FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE)

Wednesday 29 January 2020

COUNCILLORS PRESENT: Councillors Fry (Chair), Munkonge, Simmons and Roz Smith.

OFFICERS PRESENT: Andrew Brown (Committee and Member Services Manager), Nigel Kennedy (Head of Financial Services), Anna Winship (Management Accountancy Manager) and Tom Hudson (Scrutiny Officer)

1. APOLOGIES

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. WORK PLAN

The Panel noted the items provisionally scheduled for the next meeting on 25 February 2020.

4. NOTES OF PREVIOUS MEETING

The Panel approved the record of the meeting held on 02 December 2019.

5. TREASURY MANAGEMENT STRATEGY

The Head of Financial Services introduced the report, noting that the scale of prudential borrowing planned over the coming years was considerable for the Council; exceeding £500m in 2024/25. The revenue consequences of borrowing were contained in the General Fund and Housing Revenue Account budgets. At present the Council's only external borrowing was £198.5m for the acquisition of the Council's housing stock but it was inevitable that further external borrowing would be undertaken over the coming year as the scale of the capital programme was too large to be wholly financed from internal resources. The Council would look at the market as external borrowing was required and although the Council could benefit from preferential rates from the Public Works Loan Board, rates on offer elsewhere may be more attractive.

Current investments totalled £110m, which was a fairly typical level, and were mainly held in banks, building societies, local authorities and money market funds. £10m was also held across two property funds and a further investment of £10m was planned in a multi asset fund, which would help to diversity risk. Treasury management investment interest generated an annual revenue return

of c. £1m. The Council was looking to diversify its investments away from banks and building societies and was looking at social bonds and other alternative vehicles. The Council's ethical investment policy was still in force and had influenced investments decisions.

In discussion the Panel noted that:

- Capital receipts were scarce and no forward projections had been made for capital receipts.
- Borrowing on the HRA would rise to £300m to fund the purchase of affordable dwellings.
- The Council could afford to purchase all the planned affordable dwellings within the HRA while retaining some borrowing power for regeneration and retrofitting schemes.
- Depending on the nature of schemes coming forwards, any surpluses could be used to increase borrowing further but regeneration schemes did not tend to produce surpluses.
- Any construction cost overruns within the Housing Company would eventually affect returns to the Council although contingencies were built into schemes and the initial risk sat with the company.
- General fund borrowing was projected to increase from £0 to £200-300m; this borrowing was not capped but needed to be prudent and affordable.
- The Council's external advisors provided daily information about credit ratings and areas to invest in.
- Treasury mid-year reports would state where investments were held and name the individual local authorities the Council had invested in.
- The Municipal Bonds Agency was considered to be a better proposition as a source of borrowing compared to when it first launched but the Head of Financial Services was not enamoured with the joint and several liability requirement.
- Considerable due diligence would be undertaken in respect of social impact bonds and the Council had engaged external advisors for this purpose.
- A decrease in the Bank of England base rate would negatively impact treasury income and would not help with borrowing costs at a time when the Council was only borrowing internally.
- The Council's net investment interest shown in paragraph 66 of the covering report was actually a positive figure and this should be explained in the report.

The Panel requested the following:

- A note setting out the positives and negatives of alternative investment vehicles that the Council has not yet taken advantage of.
- A discussion with the Council's investment advisors at an Audit and Governance Committee meeting early in the next Council year.
- A report on Brexit impacts when the shape of the negotiations between the UK and EU about the future relationship starts to become clear. This could form part of, or be considered in parallel with, the Treasury mid-year report expected in December 2020.

6. CAPITAL STRATEGY

In introducing the report the Head of Financial Services explained that there was a new obligation in the latest CiPFA guidance for councils to adopt a Capital Strategy annually but that this was already the Council's established practice. He also provided an overview of the Council's relatively new approach to capital project management; the Capital Gateway process. Projects will be presented to members for inclusion in the draft capital programme (for final approval by Council each February) only once they have been approved by an officer board at the outline business case stage.

The Management Accountancy Manager explained the arrangements for monitoring the delivery of the capital programme. The Panel heard that members can expect to see greater detail about the delivery of the capital programme, as well as information about the use of money budgeted for feasibility studies, in the quarterly integrated performance reports that are presented to Finance Panel and Cabinet.

The Panel asked questions about the status of loans to the Council's companies and the structure and progress of the OxWED joint venture. The Panel heard that the Council was receiving a return of 6% on its loans to OxWED which was still at an embryonic stage in the sense that it was yet to secure a development agreement or declare a profit.

The Panel requested an update on the rationalisation project for the two depots occupied by Oxford Direct Services (ODS), for which a £13m budget had been agreed in the Council's capital programme. The Panel heard that the Council has engaged consultants and that a report was expected to progress to Cabinet in the summer. The Panel noted that any future decision on the depot rationalisation project should be informed by appropriate consultation with the ODS workforce, elected members and residents, not least because such consultation may be a requirement under the Duty of Best Value.

The Panel welcomed the inclusion in the Capital Strategy of the Council's recently agreed strategy for commercial property investments. The Panel considered whether the wording in that section of the Strategy is potentially too restrictive in regards to energy efficiency standards (Appendix A 13.6.6). It states that "the Council will not purchase properties that are not compliant with the relevant energy efficiency standard". The Panel felt that this wording may be too definitive as there may be opportunities to redevelop or retrofit such properties, with good returns from energy-efficient investments, recognising that energy efficiency is one of a number of factors that would need to be balanced in any purchasing decision.

The Panel noted the report and agreed:

- That any future Cabinet decision on depot rationalisation should be subject to pre-decision scrutiny and added to the Scrutiny Work Plan.
- To submit the following recommendations to Cabinet:
    1. That the Council consults with the ODS workforce, elected members and the public on any future proposal for depot rationalisation.
    2. That clarity is provided in the Capital Strategy that when properties are assessed for potential purchase, consideration will be given to any opportunities to redevelop or retrofit properties that are not compliant with the relevant energy efficiency standard.

The Panel will continue to consider the Capital Strategy annually and the quarterly integrated performance reports before they are presented to Cabinet. The delivery of the capital programme and the use of the feasibility budget will naturally form part of those deliberations.

7. FUTURE MEETING DATES

The Panel noted the future meeting dates.

8. TO NOTE: BUDGET REVIEW GROUP MEETING

After the Finance Panel meeting the Panel held a separate meeting as the Budget Review Group.

The meeting started at 6.00 pm and ended at 7.15 pm