SCHEDULE OF ITEMS RECOMMENDED FROM COMMITTEES AND OTHER MEMBER BODIES

Committee: Council

Date: 12 July 2018

Author: Adrian Scaites-Stokes, Democratic Services Officer

[T46]

Member Body	Report No.
1. RESOURCES AND FINANCE COMMITTEE – 18 JUNE 2018	
2017/18 Treasury Operations Annual Performance Review	**Draft Minutes**
The Committee considered a report (reference T28, previously circulated) which summarised the Council's Treasury operations during 2017/18. The Finance Manager highlighted the interest received during the financial year of £208,050, which was £108,050 above the budget of £100,000. This figure was made up of £69,894 from investment in money markets and £138,156 from the Loan to ECTC and equated to an average interest rate of 0.387% across the year.	**T28 (attached at Appendix A)**
There being no comments made or questions asked,	
It was resolved to RECOMMEND TO COUNCIL:	
That the report on the Council's treasury operations during 2017-18, including the prudential and treasury indicators as set out in Appendix 1 be approved.	

2. SHAREHOLDER COMMITTEE – 28 JUNE 2018	
<u>Future Role of the Shareholder Committee</u> The Committee considered a report, reference T40, previously circulated, that detailed proposed revisions to the roles and terms of reference of the Shareholder Committee. The Chief Executive advised the Committee that the intention of the report was to obtain a recommendation from the Committee to full Council. The role the Shareholder Committee had changed for a number of reasons. The Trading Company had been established in 2016, but since then there had been some significant developments, including its own operation and the subsequent establishment of another company. This had been needed to ensure a teckal compliant company could take on the waste service, as the work of the Trading Company had expanded. This had been more than expected, particularly the work related to Community Land Trusts (CLTs). The Council needed to be flexible to take advantage of commercial opportunities. It was looking for loans to enable its work to take place, with wider loans from the Cambridgeshire and Peterborough Combined Authority part of its plan. The Trading Company's work delivering key schemes had started to attract interest, both from within the district and beyond. It was fair to say that the current arrangements with the Committee were not entirely satisfactory. This was not a surprise, given the new Committee and the fast moving agenda. Consideration would be given on how relevant information could be presented to the Committee. The current arrangements were overly prescriptive, did not allow for a focus on the work being done nor the strategic risks and were not fit-for-purpose. This placed constraints on the companies where flexibility to operate was essential. Therefore there was a requirement to revise the Committee's terms of reference and Appendix 1 set out proposals for that. The Shareholder Agreements also needed updating and this were set out in Appendix 2. Thanks were offered to the Legal Services Manager for her assistance in drawing up those documents. For the first time a Modus Operandi was proposed, as set out in Appendix 3, to make clear the principles of how the arrangements would work. An amendment to Appendix 3 was recommended, to highlight that lessons learnt from	**Draft Minutes** **T40 (attached at Appendix B1)** **Includes Appendices to T40, <u>as amended</u> subsequent to Committee meeting (attached as Appendices B2, B3, B4 and B5.** **N.B.** **A summary of the Committee's amendments are included on the last page.**

completed projects and appropriate recommendations could be made for the future.

Councillor Mike Bradley thought it appropriate that a review be considered as the Committee was a year old. Some Members had been unhappy with how the Committee was working. The recommendations would allow the Committee to act more like an overview and scrutiny committee. As the Combined Authority had lent some money for the Haddenham CLT, but some Combined Authority Members had concerns about that funding. These are issues that the Committee should look at before the event and therefore become more pro-active. This would result in the Committee being able to go to Council with relevant recommendations. Appendix 3 set out the principles of how the Committee would work.

Councillor Bradley asked that there be some consistency with the documents when using acronyms of the companies involved.

Councillor Alan Sharp thought that the Committee had focussed too much on operational matters in the past, but should be considering risk managements and be a 'critical friend'. The Committee had to fill two roles on behalf of Council, by looking in detail and putting forward helpful suggestions plus it was also important to review projects.

Councillor Lorna Dupré was hearing different descriptions of the Committee and stated it was not an overview and scrutiny committee, as it could not call in any decision made by the companies. If it was a project team then it was not clear how the Committee was that way involved. It was also not the role of the Committee to champion the Trading Company. Therefore Appendix 3 did not give a clear indication what the Committee's role should be.

Councillor David Chaplin reckoned that the Committee's two roles were to represent and protect the Council and also to act as a critical friend to the companies. These two responsibilities had to be kept separate, which would be difficult. The Committee should not have to delve into details but needed to know the processes in place and how matters were dealt with. The Committee's work principles needed to be looked at and any potential conflict dealt with.

There was no surety that the report could be recommended to Council as it stood. For example, there were concerns relating to section 6.1.18 in reference to borrowing powers.

This was a challenge for the Committee as both its roles were crucial. He also proposed a rewording of Appendix 3. The Chief Executive acknowledged that Members had expressed fundamental changes to Appendix 3. All Members would have a chance to look at this again when it was presented to full Council. The other two recommendations could be made and exclude Appendix 3. An alternative could be drafted, in consultation with the Committee Chairman, and brought to Council. The Committee were content with that suggestion. Councillor Lorna Dupré expressed concern that it appeared clear that the role of the Committee was being closed down. It appeared odd that the Shareholder Committee could sign off the business plan but not for any amendments to it. The proposed terms of reference withdrew whole areas of discussion including review of future service developments, entering outside business arrangements or loans. The proposed annual shareholder meeting gave no information on the information that would be provided or any suggestion on what business would be discussed by full Council. It seemed that only risk assessments would be discussed. It was assumed that members of the companies' boards would be excluded from that meeting, due to a conflict of interest. The Chief Executive explained that the annual meeting was intended to reflect how the commercial operation of the companies was working. All Members would be given details of the business operations and would allow them to be fully briefed. It would also assist Members to appreciate the risk assessments. The annual meeting would provide relevant information and more details could be presented to this Committee if required. Councillor Mike Bradley thought the annual meeting could allow consideration of business opportunities and set out what the companies aimed to achieve. Information would also be given to Members on what was happening. Councillor David Chaplin considered it nonsense that the Committee could veto proposed business plans but not any amendments to them. Steps should be in place to ensure that the Shareholder Agreements were adhered to. The Agreements were the mechanism the Committee used to carry out its work. There was also a duplication in work, as the Constitution should not copy the information of the Agreements.	

The Chief Executive stated that he had been over-cautious and acknowledged that is did replicate the Shareholder Agreements. This could be changed in accordance with Councillor Chaplin's suggestion. Councillor Alan Sharp asked how Members could delve into the accounts, as only a summary would be provided. Could this be accomplished during a Committee meeting or could information be set out afterwards? The companies completed their accounts on a monthly basis, so they should be presented to the Committee quarterly. The Committee was not there to manage the finances of the companies but should be given quarterly information. Councillor Mike Bradley did not believe that this would limit what the Committee could do, as it could look at the accounts. The Committee was reminded that it received copies of the Boards' minutes, so nothing was hidden. The Committee should not get lost in the details but Members could raise issues. In response to Councillor Lorna Dupré's queries, the Legal Services Manager confirmed that the Boards could not make any decisions on matters reserved for full Council but the removal of certain matters meant that the Boards make decisions on those issues. Councillor Dupré thought that consequently the Committee had no right to discuss some matters but would only be given information on progress against the business plan and a summary of accounts. Seeking to investigate these matters further would be ultra vires, as the decisions were entirely the responsibility of the Boards. The Chief Executive reminded the Committee that it would still receive reports and the proposed Agreements were much wider ranging. Paragraph 3.3 allowed the Committee to bring the companies to account, as set out in the Agreements. Councillor Lorna Dupré, in reference to the Agreements paragraph 2.2, questioned the wording "in line with the coming financial year" relating to the circulation of the companies' business plans. The document needed to be more specific and give a reasonable timescale. Paragraph 3.4, did the reference to the Shareholder Committee Members mean corporately or individually? The words "Members of" should be removed to clarify the intention. Paragraph 5.7, it was noted that the requirement to supply board agendas and papers had been deleted. Councillor Dupré could not recall ever having received such papers.	

There was some surprised that this had been taken out and this should be re-instated, to give the Committee a view of what was going on. The Committee had a clear right to access these and needed to know when the board meetings were being held. The Chief Executive stated that the circulation of the business plans happened at the end of December, whereas the new proposal meant that they could be provided at any time, which gave some flexibility. The reference to discussing matters meant corporately rather than individual Members. Councillor Mike Bradley agreed that the request of board papers was reasonable but regular documents were received regularly. Extra information could be obtained if wanted. The Chief Executive acknowledged that the terms of reference needed looking at again, to simplify them. The remit of the Shareholder Committee was wide and there had been no intention to reduce the information available to it. The aim would be to provide information on strategy risks prior to implementation, which the companies had to provide. Councillor Mike Bradley stated that there was no intention of not providing information but had to accept that it would not be exhaustive. If Members wanted specific information this could be obtained. However, he did not wish for Members to receive lots of information that they did not need, or want, to see. The right information had to go to the right people. Councillor David Chaplin put a request in for information to be sent electronically. He had no wish to see monthly board papers and would be happy with a quarterly report. It was not the job of this Committee to run the companies and any attempt to so do would be a distraction for the boards. Other members could receive additional papers if they so requested. There had to be some awareness should any joint venture with an outside body agreed by the trading company be a problem for the Council. Councillor Lorna Dupré then requested to see all monthly papers and promised not to bombard the boards with queries. The Committee Members should resume the right to exercise due diligence. The Committee should focus on and scrutinise the bigger issues. However, some of these could come from smaller issues.	

The Chief Executive agreed to add the wording "on request" to paragraph 5.7. The purpose of that clause was to focus more on risk assessments. This would be a new way of working and it would have to be seen how it worked out. The Committee was reminded that the Chairman could call an extraordinary meeting should any major concerns arise. This would also allow the board to approach the Chairman for the same reason. It would be entirely appropriate for Members to raise issues should any joint ventures cause concerns.

The Chief Executive agreed to revise the terms of reference and agreements in line with comments and suggestions raised by the Committee. He amended the recommendations by including "Amended in consultation with the Chairman of the Shareholder Committee" and removing the word "endorse" from paragraph 2.1 (iii). This was duly proposed and seconded and, when put to the vote, was declared carried.

It was resolved to RECOMMEND TO COUNCIL:

As amended in consultation with the Chairman of the Shareholder Committee:

(i) The revision to the terms of reference of the Shareholder Committee detailed in Appendix 1;

(ii) The revisions to the Shareholder Agreements detailed in Appendix 2;

(iii) The 'modus operandi' detailed in Appendix 3.

APPENDIX A

TITLE: 2017/18 TREASURY OPERATIONS ANNUAL PERFORMANCE REVIEW

Committee: Resources and Finance Committee

Date: 18th June 2018

Author: Finance Manager

1.0 ISSUE

1.1 To report on the Council's treasury operations during 2017/18

1.2 The report reviews the Treasury Management activity during the financial year 2017/18 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.

1.3 Investments totalled £4,850 million as at 31 March 2018, a decrease of £12.09 million on the previous year. The Council's cash investments are all for periods of less than one year.

1.4 Interest received during the financial year was £208,050, which was £108,050 above the budget of £100,000. This figure is made up of £69,894 from investment in money markets and £138,156 from the loan to ECTC. The investments in money markets generated an average interest rate of 0.387% across the year.

1.5 The rate of return on cash investments held as at 31st March 2018 (this excludes the loan to ECTC) was 0.384%. This was above the benchmark three month LIBID (London Inter-bank Bid Rate) which was 0.286% on that day.

2.0 RECOMMENDATION

2.1 Members are asked to note the contents of the report and recommend to Full Council approval of the report on the Council's treasury operations during 2017-18, including the prudential and treasury indicators as set out in Appendix 1.

3.0 BACKGROUND/INTRODUCTION

3.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.2 During 2017/18 the minimum reporting requirements were that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (received by Council on the 23rd February 2017);
- a mid-year treasury update report, (this was approved by Resources and Finance Committee on 30th November 2017 and went to Full Council on the 4th January 2018);
- an annual review following the end of the year, describing the activity compared to the strategy (this report).

3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.4 This Council confirms that it has complied with the requirement under the Code, to give prior scrutiny to all of the above treasury management reports by the Resources and Finance Committee, before they were reported to the Full Council.

3.5 No member training on treasury management was undertaken during the year.

4.0 THE ECONOMY AND INTEREST RATES

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the up-side with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth picked up modestly in the second half of 2017. Consequently, market expectations, during the autumn, rose significantly that the Monetary Policy Committee (MPC) would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September 2017 indicated that the MPC was likely to raise Bank Rate very soon. The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

5.0 OVERALL TREASURY POSITION AS AT 31ST MARCH

5.1 At the beginning and the end of 2017/18 the Council's treasury position was as follows:

	31 March 2017	31 March 2018
Total debt	***£0.00 million***	***£0.00 million***
Total investments	***£16.94 million***	***£4.85 million***

6.0 THE STRATEGY FOR 2017/18

6.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6.2 In this scenario, the treasury strategy was to avoid as far as possible external borrowing in 2017/18 therefore avoiding the cost of holding higher levels of investments and to reduce counterparty risk.

6.3 During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

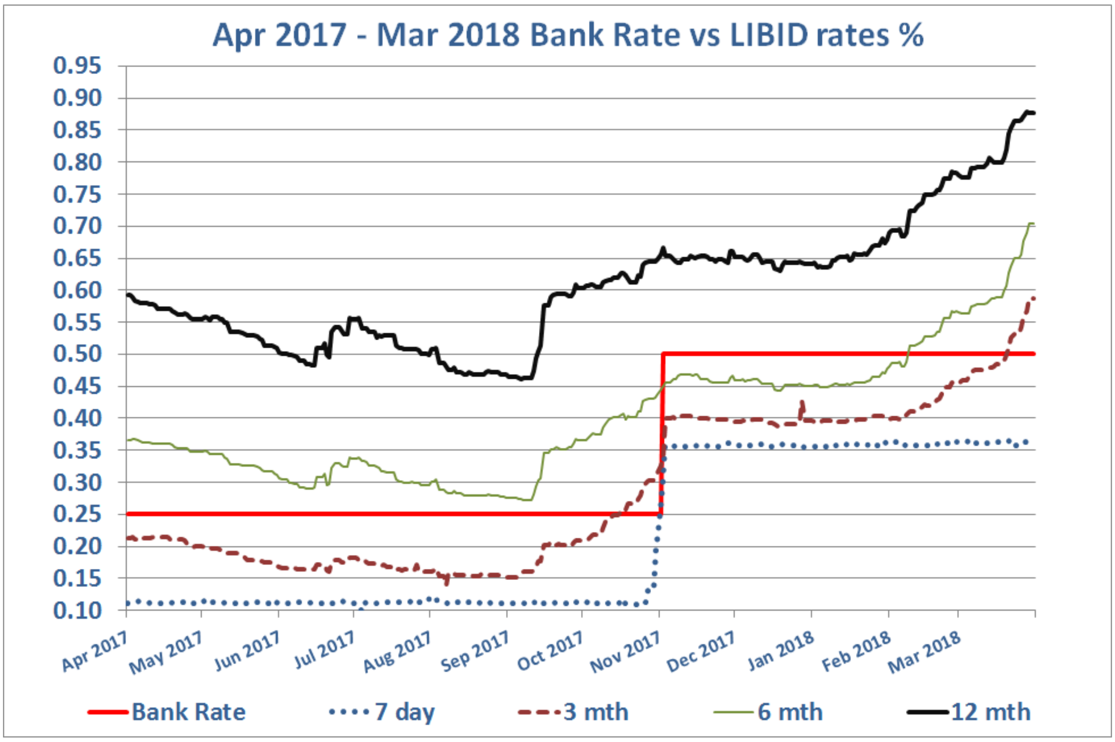
6.4 No external borrowing was therefore planned for 2017/18.

7 THE BORROWING OUTTURN 2017/18

7.1 No external borrowing was undertaken during 2017/18.

8 INVESTMENT RATES IN 2017/18

8.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.



9 INVESTMENT OUTTURN FOR 2017/18

9.1 Investment Policy – the Council's investment policy is governed by DCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 23rd February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 Investments held by the Council - the Council had an average balance of £18.069 million of internally managed funds through the year. The internally managed funds earned an average rate of return of 0.387%.

10 CONCLUSIONS

10.1 The size of the Council's investment portfolio is relatively small. Meaning that investment decisions have to be made primarily to accommodate cash flow requirements as opposed to optimising investment returns. Despite these pressures, opportunities for some pro-active investment decisions were taken when available, with a move to more fixed term investments and away from overnight accounts.

10.2 During the financial year the Council operated within its approved treasury limits and prudential indicators.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2016/17	2017/18	2017/18
Extract from budget report	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure	£4,594	£15,434	£15,875
Ratio of financing costs to net revenue stream (loss of interest as a consequence of reduced net reserves)	0.18%	0.32%	0.45%
Gross external debt	£0	£0	£0
Capital Financing Requirement	£2,448	£13,038	£13,167

2. TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
borrowing	£5,000	£5,000	£10,000
other long term liabilities	£0	£0	£0
TOTAL	£5,000	£5,000	£0
Operational Boundary for external debt			
borrowing	£0	£0	£0
other long term liabilities	£0	£0	£0
TOTAL	£0	£0	£0
Actual external debt	**£0**	**£0**	**£0**

Money market investment rates 2017/18

	7 day	1 month	3 month	6 month	1 year
1/4/17	0.111	0.132	0.212	0.366	0.593
31/3/18	0.364	0.386	0.587	0.704	0.878
High	0.366	0.390	0.587	0.704	0.879
Low	0.099	0.122	0.140	0.273	0.461
Average	0.215	0.233	0.286	0.401	0.606
Spread	0.267	0.268	0.447	0.432	0.418
High date	27/2/18	22/3/18	29/3/18	29/3/18	28/3/18
Low date	4/7/17	10/8/17	7/8/17	7/9/17	6/9/17

FUTURE ROLE OF THE SHAREHOLDER COMMITTEE

Committee: Shareholder Committee

Date: 28 June 2018

Author: Chief Executive and Legal Services Manager

[T40]

1.0 ISSUE

1.1 Proposed revisions to the role and terms of reference of the Shareholder Committee.

2.0 RECOMMENDATIONS

2.1 Members are requested to recommend to Council:

(i) revision to the terms of reference of the Shareholder Committee detailed in Appendix 1;

(ii) revisions to the Shareholder Agreements detailed in Appendix 2;

(iii) endorse the ‘modus operandi’ detailed in Appendix 3.

3.0 BACKGROUND

3.1 The Council on 7 January 2016 (ref: Agenda Item 12) agreed the establishment of the East Cambs Trading Company (ECTC) and on 4 January 2018 (ref: Agenda Item 9c) agreed the establishment of the East Cambs Street Scene Limited (ECSSL).

3.2 The approval to the establishment of ECTC included the agreement of a Shareholder Agreement which sets out the responsibilities of the Shareholder Committee and reserved matters for Council. A subsequent Shareholder Agreement was agreed for ECSSL which largely mirrored the ECTC one.

3.3 The Council revised its arrangements for the Shareholder Committee on 11 April 2017 (ref: Agenda Item 10) to establish a standalone Committee.

4.0 ARGUMENT/CONCLUSIONS

4.1 Since the establishment of ECTC and subsequently ECSSL, there have been a number of developments which necessitates a review of the shareholder arrangements within the Council and together with feedback from members during the first year of the standalone committee.

4.2 There have been significant developments since the inception of ECTC in January 2016, specifically:-

- the requirement to establish a teckal compliant company to receive the new waste and recycling service from the Council;
- the expanding property development role of ECTC requiring the formation of an additional teckal compliant company;
- the ambitions of the Council's housing building programme especially Community Land Trusts highlighting a revised risk profile, requirements for additional external funding sources and flexibility required to take advantage of commercial opportunities;
- the development of the Combined Authority including as a source of loan capital and partnership working;
- the track record of delivery is now attracting significant interest and widening the possibilities of further investments;
- the scope and ambition of the trading companies have accelerated significantly to ensure the Council delivers its ambitions and meets its long term financial strategy.

4.3 A number of issues have been raised formally and informally in relation to the current arrangements for Shareholder Committee, specifically:-

- focus on minor operational issues at the expense of strategic risk assessment;
- lack of clarity of the role of the Shareholder Committee;
- member concern over the presentation of information, particularly in relation to financial matters.

4.4 From the perspective of the Board, there are a number of issues which can inform the debate on the future relationship between the companies and the shareholder, specifically:-

- the Shareholder Agreement is overly prescriptive and onerous on both the company and the Shareholder Committee, particularly in terms of reporting arrangements;
- the formality of the Shareholder Committee and the requirements of the Shareholder Agreement does not lend itself to a genuine sharing of key information, particularly in relation to strategic risk;
- the current arrangements may well have been 'fit for purpose' in the early years of the start up of the company but need to be revisited in light of the dynamic environment in which it operates;

- the shareholder agreement places unreasonable constraints on the operation of the companies, specifically in relation to human resources matters and opportunities for accessing loan finance.

4.5 It is recommended that there be revisions to the current terms of reference of the Shareholder Committee (See Appendix 1) and shareholder agreements (Appendix 2), both of which require Council approval. In addition, to reflect a new way of working, a draft ‘modus operandi’ is attached as Appendix 3 for member consideration, which would append the terms of reference. These proposals do not affect the current client side responsibilities of Policy Committees to agree and monitor Service Delivery Plans.

5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

5.1 There are no direct financial implications arising from this report at this stage.

5.2 Equality Impact Assessment (INRA) not required.

6.0 APPENDICES

6.1 Appendix 1 – Revisions to Terms of Reference
Appendix 2A – Revisions to Shareholder Agreement (Tracked) ECTCL
Appendix 2B – Revisions to Shareholder Agreement (Tracked) ECSSL
Appendix 3 – Modus Operandi

Background Documents	**Location**	**Contact Officer**
	Room 103	John Hill
Council 7 January 2016	The Grange	Chief Executive
Agenda Item 12	Ely	(01353) 616271
		E-mail: john.hill@eastcambs.gov.uk
Council 4 January 2018		
Agenda Item 9c		