www.oxford.gov.uk

OXFORD CITY COUNCIL

To: City Executive Board

Date: 9th. February 2011 **Item No:**

Report of: Value and Performance Scrutiny Committee – Finance and Performance Panel

Title of Report: Treasury Management Strategy 2011/12

Summary and Recommendations

Purpose of report: To report the views on the Finance and Performance Panel on the proposed Treasury Management Strategy for 2011/12. This Panel operates as the "Responsible Body" and is responsible for effective scrutiny of the Treasury Management Strategy and Policies

Key decision? No

Scrutiny lead member: Councillor Van Coulter

Executive lead member: Councillor Ed Turner

Policy Framework: Sustaining Financial Stability

Introduction

1. The Finance and Performance Panel (FPP) met on the 3rd. February to consider a report outlining the performance of the Councils Treasury Management function to the 3rd. Qtr. and the proposed Treasury Management Strategy for 11/12. They were supported in their debate by Anna Winship. The Panel consists of Councillors Coulter, Brown, Wolff and Keen with Councillor Coulter nominated as lead member.

Conclusions and Recommendations

2. Access and influence

   The FPP has a formal role within the Treasury Management function that asks them to scrutinise proposals, action, outcomes and effects. To do this effectively they require good information, data and understanding considered in a timely manner

   The FPP has built a relationship with responsible officers and data is good and the understanding of action and outcome is building well. Quarterly access to performance data is in place and this will develop. What does not work well is access to the development of Strategies in a manner that allows debate and influence. The strategy considered here was not made available to the FPP until the end of the formal report clearance process (a matter of days before their consideration). This does not allow for sound scrutiny.

Recommendation 1
That the FPP are included in a "real" way within the development of strategies and policies and would suggest:

- **Qtr. 1 – issues from performance and economic and budgetary factors from previous year**
- **Qtr. 2- Outline strategy considerations**
- **Qtr. 3 – Draft Strategy**

Member feedback into the strategy is welcomed at an early stage. For the 2012/13 strategy, we will outline proposals during the autumn of 2011. Quarterly performance reports will also be made available to the Panel.

3. Minimum Revenue Provision (MRP)

In setting the estimated life of an asset for MRP to be charged over the FPP would wish to see a realistic rather than cautious approach taken so that there are no surprises for future budgets. Further they wish to see the Strategy set clear guidance on this

Recommendation 2
For the Treasury Management Strategy to include a more detailed Appendix that details how estimated life will be set highlighting all the determining factors

Determining the estimated life of an asset depends on the type of asset involved and is subject to professional judgement. It is not therefore possible to provide a definitive schedule at a given point in time. However, an illustrative appendix can be provided in future documents to aid understanding.

4. Interest Rates

The economic picture is still very uncertain and our advisors list variables concluding we should be cautious. These variables led the FPP to believe that our advisors are as likely to be wrong as they are to be right so a cautious approach to interest rates was the only sound approach rather than the better of a number of options
Recommendation 3
To commend the approach of not locking into longer term deals whilst the current conditions prevail

Accepted

Recommendation 4
To review at Qtr. 2 the 364 days investment strategy

Quarterly performance reports and interest rate projections will be reported to the Panel going forward

5. Prudential borrowing and the effects on the Revenue Budget

The FPP considered the effects on the revenue budget of prudential borrowing and noted that repayment of interest and principle on this debt is expected to rise to £3.2m per year. For current budgets this represents about 13% of our revenue budget and this of course will increase within a diminishing funding picture. This is not a prudential indicator and so no benchmarking information is available to judge whether this is prudent or comparable. Clearly these repayments reduce the money available to spend on day to day service delivery so the FPP wished to see consideration given to setting a prudential indicator

Recommendation 5
That we bench mark the percentage of revenue budgets spent on repayments linked to prudential borrowing and consider if we wish to set a prudential indicator

The prudential indicator suite already includes an indicator which looks at the impact of capital spend on Council Tax.

The Council also takes part in CIPFA's Treasury Management Benchmarking club which compares our activity with that of other authorities and looks at prudential indicators. The proposed indicator is not part of the CIPFA Prudential Indicator suite and hence it will be difficult to obtain any comparator data for it.

Also, Prudential borrowing is largely a reflection of the relative priority given to capital and revenue pressures within an individual authority. In that context, the value of the measure is questionable.

6. Capital Investment

The FPP commends the aim of the strategy not to allow capital investment to affect Council Tax. Whilst accepting that this is a Strategy and therefore a high-level document it should reflect the reality of how this is achieved. The statement in paragraph 81 of the report does not reflect the whole picture of considerations in commissioning a scheme

Recommendation 6
Paragraph 81 of the report is revised to include all affordability considerations

It is proposed that the first two sentences of paragraph 81 are replaced as follows:

The Council will not enter into any capital scheme until the source of funding is confirmed, e.g. capital receipts, grant, S106 or prudential borrowing. This will ensure we can avoid any unplanned impact on Council Tax or other unplanned revenue consequences as a result of capital expenditure.

7. Net Borrowing v Capital Financing Requirement

The explanation for this indicator suggested a ratio but the presentation of data did not give this. The information and purpose of this is not easily or readily understandable in the strategy

Recommendation 7
To revise the explanation at paragraph 92 to outline more clearly the purpose of the data presented

The explanation will be revised as follows:

The table in paragraph 92 shows the Council's net borrowing position compared to its Capital Financing Requirement. As can be seen, the figures show that the Council is currently borrowing below its financing requirement which indicates a need to borrow in the short to medium term. A Council's net borrowing is not permitted to exceed its Capital Financing Requirement. The table confirms the Council does not anticipate doing this.

8. Comments from the Board Member – Councillor Turner
Responses to this have been agreed with officers. I remain grateful for the input of scrutiny into this area of work. In particular with the likely allocation of some £200 million of historic debt to the Council in relation to the HRA, Treasury Management will remain an important area of work for us.

9. Comments from the Director of Finance and Efficiency – Jacqueline Yates

My comments are incorporated above in blue italics.

Name and contact details of author:-

Pat Jones on behalf of the Finance and Performance Panel
Principal Scrutiny Officer
Law and Governance
Tel: 01865 252191
e-mail: phjones@oxford.gov.uk

Comment [x1]: Name, telephone number and email

List of background papers:
Version number: