

Present: Councillor Jonathan Noble (Chairman), Councillor Tom Ashton (Vice-Chairman), Councillors Richard Austin BEM, George Cornah, Anne Dorrian, Stephen Woodliffe and Mr Alan Pickering

Officers –

Chief Finance Officer and S151 Officer, Transformation & Governance Manager, Head of Internal Audit (City of Lincoln Council), Principal Auditor (City of Lincoln Council) and Senior Democratic Services Officer

Guests:

Dan Willson of Link Asset Services

Tom Dorey, Head of Real Estate Product, Schroder UK Real Estate Fund (SREF)

24 MINUTES

The minutes of the Committee's last meeting, held on 16th September 2019, were agreed as a correct record and signed by the Chairman.

Guests:

Dan Willson of Link Asset Services

Tom Dorey, Head of Real Estate Product, Schroder UK Real Estate Fund (SREF)

25 APOLOGIES

None.

26 DECLARATION OF INTERESTS

None.

27 PUBLIC QUESTIONS

None.

28 FUND MANAGER PRESENTATION

Dan Willson of Link Asset Services introduced this first session of the Committee's review of the performance of the Council's property fund investments. Mr Willson reported that the third quarter figures released recently were in the 0.4 – 0.7% range, with most from the income element of the portfolios. There was quite a range, with the best performance 6.5%, down to 2.5%. The Committee should ask the property fund managers what were the prospects going forward. The current economic situation remained very challenging; industrial and offices were holding up, but retail warehousing was still under stress. The main factors were the future of the UK economy, which had slowed down, and the possibility of profound implications following the General Election, and the world economy.

In response to questions, Mr Willson that it would be beneficial for there to be some progress regarding Brexit and for it to happen as quickly as possible because of the

effect of uncertainty. The transition phase was due to end in 2020 and if that was extended it would lead to even more uncertainty. Interest rates might well be cut; it was a very difficult situation and a withdrawal agreement would only remove one of many hurdles.

Tom Dorey, Head of Real Estate Product, Schroder UK Real Estate Fund (SREF), then addressed the meeting.

A SREF update document for November 2019 was circulated to Members that included a business and market overview; the team and performance; and the investment process and portfolio management.

SREF had met their performance objective of a total return of ½ % above the weighted average index return over three years. There was uncertainty in the market, but the decision had been taken some years previously to position the fund cautiously due to economic slowdown. It was considered that the retail sector would continue to underperform and that others would hold up. The industrial sector included managed office space, but careful consideration was given to the nature of the occupancy and there was no managed office space in the SREF portfolio.

Mr Dorey spoke of the high quality of the portfolio, the SREF team and the governance processes in place. The performance history, illustrated in the update document, showed a good long-term return due to the choice of the right assets and their effective management. Risk considerations were set out in the report and Mr Dorey went through these, explaining that a key factor was ensuring that all parties involved were treated fairly, whether they were leaving or remaining in the fund, and this limited liquidity.

SREF's investment approach incorporated a clear strategy and a disciplined investment process with integrated sustainable investment. Security of income and income growth were key. The portfolio's defensive positioning was underweight relative to the benchmark in terms of core central London offices and the retail sector, which was positive. Also development exposure was low, as there was only one development underway. The quality of investments was very good and research underpinned the SREF investment approach.

Mr Dorey described several key elements of the portfolio, as set out in the update document, which included ownership of the whole of the town centre of Bracknell, Berkshire, where lettings were positive due to its low price compared to Reading; Wenlock Works, London N1; and a premier leisure destination with strong sustainability credentials at Mermaid Quay, Cardiff.

[Councillor George Cornah left the meeting at 7.15 pm]

In response to questions, Mr Dorey confirmed that the 3-month share redemption period could be in addition to the 24 months contractual period and, therefore, a redemption could take up to 27 months potentially. The investment was as well-positioned as it could be in view of implications relating to the outcome Brexit negotiations.

Mr Dorey added that if Members wished to be added to the mailing list, they could advise Mr Willson.

Members thanked Mr Dorey for a comprehensive and reassuring presentation. It was remarked that the investment was as risk-averse and with as useful a yield as was possible.

29 QUARTER 2 RISK REPORT

The Transformation & Governance Manager presented the Quarter 2 Risk Report, containing details of risks for the period 1 July to 30 September 2019 and the annual review of strategic risks.

There were no new strategic risks to report in Quarter 2 and *housing* and *budget* remained the two highest risks.

Strategic risks would normally be reviewed annually in Quarter 1. However, this had been deferred to coincide with the development of the new Corporate Plan, as the corporate priorities were the foundation for the identification of strategic risks. In light of the decision to review the Corporate Plan timetable following the recent peer review, it was considered appropriate to carry out an interim review of the strategic risks in Quarter 2.

The Corporate Management Team had reviewed the risk wording, scores, actions and assurance and amendments were highlighted in bold in Appendix A and were summarised as follows:

- Welfare risk: actions updated
- Town Centre risk: wording and actions updated
- Budget risk: wording and actions updated
- Transformation risk: actions updated
- Brexit risk: lead officer updated
- No changes to risk scores or assurance

The Committee was invited to comment on the current risks in Appendix A and identify any new risks. There would be opportunity to consider emerging issues (for example, climate change after the working group's report has been debated by Council) in future quarters.

Members' debate included the impact on the risk to the town centre from car parking charges and online shopping.

30 MID-YEAR TREASURY REPORT 2019/20

The Chief Finance Officer presented the Mid-Year Report on the Council's Treasury Management Strategy Statement and Annual Investment Strategy.

The report covered the following areas, as set out in Appendix 1:

- An economic update for the first six months of the 2019/2020 financial year
- The outlook for the remainder of the financial year along with interest rate forecast
- A review of the Treasury Management Strategy and Annual Investment Strategy

- The Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2019/20
- A review of the Council's borrowing strategy for 2019/20

The report referred to a key element of the Council's Governance Framework and, therefore, represented an important contribution to the evidence trail in support of the Annual Governance Statement 2019/20.

At 30 September 2019, the Council held £16.760m in cash investments (£11.268m at 31 March) and £20.428m in property funds (£20.627m at 31 March).

The Council budgeted to receive £711,000 (£911,000 gross, with £200,000 of property fund management fees) in investment income in 2019/20 comprising £619,000 from Property Funds and £92,000 from cash investments (Property Fund Income included in the original budget was based on its net position i.e. Gross Returns less Management Fees). Future years' budgets and reports would show the gross position for income returns with management fees reported separately.

As at 30 September 2019, total investment income for the year was estimated to be £1,084,000 comprising £976,000 from Property Funds and £108,000 from cash investments. Property Fund Management fees for 2019/20 were estimated at £209,000.

In 2019/20, cumulatively to 30 September 2019, the Council achieved an average gross revenue return (before deduction of management charges) of 4.75% from the Property Fund purchases, and 3.74% net (after the deduction of those charges).

Treasury (cash) Investments achieved an average rate of 0.76% compared to the benchmark average 3-month LIBID rate of 0.66%.

Borrowing at 30 September 2019 was £16.449m of which £15.449m was from the Public Works Loans Board. Total borrowing costs for 2019/20 were projected to be £494,000.

Members discussed the information set out in the report regarding the original capital expenditure estimates, actual expenditure and revised estimates. In response to questions, it was explained that the capital expenditure forecast for Operations had reduced due to the slippage of the replacement of the refuse freighters, which would now take place in 2020/21.

Action: PJ

e-mail Members details of the capital expenditure scheme under the name of the Deputy Chief Executive, which did not appear in the original estimates for 2019/20.

In response to questions, the Chief Finance Officer explained that the prospectus for the Towns Fund had been published in early November and further guidance was expected shortly. A report would be presented to Members soon regarding a series of projects for which the Council could make applications from the fund of up to £25m. The Government had provided £164,109 to help the Council prepare for the bid.

In response to concern that expenditure on the PE21 redevelopment of the town centre might commence before there was definite commitment from retailers and partners, the Chief Finance Officer explained that the redevelopment was still at the conceptual stage and dialogue was ongoing with various partners. Funding would give partners the opportunity to provide match-funding and an early commitment was expected.

A query was raised regarding how the Council could lead on the redevelopment of empty retail and residential spaces and make the Market Place vibrant. The Chief Finance Officer explained that the Council used its influence as best it could and the Towns Fund would provide an impetus for its ongoing dialogue with landowners. Consideration of landowners' participation and vision could be referred to a scrutiny committee.

In response to a question regarding the impact on the Council of the decision of the Black Sluice Internal Drainage Board to proceed with its original precept amount, the Chief Finance Officer explained that the annual increase was estimated at 1% in the Council's Medium Term Financial Strategy, and every 1% above that affected the Council by £20,000.

Action: PJ

1. Advise Councillor Richard Austin regarding the County Council's ring-fenced monies for the Haven and Waterways Projects.
2. Provide the detail of the proportion of business rates from Wyberton Fen.

31 INTERNAL AUDIT PROGRESS REPORT 2019/20

The Internal Audit Manager presented the Internal Audit Progress Report, which provided details of the audit work during the period of September and October, advised on progress with the 2019/20 plan, and raised other matters relevant to the Audit Committee.

Work on the Plan was 43% completed at the end of September, compared to the 44% target.

Two audits had been completed and a final report had been issued since the last report to the Committee, both of which received a Substantial rating: *Health and Safety* and *Medium Term Financial Strategy*. Further areas identified as requiring improvement for which Medium priority recommendations had been made had been agreed by management.

Another two audits were in progress, *Scrutiny* and *Values & Behaviours*, and two more were being prepared, *Bank Key Controls* and *Treasury Management Key Controls*.

Work was ongoing on the ICT Assurance Map and would be finalised in February in liaison with the Transformation & Governance Manager who also now had the role of IT Manager. The Information Security Standard ISO27001/2 was overarching and covered the security management framework, policies, processes and procedures and touched on malware.

The Internal Audit Manager answered various questions. The Values and Behaviours audit focused around the seven good governance principles. The Code was published in 2017 and was based on the Chartered Institute of Public Finance and Accountancy (CIPFA) code. The external review of internal audit had recommended work on this matter, which was one of the reasons it had been suggested. It was quite a broad governance review looking at the management of people, policies, processes and procedures. They had obtained sufficient information by speaking to a cross-section of officers and Members, looking at the staff survey and observing at meetings. The level of attendance at meetings of the scrutiny committees and use of substitutes was included in the audit.

32 WORK PROGRAMME

Members noted the work programme.

The Meeting ended at 8.20 pm