doing more to promote this on its website.

The Director of Prosperity and Development informed Members that, subject to legal advice, Members are being asked to endorse the approach that Community Infrastructure Levy (CIL) should no longer be applied to residential extensions and approve the exceptional circumstances policy for domestic extensions. The Director of Legal Services advised Members that if approved, recommendation four would be passed subject to the appropriate legal advice.

Following discussion, Members **RESOLVED**:-

1. To approve the CIL annual monitoring report;
2. Approve the amended Regulation 123 List (Appendix B) for publication on the Council website for a period of 28 days and consultation as set out in paragraph 5.9;
3. Approve the subsequent adoption of the amended Regulation 123 List; and
4. To endorse the approach that Community Infrastructure Levy (CIL) should no longer be applied to residential extensions and approve the exceptional circumstances policy for domestic extensions, subject to the appropriate legal advice being received.

19 Information Report

The Chair referenced the information reports (as listed below), which were available through the 'RCT Scrutiny' website.

- Worklessness and Community Based Employment Support.

This meeting closed at 6.15 pm

**CLLR M. POWELL
CHAIR.**