

Agenda

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Finance and Performance Panel (Panel of the Scrutiny Committee)

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streamed to the Council's YouTube channel
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This meeting will be held on:

Date: **Wednesday 2 September 2020**

Time: **6.00 pm**

Place: **Zoom - Remote meeting**

For further information please contact:

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Information about speaking and recording is set out in the agenda and on the [website](#)

Please contact the Committee Services Officer to register to speak; to discuss recording the meeting; or with any other queries.

Committee Membership

Councillors: Membership: 4 Quorum: 2, substitutes are not permitted.

Councillor James Fry (Chair)

Councillor Chewe Munkonge

Councillor Craig Simmons

Councillor Roz Smith

Apologies and notification of substitutes received before the publication are shown under *Apologies for absence* in the agenda. Those sent after publication will be reported at the meeting. Substitutes for the Chair and Vice-chair do not take on these roles.

Agenda

	Pages
1 Apologies Substitutes are not allowed.	
2 Declarations of interest	
3 Finance and Performance Panel Work Plan For the Panel to note and agree its work plan, which can be adjusted to reflect the wishes of the Panel.	7 - 10
4 Notes of previous meeting For the Panel to approve the record of the meeting held on 07 July 2020.	11 - 18
5 Revised Oxford City Council Business Plan 2020-21 On 09 September the Cabinet will consider a report on the Revised Oxford City Council Business Plan 2020/21. The Panel is asked to consider the report, making any recommendations to Cabinet as it sees fit. Mish Tullar, Corporate Policy, Partnerships and Communications Manager, and Shelley Ghazi, Policy and Partnerships Officer, will be at the meeting to present the report. NB The report for this item will be issued as a supplement.	
6 Treasury Management Performance On 09 September the Cabinet will consider a report on Treasury Management Performance 2019/20. The Panel is asked to consider the report, making any recommendations to Cabinet as it sees fit. Bill Lewis, Financial Accounting Manager, will be at the meeting to present the report.	19 - 28

7 Procurement Strategy 2020 - 2021

On 09 September the Cabinet will consider a report on the Council's Procurement Strategy. The Panel is asked to consider the report, making any recommendations to Cabinet as it sees fit.

Annette Osborne, Procurement Manager, will be available to present the report.

NB The report for this item will be issued as a supplement.

8 Date of next meeting

Meetings are scheduled as follows:

- 29 September 2020
- 03 December 2020

All meetings begin at 6.00pm.

Information for those attending

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The Chair of the meeting has absolute discretion to suspend or terminate any activities that in his or her opinion are disruptive.

Councillors declaring interests

General duty

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

What is a disclosable pecuniary interest?

Disclosable pecuniary interests relate to your* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licenses for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

Declaring an interest

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest. If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

Members' Code of Conduct and public perception

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". The matter of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

Finance and Performance Panel Work Plan 2020/21

Finance and Performance Panel

02 September 2020 - Reports

Agenda item	Cabinet item	Description	Cabinet portfolio	Lead officer
Revised Oxford City Council Business Plan 2020-21	Yes	The annual business plan sets out the key actions and objectives for the next financial year, to support delivery against each of the four corporate priorities set out in the Council Strategy 2020-24. It had been intended that the 2020-21 Business Plan was considered by the April 2020 Cabinet. However this was overtaken by the pandemic, and the whole Business Plan has had to be reviewed to reflect the current budgetary pause of new expenditure as well as new workstreams developed as a response to COVID-19.	Leader - Economic Development and Partnerships	Shelley Ghazi, Policy and Partnerships Officer
Treasury Management Performance: Annual Report and Performance 2019/20	Yes	A report to set out the Council's Treasury Management activity and performance for the financial year 2019/2020.	Deputy Leader - Finance and Asset Management	Bill Lewis, Financial Accounting Manager
Procurement Strategy 2020 - 2021	Yes	To present the Councils Strategy for the Procurement of Goods and Services for the period 2020- 2021.	Deputy Leader - Finance and Asset Management	Annette Osborne

Finance and Performance Panel Work Plan 2020/21

29 September 2020 - Provisional reports

Agenda item	Cabinet item	Description	Cabinet portfolio	Lead officer
Social Value in Procurement	No	An update report on the progress made on implementing the inclusion of social value weightings within procurement contracts, including managing the challenges that this brings	Deputy Leader (Statutory) - Finance and Asset Management	Annette Osborne
Quarterly Integrated Performance 2020/21 - Q1	Yes	A report to update Members on Finance, Risk and Performance as at 30 June 2020.	Deputy Leader - Finance and Asset Management	Anna Winship, Management Accountancy Manager
Performance Monitoring 2020/21 Q1	No	A report detailing performance against relevant KPIs		Liz Godin

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03 December 2020 - Provisional reports

Agenda item	Cabinet item	Description	Cabinet portfolio	Lead officer
Infrastructure Funding Statement	Yes	Report on receipt, expenditure and future expenditure of CIL and S106 contributions	Cabinet Member for Planning and Housing Delivery	Lorraine Freeman, Development Funding Officer
Treasury Management Mid – Year Report	Yes	A report to report on the performance of the Treasury Management function for the 6 months to 30 September 2020	Deputy Leader - Finance and Asset Management	Bill Lewis, Financial Accounting Manager

Finance and Performance Panel Work Plan 2020/21

Quarterly Integrated Performance 2020/21– Q2	Yes	A report to update Members on Finance, Risk and Performance as at 30 September 2020.	Deputy Leader - Finance and Asset Management	Anna Winship, Management Accountancy Manager
Performance Monitoring 2020/21 Q2	No	A report detailing performance against relevant KPIs and an update on progress made against the Council's 2020/21 business plan.	Deputy Leader (Statutory) - Finance and Asset Management	Liz Godin
Budget Review Recommendations Update 2019/20	No	An update on the progress made against recommendations from the Budget Review Group report 2019/20	Deputy Leader (Statutory) - Finance and Asset Management	Nigel Kennedy, Head of Financial Services

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27 January 2021 - Provisional Reports

Agenda item	Cabinet item	Description	Cabinet portfolio	Lead officer
Treasury Management Strategy 2021/22	Yes	A report to present the Council's Treasury Management Strategy for 2021/22.	Deputy Leader - Finance and Asset Management	Bill Lewis, Financial Accounting Manager
Capital Strategy 2021-22	Yes	A report to present the Capital Strategy for 2021/22 approval.	Deputy Leader - Finance and Asset Management	Bill Lewis, Financial Accounting Manager

Finance and Performance Panel Work Plan 2020/21

Council Borrowing Options	No	To present the different sources of borrowing for the Council and their benefits and drawbacks	Deputy Leader (Statutory) - Finance and Asset Management	Bill Lewis, Financial Accounting Manager

Minutes of a meeting of the Finance Panel (Panel of the Scrutiny Committee) on Tuesday 7 July 2020

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Committee members present:

Councillor Fry (Chair)

Councillor Munkonge

Councillor Simmons

Councillor Roz Smith

Officers present for all or part of the meeting:

Nigel Kennedy, Head of Financial Services

Anna Winship, Management Accountancy Manager

Liz Godin, Business Support Services Manager

Tom Hudson, Scrutiny Officer

7. Apologies

None

8. Declarations of interest

None

9. Work plan

It was **NOTED** that the Scrutiny Committee had agreed the items on the work plan the previous day and that the specific dates for those items had not been determined.

10. Notes of previous meeting

The Panel **AGREED** the record of the meeting held on 16 June 2020 as a correct record.

11. Reports for Approval

The Panel considered a draft report to Cabinet in response to the report heard by the Panel on Monitoring Social Value at its 25 February 2020 meeting.

The Panel welcomed the news of an update report in September. It was asked that the update report include more information on the challenges faced by SMEs in engaging with the social value agenda.

The Panel **AGREED** to submit the draft report to Cabinet subject to the following amendment:

- That reference be made in the second recommendation to SMEs, specifically that the meeting would engage them to find out the challenges for them in engaging with social value in procurement questions.

12. Performance Monitoring

Helen Bishop, Head of Business Improvement, spoke to the report. The Panel were informed that due to the impacts of Covid-19 the Council had not had the opportunity to set its KPIs for the forthcoming year. With the significant challenges and forthcoming changes, meaningful KPIs would be expected to be set once the budget had been agreed, meaning that the KPIs from which the Panel could choose would not be ready until April, the end of the civic year. The Panel did have some existing KPIs, which were rolled over from the previous year, but a number of these were heavily impacted by Covid-19 and therefore not particularly useful as measures. It was suggested that those measures which were not undermined by the coronavirus would continue to be reported on. In addition, the Panel would be given reports of the Council's progress against its annual business plan.

The Panel **AGREED** to the suggested proposals.

In discussion of the report, Panel members asked for a simplified version of the performance monitoring, more akin to the Appendix F in the Integrated Performance Report. Panel members also discussed the number of leisure centre users and the proportion of Council spend on local businesses. It was suggested that broader measures of leisure may be useful, to include all the amenity of the Council's parks and open spaces.

13. Integrated Performance Report 2019/20

Anna Winship, Management Accountancy Manager, introduced the Integrated Performance Report to the Panel, providing financial and service level performance, and risk management information to 31 March 2020.

The overall financial figures were reported as follows:

- A surplus on the General Fund of £2.770 million (12% of the Net Budget Requirement of £23.205 million) with a recommended carry forward of unspent budgets of £0.077 million. It was highlighted that a further recommendation is made to transfer the remaining balance of £2.693 million of the surplus to earmarked reserves, of which £1.658 million to the Capital Financing reserve and £1.035 million to the NDR Retention reserve.
- A favourable variance in the Housing Revenue Account of £4.809 million, after allowing for carry forward of unspent budgets of £0.722 million against the original budgeted deficit of £1.205 million, the recommendation being that the Council transfer the balance into the HRA projects reserve to fund future capital commitments
- The outturn spend for the Capital budget was reported to be £42.776 million, a favourable variance of £7.255 million against the latest budget forecast in February 2020.

Regarding performance, 58% (7) of the Corporate Performance targets were delivered as planned, 8% (1) was below target but within acceptable tolerance limits and 34% (4) were short of target. The measures identified to the Panel as being under below target were:

- Number of jobs created or safeguarded in the city as a result of the City Council's investment and leadership
- Amount of employment floor space permitted for development
- The number of people taking part in our youth ambition programme
- Number of people from our target groups using our leisure facilities

Concerning corporate risk management, one red corporate risk in relation to Housing was identified.

General Fund Earmarked Reserves and Working Balance

The General Fund Earmarked Reserves as at the 31 March 2020 would stand at £36.451 million. The biggest components of these were 24% relating to funding of the Capital Programme, and 26% relating to Business Rates Retention reserve and 11% relates to External Grants reserve pending their use on projects.

General Fund Variations

At the year end the General Fund service areas spend showed an adverse variance of £0.895 million. The most significant of these variances were explained as follows:

- Housing Services – year end favourable variance of £0.118 million, due to a number of variances across the service. Property services ended with an outturn of £0.336m favourable variance due to the capitalisation of some repairs costs associated with the Town Hall and other Council building.
- Regeneration and Economy – year end favourable variance of £0.258 million, due to higher levels of commercial property income than originally budgeted for and the ability to recharge additional project and development manager time to their associated capital schemes than originally expected;
- Oxford Direct Services client – The Council had budgeted for the delivery of a dividend from Oxford Direct Services of £1.552 million. The impact of COVID19 from March 2020 has resulted in considerable financial challenges for the Company for 2020-21 and beyond and in assessing its financial position for the year end the Board agreed that no interim dividend would be declared for the shareholder in 2019-20.
- Law and Governance - year end favourable variance of £0.105 million, due to additional unbudgeted income from Oxford City Housing Ltd -OCH(L) service level agreements and vacancies within the team.

Company Financial positions

The financial positions of the Council's companies were reported as follows:

- OSDL and ODSTL both made a surplus in 2019/20, however this was less than originally budgeted and led to the companies being unable to pay an interim dividend to the Council.
- OCHL group made an operating loss of £0.060 million for the year 2019/20.
- OxWed made an operating loss of £1.758 million due to financing costs in servicing the loans from the shareholders mainly in respect of land assembly.

Housing Revenue Account

The HRA was reported to be showing favourable variance of £4.089 million above the original budgeted deficit of £1.205 million. This was after allowing for carry forward requests, totalling £0.722 million. The carry forward requests for the HRA were detailed as £0.080 million for CCTV for the Tower Blocks; £0.153 million for staffing costs in the incomes and tenancy management teams to deal with backlogs due to COVID-19; £0.103 million to fund the QL support team for 6 months from Go Live and £0.300 million to build a team for development within the HRA.

Capital

The Panel was reminded that Cabinet agreed a revised budget for its capital programme on 19 December 2019 of £59.962 million following a thorough review of project spend. The final outturn for capital spend is £42.776 million – a favourable variance of £17.186 million.

The notable sources of slippage in capital spending were identified as:

- Museum of Oxford Development - £1.220 million slippage delays due to asbestos removal works being required
- Barton Park – purchase by Council - £0.531 million slippage due to delays in hand over of new dwellings
- Barton Park loan to OCHL - £0.491 million slippage due to delays in line with the purchase by Council in connection with the above
- Motor Transport vehicle replacement programme - £2.476 million slippage due to delays in agreeing the specification for the ordering of diesel and electric vehicles
- Seacourt Park and Ride - £1.88 million of slippages due to adverse weather conditions and the COVID pandemic (due to delays in the supply chain.)
- Loans to Housing Company - £5,791 million. The need to socially distance following the outbreak of the COVID pandemic together with problems with ground conditions resulted in delays on a number of schemes including Rose Hill, Elsefield/ Cumberlege, Harts Close, Bracegirdle and the extensions programme.

The Panel's areas of questioning focused primarily on the level of capital spending over the last year. The fact of slippage was actually deemed to be beneficial to the Council in light of Covid-19's financial impacts. The Panel asked questions about levels of reserves; it was suggested to the Panel that the Cabinet's agreed plan was to cover the current-year deficit through use of reserves, but to reset the budget beyond that point. The Panel also sought explanations on and specific areas of significant

variance between outturns and budgeted figures, the majority of which were bringing forward spend in multi-year projects. These projects included IT overspends, and the ODS depot rationalisation.

The Panel discussed in detail paragraph 19 of the Cabinet report, and specifically the favourable variances reported in relation to service charges and management and services within the HRA. In particular, the question was raised over how the Council might know if it were making a profit from service charges. It was noted that a significant majority of the favourable variance in service charge levels related to costs passed to leaseholders, a heavily regulated area designed to stop overcharging. It was also explained, however, that the mechanism for setting service level charges for tenants was considered within the broader context of contributing towards a balanced HRA and was not regulated in such defined terms. Panel members suggested that in light of the surplus shown in the HRA it was possible, therefore, (though not guaranteed) that the mechanism may not be working to ensure the charges levied to tenants matched the costs incurred. It was **AGREED** to make the following recommendation to Cabinet:

That the Council reviews the service charges it makes to Council housing tenants to ensure current levels reflect actual costs.

14. Future Meeting Dates

The Panel **NOTED** the dates of future meetings.

15. Matters Exempt from Publication

The Panel passed a resolution in accordance with the provisions of 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 specific paragraphs of Schedule 12A of the Local Government Act 1972.

16. Confidential Discussion - Covid-19 Financial Impacts

The Panel held a discussion with Nigel Kennedy, Head of Financial Services over the commercially sensitive issues relating to Covid-19’s financial impact.

The meeting started at 6.00 pm and ended at 7.50 pm

Chair

Date: Date Not Specified

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By virtue of paragraph(s) 4 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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To: Cabinet
Date: 9 September 2020
Report of: Head of Financial Services
Title of Report: Treasury Management Annual Report 2019/20

Summary and Recommendations	
Purpose of report:	The report sets out the Council's Treasury Management activity and performance for the financial year 2019/20
Key decision:	No
Executive Board Member:	Councillor Ed Turner, Cabinet Member for Finance and Asset Management
Corporate Priority:	All
Policy Framework:	Treasury Management Strategy 2019/20
Recommendation: That Cabinet resolves to:	
1. Note the report	

Appendices
None

Executive Summary

1. The Council held investments of £86.97 million as at 31st March 2020. Net interest earned during the year, including from loans to companies and external borrowing, was £2.78 million against a target of £2.22 million, which primarily relates to investment balances being higher than anticipated during the year. This can be attributed to slippage in the forecast capital spend.
2. The average rate of return on the Council's investments in 2019/20 was 1.27% compared to 1.15% in 2018/19. The Council's performance target for the year was 0.51% above base rate, equating to 1.27% for April-Mar 2020. Although there was a decrease in the base rate during March 2020, this was too late to be reflected in investment returns and investment rates remained high during March due to demand in the local authority market.

3. The Council held £198.5 million of fixed rate Public Works Loan Board (PWLB) debt as at 31st March 2020. The debt was borrowed in March 2012 to fund the self-financing of the Housing Revenue Account (HRA). All of the debt relates to housing and the maturity profile ranges from 1 to 38 years. Interest paid on the debt in 2019/20 was £6.47 million.

Background

4. The primary principle governing the Council's investment decisions is the security of the investment, with liquidity and yield being secondary considerations.
5. The Council has a statutory duty to set, monitor and report on its prudential indicators in accordance with the Prudential Code, which aims to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.
6. When considering whether to borrow, the Council's Debt Strategy requires a number of factors to be considered. These include:
 - prevailing interest rates;
 - the profile of the Council's debt portfolio;
 - the type of asset being financed; and
 - the availability of cash balances to finance capital expenditure.
7. The Council fully complied with its Treasury Management Strategy in relation to both debt and investment management in 2019/20.
8. The prudential indicators detailed in the body of this report compare the Council's outturn position against the target set for 2019/20

Financing the Capital Programme 20119/20

9. Table 1 below shows actual capital expenditure and financing compared to the original budget.

Table 1 : Capital expenditure and financing 2018-19 and 2019-20			
Capital Expenditure	2019/20 Original Budget £'000	2019/20 Actual £'000	Variation £'000
Non-HRA Capital Expenditure	78,035	30,121	-47,914
HRA Capital Expenditure	20,269	12,655	-7,614
Total Capital Expenditure	98,304	42,776	-55,528
Resourced by:			
Developer Contributions	6,675	2,027	-4,648
Capital Receipts	13,022	2,781	-10,241
Capital Grants and contributions	4,239	2,481	-1,758
Major Repairs Reserve	10,325	7,149	-3,176
Prudential Borrowing	49,978	27,748	-22,230
Revenue	14,065	590	-13,475
Total Capital Resources	98,304	42,776	-55,528

Much of the variation to the original budget relates to slippage in the programme, the resources for which will be moved into funding the expenditure in future financial years.

The Council's Overall Borrowing Need

10. The Council's underlying need to borrow, or Capital Financing Requirement (CFR), is the measurement and control of the Council's overall debt position. It represents all prior years' net capital expenditure which has not been financed by other means, i.e. revenue, capital receipts, grants etc.

11. The CFR can be reduced by:

- The application of additional capital resources, such as unapplied capital receipts; or
- Charging a Minimum Revenue Provision (MRP), or a Voluntary Revenue Provision (VRP).

12. Table 2 below shows the Council's CFR as at the 31st March 2020, this is a key prudential indicator, and shows that actual borrowing is below the CFR:

Table 2 Capital Financing Requirement (CFR) 2018-19 and 2019-20			
CFR	31st March 2020 Estimate £'000	31st March 2020 Actual £'000	Variation £'000
Opening Balance	247,353	225,999	-21,354
Prudential Borrowing	35,615	27,748	-7,867
Minimum Revenue Provision	-103	-58	45
CFR Closing Balance	282,865	253,689	-29,176
External Borrowing	198,528	198,528	0
Internal Borrowing	84,337	55,161	-29,176

No new external debt was taken out during 2019/20 and as at 31st March 2020 the Council's total external debt was £198.5 million. This is below the CFR and indicates that the Council continues to internally borrow from its cash balances which is the cheapest form of borrowing

Treasury Position at 31st March 2020

13. Whilst the Council's gauge of its underlying need to borrow is the CFR, the treasury function manages the Council's actual need to borrow by either:

- Borrowing to the CFR;
- Choosing to utilise temporary cash flow funds, instead of borrowing (known as "under borrowing"); or
- Borrowing for future increases in the CFR (borrowing in advance of need)

14. The Council's treasury position as at the 31st March 2020 for both debt and investments, compared with the previous year is set out in Table 3 below:

Table 3 : Borrowing and investments 2018-2019 and 2019-2020				
Treasury Position	31st March 2019		31st March 2020	
	Principal £'000	Average Rate %	Principal £'000	Average Rate %
Borrowing				
Fixed Interest Rate Debt	198,528	3.15	198,528	3.15
Total Debt	198,528	3.15	198,528	3.15
Investments				
Fixed Interest Investments	70,000	0.97	59,000	0.96
Call Accounts	2,500	0.7	7,500	0.9
Variable Interest Investments	13,670	0.65	10,465	0.87
Property Funds	10,000	4.12	10,000	4.56
Total Investments	80,960	1.17	86,965	1.27
Net Position	117,568		111,563	

5. Overall, the Council earned a weighted average return of 1.27% on its investment which is above the target of 0.51% above average base rate, which equated to 0.70% as at 31st March 2020.

Prudential Indicators and Compliance Issues

16. Some of the prudential indicators provide an overview, others a specific limit on treasury activity. These are detailed below:

17. **Net Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, the Council's external borrowing (net of investments) over the medium-term must only be for a capital purpose, and not exceed the CFR except in the short-term. In the short term the Council can borrow for cash flow purposes. Table 4 below highlights the Council's net borrowing position against the CFR, and shows that it is significantly below the limit, due to the level of internal borrowing that has been undertaken.

Table 4 : Net Borrowing		
CFR 2018-19 and 2019-20		
Net Borrowing & CFR	31st March 2019	31st March 2020
	Actual £'000	Actual £'000
Total Debt	198,528	198,528
Total Investment	80,960	86,965
Net Borrowing Position	117,568	111,563
CFR	225,999	253,689
Under Borrowing plus Investments	108,431	142,126

18. In the current climate, internal borrowing is preferable to borrowing externally as the interest rate payable on an external loan is much higher than that which can be earned on investments. Therefore, forfeiting interest receivable on investments is more economical than paying additional interest charges for new external debt. If the net borrowing position, interest rate position and/or CFR changed significantly, the prospect of taking on additional debt would be reviewed.

19. **The Authorised Limit** – The Authorised Limit is the ‘affordable borrowing limit’ required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level unless it explicitly agrees to do so. Table 5 below demonstrates that during 2018/19 the Council’s gross borrowing was within its

Table 5 : Authorised lending limits 2018-19 and 2019-20				
Authorised Limit compared to Actual Borrowing	31st March 2019		31st March 2020	
	Limit	Actual	Limit	Actual
	£'000	£'000	£'000	£'000
Borrowing	338,199	198,528	338,199	198,528
Other Long Term Liabilities	0	0	0	0
Total Borrowed	338,199	198,528	338,199	198,528
Amount under Limit	139,671		139,671	

Authorised Limit. The Authorised Limit allows for some headroom above the Council’s projected CFR.

20. **The Operational Boundary Limit** – the Operational Boundary Limit is the expected borrowing position of the Council during the year. It is possible to exceed the Operational Boundary Limit, for a short period of time, providing that the Authorised Borrowing Limit is not breached. Table 6 below shows the limits for the last two financial years. Actual borrowing remained unchanged at £198.5m hence the limits were not breached during either period.

Table 6 : Operational Boundary Limits 2018-19 and 2019-20		
	31st March 2019	31st March 2020
	£'000	£'000
Operational Borrowing Limit	277,528	302,865
Other Long Term Liabilities	0	0
Totals	277,528	302,865

21. **Actual financing costs as a proportion of net revenue stream** – this indicator identifies the trend in the net cost of capital against the net revenue stream and is an indicator of affordability. Table 7 below shows that for the General Fund, the ratio is negative as external loans have been repaid and investment income is positive. The HRA ratio has improved slightly after last year’s reducing income stream, meaning that financing costs as a proportion have also fallen.

Table 7 : Financing cost 2018-19 and 2019-20		
	2018/19 £'000	2019/20 £'000
Revenue Stream		
General Fund	26,755	27,762
Housing Revenue Account	44,739	45,458
Comparison to Actual Revenue Position		
Financing Costs as a proportion of Net Revenue Stream - General Fund	-5.79%	-6.98%
Financing Costs as a proportion of Net Revenue Stream - HRA	16.93%	16.35%

Investment Income

22. Markets are remaining weak as interest rate rise increases look less likely due to the Covid19 pandemic and economic pressures, no rate rise now predicted by Link Asset Services (the Council’s treasury advisors) for the foreseeable future.
23. The Council manages its investments in-house and invests with institutions listed in the Council’s approved counterparty list. The Council invests for a range of periods from overnight to 364 days, dependant on cash flow requirements, its view on interest rates and duration limits set out in the Council’s Investment Strategy.
24. During 2019/20, the Council maintained an average investment balance of £113 million and received an average return of 1.27%. The upper limit of non-specified investments allowed in the strategy is 25% of the average investment balance for the preceding calendar year. The average balance for 2019 was £114 million giving a limit on non-specified investments of £28.5 million. Only the property funds fell into the non-specified investment category; their original investment value was £10 million which is within the non-specified limit at 8.84% of the average investment balance.
25. The property funds are classified as Non-specified Investments within the approved Investment Strategy. The current rate of return on the investments is circa 4.56% per annum. The capital value of the Communities, Churches and Local Authorities (CCLA) Fund has increased by 29.57% between April 2013 and March 2020. Normal valuation of the property funds has been suspended due to the pandemic, however, whilst indicative figures show that the values of both funds have fallen during March and over the 2020/21 financial year; the indicative valuations are still higher than the value of the

funds at the time of investment. It is important to understand that fluctuations in value are to be expected with property fund investments over the short term and that they are a long term investment; as such, any gains and losses in fund value should be considered over the long term.

The overall value of the Lothbury property fund investment has increased by 17.64% since inception in August 2014. This valuation was at 31/3/20 and that valuation did reflect some element of the Covid19 uncertainty at that point.

26. Actual investment income for 2019/20 was £2.75 million; £0.53m higher than the budget estimate of £2.22 million. The difference is primarily due to Investment balances being higher than anticipated during the year this can be attributed to slippage in the forecast capital spend.
27. Fluctuations in the Council's balances have been managed through a mix of instant access and notice accounts, money market funds and short term deposits (up to 364 days). This approach is in line with the Investment Strategy approved by the Council.

Interest Rates since 31st March 2020

28. The Council takes advice from Link Asset Services on the appropriate durations to place investments with counterparties. These durations and also the availability of individual counterparties are subject to change dependant on market conditions and the credit ratings of the individual institutions. This means that the investment portfolio has to be actively managed to ensure both the availability of enough suitable counterparties and that the Council achieves the best interest rates possible within the agreed security and liquidity parameters.
29. The Bank of England base rate was reduced to 0.10% in March 2020 and due to uncertainty caused by the Covid19 pandemic will remain so for the foreseeable future. The Council continues to use money market funds, call accounts and instant access accounts for liquidity purposes, whilst seeking to maximise its returns by arranging longer term deposits where possible. In order to achieve this position, it is vital to maintain a robust cash-flow model which is continuously reviewed and updated. However, given the volatile nature of the Council's cash-flow requirements, it is not always possible to "lock away" funds for as long as may be desirable and so a strategic approach to investments is fundamental in order to achieve the most practicable yet favourable outcome. The council holds £10m investment in property funds and the overall value of the funds has fallen due to the Covid19 pandemic and continues to be monitored. Dividends from the funds are still being paid and although the overall value has fallen since the Covid outbreak the investment is seen as long term and prices will fluctuate over time. Values are still currently well above the initial amount invested.

Financial implications

30. These are set out within the body of the report.

Legal Issues

31. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). Level of risk
32. Risk going forward is around uncertainty caused by the Covid19 pandemic. Interest rates are anticipated to remain low. Property markets are also uncertain. Risk assessment and management is a key part of Treasury Management activity, especially in the selection of counterparties when investment is being considered. The Council uses external advisors and counterparty credit ratings issued by the rating agencies to assist in this process.

Equalities impact

33. The Council follows an ethical investment policy, investment interest helps provide council services, which has a beneficial equalities impact.

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Background Papers: None

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