

Overview Scrutiny Committee

Monday, 25 March 2024

7.30 pm

Present:

Cllr Jordan Meade (Chair)
Cllr Karina O'Malley (Vice-Chair)

Councillors: Derek Ashenden
 Helen Ashenden
 Emma Elliott
 Daniel Adewale King
 Gavin Larkins
 Tony Rana

Jamie Izzard Director (Communities and Inclusive Growth)
Sarah Parfitt Director (Corporate Services)
Alex Jarvis Principal Accountant (Housing & Exchequer)
Charlie Simmonds Committee Services Manager (Minutes)

32. Apologies

Apologies for absence were received from Councillors Ejaz Aslam and Leslie Hills. Councillors Derek Ashenden and Helen Ashenden attended as their substitutes.

An apology for absence was also received from Councillor Deborah Croxton.

33. Minutes

The minutes of the Overview Scrutiny Committee held on Thursday, 8 February 2024 were agreed and signed by the Chair.

34. Declarations of Interest

No declarations of interest were made.

35. Item called-in from the Cabinet meeting of 18 March 2024: Item 11, Balancing the Budget - Gravesend Town Centre Options

The Chair explained that the above item was considered at Cabinet on 18 March 2024 and that it had been called-in in order for the Committee: -

- to consider the impact that the decision will have on the town centre offer and the impact that the decision will have on the businesses of the town;
- to consider if the savings proposed will make a meaningful difference to the Council's budget position; and
- to consider if the decision taken was within the public interest.

The Director (Communities and Inclusive Growth) advised that, in the last decade, the Council had experienced a sustained period of challenge to its financial sustainability. In response to those challenges, the Council's Medium Term Financial Strategy (MTFS) since 2016 had focused on the delivery of a multi-faceted programme of activity intended to optimise income generation, innovate delivery of services and ensure that the limited resources of the Council were appropriately focused on the needs of the Borough.

The Council delivered against the programme and, in February 2020, was able to announce that £4.25m of base budget reductions had been implemented in the period since 2016, putting the Council in a position where it had in place a sustainable financial plan for the forthcoming 10 years.

Since that time, the Council had faced further significant challenges as a result of the COVID-19 Pandemic and the economic situation. In response to this, in February 2023, the Council approved a revised five-year MTFS spanning 2022-23 to 2026-27 intended to respond to the identified budget gap at that time.

Despite delivering measures to reduce the Council's base budget by £3.3m since 2022, cost and demand pressures continued to be present and the Council's level of annual expenditure continued to exceed anticipated income with working balances significantly depleted in recent years and no longer a sustainable source to manage the Council's financial position.

In February 2024, Full Council was informed that without proactive action to deliver the Balancing the Budget initiatives, the Council could find itself in a position where it had limited capacity to respond to and manage the impact of any significant or unexpected events or emergencies during 2024-25 and set a balanced budget for 2025-26.

Therefore, the report presented to the Cabinet set out options for savings and reducing cost pressures in relation to activities undertaken by the Council within Gravesend Town Centre; the three main activities being Splash of Colour, Town Centre Dressing and the Visitor Information Centre. It should be noted that Town Centre Dressing did not incorporate formal flag raising on the Community Square.

The options for consideration were outlined in appendix one to the report. The options had been set out into three categories which would deliver three different levels of savings ranging from £13,000 to £63,000:-

- Option A – continue current service with reduced budget and continuation of the Visitors Information Centre;
- Option B – reduce service and relocation of the Visitors Information Centre; or
- Option C - cessation of a service.

The Director (Communities and Inclusive Growth) advised that the savings/income identified within the report were estimates and as such, the actual savings achieved for those options that the Cabinet were 'minded to' implement may differ from those within the report as more detailed financial analysis would be undertaken. Updated information on the financial impact of 'minded to' options would be presented to Members periodically.

The Director (Communities and Inclusive Growth) advised that the Cabinet considered the options and their preferred option was 'Option B - reduce service and relocation of the Visitors Information Centre' which would generate a saving of circa £37k. It was noted that visitor information would continue to be provided from the St George's Art Centre, which was currently getting good attraction/footfall; therefore, it was felt that the relocation would not have a detrimental effect and may enhance the offer.

Members were informed that as a result of the potential relocation of visitor information at the St George's Art Centre, an internal staff consultation would be needed (with the trade unions) before any final decision could be made regarding this option to ensure staff feedback had been received and considered before finalising any proposal(s).

It was also confirmed that should there be a special event/celebration such as a Coronation then one-off funding would be sought for Town Centre Dressing.

With regard to Splash of Colour, it was felt that a more sustainable approach to the Town Centre horticulture (e.g. evergreen and perennial planting) would align more with the Council's climate change pledge.

The decision of the Cabinet was as follows: -

Resolved that the Cabinet be 'minded to' reduce budgets by a total of £37,000 by: -

- *taking forward a wider programme of town centre improvements, primarily funded through UKSPF with a smaller budget of £10,000 retained from the Splash of Colour budget to meet ongoing maintenance costs;*
- *reducing the Town Dressing budget to £3,000 to allow for 1 set of town bunting only per year; and*
- *delivering visitor information through existing staff at St George's Art Centre. The existing Visitor Information Centre staffing of 1FTE moved to an office-based role with continued responsibility for management of Visit Gravesend website and social media as well as additional proactive work to build partnerships and better market Gravesham as a visitor destination.*

The Committee considered the report together with the overview provided by the Director (Communities and Inclusive Growth) and highlighted the following: -

- With regard to the urgent need to deliver the Balancing the Budget initiatives in order to set a budget for 2025-26, concern was expressed regarding the initiatives being presented in bite-sized pieces instead of providing a bird's-eye view of the total savings required in each directorate. It was felt that, if savings were to be presented in bite-size pieces, then it was difficult to make a decision as to what level of savings would be needed in order to make a meaningful contribution. It was felt that the options presented resulted in a relatively small saving but would have a significant impact; the Committee asked whether the wider 'town centre' budgets had been looked at. Previously, the saving/initiatives had been presented in a bird's-eye view format therefore concern was expressed regarding the current approach and whether the intention will be to continue to present them in this way. The Director (Corporate Services) advised that the Council was following the same process as had been undertaken previously for considering service delivery options. There was a plan in place to proactively deliver the savings required that went beyond service design options; the Balancing the Budget plan/initiatives were set out in the MTFs. The

Director (Corporate Services) emphasised the need for the plan/initiatives to be accelerated and delivered to ensure the ongoing financial sustainability of the Council. The Director (Corporate Services) drew Members' attention to future budget monitoring/supplementary reports where progress in delivery would be reported.

- With regard to visitor information being delivered via the St George's Art Centre, concern was expressed that the view of the new Market operator was that use of a unit at the market for visitor information may not be considered a complimentary use or in line with the new Market operator's plans to reinvigorate the site. The Director (Communities and Inclusive Growth) advised that, if visitor information was to remain at the market, then additional budget would be required and/or the Council would need to consider removal of the anticipated management fee from the new Market operator to effectively recompense the new Market operator for a reduced operating area. Street food vendors, games and entertainment were all part of a new operator's plans to reinvigorate the site.
- Had consultation been conducted and, if so, with who. It was felt that consultation should be undertaken with officers at the St George's Art Centre regarding the added burden of delivering visitor information and that relevant training would need to be provided to those officers. It was also felt that the options presented within the report would have an impact on the businesses within the town centre therefore the Committee asked whether the views of those businesses had been sought. The Director (Communities and Inclusive Growth) advised that consultation would be undertaken with those officers affected by the relocation of visitor information however the information would be delivered in a different way/format such as front-of-house staff providing basic visitor information and signposting which may then be supplemented by digital displays and hard copy literature. The existing Visitor Information Centre staffing of 1FTE would be moved to an office-based role with continued responsibility for management of Visit Gravesend website and social media as well as additional proactive work to build partnerships and better market Gravesham as a visitor destination. The Director (Communities and Inclusive Growth) advised that no specific consultation had been undertaken with businesses regarding the options/proposals set out within the report however officers regularly liaised with those businesses and that it had previously been raised that money could be spent in other/better ways for example investing in designing out anti-social behaviour in hotspot areas such as Queen Street and King Street.
- With regard to Splash of Colour and Town Centre Dressing, could the Council seek donations and/or sponsorship from local businesses. It was also suggested that funding could also be given to local businesses to dress-up their frontage as funding was being provided to existing traders within the market. The Director (Communities and Inclusive Growth) advised that donations and/or sponsorship would be explored further and that, 2024 will be the Council's Year of Volunteering, therefore officers could assist with planting etc. The Director (Communities and Inclusive Growth) advised that as part of the market procurement, the Council would be providing a package of support to ensure the success of the operation and provide short-term subsidy/funding to existing traders as rent prices etc were likely to increase.

Following a detailed discussion, the Committee noted the report and requested that the above comments be taken into consideration.

36. Item called-in from the Cabinet meeting of 18 March 2024: Item 13, Lothbury Property Fund

The Chair explained that the above item was considered at Cabinet on 18 March 2024 and that it had been called-in in order for the Committee: -

- to be provided with the opportunity to understand the reason and justification for the urgency of the decision;
- to consider the potential impacts that the various outcomes will have on the Council's finances; and
- to ensure that proper and correct due diligence is in place around the proposed course of action.

The Director (Corporate Services) advised that, in the last decade, the Council had experienced a sustained period of challenge to its financial sustainability. In response to those challenges, the Council's Medium Term Financial Strategy (MTFS) since 2016 had focused on the delivery of a multi-faceted programme of activity intended to optimise income generation, innovate delivery of services and ensure that the limited resources of the Council were appropriately focused on the needs of the Borough. Optimisation of income generation did not only consider opportunities for the Council to derive income from the fees and charges it levied and use of the assets it had available to it, but also on how it used its cash balances to generate a return which can then be applied to pay for Council services. The practice of investing cash balances held was common across the local government sector, with different approaches adopted based on the level and duration of cash balances an authority holds and its risk appetite, but always with a focus on security and liquidity before yield.

In approving the 2016-17 Treasury Management Strategy Statement (TMSS), Full Council provided the capacity to place a maximum of £10m in such investments with a limit of £5m placed into each fund. Link, the Council's treasury management consultants, were engaged to assist officers with the identification and selection of suitable Property Fund Management companies.

Due diligence was undertaken and a report was taken to the Property Acquisitions Cross Party Member Working Group on 24 May 2016; it was agreed that the following investments be made into each Property Fund: -

- Hermes - £3m;
- CCLA - £2m; and
- Lothbury - £5m.

On 1 July 2016, 2,658 units were purchased in the Lothbury Property Fund. Each unit was priced at £1,862.17 which gave an entry investment value of £4,949,648. An entry fee of 1% was charged on top which resulted in a fee of £49,492, giving a total cost of £4,999,140.

On 7 June 2023, Link alerted the Council to the fact that Lothbury had received redemption requests from investors which totalled £500m, in addition to the £170m still outstanding from the previous quarter against a fund value at 31 March 2023 of £1.086bn. All property funds had seen an increase in the level of redemption requests at the time, and whilst it was not clear why Lothbury had seen such a high number, Link believed several factors had come into play. These factors were outlined in section 2.1 of the report.

The level of redemptions logged were a high percentage of the fund value and therefore it was necessary for Lothbury to sell a significant number of its assets in order to meet the redemptions. To provide investors in the fund with an element of protection to sell assets in a timely manner and avoid the need to sell assets quickly at a low price, Lothbury introduced a redemption suspension i.e. a period where investors were made to wait before their investment was repaid.

The Council determined that to best protect its position it would also submit a redemption request in accordance with the fund timescales. This decision was discussed by the Director (Corporate Services) with the Chief Executive and Leader of the Executive at that time. At the point of submitting the redemption request, the Council's investment was valued at £4.421m.

During the investment period, Members of the Council had been updated on performance of the fund through the Finance & Audit Committee; with the latest position being reported at the meeting in November 2023.

Section 3 of the report outlined how the capital value of the Council's investment in the Lothbury Property Fund had fluctuated during the period of investment. The peak in the capital valuation of the Lothbury fund was in June 2022, when the Council's investment was valued at £5,912,900 which was an increase of 19.46% on the initial investment. As of 29 February 2024, the Council's unit holding in Lothbury Property Fund was worth £3,969,640, a decrease in value of 19.8%. It was important to note that, during the investment period, the Council had seen the capital valuations of all three property funds fluctuate.

Since the initial deposit into the fund was made it has generated a regular and stable source of dividend income for the Council. The Council has received a total of £1,549,780 as a gross dividend (£1,158,270 net of fees). The gross return from Lothbury had outperformed the return tracking the Bank of England and a similar return to the Council's other internally managed investments.

At a meeting of investors on 14 September 2023, Lothbury proposed a restructured smaller fund but was unable to generate and secure sufficient support. However, at the same meeting, investors requested Lothbury commenced exploring an alternative option of merging the residual fund with another. Whilst the merger was being explored, Lothbury commenced with its planned sale of assets. As at end of Q4 2023, assets valued at £378.8m were at various stages of the disposal process.

The UBS managed Triton Fund emerged as a credible option as a potential merger partner and during Q4 of 2023, Heads of Terms were drafted, and initial due diligence was undertaken. Therefore, a fund termination notice effective of 31 December 2023 was issued and, at an Extraordinary General Meeting (EGM) on 14 December 2023, sufficient support was secured to extend the termination date to 31 March 2024 to allow further time for the merger works to commence including the completion of due diligence and for detailed terms to be agreed.

Heads of Terms were agreed and signed with UBS on 8 February 2024 but a request to extend the termination date to 30 June 2024 at a further EGM on 29 February 2024 was rejected due to insufficient investor support. As a result, there was insufficient time to complete the merger with UBS Triton and therefore the fund was set to close on 31 March 2024.

At both EGM's the Council had voted in favour of extending the termination date. Officers felt that this was the best option in terms of protecting the Council's investment and would enable the Council to make the best decision for itself rather than being forced into a position. In the meantime, officers met with the UBS managed Triton Fund to understand more about the fund. As a result, the Council had indicated that it would be interested in transferring its investment into the new fund but had not yet submitted formal confirmation. Section 5 of the report outlined details and performance of the UBS managed Triton Fund.

If the Council was to transfer the current investment from Lothbury to UBS Triton, advice will need to be sought on the matter of accounting for the capital loss that had accumulated up to the point of transfer. Currently the capital loss was circa £980k. Prudence would indicate that the capital loss should be recognised at the point of transfer and then the value of the new investment with UBS Triton recognised at the entry value in the Council's accounts. If this was the case, it would indicate that the Council would need to account for a capital loss if it decided to vote for or against the termination date being extended. The only difference being that if the Council's investment were to transfer, the capital loss would be known at the point of transfer, whereas the total capital loss, if the Council were to exit on termination of the fund, would not be known until all assets were sold.

The Council currently had £500k in the Interest Equalisation Reserve which could cover some of the potential loss but at the current fund value the remaining £490k would be a direct charge and a cost to the General Fund's revenue account. The final capital loss would not be fully known until the date of the merger and/or redemption.

The next EGM was due to be held on 28 March 2023 therefore the Council needed to make two decisions: -

- the first being to submit a vote to the EGM being held on 28 March, to agree or disagree to the termination date of the fund being extended from 31 March 2024 by a maximum of a further 60 days to allow existing investors to transfer their holdings into the UBS-managed Triton Fund, should they wish to do so. It was recommended, and subsequently agreed by the Cabinet, that the Council votes in favour of extending the termination date by a maximum of 60 days; and
- the second being to determine whether the Council will transfer its existing investment into the merged fund or whether it wants to have its investment repaid. It was recommended, and subsequently agreed by the Cabinet, that the Council should notify the fund manager that it wishes to transfer its investment in Lothbury Property Fund to the UBS managed Triton Fund.

It was noted that if 75% of investors do not agree to the termination date being extended by 60 days, then the termination date of 31 March 2024 will stand and the merger deal will collapse. All investors will be treated equally, and redemptions will commence shortly after the terminations date with the current cash in the portfolio being distributed first and then on a rolling basis as sale proceeds were realised.

The Director (Corporate Services) informed Members that the Leader of the Executive, Deputy Leader and Leader of the Opposition (as Chair of Overview Scrutiny) had all been consulted on the decision to treat this as an urgent item at Cabinet under any other business. The urgency being that the Council was informed on 7 March 2024 that they would be required to indicate their decision regarding the future of the Fund by 3pm on 26 March 2024 however this had been subsequently extended to 27 March 2024.

Whilst delegated authority was granted under the Constitution to the Director (Corporate Services) to take any necessary action in respect of the management of the Council's investments, given the significance of the decision to be made on behalf of the Council, it was felt that endorsement should be sought from the Cabinet.

The decision of the Cabinet was as follows: -

Resolved that: -

- 1. the action of submitting a vote to the Extraordinary General Meeting (EGM) of the Lothbury Property Fund being held on the 28 March in favour of the termination date being extended from 31 March by a maximum of 60 days be endorsed; and*
- 2. the action of confirming that the Council's investment in the Lothbury Property Fund is transferred to the UBS-managed Triton Fund be endorsed.*

The Committee considered the report together with the overview provided by the Director (Corporate Services) and highlighted the following: -

- It was noted that due diligence was undertaken on each of the Property Funds and that a slightly different split of investment was made to the funds when this was considered by the Property Acquisitions Cross Party Working Group; the Committee asked what due diligence was undertaken and why a different split was made. The Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that the Council's Finance Team together with its treasury management consultants would have undertaken all necessary due diligence of the funds including historic performance, parent companies and properties within the funds themselves and the tenants within those properties. All necessary information/due diligence was presented to the Property Acquisitions Cross Party Member Working Group and, on consideration, the Committee subsequently decided to split the fund differently to that recommended within the report. However, it should be noted that unfortunately economic factors etc had caused the current situation which was completely outside of the Council's control.
- It was noted that the 'Financial Times' provided a like/comparison fund therefore it was suggested that the Council subscribes to the 'Financial Times' and that an officer of the Finance Team regularly monitors the like/comparison fund in order for the Council to consider if/when it should make a redemption request on a particular fund. The Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that the Finance Team regularly monitors the performance of the funds and that the redemption requests on Property Funds were usually 3 months' notice due to the terms and nature of the fund (being predominantly asset holdings). Therefore, the redemption process was lengthy as the funds would potentially need to sell assets to meet redemption requests and a lot can change within that 3-month period as would have been the case were the Council to have looked to disinvest in June 2022.
- Was the Council contracted to use Link as its treasury management consultants? The Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that the Council was in a five-year contract with Link (currently in its second year) and that the Council had no concerns with the service/support received to date. It was a limited market in terms of treasury management consultants, there were two that the Council were aware of, Link and Arlingclose. The Council had recently sought independent advice from Arlingclose of a separate matter.

- Was it felt that the Council's internal processes needed to be reviewed/changed in order to mitigate a similar situation from occurring. Several Members expressed concern that the Council's Finance Team were under significant pressure/not sufficiently resourced at a critical time for the Council and the team. The Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that it was important for the Council to continue to diversify its portfolio and regularly monitor it. The Council would continue to seek support/advice from Link. It was noted that Fund Managers had previously been invited to and attended meetings of the Finance and Audit Committee to provide an update on their fund etc so the Principal Accountant (Housing & Exchequer) would look to reinstate this. In terms of the pressure/resources of the Finance Team, the Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that they were diversifying/extending knowledge across the team particularly in relation to treasury management following a small restructure within the team.
- If the termination date was to remain as 31 March 2024, the Committee asked whether the Council had forecasted worse-case scenario and when the Council was likely to know the true impact. The Director (Corporate Services) and Principal Accountant (Housing & Exchequer) advised that the current capital loss was circa £980k. If the Council's investment was to transfer to the UBS Triton, the capital loss would be known at the point of transfer, whereas, if the Council was to exit on termination of the fund, the total capital loss would not be known until all assets were sold which could be a lengthy process.

The Committee thanked the Director (Corporate Services), Principal Accountant (Housing & Exchequer) together with the Finance Team for the work that had been undertaken to date particularly when timeframes had been tight/urgent. It was requested that the Committee be informed of the outcome following the Extraordinary General Meeting.

Following a detailed discussion, the Committee noted the report and requested that the above comments be taken into consideration.

Close of meeting

The meeting ended at 8.53 pm.