

Questions from Finance and Performance Panel – 06 September 2023

Questions relating to the Treasury Management Annual Report 2022/23

Question	Written Response
<p>1. Paragraph 9, Table 1 - Why the overspend of £6.3m compared to original budget in relation to financing via revenue?</p>	<p>The largest variance is in relation to the HRA; £5.2 million was used from the HRA capital projects reserve. This reserve holds funding that was not used in previous years for financing capital and which was transferred into this reserve for financing the capital programme in future years.</p> <p>There was also additional financing for the Housing System Replacement project from the General Fund Capital Financing Reserve.</p>
<p>2. Capital Budget & Spending - Why is there a big jump in QL exploitation and new laptops?</p>	<p>QL budgets from General Fund and Housing Revenue Account have been combined together therefore looking like a large increase.</p> <p>The laptop budget has increased as the underspend from the previous year has been rolled into the current year budget.</p>
<p>3. Has modelling been done to understand the impact on the Council if rapid increases in Bank of England interest rates lead to a recession; and contingencies put in place in case?</p>	<p>In setting the Medium Term Financial Plan in February the Council makes assumptions around bank base rates, inflation etc. We take advice from external advisors, the Link Group in doing this. There was an expectation that bank base rates would continue to increase before falling back in future years and therefore to some degree these increases have been factored in.</p> <p>The recent decision by the Monetary Policy Committee (MPC) is welcome.</p> <p>The increase in interest rates has a positive effect on the Council in terms of increased interest that we earn on our investments. We are not currently borrowing externally to finance our capital programme although this will change in the longer term. The negative impact of increasing interest rates is felt by OX Place in the form of increased loan rates and also our business and council tax payers, in their ability to pay outstanding liabilities. The Council does have some contingencies and balances</p>

	<p>to smooth out variations in interest rates against our assumptions, but these are reducing and the ability to rely on these as opposed to making in-year budget adjustments is limited.</p>
<p>4. <i>This question and response are exempt from publication pursuant to Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.</i></p>	
<p>5. What is the magnitude of the Council's direct property investments versus its investments in Property Funds? Response to also include information on valuation return and context re: sector and empty premises please.</p>	<p>The Council has £10 million invested in two property funds. These property funds give a return on original investment of around 5.5%. The property funds hold a diversified portfolio of property which focuses on the areas of commercial property carrying lower risk; the funds over recent years have moved away from retail investments.</p> <p>The Council's Investment Property at latest valuation was valued at £114.178 million. Income billed in respect of this property was £10.132 million. The bad debt provision in respect of commercial property debt was increased by £2.846 million in the year giving a net amount expected to be received of £7.286 million. In percentage terms, this is a gross return on value of 8.87% and a net return of 6.38%.</p>
<p>6. What does the Council define as a sustainable/green deposit in terms of investment; can details be provided of the Council's current green investments; and can a list be provided of the banks which would be acceptable for the Council to invest in, when taking all required factors (e.g. credit and ESG rating) into account – and what are the trade-offs?</p>	<p>Firstly, it is important to make it clear that the Council considers ESG, which stands for Environmental, Social and Governance factors, rather than purely green factors, alongside credit ratings. The Council ensures that all of its investments comply with its Ethical Investment Policy (which is contained within the Council's Treasury Management Strategy).</p> <p>The Council has invested in a sustainable deposit with Standard Chartered Bank. The sustainable deposit with Standard Chartered bank</p>

	<p>differs to their standard fixed term deposits as these deposits have an underlying commitment to supporting activities that provide sustainable and environmentally friendly services and products. The deposit guarantees that investment is referenced against sustainable assets, both existing and future. The investments are referenced against the United Nations Sustainable Development Goals (SDGs), so funds are put to work addressing some of the world's biggest long-term threats including, but not limited to, climate change, health, financial inclusion and education. The deposits have third party verification, with the framework independently reviewed on an annual basis to ensure that the latest thinking and trends are regularly incorporated.</p> <p>Through this product, investors are able to invest in activities aiming to help SDGs, without having to take direct exposure to them. With the exception of the commitment to supporting the achievement of SDGs, the product is no different from a standard fixed term deposit so the deposit is still with Standard Chartered Bank meaning that there is no change in the credit ratings of the bank and exposure is still with Standard Chartered Bank.</p> <p>Using the metrics from Sustainalytics (because it is freely available on the internet and relatively widely used), a summary of investment durations (derived for credit ratings) and ESG ratings (where low is low risk) is as follows:</p>
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Sustainanalytics		
Duration	ESG rating	Number
6 months	Not Rated	6
6 months	Medium	7
6 months	Low	3
12 months	Not Rated	0
12 months	Medium	2
12 months	Low	1

This shows the current problems with using ESG ratings: if the Council was to not invest in medium or unrated counterparties then the number of available counterparties would reduce from 19 to 4. Investing in low and medium but not in unrated would reduce the list to 13. Not all counterparties accept money all the time; it depends on their need for cash. The list is therefore naturally restricted based on who is in the market at any one time. There is therefore a high risk that if counterparty lists were reduced, the Council would run out of counterparties to invest in (reducing diversification and hence increasing risk) or would be forced to accept lower interest rates which would have an adverse impact on the finances of the Council.

Just because a counterparty is unrated does not mean it is bad (note that the UK and Local Authorities are unrated), it just means that they haven't paid for a rating to be included. Given that there are other providers of ESG ratings, not all counterparties will pay for a rating on the same list. To complicate matters, ESG ratings from different agencies do not look at the same factors in the same way and so there is no comparability between different lists. Currently the Financial Conduct Authority is undertaking a consultation on ESG rating/data providers which it is hoped will start to push some consistency between rating agencies which would be a good first step towards being able to use ESG ratings to inform decisions.

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