Minutes of a meeting of the FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE) on Monday 2 December 2019

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Committee members:

Councillor Fry (Chair)
Councillor Munkonge
Councillor Simmons

Officers:

Nigel Kennedy, Head of Financial Services
Anna Winship, Management Accountancy Manager
Nick Twigg, Major Projects and Development Manager
Bill Lewis, Financial Accounting Manager
Tom Hudson, Scrutiny Officer

30. Apologies

Apologies were received from Councillor Roz Smith

31. Declarations of interest

None

32. Work plan

The Panel considered the current Finance Panel work plan. The following was agreed:

1) The date of the third Budget Review Group meeting would be on 20th January
2) The date of the previously unallocated date for the March Finance Panel meeting to be brought forward to February 25th
3) For the draft Budget Review Group scoping document to go to Scrutiny unamended for agreement

33. Notes of previous meeting

The notes of the meeting held on 05 September were agreed.

The following questions were raised in relation to items contained in the notes:

1) Item 26: An update was sought in relation to the bid to update the Covered Market. It was confirmed that the bid had been unsuccessful.
2) Item 28: An update was requested in relation to the investments made in social impact bonds. It was reported that the first stage of due diligence had been completed, and that it was anticipated that a further update would be available prior to the commencement of the Budget Review Group in January 2020

34. Integrated Performance Report for Q2 2019/20

Anna Winship, Management Accountancy Manager, introduced the Integrated Performance Report for Q2 2019/20.

The Council's financial position was reported as being forecast to have an adverse variance of 0.64%, £0.149m against a net budget of £23.205m within the General Fund. The key variances related to: unbudgeted expenditure relating to the Town Hall, greater spending on equalities work by Business Improvement, Law and Governance earning unbudgeted income through the Service Level Agreement with Oxford Housing Company Ltd (OCHL) and savings at ODS from the development of the Recycling Transfer Station not being realised due to the project not being implemented in year.

Within the Housing Revenue Account, the outturn position was forecast to be a £320k favourable variance against the budget revised on 20th May. The most significant budget variations were identified as being properties which had been made available for temporary accommodation due to fewer individuals exercising their Right to Buy had therefore generated an income of £0.8m, whilst there had also been an adverse variance of £0.682m due to one-off costs related to tower blocks, consultancy fees and feasibility costs related to Phase 2 of the OCHL development programme. The Panel sought clarification whether recent fraud investigations in relation to Right to Buy applications had reduced the number and it was confirmed that following commencement of the investigations a number of existing applications had been withdrawn.

The budget for capital expenditure was explained to have been agreed originally at £101.526m, but had subjected to a major review, to develop a more deliverable and well-timetabled budget. The forecasted capital outturn following the review was stated to be £59.962m. The Panel raised questions over whether references to 'retimetabling' were euphemisms for slippage. The response was that although there were similarities, retimetabling was used to demonstrate a greater degree of proactive management and that the rapidity of the spending reductions was a sign of the greater realism that had been injected into the Council through the work of the Project Management Office. Particular concern was raised at why planning delays were not foreseen by OCHL which had led to the retimetabling of over £24m, and why resources were not being redeployed to schemes without planning delays to enable momentum to be maintained. It was responded that such redeployment was happening, and that the nature of OCHL as a development company meant that with the unpredictability of schemes it always faced a challenge to ensure it had drawn down enough money to cover its work whilst not drawing down purposelessly.

Discussion was held as to the impact of the Project Management Office, with particular reference made to the usefulness of having visibility on the progress of projects prior to their inclusion in the budget. Whilst positive moves towards transparency and rigour were noted by the Panel, advice was given to remind members that the team had only been fully staffed for approximately 4 months, and a lot of existing projects had had to be revisited and retrofitted with a more thorough project planning process. As such, it would not be reasonable to expect to see the impacts of the Project Management Office in increasing the ceiling of capital spend until the next year.

Clarification was sought regarding specific items in the HRA accounts, namely how it was possible to have a surplus arise within the service charge, and what sort of items constituting miscellaneous income. Officers present did not know the answers at the meeting and undertook to share the information subsequently. The Panel also sought explanations of the significant underspend with regards to on-street charging with the Go Ultra Low project. The challenge was reported to have been in finding sufficient landspace for installing chargers.

Regarding the Council's performance, the three red-rated indicators were identified as the number of target-group users of the Council's leisure facilities, the number of new homes granted planning permission in the city, and the amount of employment floor space permitted for development. The red-rated corporate risks were in relation to Housing, the impact of Brexit on economic growth and balancing the Medium Term Financial Plan and the impact of central government to increase lending rates on Public Works Loan Board loans by 1%.

The Panel **NOTED** the report**.**

35. Treasury Mid-Year Report 2019/20

Bill Lewis, Financial Accounting Manager, presented a report to the Panel on the Treasury Management mid-year Review.

The report was introduced as seeking to make a change to one area, to broaden Indirect Property Funds counterparty category to include Pooled Investment Funds, which would widen the Council's opportunities to invest in areas, for example, such as social impact bonds which would not necessarily relate to property. The current budget had £10 million allocated to be invested into property funds specifically, but a broadening of the terminology would allow a greater diversification, thus reducing risk.

In considering the impact of the wider economy on the Council's treasury position, the uncertainty relating to Brexit and the final shape of the UK's relationship with the EU was recognised as being a significant challenge to making confident forecasts. The Council was working on the advice that some form of Brexit deal would be reached.

Investment levels were identified as £112m and had returned £0.5m above the budgeted sum. This was explained to be partially due to money having stayed invested for longer rather than going to the Housing Company, thereby allowing greater returns.

Looking at the Council's property fund investments, healthy returns had been made from both the CCLA fund and the Lothbury fund from the time of investment. However, it was noted that their had been some recent tail-off in value, which was not attributed to regular variations around the proximity of dividend payments but due to the pressure on retail. The costs of repositioning portfolios away from retail had meant a lower unit value. This provided greater surety against adverse future conditions in the retail market and it was reinforced that the Council still had a significant buffer before capital losses were realised.

The Council's short term expectations for borrowing were reported to be a maintenance of existing borrowing within the HRA.

Following the presentation of the report the Panel raised questions over the status of a number of the investments referenced in the report, particularly Green Deposit Notice Accounts, which were explained to be six month notice accounts with variable, but stable, rates of interest. Due

to the ownership of the fund being Barclays, the accounts were reported to be ultra-low AAA risk-rated.

The Panel sought information on what the rates of interest the Council would expect to face on its borrowing if there were to be a no-deal Brexit. In response, it was explained that estimates amongst experts varied considerably, making accurate forecasting difficult. It would be possible to present a range of possible outcomes, but making any prediction with a high degree of uncertainty would be harder. It was clarified that the Council's PWLB borrowing was fixed at the time of borrowing and would not be subject to significant increase in the event of a no deal Brexit. On the basis of this, it was discussed whether the Council should be growing its borrowing whilst rates were low. Though the Council had looked at the possibility, it was not currently being acted upon due to the fact that the Council would be paying interest on their borrowing, and due to greater stringency in the PWLB's vetting process it was not possible to make carry trades. The reason the Council had been able to borrow to lend to OCHL was due to OCHL's house building being considered a capital scheme rather than an investment, a service to the community rather than a money making venture.

Discussion was held over the Council's asset allocation. The reason for looking to invest in multi-asset funds over property funds was that it would reduce risk by spreading investment exposure over multiple investment categories, not all of which would be expected to face a downturn at any one particular moment. Though it was possible for the Council to invest more aggressively, it was reiterated by officers that the Council's primary investment criterion was security, with liquidity and yield being secondary and tertiary considerations respectively. Nevertheless, it was also recognised by officers that the Council was looking to make increased investments in social impact bonds and multi-asset funds. Further, as capital schemes were realised the money to pay for these would reduce the balance of high-liquidity holdings by the Council, meaning an increase in relative percentages being invested in higher-yield assets. It was not possible to put a precise figure on the level of return from multi-asset funds as the Council was still investigating the market, but the expected rates of return were anticipated to be between 3-5%.

The Panel **NOTED** the report.

36. Property Investment Portfolio Analysis and Strategy Report

Jane Winfield, Regeneration and Major Projects Service Manager, introduced the report on the Council's Property Investment Portfolio Analysis and Strategy.

37. Confidential Session

It was **AGREED** to exclude the press and public from the meeting during consideration of the Property Investment Portfolio Analysis and Strategy Report under Paragraph 4(2)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) regulations 2012 on the grounds that their presence could involve the likely disclosure of exempt information as described in Schedule 12A of the Local Government Act 1972.

38. Property Investment - Confidential Appendices

Jane Winfield, Regeneration and Major Projects Service Manager, introduced the report on the Council's Property Investment Portfolio Analysis and Strategy. The report was based on the response from Jones Laing LaSalle to instructions from the Council to look at its property holdings

The Panel expressed its general agreement at the suggestions made and made three recommendations.

39. Future Meeting Dates

The future meeting dates, as agreed in item 32, were **NOTED**.

The meeting started at 6.00 pm and ended at 8.06 pm

Chair …….. **Date: Monday 20 January 2020**

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