FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE)

Monday 4 September 2017

COUNCILLORS PRESENT: Councillors Fry (Chair), Simmons, Taylor and Landell Mills.

OFFICERS PRESENT: Andrew Brown (Scrutiny Officer), Nigel Kennedy (Head of Financial Services), Anna Winship (Management Accountancy Manager) and Nick Twigg (Major Projects & Development Manager)

57. APOLOGIES

None.

58. DECLARATIONS OF INTEREST

None.

59. THE IMPLICATIONS OF BREXIT

The Head of Financial Services introduced the report. He said that national shifts in inflation, which was rising, and general economic growth, which had slowed in the first half of 2017, were yet to feed through to the Oxford economy in a tangible way. Business Rates income was holding up, units in the new Westgate Shopping Centre were being let and there had been no significant increase in bankruptcies. BMW had recently announced that the next generation Mini would be produced in Cowley, which was good news for the local economy.

The London School of Economics (LSE) has assessed the expected impacts of a ‘hard’ and ‘soft’ Brexit on the Gross Value Added (GVA) of UK cities over the next ten years. The LSE predicted that there will be a negative impact across the board but Oxford was expected to be among the least adversely affected UK cities in the South of England, with GVA impacted by -1% (soft Brexit) to -2% (hard Brexit) over the period. This analysis was based on assumptions about increases in trade costs and did not factor in the effects of Brexit on innovation, foreign investment and migration flows, or how cities would respond to changes linked to Brexit. The LSE therefore expected that their analysis would underestimate the economic impacts of Brexit.

In terms of interest rates, the Bank of England’s base rate remained at a historic low of 0.25% and was not expected to be increased until 2019. This had the effect of supressing investment returns. It also meant that borrowing rates available through the Public Works Loan Board were very low. The Council was likely to benefit from the low borrowing rates at some stage when borrowing to finance the Housing Company’s development programme.

The Panel heard that Brexit was having an effect on the employment market, with a number of EU nationals reported to be leaving or planning to leave the

UK. Direct Services were having difficulties recruiting to some posts and these issues may start to bite over time.

The Panel noted that seven council employees who were EU nationals had applied to be reimbursed the £65 cost of applying for a UK Registration Certificate or Permanent Residence Card. The Panel suggested that the Council should continue to offer this to staff, either through further communications to all staff or more targeted communications.

The Panel questioned the extent to which the Westgate Shopping Centre was attracting new retail business to the city or causing existing businesses to relocate. The Major Projects and Development Manager said that the Westgate would provide a different offer to other parts of the city centre, including a number of new London-based operators who were opening flagship stores outside the capital. Some existing city centre businesses had been turned down for plots in the new Westgate. It was expected that there would be a period of flux for 1-3 years during which time there may be a number of empty units in the city centre before things settle down.

The Panel commented on the need for more office space in the city centre and asked whether there was scope within the Council's own commercial property portfolio for more office space. The Major Projects and Development Manager said that some opportunities were set out in the report on item 6. Further such opportunities may arise in the medium term or perhaps sooner if potentially suitable units were to become vacant.

In response to questions the Panel also noted that:

- A judgement would be taken about when to borrow externally to fund the Housing Company and the Council would be taking advice on this.
- The Head of Financial Services was comfortable with the level of risk the Council was taking in its investment portfolio, with up to 20% of the portfolio comprising non-specified investments such as property funds.
- Although the Treasury Strategy did allow for the Council to invest in foreign banks, it was not currently doing so. It was considered that returns would be similar to UK banks but the level of risk would be higher.
- It was thought that State Aid rules, which prevent competition being distorted, were unlikely to change in the near term. Their removal would negatively impact the General Fund.
- Possible fluctuations in Business Rates income linked to the new Westgate were not factored in to the Council's medium term financial plan but the Council only received 20% of the total Business Rates take.

The Panel agreed to recommend to the City Executive Board that:

1. The Council supports the Local Government Association in calling on the Government to grant local councils the £8.4bn they were due to receive from the Structural Investment Fund between 2014 and 2020.
2. The Council informs all staff who have been identified as possible non-UK EU citizens and who have not taken up the Council's offer to reimburse the cost of applying for a UK Registration Certificate or Permanent Residence Card that the Council remains happy to reimburse these costs.
3. Further consideration is given, in light of Brexit, to the case for having a powerful advocacy role for the Oxford economy at national and international levels and how this could be achieved in the absence of a directly elected mayor for Oxfordshire.

60. BUDGET MONITORING - QUARTER 1

The Management Accountancy Manager introduced the report and highlighted the main variances.

In discussion the Panel noted that:

- There is one red risk on the corporate risk register which related to governance arrangements for the new Council Companies. Audit and Governance would be considering a report from the Council's internal auditors on company governance.
- A recent Council decision to commit £1m of funding to replace the rain screen cladding on two tower blocks would show in the Q2 report. This expenditure was being funded from the reserve set up to mitigate the impacts of the higher value council homes levy, which has been delayed.
- The Panel would be able to consider how the Capital Gateway process is working when considering the Capital Strategy for 2018/19.
- Officers aimed to provide clarity in reports where decisions would be taken to recommit any underspends, and opposition groups had the opportunity challenge or support those decisions.
- The Direction of Travel indicators didn't clearly relate to specific performance measures and as some measures were new for this year there was no comparison.
- Training and monitoring was taking place to try to ensure that the Council would not breach the Housing Benefit subsidy threshold this year.

61. TREASURY MANAGEMENT PERFORMANCE: ANNUAL REPORT AND PERFORMANCE 2016/17

The Head of Financial Services said that the Council's investments totalled in the region of £90m-£100m at any one time. Returns had reduced slightly to 1.05% but had remained above the target for the year. Council borrowing had remained within limits and the Capital Financing Requirement showed that the Council had used internal borrowing rather than market borrowing to finance capital expenditure. The Council had external borrowing from the PWLB at fixed rates totalling £198.5mm, which had enabled the Council to retain ownership of its social housing stock. Interest paid on this external debt totalled £6.5m in 2016/17.

The Panel noted in discussion that the HRA financing costs ratio (Table 7) had improved as a result of additional income from temporary accommodation and fewer than expected Right to Buy sales.

62. ADDITIONAL FUNDING FOR FEASIBILITY STUDIES FOR INVESTMENT PROPERTY DEVELOPMENT OPPORTUNITIES

The Major Projects and Development Manager introduced the report. He said that the existing projects had grown significantly in size and cost but that densities and projected rental income had also increased. It was recommended that some new projects would be added where vacant premises required capital expenditure.

The Panel questioned the implications of the Council not being able to let properties on assured shorthold tenancies (paragraph 30) and whether the margin was beneficial to the Council or not. The Head of Financial Services Advised that he would seek clarity from Legal Services on this point.

A minority of the Panel thought that it would make more sense for the site in Cave Street to be used for housing and for the new housing planned on the East Oxford Community Centre site to be substituted for business units. This proposal would maximise housing and maintain the integrity of the East Oxford Community Centre site.

63. WORK PLAN

The Panel agreed to consider the IR35 item and a further report on Brexit at the March 2018 meeting.

64. NOTES OF PREVIOUS MEETING

The Panel approved the notes with corrections to typos on page 85.

65. FUTURE MEETING DATES

Noted.

66. EXEMPT APPENDICES FOR ITEM 6

Not considered.

The meeting started at 6.00 pm and ended at 7.35 pm