

Agenda

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Finance Panel (Panel of the Scrutiny Committee)

Date: **Monday 4 September 2017**

Time: **6.00 pm**

Place: **Plowman Room - Town Hall**

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Finance Panel (Panel of the Scrutiny Committee)

Membership

Chair

Councillor James Fry

Councillor Craig Simmons

Councillor Sian Taylor

Councillor Tom Landell Mills

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AGENDA

Pages

1 APOLOGIES

Substitutes are not allowed.

2 DECLARATIONS OF INTEREST

3 THE IMPLICATIONS OF BREXIT

7 - 22

Background Information
The Finance Panel has asked to monitor the impacts of Brexit on the Council's finances and the wider economy. Previous reports were considered by the Panel in September 2016 and March 2017.
Why is it on the agenda?
For the Panel to consider the impacts of the UK's decision to leave the European Union by monitoring a set of financial indicators on the Council's finances and the wider city economy.
Who has been invited to comment?
<ul style="list-style-type: none">Nigel Kennedy, Head of Financial Services

4 BUDGET MONITORING - QUARTER 1

23 - 36

Background Information
The Panel has a role in scrutinising the Council's financial performance and monitoring spend against budgets. The integrated performance report for quarter 1 2017/18 sets out the Council's financial position at 30 June 2017. The City Executive Board on 19 September will be asked to note the report.
Why is it on the agenda?
For the Panel to note and comment on the Council's financial outturn at the end of quarter 1 2017/18 before the report is presented to the City Executive Board and Council.
Who has been invited to comment?
<ul style="list-style-type: none">Nigel Kennedy, Head of Financial Services.

5 TREASURY MANAGEMENT PERFORMANCE: ANNUAL REPORT AND PERFORMANCE 2016/17

37 - 46

Background Information
The report sets out the Council's treasury management activity and performance for the financial year 2016/2017. The City Executive Board on 19 September will be asked to note the report.
Why is it on the agenda?
For the Panel to note and comment on treasury management performance. The Panel may also wish to make one or more recommendations to the City Executive Board.
Who has been invited to comment?
<ul style="list-style-type: none">• Nigel Kennedy, Head of Financial Services;• Bill Lewis, Financial Accounting Manager.

6 ADDITIONAL FUNDING FOR FEASIBILITY STUDIES FOR INVESTMENT PROPERTY DEVELOPMENT OPPORTUNITIES

47 - 70

Background Information
The report provides an update on the progress of a number of identified opportunities to maintain or improve the income stream from the Council's property investment portfolio and seeks approval for an increased budget requirement. The Scrutiny Committee asked for this item to be included on the agenda for pre-decision scrutiny.
Why is it on the agenda?
The City Executive Board on 19 September will be asked to: 1. Note the progress on the various schemes that had been identified and had budget approval to the value of £10,300,000. 2. Recommend to Council an increase of £4,635,000 to the allocated budget to deliver specific development opportunities. 3. Authorise entering into exclusive negotiations to seek financially viable agreements to lease with two identified commercial tenants, subject to Council budgetary approval. 4. Enter into agreements for lease at rental levels above the threshold of £125,000 per annum in line with the constitution. 5. Delegate to the Interim Assistant Chief Executive – Regeneration and Economy, in consultation with the Head of Financial Services, the authority to alter the terms of the agreements to lease on the basis that they continue to represent best value during negotiations.
Who has been invited to comment?
<ul style="list-style-type: none">• Fiona Piercy, Assistant Chief Executive – Regeneration & Economy;• Nick Twigg, Major Projects and Development Manager.

7	WORK PLAN For the Panel to note and agree its work plan, which can be adjusted to reflect the wishes of the Panel.	71 - 82
8	NOTES OF PREVIOUS MEETING For the Panel to approve the record of the meeting held on 6 July 2017.	83 - 86
9	FUTURE MEETING DATES Meetings are scheduled as follows: 5 December 2017 31 January 2018 14 March 2018 All meetings start at 6.00pm. MATTERS EXEMPT FROM PUBLICATION If the Panel wishes to exclude the press and the public from the meeting during consideration of any of the items on the exempt from publication part of the agenda, it will be necessary for the Panel to pass a resolution in accordance with the provisions of Paragraph 21(1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 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. The Panel may maintain the exemption if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.	
10	EXEMPT APPENDICES FOR ITEM 6 Exempt appendices 5, 7, 8 & 9 for item 6: Additional funding for feasibility studies for investment property development opportunities	87 - 94

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; licences 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". What this means is that 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 of the member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

To: Finance Panel (Panel of the Scrutiny Committee)
Date: 4 September 2017
Report of: Head of Financial Services
Title of Report: The Implications of Brexit

Summary and recommendations	
Purpose of report:	To update Finance Panel on the implications of the UK's decision to leave the EU on local government.
Key decision:	No
Executive Board Member:	Councillor Ed Turner, Finance & Asset Management
Corporate Priority:	Efficient Effective Council
Recommendation(s): That the Finance Panel resolves to:	
1. Note and comment on the report	

Introduction and background

1. The Head of Financial Services provided an update paper to the Finance Scrutiny Panel in March 2017 following the vote for Brexit on 23rd June 2016 and the triggering of article 50 on 29th March 2017 signalling the commencement of Britain's exit from the EU. This paper provides an update on the issues affecting the economy generally and Oxford City Council in-particular, since that paper.

Executive Summary

2. Before the referendum in June 2016, many economists produced gloomy forecasts of what would happen. In the post Brexit months this gloom did not materialise as predicted. Nationally the UK economy has struggled over the last few months and has been weak in comparison to EU counterparts. Inflation has continued to rise, which together with a falling pound against the Euro has had a negative impact on consumer confidence.
3. The Brexit event in June 2016 caused some initial unrest in the financial markets. Investment interest rates with banks and building societies decreased and have remained low with no recovery in base rates forecast until spring 2019; therefore, suppressed investment returns are likely to prevail for some time to come.

4. There appears to be little impact in the Oxford economy following the Brexit currently with 0.9% of the working population (measured by JSA claimants) compared to the national average of 4.5%. Income flows from fees and charges to the Council still seem buoyant, borrowing costs are the lowest they have been for many years and recent studies by the LSE's Centre for Economic Performance indicate that in either a 'hard' Brexit or 'soft' Brexit the effect on the economy within Oxford will be limited with larger negative impacts experienced by both London and cities in the South. In addition recent concerns around future investment by one of the city's largest employers, BMW, have since subsided.
5. Whilst negotiations have only just begun and it is early days it remains to be seen whether the national or local picture, as experienced in Oxford City, will improve or deteriorate. This will only truly be known when the UK has left the EU.

The story so Far

6. Following the triggering of Article 50 the Government officially opened negotiations with the EU on 19th June 2017. They were reported as saying that the most urgent items for discussions were:
 - Dialogue on Ireland.
 - Protection of Good Friday Agreement – ensuring the continuance of the Northern Ireland Assembly with a power-sharing executive, new cross-border institutions with the Republic of Ireland and a body linking devolved assemblies across the UK with Westminster and Dublin.
 - Maintenance of common travel area.
7. Phillip Hammond confirmed that Britain will leave the EU's single market and the bloc's Custom Union but in doing so it would look to secure the best deal for Britain's business and industry.
8. Initial negotiation groups that have been established include:
 - **Citizens' Rights** – The Government plans to seek a deal which ensures that Europeans living in Britain for 5 years will be entitled to new 'settled status', granting them permanent rights to healthcare, education, welfare, and pensions equivalent to British Nationals.
 - **Financial Settlement** – the potential cost is reported 60 billion euros

The implications of Hard and Soft Brexit

What is Hard and Soft Brexit?

9. **Hard Brexit** - Hard Brexit is at one end of the spectrum. It's about moving further away from the EU and cutting the main formal ties with the EU. Three of the ties that the Prime Minister talks about ending is the right of freedom of movement between EU countries, so that any citizen of the EU can work and live in any other EU country; the need to pay money to be a member of the EU; and the fact that EU law overrides UK law.
10. **Soft Brexit** - Soft Brexit is at the other end of the spectrum, where we continue to have close formal ties with the EU. It might look more like what Norway has, for example. They are in the EU single market which means they pay money, citizens can move between EU countries freely, and they have closer trade links than non-EU countries.

11. A recent paper produced by the LSE's Centre for Economic Performance (CEP) and Centre for Cities, examines the potential impact of both a 'hard' and 'soft' Brexit on British cities in the ten years following the implementation of new trade arrangements with the EU. Their conclusions are:
- All British cities are set to be negatively affected as a result of higher trade costs between the UK and EU, and this impact will be greater in the scenario of a 'hard Brexit'. Economic output in cities (as measured by Gross Value Added, GVA) is predicted to be 1.2 per cent lower on average under a 'soft Brexit' and 2.3 per cent lower under a 'hard Brexit' than if the UK remained in the EU.
 - Cities with large shares of employment in private-sector knowledge-intensive services (KIBS), predominantly in the South, are predicted to be most negatively affected due to the increase trade costs linked to Brexit.
 - Cities that are predicted to be most negatively affected by Brexit were more likely to vote remain in the 2016 referendum.
 - Cities predicted to be most negatively affected tend to be more productive and have highly skilled workforces; which means they may find it easier to adapt in the longer term.

Impact across Local Authority Areas

12. Basic summary statistics for the impacts across Local Authorities are reported in Table 1 below. In line with the national estimates, the average Local Authority level effect is negative under both scenarios, and more negative under hard Brexit. As discussed above, this is not particularly surprising given that the same sectoral effects that underpinned predictions of the national impact are also used to predict the Local Authority level results. The average Local Authority decrease in GVA is predicted to be 1 percentage point larger under hard Brexit than under soft Brexit (-2.12% compared to -1.14%, respectively). These figures are essentially unchanged if we use the median instead of the mean, suggesting that there are no particularly extreme predictions that drive the average effect. The figures for the 10th and 90th percentile are also consistent with this interpretation.

Table 1: Basic Summary Statistics for GVA Impacts of Brexit on Local Authorities

	<i>Soft Brexit</i>	<i>Hard Brexit</i>
	<i>%</i>	<i>%</i>
<i>Mean</i>	-1.14	-2.12
<i>Median</i>	-1.16	-2.11
<i>10th Percentile</i>	-1.34	-2.57
<i>Oxford City Council</i>	-1.0	-2.0
<i>90th percentile</i>	-0.91	-1.65

13. Oxford contrasts with their headline statement to some extent, with a loss of 2% GVA under hard Brexit and 1.0% GVA under soft, and predicted to be in the 10 least negatively affected cities under a soft Brexit. Worthing, Slough, Swindon and Reading are among the top 10 towns that will suffer the most, with a predicted cut of between 1.4% and 2.8% in economic output, according to the study. Barnsley, Burnley, Blackpool and Hull are among the towns that will be least affected by the

split from Europe. The worst affected city is projected to be Aberdeen with 3.7% and 2.1% and under each scenario.

14. There is the following health warning which demonstrates the general uncertainty around the predicted impact over the long-term:

“It is important to note that the model predicts the static effects of Brexit-related increases in trade costs on city economies. This is likely to underestimate the impact of Brexit as the model does not take account of the other effects of Brexit, for example on innovation, foreign investment and migration. Factoring in these additional effects at the national level increases the costs of Brexit to a loss of 6.3 per cent to 9.5 per cent of national income. The predictions also do not account for how cities might adjust to these shocks.”

Investments and Borrowing

Credit Rating of UK

- The UK's Sovereign credit rating continues to stand at AA with negative outlook with both Standard & Poors and Fitch. This reflects their view of the economic uncertainty following the Brexit vote and the expectation of slower UK economic growth over the medium term.
- Since the last report, Moody's has also downgraded the UK's outlook from stable to negative
- The UK continues to be deemed less credit worthy than the US, Australia and Canada
- Yields on 10-year Government bonds have recovered from their historic low levels in June 2016 as markets have stabilised since the Brexit vote
- The shareholders of the European Investment Bank (EIB) are the 28 Member States of the European Union and the UK has a 16.11% shareholding in the EIB. This position has not changed since the Brexit referendum or the subsequent triggering of Article 50

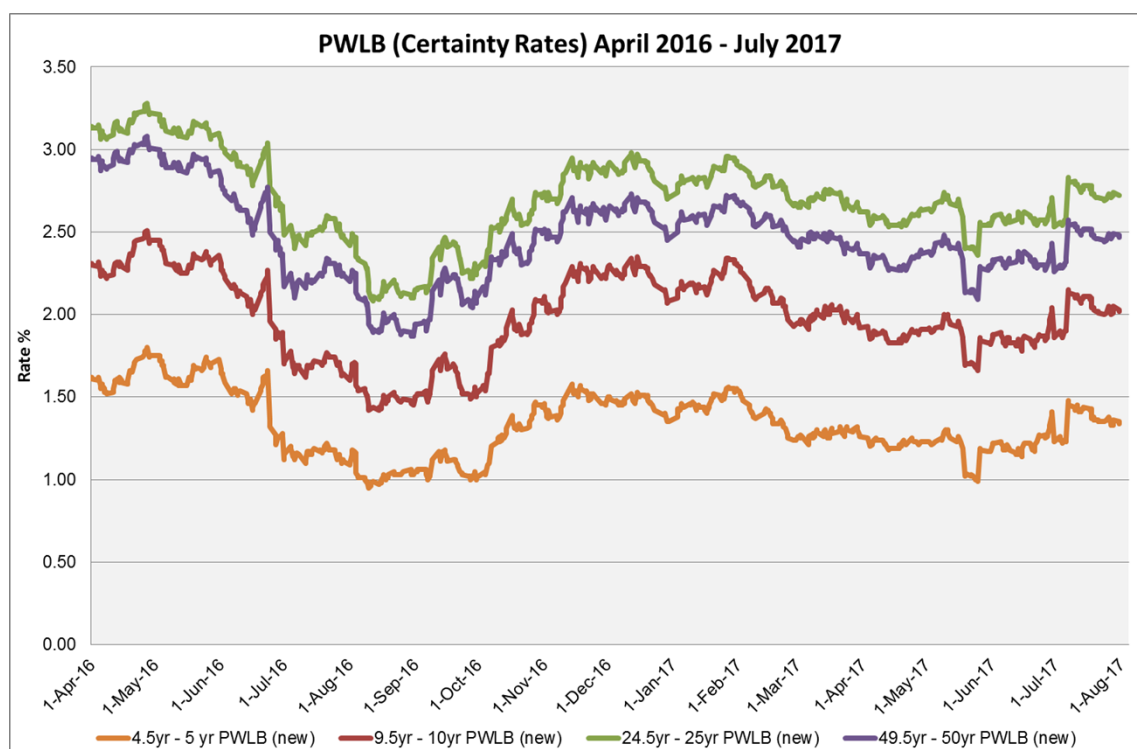
Interest rates

15. The Bank of England's Monetary Policy Committee cut bank base rates by 0.25% to 0.25% in August 2016. Base rate looks set to remain low for the foreseeable future.
16. The Bank of England continued with their Quantitative Easing programme buying corporate bonds, in order to support the British economy. In addition the Term Funding Scheme which gives cheap funds to banks has continued. Both of these measures mean that banks are not short of cheap funds, meaning they don't need to offer very competitive investment rates.
17. Capita; the Council's Treasury advisors have revised their interest rate forecasts and expect base rate to remain at 0.25% throughout 2017 and 2018 before rising 0.50% in June 2019. This is shown in the table below.

Economic Forecasts – Capita Asset Services 31st July 2017

	End Q3 2017	End Q4 2017	End Q1 2018	End Q2 2018	End Q3 2018	End Q4 2018	End Q1 2019	End Q2 2019	End Q3 2019	End Q4 2019
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%

18. PWLB borrowing rates continue to fluctuate but remain at an all-time low. The chart below illustrates the movement in rates from April 2016 to July 2017 thus encapsulating the periods immediately before and after the Brexit referendum.



City Council Investments

19. As at the 31st July 2017, the Council held £90.06 million of Investments in the following institutions:

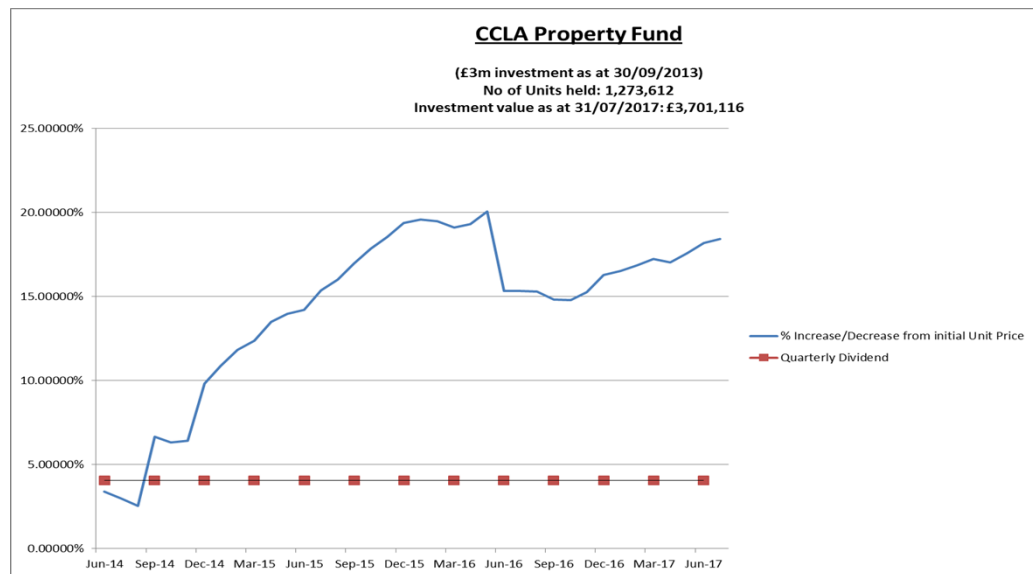
	Maturity Period			
	0-3 months £millions	3-6 months £millions	6-12months £millions	>12 months £millions
Banks	7	33.99		9
Building Societies		8		
MMF's	5.07			
Enhanced Cash Plus		8		
Local Authorities		6		3
Property Funds				10
Total	12.07	55.99	0	22

- Average investment returns in July 2017 was 0.55% for banks and building societies excluding property funds and 0.94% including property funds. This position remains relatively unchanged since the last report in March 2017 when the return was just 0.01% lower. Although it would appear that the market has stabilised in the last 6 months, rates remain less attractive, averaging 0.30% for a 6-month trade.
- Investment duration limits have remained constant at 6 months. As mentioned above banks are not short of cheap available funds and seen as relatively stable institutions.
- Within the medium term financial plan an amount of £1,047k has been included for investment interest based on an average interest rate of 0.38% excluding property and 1.57% including property funds. With the base rate decrease and the potential for a further decrease it is likely that this financial pressure will increase.

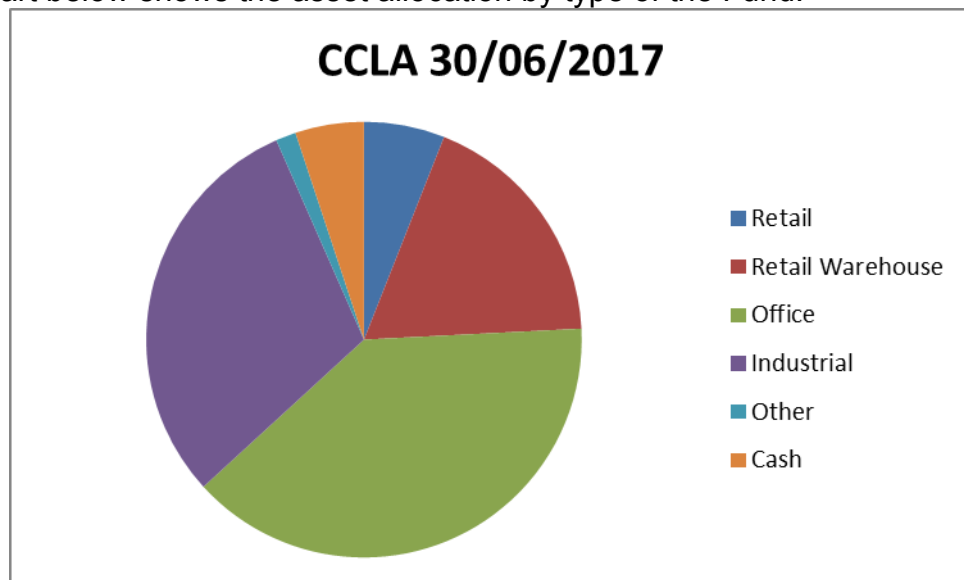
Property Funds

20. The Council has invested in three property funds. The primary reason for the Council investing in the CCLA and Lothbury property funds was to achieve a revenue return. Following the Brexit vote, the capital value of these funds fell, as concerns over slower economic growth and in turn demand for commercial/office property grew. As those concerns eased, both funds have recovered their value and in the case of Lothbury, levels have surpassed the pre-Brexit position whilst CCLA is almost back to its former position. Both funds are still significantly above their purchase value. Investments in property funds are long term and it is expected that there will be fluctuations in the capital value throughout the period that the property fund investments are held. More detail on the property funds the Council holds are as follows:

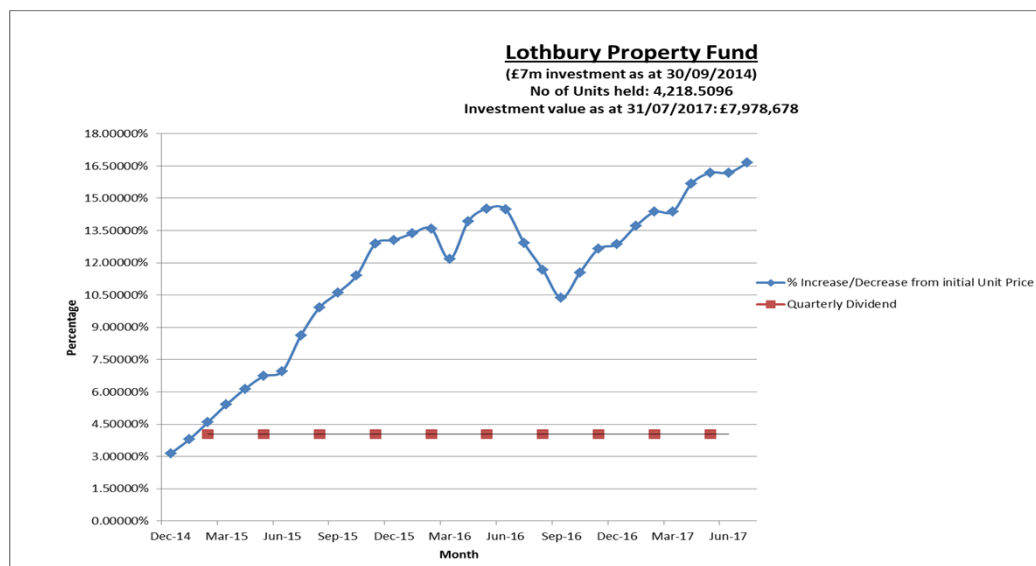
- **CCLA** – £3 million investment in the Local Authorities Property Fund held in two tranches. The total capital value as at the end of July 2017 was £3,701,116
- The Council has enjoyed growth since joining the Fund although the Brexit result did have a considerable effect on the net asset value as shown on the chart below. It has gradually recovered some value and the fund managers are confident the Fund will continue to improve via careful asset selection, tenant management and property improvement. As at 30 June 2017, the fund size has grown to £765 million
- The Fund managers believe the portfolio of properties remains attractive with strong and robust long-term tenants, low void rates of 4.8%, no gearing and relatively low exposure to City of London and Central London properties
- The Fund still allows redemptions.



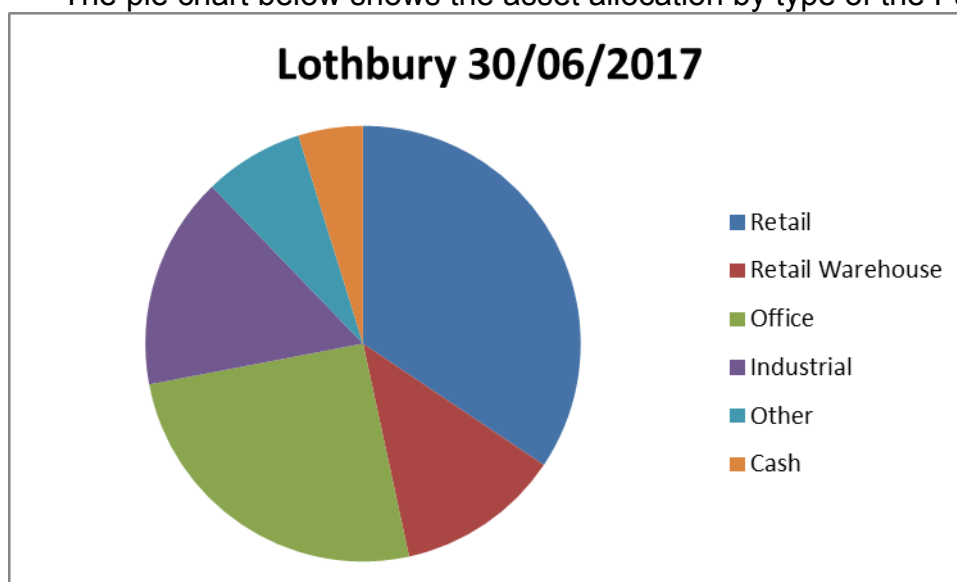
The pie chart below shows the asset allocation by type of the Fund.



- **Lothbury** – £7 million is currently invested in the Lothbury Property Fund held in two tranches. The capital value as at the end of July 2017 was £7,978,678.
- The Council has enjoyed growth since joining the Fund, although the Brexit result did have a considerable effect on the Fund as shown on the chart below. However the Fund has recovered strongly and has now surpassed its pre Brexit levels. The Fund managers believe the Fund comprises investments in prime properties that are high quality, well located and secured with excellent tenants. As at 30 June 2017, fund size was £1.597 billion
- The Fund still allows redemptions



The pie chart below shows the asset allocation by type of the Fund.



- **Real Assets Lettings** – At the end of 2016, the Council invested £5million with match funding from the Big Society to purchase houses for homeless families. Although essentially this is a service requirement, the Council expects to achieve a 3% rate of return commencing in 2017/18 as well as a share in the uplift in the value of the 50 properties purchased

Borrowing

21. Within the Council's Medium Term Financial Plan, provision has been made for the following prudential borrowing:

	HRA	General Fund	Housing Company	Total
	£000's	£000's	£000's	£000's
2017/18	-	14,712	3,000	17,712
2018/19	-	5,039	29,000	34,039
2019/20	-	708	17,000	17,708
2020/21		705	12,000	12,705
Total	-	21,164	61,000	82,164

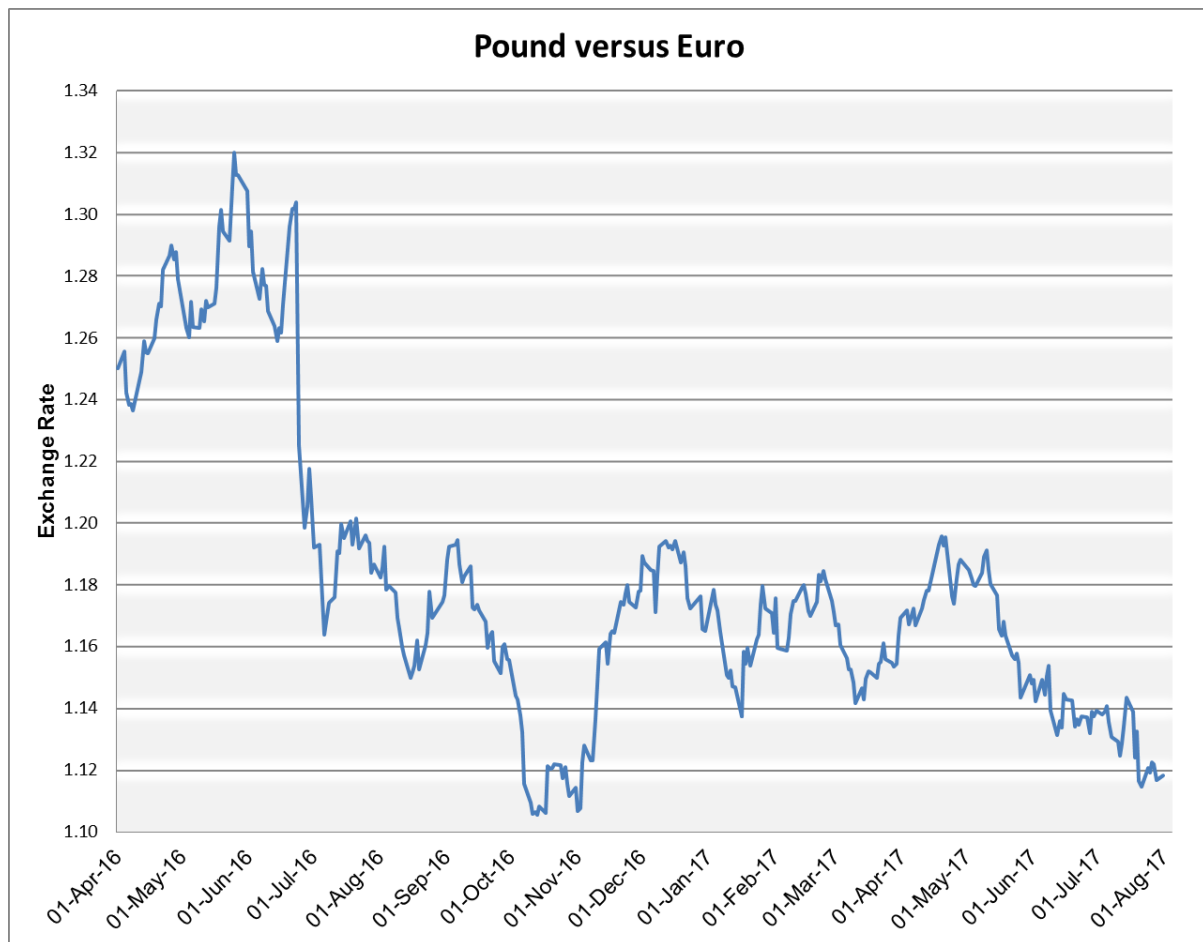
22. There is currently no external borrowing on the General Fund, or Housing Company. The HRA currently has £198million of fixed interest self-financing debt. In addition the Council currently has around £20 million of internal borrowing and reserves and balances of around £60 million which potentially provide additional headroom dependant on the Council's expenditure profile. However, as highlighted earlier; borrowing rates are at historically low levels so officers are monitoring the situation carefully.

Britain's Contribution to the EU

23. From 2010 to 2015, the UK's average annual gross contribution to the EU amounted to around £16.8 billion. However the UK also receives a rebate and funding from various EU initiatives. This means that the UK's average annual net contribution to the EU budget over these same years is estimated to be around £8.8 billion, or around 0.5% of GDP.
24. Although in the near term budgetary contributions to the EU must still be made, and funding flows into the UK will continue, the longer term position is uncertain and is dependent on the exit negotiations between the UK and the EU.

Pound versus Euro

25. The pound has fallen consistently against the euro since the Brexit vote to a current low of 1.11 as at July 2017. This compares to a 52 week high of 1.20 euros and a peak of 1.32 euros in May 2016 before the Brexit vote. Whilst the fall in the pound has helped exporters it has made many imported goods more expensive and foreign holidays more expensive for British tourists !



EU Funding

26. As previously reported the City Council has actively pursued European Funding for relevant projects in recent years. Additionally, the Local Enterprise Partnership (LEP) has secured funding from the European Structural Investment Funds (ESIF) (c£20million). In December the city council was awarded a contract by the Big Lottery Fund to manage a programme of employment support and training for unemployed young people in Oxfordshire. "Unlocking Potential for Oxfordshire" is a new project that will receive up to £734,000 over the next three years as part of the Building Better Opportunities (BBO) programme, jointly funded by the Big Lottery Fund and the European Social Fund (ESF).
27. In recent announcements the Local Government Association (LGA) has called on Whitehall to grant councils the £8.4 billion they were due from European Structural Investment Fund between 2014 and 2020 amid concerns over EU regeneration funding

EU Obligations

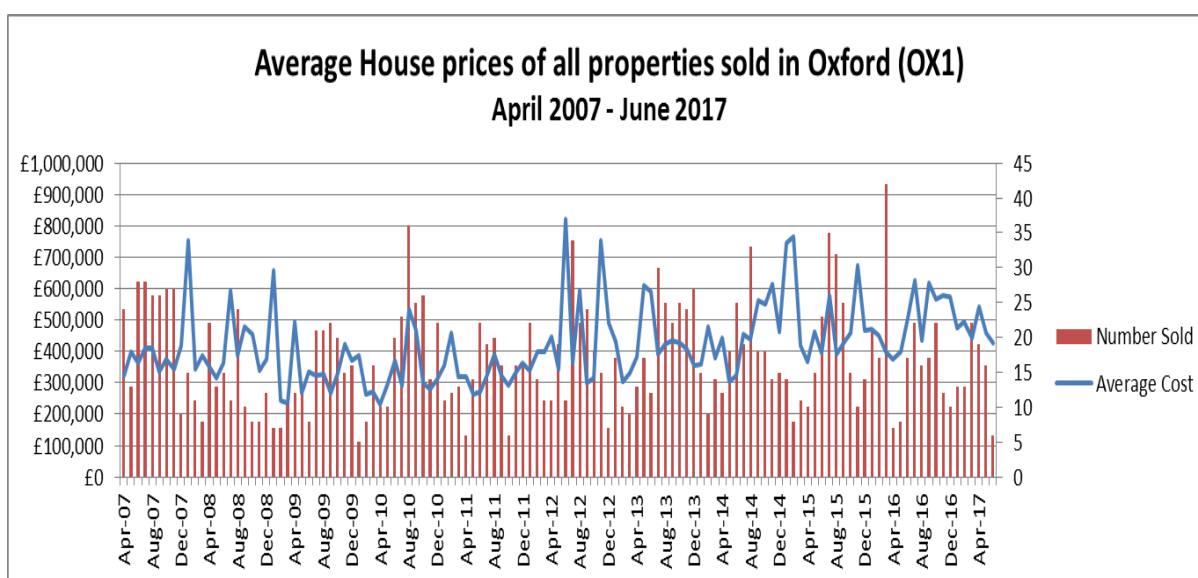
28. There are a range of EU obligations affecting local authorities. Procurement, local economic development, waste and employment are all determined by EU regulations. It is probable that some of these regulations will remain enshrined within UK law, others may be repealed or overturned in the fullness of time.

State Aid Rules

29. Potentially some EU state aid rules would be relaxed, which could mean it is easier in some circumstances to support companies with public funding when warranted, although we would still have to comply with restrictions that may be imposed as part of a negotiated European Free Trade Agreement. The Council has applied state aid rules in the calculation of interest charged on loans made to the recently established Housing Company and similar calculations will be applied to loans to the Councils Local Authority Trading Company

House Prices

30. UK house prices fell for the third consecutive month in May 2017, the first time since the financial crisis and despite small increases in June and July the annualised growth figure still dropped from 3.1% to 2.9%. It is fair to say however that even with the recent market fluctuations the average cost of dwellings in Oxford continues to be buoyant.



31. UK house prices accelerated in February 2017 rising by 4.5% in a year according to Nationwide. The outlook for the market however is uncertain with the Nationwide predicting a 2% rise in UK house prices over the course of 2017.

UK Gross Domestic Product Growth

32. The UK economy was the worst performer in the [European Union](#) in the opening months of 2017 as the Brexit vote took its toll, according to official statistics that underscore the challenge facing the next British government.
33. With economic growth [of just 0.2% in the first three months of this year](#) and 0.3% in the second 3 months, the UK was well behind its European neighbours. Official EU [figures](#) showed the growth for the whole of the EU was 0.6% in the first quarter. The Eurozone single currency bloc also grew 0.6% in the opening quarter, buoyed by strong domestic demand.



34. Every nation in the 28-member bloc reported first-quarter GDP figures growing faster than the UK. The strongest expansion was in Romania at 1.7%, followed by Latvia at 1.6% and Slovenia at 1.5%. The closest countries to the UK's weak pace of growth were France and Greece, with GDP growing 0.4% in both.
35. However, in year-on-year terms the UK was closer to the EU performance and ahead of the 19-nation Eurozone. After a strong second half to 2016, when the economy defied predictions of a post-referendum slump, UK GDP was still 2% bigger in the first quarter of 2017 than a year earlier. The EU's economy was 2.1% bigger on the year while the Eurozone was up 1.9%.
36. Recent business surveys have [suggested the UK economy has picked up some momentum in the second quarter](#) after its slow start to 2017. But with higher inflation [weighing on consumer spending](#), most forecasters [expect growth to be lackluster over 2017](#) as a whole and even weaker in 2018.
37. The main pressure is expected to come from higher inflation, stemming largely from the pound's sharp fall since the [Brexit](#) vote last year (see below). That has made the many imported goods to the UK more expensive and been passed on to consumers. Wages meanwhile have failed to keep pace with those price rises and so workers are worse off in real terms and have been cutting back.



“Brexit has been partly to blame for slower UK growth, as higher prices due to lower sterling and uncertainty hit retail spending and the willingness of firms to invest,” said George Buckley, economist at the financial firm Nomura.

“But it’s not all bad news – this is as much a story about global strength as it is about downside risks to the UK, which should eventually support exports”

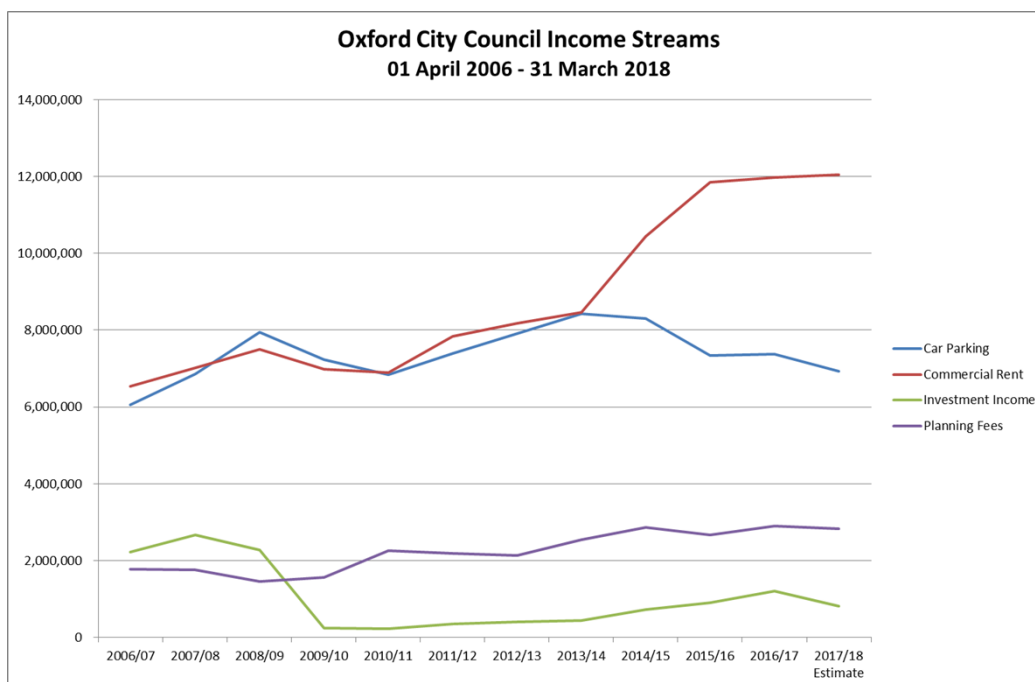
Employment

38. In recent announcements it has been reported that almost a million EU citizens are either planning to leave the country or have already made their minds up to go as a result of Brexit.
39. A survey of 2000 EU workers in Britain by KPMG found that 55% of those with PhDs and 49% of those with postgraduate degrees were either planning to go or were actively considering it. The fall of the Euro against the pound has compounded these views to the extent that some foreign workers see little financial gain to working in the UK.
40. In Oxford City Council we currently have 146 employees who may be EU nationals (89 undeclared and 57 specified on ITRENT). The cost of applying for a UK Registration Certificate or Permanent Residence Card is £65 and in order to mitigate additional recruitment costs the Council has agreed to fund this cost at a total potential cost of £9,490. To date only 7 employees have applied for the reimbursement. Whilst these are relatively small numbers in comparison to the Councils workforce, the Councils does make use of temporary recruitment agencies to fill temporary absences which could have a bigger effect on the council’s ability to recruit in these circumstances.

The Council’s Key Income Streams

41. For an indication of what the effect of Brexit may have on the Councils own income streams it is worth looking at what happened in the last recession and the effect on some of the Council’s main income streams, i.e. car parking, planning fees, investment income, commercial property income and Business Rates. It will be appreciated that past history may not be reflective of the future.

42. Following 6 successive quarters of negative growth the UK finally moved out of recession in the final quarter of 2009. The graph below shows the Councils' main income streams between 2006/07 and 2016/17 which shows the trend before, during and after the recession.



43. The main observations include:

- The figures for 2017-18 are based on actuals up until August 2017 and then estimated outturn for the remaining 7 months.
- Investment income dropped significantly as base rates were cut to 0.5% and will drop further following the cut to 0.25%
- Some dip in car parking income in 2010/11 but equally this could be explained by the transfer of 2 park and ride sites to the County Council. Car parking income in 2016-17 at year end will be in line with 2015-16 levels.
- Planning fees show some plateauing in 2008/2009 but with steady growth thereafter
- Commercial rents have continued to climb over the period, more significantly in 2014/15 which arises due to the switch of car parking income from the Westgate in favour of a fixed rental from the Westgate Development Partnership.

Focus on Investment Property

44. The Council has a commercial portfolio that currently is estimated to deliver a rental stream of around £12m in 2017/18.

Analysis of Commercial Property Rental Income By Type of Holding

Property Category	Annual Rent	% Income
Agricultural	£ 14,350	0.1%
Café/ Snack bar	£ 232,550	2.0%
Easement	£ 10,276	0.1%
Hotel/Guest House	£ 168,500	1.5%
Licence	£ 333,178	2.9%
Mooring	£ 47,643	0.4%
Residential	£ 1,148,843	10.0%
Restaurant	£ 1,496,079	13.0%
Retail	£ 5,636,660	48.8%
Offices	£ 1,806,336	15.6%
Light Industrial	£ 226,296	2.0%
Community Facility	£ 101,390	0.9%
Museum/Theatre	£ 320,000	2.8%
Total Budget	£ 11,542,100	

Retail Category includes Covered Market and all income expected from Westgate Development

45. There has been no marked change in income since the Brexit decision.

Business Rates

46. The business rates net collectable debit in Oxford City is shown as follows

Business rates net collectable debit	
	£000's
2013/14	85,581
2014/15	86,669
2015/16	88,488
2016/17	89,497
2017/18	91,129

47. The table above shows our Business Rates income has remained resilient despite all the development going on in the City Centre. From October 2017 we can expect to see growth through the new Westgate development. In the latest 2017 valuation list (dated July 26th 2017) we have 23 properties with rateable values of £1 million or over totalling £61.1 million (24.3% of total rateable value) out of a total of 4,059 properties with a total rateable value of £251.5 million.

48. Our second highest assessment is the BMW Motor Vehicle Works in Garsington Road (RV £8.6m). In recent announcements in July 2017 BMW confirmed that the next generation mini would be built in Oxford. There had been fears that future investment in the battery-electric Mini could be hampered due to uncertainty surrounding Britain's departure from the European Union. Production of this vehicle is due to commence in 2019. In a recent update the German car giant BMW

insisted that it did not 'seek or receive' any assurance from the Government on post Brexit trade before making its decision. Ministers faced questions last year about any assurances given to Nissan before the company announced that new versions of its Qasqai and X-Trail would be made in the UK.

49. If production is moved away from Oxford the rating assessment could be drastically reduced with the authority dropping to safety net in respect of Business Rates Retention, a loss of around £450k per annum. The knock on effect to the Oxford economy could be significantly worse than this.

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Background Papers: None

To: City Executive Board
Date: 19 Sept 2017
Report of: Head of Financial Services
 Head of Business Improvement
Title of Report: Integrated Performance Report for Quarter 1 2017/18

Summary and recommendations	
Purpose of report:	To update Members on Finance, Risk and Performance as at 30 th June 2017.
Key decision:	No
Executive Board Member:	Councillor Ed Turner
Corporate Priority:	Efficient and Effective Council.
Policy Framework:	Corporate Plan
Recommendation(s): That the City Executive Board resolves to:	
1.	Note the projected financial outturn, the current position on risk and performance as at the 30 th June 2017.

Appendices	
Appendix A	Corporate Integrated Dials
Appendix B	General Fund - June 2017 Forecast Outturn
Appendix C	Capital Programme - June 2017 Forecast Outturn
Appendix D	HRA - June 2017 Forecast Outturn

Introduction and background

1. This report updates the Board on the financial, corporate performance and corporate risk positions of the Council as at 30th June 2017. A brief summary is as follows:
2. **Financial Position**
 - a. **General Fund** – the outturn position is forecast to be a nil variance against the latest net budget of £21.056 million;
 - b. **Housing Revenue Account** – the outturn position is forecasting an adverse variance of £0.292 million;
 - c. **Capital Programme** – the outturn position is forecasting a £0.385 million adverse variance against the latest budget of £67.87 million;
3. **Performance** – 72% (10) of the Council's corporate performance targets are being delivered as planned, 14% (2) are below target but within acceptable tolerance limits and 14% (2) are currently at risk, as described in paragraphs 13 to 15;.
4. **Corporate Risk Management** – There is one red corporate risk at the end of quarter one. More details of this can be found in paragraph 16.

Financial Position

General Fund Revenue

5. The overall Net Budget Requirement agreed at Council in February 2017 was £21.056 million. Since setting the budget, we have increased service area expenditure by £1.813 million which represents budgets carried forward from 2016/17 being added to 2017/18 budgets. This has been funded by a corresponding release from Earmarked Reserves to ensure that the Net Budget Requirement remains unchanged.
6. Virements between service areas, authorised under delegated powers by the Council's Head of Financial Services totalling £0.416 million have also taken place. The most notable of which (£0.257 million) relates to the allocation of training budget across service areas. Other virements actioned relate to funding into Welfare Reform from Housing Services (£0.082 million), and realignment of the MFD budgets (£0.052 million). There is no change to the Council's Net Budget Requirement.
7. At 30th June 2017 the General Fund is projecting a nil variance against the latest net budget of £21.056 million although housing benefit subsidy does give some cause for concern as indicated below.
8. The level of subsidy that Oxford City Council may claim for local authority error and administrative delay overpayments is determined in relation to a lower and upper threshold (0.48% and 0.54% respectively) and expressed as a percentage of the value of correct payments made.
9. Where the local authority error and administrative delay overpayments are less than or equal to the lower threshold, local authorities receive 100% subsidy. Where they are more than the lower threshold but less than the upper the local authority receive 40% subsidy and no subsidy is payable on the value of overpayments above the upper threshold.

10. The Council is currently exceeding the upper threshold by £33,948.46 which would indicate a loss of subsidy payable. However, previous years External Audit reports have made a number of recommendations which the team have put in place to mitigate these losses and reduce the creation of Local Authority error. With these measures in place we expect local authority error to reduce significantly and enabling the Council to receive 100% subsidy by year end.

Housing Revenue Account

11. The budgeted surplus agreed at Council in February 2017 was £5.619 million. Since setting the budget, we have increased net expenditure by £0.370 million which represents budgets carried forward from 2016/17 being added to 2017/18 budgets. This has been funded by a corresponding release from Earmarked Reserves to ensure that the budgeted surplus remains unchanged.
12. The Housing Revenue Account is currently forecasting an adverse variance of £0.292 million at year end. The key variation is as follows:
- The capital spend on the Tower Block refurbishment scheme is expected to overspend due to unachieved value engineering on the contract and this will need to be funded from revenue resources, therefore showing a projected variance at year end.

Capital

13. The projected outturn on the Capital Programme is currently an adverse variance of £0.385 million against the latest budget of £67.874 million. The main variances are:
- Increased expenditure of £0.133 million on Florence Park Tennis Courts, which will be funded by external match funding;
 - Slippage of (£0.060 million) on CCTV at Gipsy Lane Campus, due to the scheme being delayed;
 - Slippage of (£0.031 million) on the Museum project, due to expenditure slipping into 2018/19;
 - Bringing £0.050 million into 2017/18 from 2018/19 for Bullingdon Community Centre project to commence work;
 - Overspend of £0.292million on the Tower Blocks scheme within the HRA due to unachieved value engineering on the contract.

Performance Management

14. There are fourteen corporate performance measures that are monitored during the year. Ten (72%) are being delivered as planned, two (14%) are below target but within acceptable tolerance limits, and two (14%) are at risk of not meeting their target.
15. Of the ten that are being delivered as planned, one relates to Vibrant and Sustainable Economy, three relate to Meeting Housing Need, three to Cleaner Greener Oxford, two to an Efficient and Effective Council and one to Strong and Active Communities.
16. The two measures that are not meeting their targets are as follows:
- **Number of people using leisure centres** – Target of 350,000 and an actual of 328,946 for the first quarter. Fusion have set themselves challenging targets in 17/18 and the Council continues to encourage them to

achieve these. In this reporting period there has been a 123% month on month increase in visits. In line with the 2009 Leisure Strategy, the number of publicly accessible gyms in the city has increased suggesting more choice to access affordable leisure provision in the city.

- **Amount of employment floor space for development (m2)** – Target of 3,750 m2 and an actual of 475 m2. There has been a net increase of 18 m2 this month. We continue to work with the developers operating in the local market to bring forward the key sites to meet this target.

Corporate Risk

17. There is one Red risk being reported in the first quarter of 2017/18 and there are six amber Risks, details of the red risk are shown below:

- **Innovation arrangements and models** – Agreements between the the Council and its wholly owned companies regarding reciprocal service provision and governance arrangements are insufficiently specified and implemented. Governance arrangements including Shareholder agreements as well as contract documents are currently being drafted in mitigation.

Financial implications

18. All financial implications are covered in the body of this report and the Appendices.

Legal issues

19. There are no legal implications directly relevant to this report.

Level of risk

20. All risk implications are covered in the body of this report and the Appendices.

Equalities impact

21. There are no equalities impacts arising directly from this report.

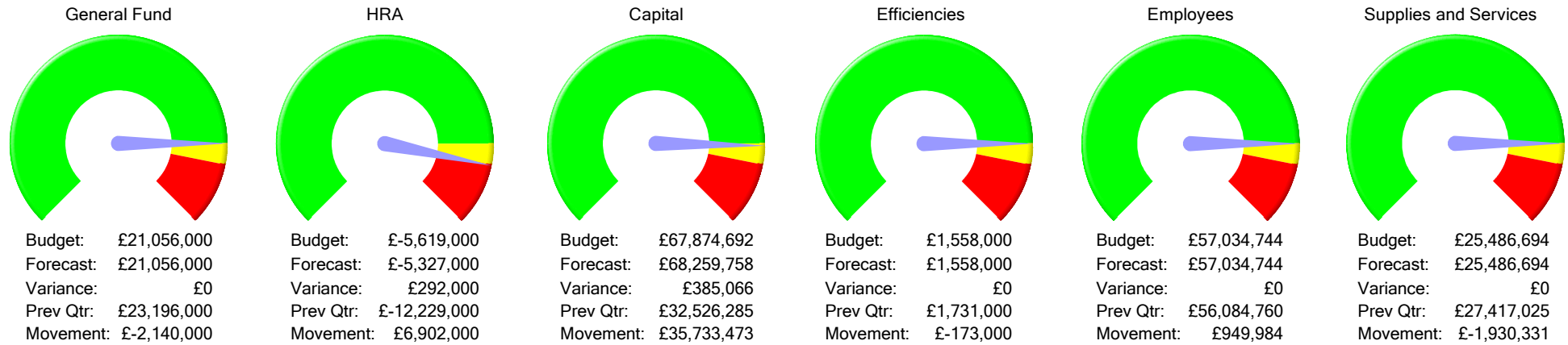
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Background Papers: None

Appendix A

Corporate Integrated Report Q1 2017/18

Financial Performance



Performance Summary

Priority	No Data	Red	Amber	Green
Vibrant and Sustainable Economy	0 (0%)	1 (50%)	0 (0%)	1 (50%)
Meeting Housing Need	0 (0%)	0 (0%)	0 (0%)	3 (100%)
Strong and Active Communities	0 (0%)	1 (33%)	1 (33%)	1 (33%)
Cleaner Greener Oxford	0 (0%)	0 (0%)	0 (0%)	3 (100%)
An Efficient and Effective Council	0 (0%)	0 (0%)	1 (33%)	2 (67%)
Total	0 (0%)	2 (14%)	2 (14%)	10 (71%)

	No Data	Red	Amber	Green
Previous Quarter	0 (0%)	3 (20%)	0 (0%)	12 (80%)

Direction of Travel

Priority	No Data	Declining	No Change	Improving
Vibrant and Sustainable Economy	0 (0%)	2 (67%)	0 (0%)	1 (33%)
Meeting Housing Need	0 (0%)	2 (67%)	0 (0%)	1 (33%)
Strong and Active Communities	0 (0%)	3 (100%)	0 (0%)	0 (0%)
Cleaner Greener Oxford	0 (0%)	1 (33%)	1 (33%)	1 (33%)
An Efficient and Effective Council	0 (0%)	2 (67%)	0 (0%)	1 (33%)
Total	0 (0%)	10 (67%)	1 (7%)	4 (27%)

Risk Management

Service	No Data	Red	Amber	Green
Meeting Housing Need	0 (0%)	0 (0%)	1 (100%)	0 (0%)
Strong and Active Communities	0 (0%)	0 (0%)	1 (100%)	0 (0%)
Cleaner Greener Oxford	0 (0%)	0 (0%)	0 (0%)	1 (100%)
An Efficient and Effective Council	0 (0%)	1 (14%)	4 (57%)	2 (29%)
Total	0 (0%)	1 (10%)	6 (60%)	3 (30%)

	No Data	Red	Amber	Green
Previous Quarter	0 (0%)	1 (9%)	5 (50%)	4 (40%)

Direction of Travel

Service	No Data	Declining	No change	Improving
Total				

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GF Outturn Report 17/18 @ 30th June, 2017	Approved Budget (per Budget book)	Release from Earmarked Reserves	Virements in Q1	Latest Budget	Projected Outturn against Latest Budget @ 30th June, 2017	PO Variance
	£000's	£000's	£000's	£000's	£000's	£000's
Directorates						
Assistant Chief Executive	614	80		694	694	
Housing Services	5,429	268	(96)	5,601	5,601	
Assistant Chief Executive	6,043	348	(96)	6,296	6,296	
Regeneration & Economy	(9,561)	53		(9,508)	(9,508)	
Regeneration & Economy	(9,561)	53		(9,508)	(9,508)	
Planning, Sustainable Dev & Regulatory	1,856	28	18	1,902	1,902	
Community Services	5,089	398	(115)	5,372	5,372	
Direct Services	3,384	680	281	4,345	4,345	
Sustainable City	10,330	1,106	184	11,620	11,620	
Transformation	227			227	227	
Business Improvement	8,885	82	(205)	8,762	8,762	
Welfare Reform Team	158	22	82	262	262	
Financial Services	2,888	132	24	3,044	3,044	
Law & Governance	2,675	70	11	2,756	2,756	
Organisational Development & Corporate Services	14,833	306	(88)	15,051	15,051	
Directorate Total Excl SLA's & Capital Charges	21,646	1,813		23,459	23,459	
SLA's & Capital Charges	(337)	100		(237)	(237)	
Corporate Accounts	(1,973)	(80)		(2,053)	(2,053)	
Contingencies	1,334	(550)		784	784	
Total Corporate Accounts & Contingencies	(639)	(630)		(1,269)	(1,269)	
Net Expenditure Budget	20,670	1,283		21,953	21,953	
Transfer to / (from) Ear Marked Reserves	386	(1,283)		(897)	(897)	
Net Budget Requirement	21,056			21,056	21,056	
Funding						
External Funding (RSG)	1,460			1,460	1,460	
External Funding (NNDR Retention)	6,647			6,647	6,647	
Council tax	13,121			13,121	13,121	
Less Parish Precepts	(172)			(172)	(172)	
Collection Fund Surplus						
Section 31 Grants						
Total Funding Available	21,056			21,056	21,056	
(Surplus) / Deficit for year						

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	Capital Budget and Spend as at 30th June 2017									
Cost Centre	Capital Scheme	2017/18 Budget Book	Latest Budget	Profiled Budget	Spend to 30th June 2017	Variance to Profile Budget	Forecast Outturn	Forecast Variance	Variance due to Slippage	Variance due to Over/ Under spend
		£	£	£	£			£	£	£
C3039	ICT Infrastructure	400,000	400,000	-	(37,844)	(37,844)	400,000	-	-	-
C3044	ICT Software and Licences	150,000	150,000	150,000	151,783	1,783	151,783	1,783		1,783
C3055	Waste Management Project	-	100,000	25,000	-	(25,000)	100,000	-	-	-
C3056	Agresso Upgrade	50,000	100,430	-	(5,975)	(5,975)	100,430	-	-	-
C3057	Housing System Replacement	250,000	293,290	23,463	38,840	15,377	293,290	-	-	-
C3058	CRM Application	100,000	-	-	-	-	0	-	-	-
C3060	End-Point Devices	150,000	150,000	-	-	-	150,000	-	-	-
G6013	Superconnected Cities	-	8,853	2,213	4,550	2,337	8,853	-	-	-
	S03 Business Improvement	1,100,000	1,202,573	200,677	151,354	(49,323)	1,204,356	1,783	-	1,783
M5023	Oxpens Regeneration	4,160,000	4,160,000	1,040,000	-	(1,040,000)	4,160,000	-	-	
	S10 Regeneration and Economy	4,160,000	4,160,000	1,040,000	-	(1,040,000)	4,160,000	-	-	-
	<u>CIL and S106 Funded Schemes</u>									
F7007	Woodfarm / Headington Community Centre	-	20,000	5,000	-	(5,000)	20,000	-	-	
F7009	CCTV Gipsy Lane Campus	-	60,000	-	-	-	0	(60,000)	(60,000)	
F7011	Headington Environmental Improvements	-	59,004	14,751	-	(14,751)	59,004	-	-	
F7020	Work of Art Shotover View	-	14,635	3,659	-	(3,659)	14,635	-	-	
F7024	St Clements Environmental Improvements	-	50,000	12,500	-	(12,500)	50,000	-	-	
F0025	Westgate area public realm improvements	567,000	1,134,000	-	-	-	1,134,000	-	-	
F0026	Pedestrianisation of Queen Street	500,000	500,000	-	-	-	500,000	-	-	
			-	-						
	<u>Grants</u>		-	-						
E3511	Renovation Grants	25,000	50,773	10,193	6,604	(3,589)	50,773	-	-	
E3521	Disabled Facilities Grants	1,000,000	1,510,959	150,000	94,369	(55,631)	1,510,959	-	-	-
	<u>Environmental Sustainability</u>									
E3554	Additional SALIX Plus funding	-	112,585	-	-	-	112,585	-	-	
E3555	Flood Alleviation at Northway & Marston	1,381,000	1,824,335	1,024,585	1,279,582	254,997	1,824,335	-	-	
E3557	Oxford and Abingdon Flood Alleviation Scheme	380,000	380,000	-	-	-	380,000	-	-	
E3558	Go Ultra Low	35,000	276,695	14,639	14,639	-	276,695	(0)	(0)	
E3559	Earl Street Pumping Station	-	26,050	20,000	19,161	(839)	26,050	-	-	
	S11 Planning, Sustainable Development & Regulatory	3,888,000	6,019,035	1,255,327	1,414,355	159,028	5,959,035	(60,000)	(60,000)	-
	<u>Covered Market</u>									
B0027	Covered Market - Improvements & Upgrade to Roof	-	4,214	-	(34,712)	(34,712)	4,214	-	-	-
B0028	Covered Market - New Roof Structures to High St	-	72,570	-	2,100	2,100	72,570	-	-	-
B0036	Investment ~ Covered Market	-	75,662	-	420	420	75,662	-	-	-
		-	-	-						
	<u>Investment Properties</u>	-	-	-						
B0040	Investment ~ Broad Street	-	4,326	-	1,374	1,374	4,326	-	-	-
B0041	Investment - Misc. City Centre Properties	-	30,000	7,500	-	(7,500)	30,000	-	-	-
B0043	Investment George Street	-	94,415	23,604	12,820	(10,783)	94,415	-	-	-
B0046	Investment - Ship Street	-	42,171	-	3,576	3,576	42,171	-	-	-

Cost Centre	Capital Scheme	2017/18 Budget Book	Latest Budget	Profiled Budget	Spend to 30th June 2017	Variance to Profile Budget	Forecast Outturn	Forecast Variance	Variance due to Slippage	Variance due to Over/ Under spend
		£	£	£	£			£	£	£
B0092	Acquisition of Investment Properties	3,260,000	3,794,358	948,589	(2,062)	(950,651)	3,794,358	-	-	
		-	-	-						
	Miscellaneous Council Properties	-	-	-						
B0078	Allotments	-	61,000	15,250	1,110	(14,140)	61,000	-	-	
B0082	Garages	-	40,386	10,096	86,770	76,674	40,386	-	-	-
		-	-	-						
	Parks & Cemeteries	-	-	-						
B0048	Leisure - Cemeteries	-	-	-	(150)	(150)	0	-	-	-
B0065	Cemeteries Infrastructure	-	123,704	30,926	94,761	63,835	123,704	-	-	
		-	-	-						
	Town Hall & St Aldates Chambers	-	-	-						
B0054	Town Hall	-	-	-	19,495	19,495	0	-		-
B0093	Health & Safety Works to SAC	-	-	-	(1,084)	(1,084)	0	-	-	-
		-	-	-				-		
	General Fund Housing Projects	-	-	-				-		
M5019	Purchase of Homeless Properties	10,000,000	9,757,720	2,439,430	2,328,414	(111,017)	9,757,720	-	-	
M5020	Empty Homes CPO Revolving Fund	-	750,000	-	-	-	750,000	-	-	
M5021	Equity Loan Scheme for Teachers	100,000	170,600	42,650	-	(42,650)	170,600	-	-	
M5026	Housing Company Loans	3,000,000	3,000,000	-	-	-	3,000,000	-	-	
M5027	Purchase of Leasehold Lucy Faithful House	1,000,000	1,000,000	-	-	-	1,000,000	-	-	
	S13 Housing Services	17,360,000	19,021,125	3,518,046	2,512,833	(1,005,212)	19,021,125	-	-	-
B0075	Stage 2 Museum of Oxford Development	-	108,800	35,467	36,220	753	77,207	(31,593)	(31,593)	
G3007	South Oxford Community Centre Cafe	-	100,000	-	5,810	5,810	100,000	-	-	
B0034	Rose Hill Community Centre	-	-	-	93,359	93,359	0	-	-	
B0083	East Oxford Community Centre	500,000	497,941	124,485	(1,999)	(126,484)	497,941	-	-	
B0084	Jericho Community Centre	-	-	-	-	-	0	-	-	
B0095	Barton Community Centre	950,000	950,000	-	73,500	73,500	950,000	-	-	
B0096	Bullingdon Community Centre	500,000	-	-	-	-	50,000	50,000	50,000	
A3129	Donnington Recreation Ground Improvements	44,375	44,375	-	2,125	2,125	44,375	-	-	
A4808	Blackbird Leys Leisure Centre Improvements	-	10,388	-	11,713	11,713	10,388	-	-	
A4837	Quarry Pavillion	-	775,061	229,000	209,446	(19,554)	775,061	-	-	
A4820	Upgrade Existing Tennis Courts	-	70,000	40,000	1,048	(38,952)	70,000	-	-	-
A4833	Horspath Sports Park	5,000,000	4,200,000	70,000	48,336	(21,664)	4,200,000	-	-	
A4838	Invest to Save in Leisure Service	-	250,000	-	-	-	250,000	-	-	-
A4842	Florence Park Tennis Courts	-	133,000	-	60	60	266,000	133,000		133,000
	S22 Community Services Total	6,994,375	7,139,566	498,952	479,619	(19,333)	7,290,973	151,407	18,407	133,000
R0005	MT Vehicles/Plant Replacement Programme.	1,429,750	1,692,880	423,220	259,826	(163,395)	1,692,880	-	-	-
T2289	Vehicle Brush Wash	-	6,494	1,624	-	(1,624)	6,494	-	-	
T2277	Food waste collection from flats	-	50,154	12,539	15,675	3,136	50,154	-	-	-
T2288	Cowley Marsh Electrical Works	-	54,444	13,611	38,404	24,793	54,444	-	-	
B0081	Car Parking Oxpens	-	-	-	(5,084)	(5,084)	0	-	-	
B0086	Extension to Seacourt Park & Ride	2,300,194	3,382,911	845,728	47,498	(798,229)	3,382,911	-	-	
T2273	Car Parks Resurfacing	300,000	297,154	-	-	-	297,154	-	-	
T2274	Gloucester Green Car Park Waterproofing	-	38,000	-	-	-	38,000	-	-	
T2283	Sandy Lane Resurfacing	-	153	-	-	-	0	(153)	(153)	
A4836	Court Place Farm Car Park	-	189,050	47,263	2,988	(44,275)	189,050	-	-	-
T2290	Marsh Road Recreation Ground Car Park Extension	-	124,980	-	-	-	124,980	-	-	

Cost Centre	Capital Scheme	2017/18 Budget Book	Latest Budget	Profiled Budget	Spend to 30th June 2017	Variance to Profile Budget	Forecast Outturn	Forecast Variance	Variance due to Slippage	Variance due to Over/ Under spend
		£	£	£	£			£	£	£
T2286	Cycling	-	24,246	6,061	(33,991)	(40,052)	24,246	-	-	-
T2287	Waste Transfer Station	2,368,000	2,368,000	592,000	23,578	(568,422)	2,368,000	-	-	-
M5028	Property Rationalisation (Depot Project)	250,000	250,000	62,500	-	(62,500)	250,000	-	-	-
A4830	Develop new burial space	-	-	-	-	-	0	-	-	
	S23 Direct Services Total	6,647,944	8,478,468	2,004,545	348,894	(1,655,651)	8,478,315	(153)	(153)	-
B0074	B0074 R & D Feasibility Fund	100,000	446,870	9,648	1,102	(8,546)	446,870	-	-	
	S32 Finance Total	100,000	446,870	9,648	1,102	(8,546)	446,870	-	-	-
	General Fund Total	40,250,319	46,467,637	8,527,194	4,908,157	(3,619,037)	46,560,674	93,037	(41,746)	134,783
	<u>Housing Revenue Account Capital Programme</u>									
	<u>External Contracts</u>									
N6384	Tower Blocks	6,959,000	8,592,910	2,686,144	2,788,457	102,314	8,884,940	292,030	-	292,030
N6386	Structural	138,000	238,000	39,984	26,746	(13,238)	238,000	-	-	
N6389	Damp-proof works (K&B)	99,000	99,000	24,750	27,545	2,795	99,000	-	-	
N6392	Roofing	166,000	166,000	-	9,658	9,658	166,000	-	-	
N6434	Doors and Windows	-	250,000	62,500	112,704	50,204	250,000	-		-
N7020	Extensions & Major Adaption	150,000	550,000	144,000	23,288	(120,712)	550,000	-	-	-
N7026	Communal Areas	166,000	166,000	49,999	13,007	(36,992)	166,000	-	-	-
N7033	Energy Efficiency Initiatives	300,000	-	-	-	-	0	-	-	
N7038	Insulation Works	-	300,000	75,480	25,877	(49,603)	300,000	-	-	
N7041	Electric Heating Conversion to Gas	400,000	400,000	-	11,703	11,703	400,000	-	-	-
N7044	Lift Replacement Programme	150,000	150,000	15,000	-	(15,000)	150,000	-	-	-
		-	-	-				-		
	<u>New Build</u>	-	-	-				-		
N7029	HCA New Build	-	-	-	211	211		-		-
N7032	Great Estates: Estate Enhancements and Regeneration	1,200,000	1,790,000	46,410	161,225	114,815	1,790,000	-	-	
N7040	Blackbird Leys Regeneration	3,600,000	550,000	42,537	-	(42,537)	550,000	-	-	
N7042	Barton Regeneration	900,000	1,358,144	0	2,153	2,153	1,358,144	-	-	
N7045	Development at Bracegirdle	646,000	646,000	10,013	-	(10,013)	646,000	-	-	
N7046	Development at Mortimer Drive	679,000	679,000	9,981	-	(9,981)	679,000	-	-	
		-	-	-						
	<u>Internal Contracts</u>	-	-	-						
N6385	Adaptations for disabled	602,000	595,800	238,916	268,751	29,835	595,800	-	-	
N6390	Kitchens & Bathrooms	2,255,000	2,573,876	714,251	572,486	(141,764)	2,573,876	-	-	-
N6391	Heating	1,816,000	1,524,335	272,856	543,880	271,024	1,524,335	-	-	-
N6388	Major Voids	375,000	371,250	57,618	64,645	7,027	371,250	-	-	-
N6395	Electrics	424,000	406,739	101,685	134,203	32,518	406,739	-	-	-
	Housing Revenue Account	21,025,000	21,407,054	4,592,123	4,786,539	194,416	21,699,084	292,030	-	292,030
	Grand Total	61,275,319	67,874,692	13,119,317	9,694,696	(3,424,621)	68,259,758	385,067	(41,746)	426,813

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HRA Outturn Report 17/18 @ 30th June, 2017	Approved Budget (per Budget book)	Latest Budget @ 30th June, 2017	Projected Outturn against Latest Budget @ 30th June, 2017	Projected Outturn Variance
	£000's	£'000's	£000's	£000's
Dwelling Rent	(42,051)	(42,051)	(42,051)	
Service Charges	(1,567)	(1,567)	(1,567)	
Garage Income	(216)	(216)	(216)	
Miscellaneous Income	(783)	(783)	(783)	
Right to Buy (RAF)	(52)	(52)	(52)	
Net Income	(44,669)	(44,669)	(44,669)	
Management & Services (Stock Related)	9,643	9,819	9,819	176
Misc Expenditure (Not Stock Related)	579	719	719	140
Other Revenue Spend (Stock Related)	211	265	265	54
Bad Debt Provision	384	384	384	
Responsive & Cyclical Repairs	11,327	11,327	11,327	
Interest Paid	7,920	7,920	7,920	
Depreciation	6,287	6,287	6,287	
Total Expenditure	36,351	36,721	36,721	370
Net Operating Expenditure/(Income)	(8,318)	(7,948)	(7,948)	370
Investment Income	(76)	(76)	(76)	
Other HRA Reserve Adjustment	2,775	2,405	2,405	(370)
Transfer (to)/from MR/OR			292	292
Total Appropriations	2,699	2,329	2,621	(78)
Total HRA (Surplus)/Deficit	(5,619)	(5,619)	(5,327)	292

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To: City Executive Board
Date: 19 September 2017
Report of: Head of Financial Services
Title of Report: Treasury Management Annual Report 2016/2017

Summary and recommendations	
Purpose of report:	The report sets out the Council's treasury management activity and performance for the financial year 2016/2017.
Key decision:	No
Executive Board Member:	Councillor Ed Turner
Corporate Priority:	An Efficient and Effective Council.
Policy Framework:	Treasury Management Strategy.
Recommendation(s): That the City Executive Board resolves to:	
1. Note the report	

Appendices
None

Executive Summary

1. The Council held investments of £76.35 million as at 31st March 2017. Interest earned during the year was £0.86 million against a target of £0.74 million.
2. The average rate of return on the Council's investments in 2016/17 was 1.05% compared to 1.17% in 2015/16. This was above the Council's performance target of 0.85% (i.e. 0.6% above base rate) and is primarily due to investments in property funds off-setting market investment rates which have fallen to very low levels.
3. The Council has £0.17 million outstanding with the failed Icelandic Banks. Nothing was received in the year and the viability of the remaining balance is under review. If it is felt that this will not be recovered, the balance will be written off. Further information can be found in paragraphs 23-24.
4. The Council held £198.5 million of fixed rate Public Works Loan Board (PWL) debt as at 31st March 2017. The debt was borrowed in March 2012 to fund the buy-out of the Housing Revenue Account (HRA). All of the debt relates to Housing

and the maturity profile ranges from 4 to 40 years. Interest paid on the debt in 2016/17 was £6.47 million.

Background

5. The primary principle governing the Council's investment decisions is the Security of the investment, with Liquidity and Yield being secondary considerations.
6. 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 authorities are affordable, prudent and sustainable.
7. 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
 - the availability of cash balances to finance capital expenditure.
8. The Council fully complied with its Treasury Management Strategy in relation to both debt and investment management in 2016/17.
9. The prudential indicators detailed in the body of this report compare the Council's outturn position against the target set for 2016/17.

Financing the Capital Programme 2016/17

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

Table 1

Capital Expenditure	2016/17 Original Budget £'000	2016/17 Actual £'000	Variation £'000
Non-HRA Capital Expenditure	19,923	14,642	-5,281
HRA Capital Expenditure	22,168	17,884	-4,284
Total Capital Expenditure	42,091	32,526	-9,565
Resourced by:			
Developer Contributions	3,635	1,565	-2,070
Capital Receipts	6,492	5,585	-907
Capital Grants and contributions	2,501	2,393	-108
Major Repairs Reserve	20,105	10,112	-9,993
Prudential Borrowing	5,588	2,243	-3,345
Revenue	3,770	10,628	6,858
Total Capital Resources	42,091	32,526	-9,565

The Council's Overall Borrowing Need

11. The Council's underlying need to borrow, or Capital Financing Requirement (CFR), is a gauge of the Council's level of indebtedness. It represents all prior years' net capital expenditure which has not been financed by other means, i.e. revenue, capital receipts, grants etc.
12. The CFR can be reduced by:
 - The application of additional capital resources, such as unapplied capital receipts; or
 - By charging a Minimum Revenue Provision (MRP), or a Voluntary Revenue Provision (VRP)
13. Table 2 below shows the Council's CFR as at the 31st March 2017, this is a key prudential indicator, and shows that actual borrowing is below the CFR:

Table 2

CFR	31st March 2017 Estimate £'000	31st March 2017 Actual £'000	Variation £'000
Opening Balance	225,117	220,669	(4,448)
Prudential Borrowing	5,588	2,243	(3,345)
Minimum Revenue Provision	(686)	(37)	(649)
CFR Closing Balance	230,019	222,875	(7,144)
External Borrowing	198,528	198,528	-
Variation	(31,491)	(24,347)	(7,144)

14. No new debt was taken out during 2016/17 and as at 31st March 2017 the Council's total external debt was £198.5 million. This is below the CFR and indicates that the Council continues to internally borrow. The MRP was lower than that estimated due to a reassessment of the calculation on non-Housing assets transferred from the HRA to the General Fund.

Treasury Position at 31st March 2017

15. 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");
 - Borrowing for future increases in the CFR (borrowing in advance of need)
16. The Council's treasury position as at the 31st March 2017 for both debt and investments, compared with the previous year is set out in Table 3 below:

Table 3

Treasury Position	31st March 2016		31st March 2017	
	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	46,500	0.64	41,000	0.61
Variable Interest Investments	7,760	0.44	10,360	0.56
Property Funds	10,000	4.05	10,000	4.05
Total Investments	64,260	1.17	61,360	1.05
Net Position	134,268		137,168	

The average investment rate shown above is 1.05% for 2016/17 which is above the Council's target of 0.6% above base rate (0.85% in total).

Prudential Indicators and Compliance Issues

17. Some of the prudential indicators provide an overview, others a specific limit on treasury activity. These are detailed below:
18. **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	31st March 2016	31st March 2017
	Actual £'000	Actual £'000
Total Debt	198,528	198,528
Total Investment	64,260	61,360
Net Borrowing Position	134,268	137,168
CFR	220,669	222,875
Under Borrowing plus Investments	86,401	85,707

19. 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. Clearly, if the net borrowing position, interest rate position and/or CFR changed significantly, the prospect of taking on additional debt would be reviewed.
20. **The Authorised Limit** – The Authorised Limit is the ‘affordable borrowing limit’ required by S3 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 2016/17 the Council’s gross borrowing was within its Authorised Limit. The Authorised Limit allows for some headroom above the Council’s projected CFR.

Table 5

Authorised Borrowing Limit (ABL)	31st March 2016		31st March 2017	
	ABL £'000	Borrowing £'000	ABL £'000	Borrowing £'000
Borrowing	255,450	198,528	259,603	198,528
Other Long Term Liabilities	0	0	0	0
Total Borrowed	255,420	198,528	259,603	198,528
Amount under Limit	56,922		61,075	

21. **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 Boundaries	31st March 2016 £'000	31st March 2017 £'000
Borrowing	253,420	253,603
Other Long Term Liabilities	0	0
Totals	253,420	253,603

22. **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 due to an increasing income stream meaning that financing costs as a proportion have fallen.

Table 7

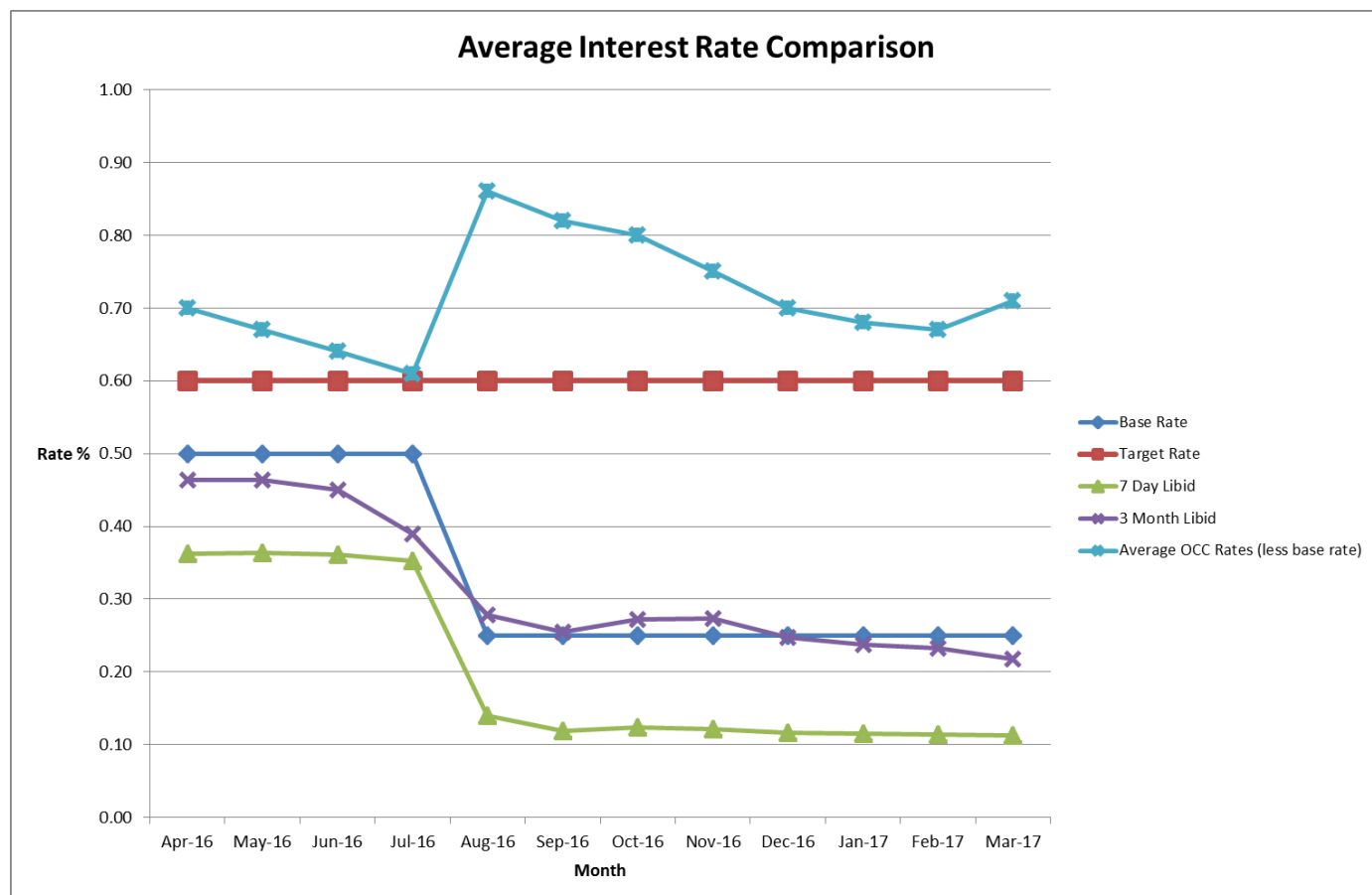
Actual Finance Costs	2015/16 £'000	2016/17 £'000
Indicators		
Original Indicator - Authorised Limit	255,420	259,603
Original Indicator - Operational Boundary	253,420	253,603
Financing Costs as a proportion of Net Revenue Stream - General Fund	-3.6%	-4.30%
Financing Costs as a proportion of Net Revenue Stream - HRA	16.8%	16.0%

Icelandic Banks

23. During 2008/09 the Council invested £4.5 million with two of the now failed Icelandic banks: £3.0 million was deposited with Heritable Bank and £1.5 million with Glitnir Bank.
24. As at 31st March 2016, the Council had received approximately £2.94 million of its original Heritable Bank investment. . An outstanding balance of £0.06 million remains. The prospect of a full recovery is uncertain.
25. As at 31st March 2016, the Council had received approximately £1.39 million of its Glitnir investment. . An outstanding balance of £0.11 million remains with the prospect of full recovery uncertain.

Investment Income

26. The following graph shows the monthly average interest earned by the Council in comparison to the base rate and also in comparison to its benchmarks: 3-months Libid and 7-day Libid.



27. As illustrated above, the Council's average monthly rate of return fluctuated throughout the year but remained above Base Rate at all times. The reason for the sudden spike in the average OCC rate is the fall in the Base Rate, against which the indicator is measured. Whilst the Base Rate fell by 0.25% in August 2016, the rates being received by the Council reduced gradually over time. This is partly due to the effect of continuing fixed term investments taken out prior to the Base Rate reduction.

28. 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.

29. During 2016/17, the Council maintained an average investment balance of £76.9million and received an average return of 1.04%. This is above the target of 0.85% and is mainly due to investment in property funds. It is important to note that market rates have continued to drop throughout the financial year and that for many of the approved counterparties, the Council has not been able to achieve the same rate of return as in previous periods.

30. The Property Funds are classified as Non-specified Investments within the approved Strategy. The current rate of return on the investments is circa 4.05% per annum. The capital value of the Communities, Churches and Local Authorities (CCLA) Fund has increased by 26.32% between April 2013 and March 2017. However, the overall fund value has slightly decreased since 2015/16, due to uncertainties in the property market, following the referendum vote to leave the EU, which affected the price of property. Fluctuations in value are to be expected with property fund investments over the short term. Property funds are a long term investment and any gains and losses in fund value should be considered over the long term.
31. The overall value of the Lothbury property fund investment has increased by 17.39% since inception in August 2014, but during 2016/17, fluctuations were also seen in value for the same reasons as with CCLA.
32. The Lothbury property fund has subsequently exceeded its pre-referendum valuation. The CCLA fund has been slower to recover, due to the type of property assets held in the fund, but its valuation is now also trending upwards.
33. Actual investment income for 2016/17 was £0.86 million; this was marginally higher than the budget estimate of £0.74 million. This is because although there was a reduction in the Base Rate rise, fixed term investments protected the Council's position. Also in 2016/17 the Council invested in a higher yield cash fund instead of just using money market funds for liquid cash which boosted investment returns. Market rates continue to be very low and as security of investment is the Council's primary concern, it has not always been possible to invest cash at more favourable rates.
34. 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 Council.

Interest Rates since 31st March 2017

35. The Council takes advice from Capita 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.
36. There have been no further changes to Base Rate since the Bank of England reduced it to 0.25% in August 2016. Capita's current view is that it will remain at 0.25% until end of March 2019 at which point they predict a rise to 0.50%, rising again to 0.75% by December 2019.
37. Under current market conditions, Money Market Funds (MMFs) are paying higher interest rates than many three-month investments and are only marginally lower than the average six-month rate. MMFs are amongst the most liquid of the Council's investment portfolio; they do not require the Council to give notice and, providing the Council requests funds by midday, the investment will be transferred into the Council's bank account that same day. MMFs are ordinarily used to provide cash flow flexibility to allow money to be accessed and invested quickly and

to deal with fluctuations in cash flow. However, in order to allow for a diversified portfolio and to spread risk, the Council continues to place fixed term deposits and certificates of deposit with approved counterparties. Notice accounts are also used as these tend to offer a more favourable rate than fixed deposits and are reviewed regularly to ensure that cash remains liquid.

Financial implications

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

Legal issues

39. The Council is required to report on its Treasury Management function on an annual basis. This report meets that requirement.

Level of risk

40. There are no risks in connection with the report's recommendations. 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

41. There is no equalities impact relating to this report.

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Background Papers: None

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To: City Executive Board
Date: 15th September 2017
Report of: Fiona Piercy, Interim Assistant Chief Executive – Regeneration & Economy
Title of Report: Investment in Existing Property Portfolio

Summary and recommendations	
Purpose of report:	To provide an update on the progress of a number of identified opportunities to maintain or improve the income stream from the Council's property investment portfolio. To seek approval for an increased budget requirement of £4,635,000 in addition to the existing approved budget of £10,300,000 to include the undertaking of additional projects.
Key decision:	Yes
Executive Board Member:	Councillor Edward Turner
Corporate Priority:	Vibrant and sustainable economy An Efficient and Effective Council
Policy Framework:	Asset Management Plan
Recommendation(s): That the City Executive Board resolves to:	
<ol style="list-style-type: none"> 1. Note the progress on the various schemes that had been identified and had budget approval to the value of £10,300,000. 2. Recommend to Council an increase of £4,635,000 to the allocated budget of £10,300,000 to deliver the development opportunities at 1-5 George Street, Standingford House, Cave Street and add the new project of refurbishing 2 flats at 11 New Road and houses at 9 and 10 Ship Street. 3. Authorise entering into exclusive negotiations to seek financially viable agreements to lease with two identified commercial tenants at 1-5 George Street in line with the Not For Publication Appendix 7, subject to Council budgetary approval. 4. Enter into the above agreements for lease at rental levels above the threshold of £125,000 per annum in line with the constitution. 5. Delegate to the Interim Assistant Chief Executive – Regeneration and Economy, in consultation with the Head of Finance, the authority to 	

alter the terms of the agreements to lease on the basis that they continue to represent best value during negotiations.

Appendices	
Appendix 1	Plan of George Street
Appendix 2	Plan of Standingford House
Appendix 3	Artist Impressions
Appendix 4	Plan of Ship Street & New Road
Appendix 5	Revenue cashflow NOT FOR PUBLICATION
Appendix 6	Development cashflow
Appendix 7	List of tenants NOT FOR PUBLICATION
Appendix 8	Financial Implications NOT FOR PUBLICATION
Appendix 9	Risk Register NOT FOR PUBLICATION

Introduction

- Four projects were identified by the City Council as requiring capital expenditure to increase and improve the income stream from the existing assets within the property investment portfolio. These properties were –
 - 38-40 George Street (Odeon)
 - Old School, Gloucester Green
 - 1-5 George Street
 - Standingford House, Cave Street
- High level feasibility studies were undertaken on each and subsequently a budget of £10.3m for the projects was included within the City Council's Budget Report in December 2015.
- No further work has been carried out on 38-40 George Street as this opportunity is currently not deliverable.
- £685,000 has already been committed to the successful purchase of Old School, Gloucester Green.
- On further detailed analysis the scope of the opportunities at 1-5 George Street and Standingford House has increased and as a result the projected revenue and density of the projects has improved significantly. To support this increased revenue the anticipated development cost for the two schemes has risen to £14m (£9.75m + £4.25m respectively).
- In addition to the above, 2 flats at 11 New Road and houses at 9 and 10 Ship Street have been identified as requiring capital expenditure to allow the rental value to be maintained and maximised.
- Further information on the individual properties is set out below.

38-40 George Street (Odeon Cinema)

8. This 1930's building is currently let until 2024 to Odeon Cinemas, with a Tenant only break clause in September 2019. The risk relating to this break clause is recognised and high level viability works have taken place. Odeon has recently been taken over by AFG and is not yet clear on its intentions. Discussions will continue, to ensure that Odeon 's intentions are known at the earliest opportunity. No further exploratory work will be undertaken on this project until clarity is given as to the intentions of Odeon. Therefore this development opportunity will be re-visited in 2018.

Old School, Gloucester Green

9. This property was purchased for £685,000 in 2016 and the project is now closed.

1-5 George Street

10. 1-5 George Street comprises 5,232 sq ft of retail and office accommodation (partly vacant) and 5/5a George Street comprises 3,580 sq ft let to Ask Restaurants. A plan is attached at Appendix 1. All existing leases expire on, or before, 24 December 2017. In the absence of reinvestment, the current accommodation is dated and likely to prove difficult to let resulting in an erratic and diminishing rent roll. Of the current income of £212,600 per annum, £85,900 could be at serious risk and unlikely to be sustainable.
11. Initially, it was proposed to undertake a modest refurbishment for retail on part of the ground and basement floors, with residential above. High level viability suggested a capital cost of approximately £3,600,000 to secure a rent of £262,000 per annum. The return was increased by a capital receipt from the sale of the residential upper parts. However there were some design difficulties in access arrangements for residential above the refurbished accommodation.
12. Subsequent and more detailed viability suggested that better outcomes both from a design and financial perspective could be achieved by pursuing a much denser development of the site rather than refurbishment. In addition it was identified that the site lent itself more to office accommodation than residential (particularly if the aim is to maximise revenue rather capital receipt on sale). This has been confirmed by our property advisors.
13. A full design team has subsequently been appointed and the project has progressed to concept design stage (RIBA Stage 2).
14. The latest proposal is for a full demolition and rebuild of the existing buildings to provide approximately 6,000 sq ft of restaurant accommodation on the ground and basement levels with approximately 16,500 sq ft of Grade A office accommodation on the upper parts. There is a lack of quality office accommodation in the City Centre, so this scheme format has considerable benefits in providing central office accommodation for businesses wanting to remain in a central location and potentially for attracting new businesses into the area.

15. The completed development should have an income stream of some £630,000 per annum and a total new construction cost of £9,700,000 (therefore an increase in the capital budget of £6,100,000).
16. It is anticipated that the end capital value of the project will be in the region of £11,500,000.
17. Based on the above the scheme would deliver a profit after costs of approximately £1.5m representing a 15+% profit on cost. The provision of Grade A office accommodation in the heart of the City is a major consideration.

Risk Mitigation - Potential Agreements to Lease (pre-let)

18. Identifying and securing a pre-let at this stage of the development process mitigates significant marketing and letting risk on completion of the construction process. Authority is sought to enter into exclusive negotiations with two tenants that could occupy the whole building on completion. Both proposed parties have sufficient covenant strength to support the valuation assumptions. In order to satisfy the requirements of s.123 Local Government Act 1972, the rental levels suggested will be ratified by a third party independent valuation to ensure best value is achieved. It is noteworthy that 2 lettings for the whole building would significantly decrease the management burden of the property compared to a multi let scenario and will potentially increase value due to known covenant strength.
19. This approach also supports a George Street restaurant occupier and a current town centre business which protects the city centre from potentially losing a significant private sector employer. The ability to work with these identified occupiers through the design process could bring cost savings and de-risks the development process.
20. The proposed tenants for the pre-lets are contained in the NOT FOR PUBLICATION Appendix 7

Threshold Level Authority

21. In compliance with the Council's constitution and given that the rental levels are above the officer authorisation threshold approval is therefore required from CEB to enter into the agreements to lease. It is further requested that the Interim Assistant Chief Executive – Regeneration and Economy has authority delegated, in conjunction with the Head of Finance, to approve changes in rental level (providing it still meets s.123 requirements) and to authorise the detailed terms and conditions of the agreements.

Standingford House and Building H Cave Street

22. Standingford House (previously known as the Enterprise Centre) is a multi-let office/workshop building converted from a 1950's industrial property. The existing accommodation is of poor quality and the building fabric is approaching the end of its economic life. Building H is adjacent and is a former car repair workshop which is now vacant and also in poor condition. This is a single storey structure which provides inefficient site density. The site is overlooked by residential properties and is not attractive. A plan is attached at Appendix 2.
23. The original proposal in December 2015 comprised the construction of an annexe to Standingford House on Building H site. These works were estimated at

approximately c.£1.1m to increase the rent by £110,000 per annum from the existing £100,000 per annum. The proposal was also predicated on gaining vacant possession of Building H, this has now been secured.

24. Subsequently, changing legislation on the energy performance of commercial buildings meant that Standingford House would become unlettable from 2018 due to its poor energy efficiency. The original scheme would not have tackled this issue. This has provided an opportunity to reconsider the overall proposal to create an integrated building which utilises the site much more efficiently and provides increased development, this approach being endorsed by the occupiers and the local planning authority.
25. The current proposal is for a significant refurbishment of Standingford House which will comply with new legislation and future proof the income stream. The site of Building H will provide an integrated extension over two storeys. Artist impressions are attached at Appendix 3.
26. The alternatives considered included a full redevelopment of the whole site which was less financially attractive. Residential use was also considered and discounted on planning policy grounds.
27. The preferred option has the further advantage of providing continuity of occupation for existing tenants.
28. The proposal provides much needed modern small business units in a central location with inherent regeneration benefits. It also future proofs an income stream which had become unsustainable due to legislative changes. The new proposed capital budget for the revised works is £4,250,000 which should provide an income stream of approximately £400,000 per annum.
29. The project is currently at a stage of finalising cost and specification and further engagement is ready to be undertaken. A planning application is being prepared for the development and works are being progressed to demolish building H.

Additional Project - Ship Street & New Road

30. Residential properties at 9 & 10 Ship St and 11 New Road (second floor) have been vacant since the leases were forfeited due to non-payment of rent. A plan is attached at Appendix 4. No income is being created from these assets. They require complete refurbishment before they can be re-let as they are currently uninhabitable and un-lettable. If the properties are refurbished they could be let on standard commercial lease terms for residential use. The City Council is unable to let properties on assured shorthold tenancies which would be the normal private market practice. This is a statutory position which cannot be challenged (Housing Act 1988 Schedule 1). These properties are not suitable to be transferred into the HRA housing stock or for Temporary Accommodation acquisition project (due to the location and configuration). CEB should note that there will be a margin between the income received by the Council under the standard commercial lease and that received by the tenant which will let to residential occupiers under Assured Shorthold Tenancies.
31. This is a new project where circa £300,000 is required to provide an income stream of some £55,000 per annum. Without this investment there will be ongoing and increasing maintenance and vacancy liabilities. The works will ensure a good

standard of residential accommodation in the City Centre which should attract good quality landlords. An alternative would be to dispose of the assets which is not a preferred option at the present time. The New Road property is opposite the entrance to the new Westgate centre and could see value appreciation. The Ship Street property forms part of a larger strategic holding around Ship Street & Broad Street.

32. The project has been progressed with Direct Services and subject to allocation of budget is ready to commence.

Financial implications

33. The financial implications are provided at Appendices 5, 6 & 8 NOT FOR PUBLICATION. In all three revised scenarios there is an above average rate of return for the Council and the increased revenue will provide additional resources to support the Council's Medium Term Financial Plan. Within the Council's current capital programme is an amount of £10.3 million financed from prudential borrowing profiled over the next four years. This report requires provision to be made for an additional £4.635 million which is also assumed to be financed by prudential borrowing taking total estimated spend up to £14.635 million over the next four years. In cash terms additional commercial rental income is estimated at £770,000 per annum. In summary the financial returns are shown in Appendix 8

Legal issues

34. None – See attached Risk Register.

Level of risk

35. Property development by its very nature requires fluidity around budgets through the design and planning process. From the initial concept to delivery there are significant changes to be expected around scheme design, use and density. Challenges to deliverability and therefore risk continue throughout the project and are exacerbated by potential flux in the property market (both occupier and investor) and by changes to the construction market (which is currently buoyant) and which drives cost.
36. Of the 3 opportunities the 1-5 George Street proposal attracts the highest development risk. Both Standingford House and Ship Street/New Road are significantly further forward in the design process and therefore costs are more certain. George Street is at concept design stage and consequently further cost changes are anticipated. In addition this is a complex scheme on a landlocked site in the city centre. This opportunity could revert to a refurbishment option should significant cost over-runs be identified. See attached risk register at Appendix 9 NOT FOR PUBLICATION for detailed risk assessments.

Equalities impact

N/A

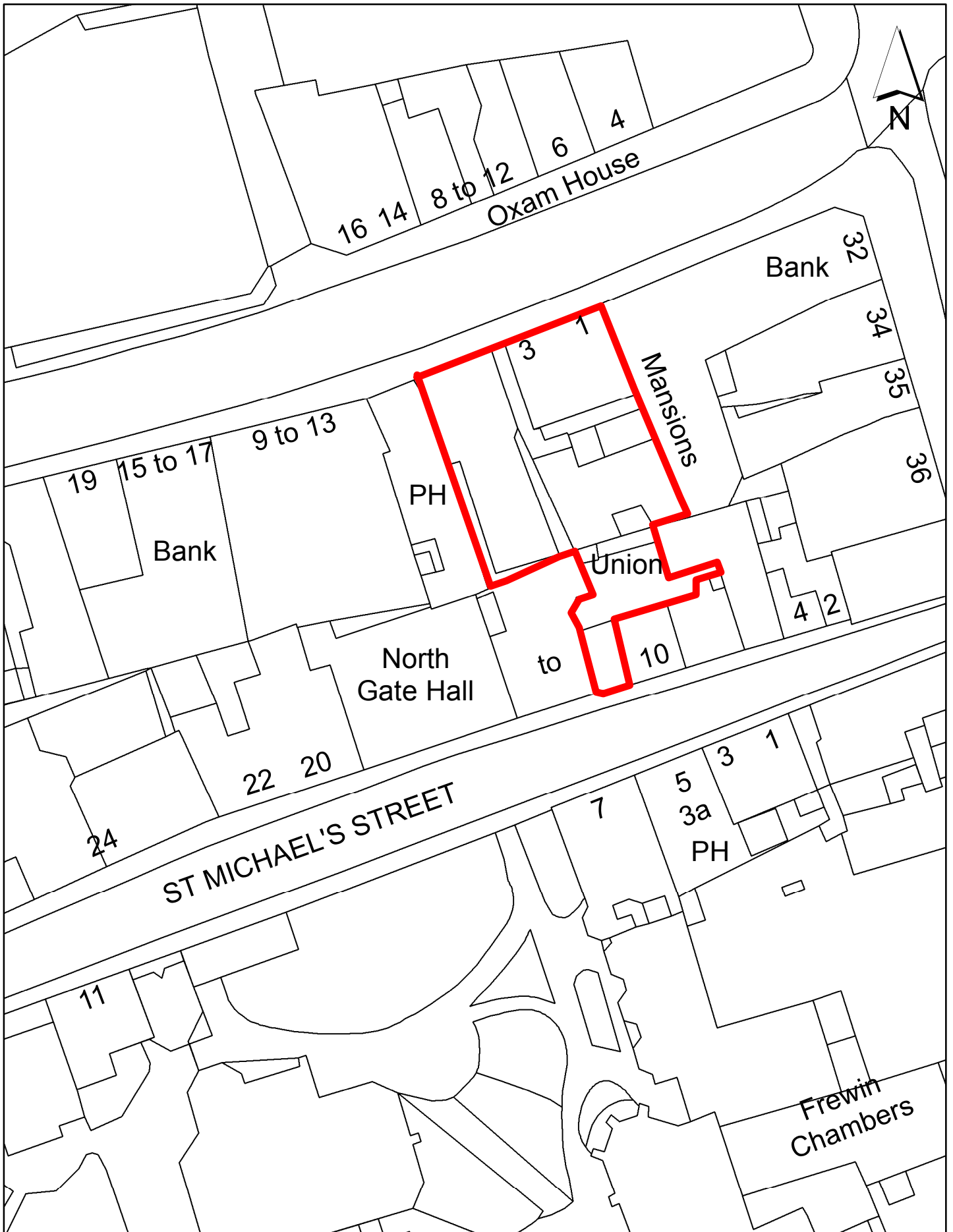
Conclusion

37. The latest design and viability work on the projects described in this report has identified opportunities to maximise development returns and secure regeneration benefits along with the need to meet latest environmental standards. The increase in budget will secure improved returns and outcomes improving the quality of our portfolio.

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Background Papers: None

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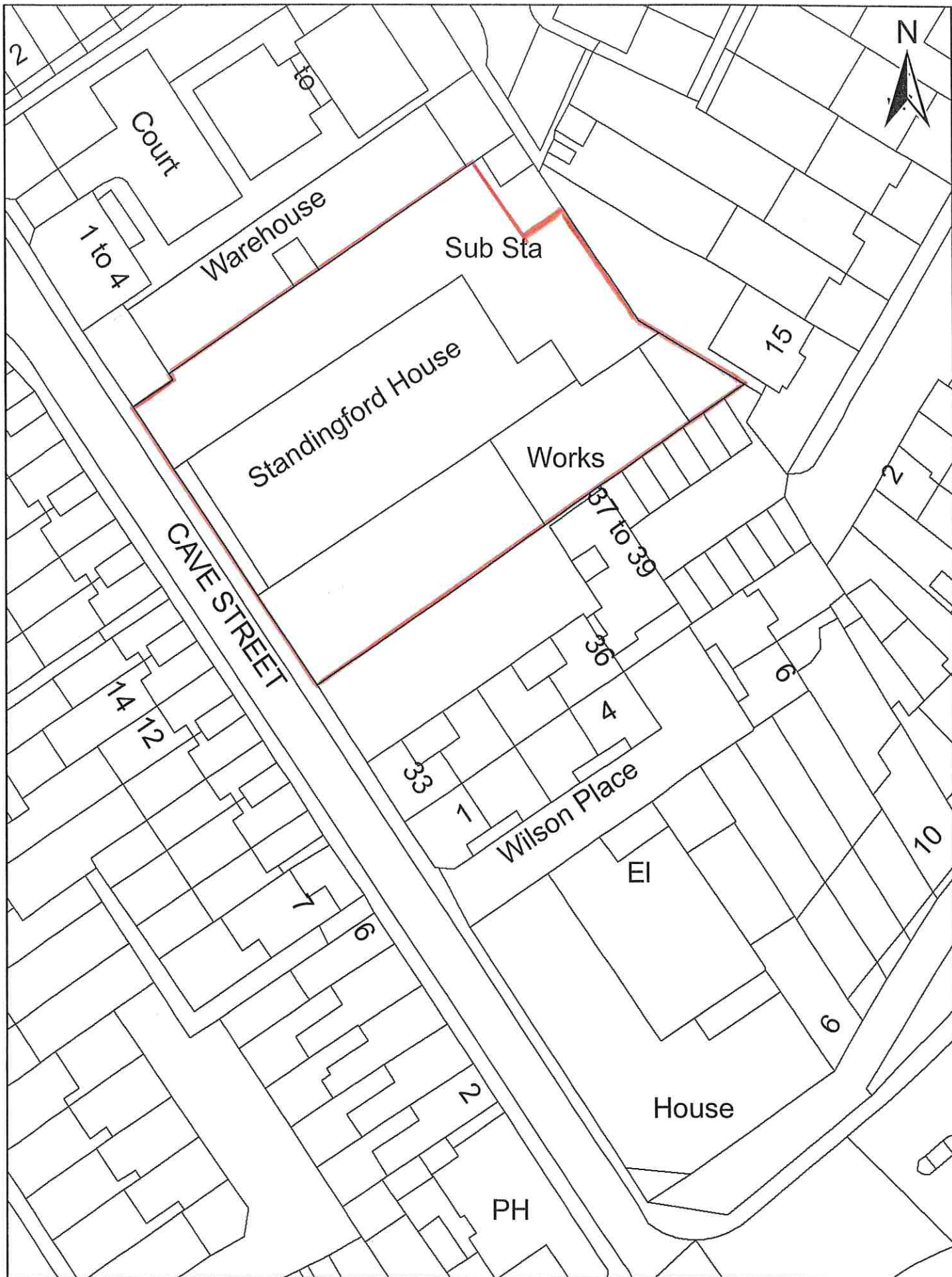
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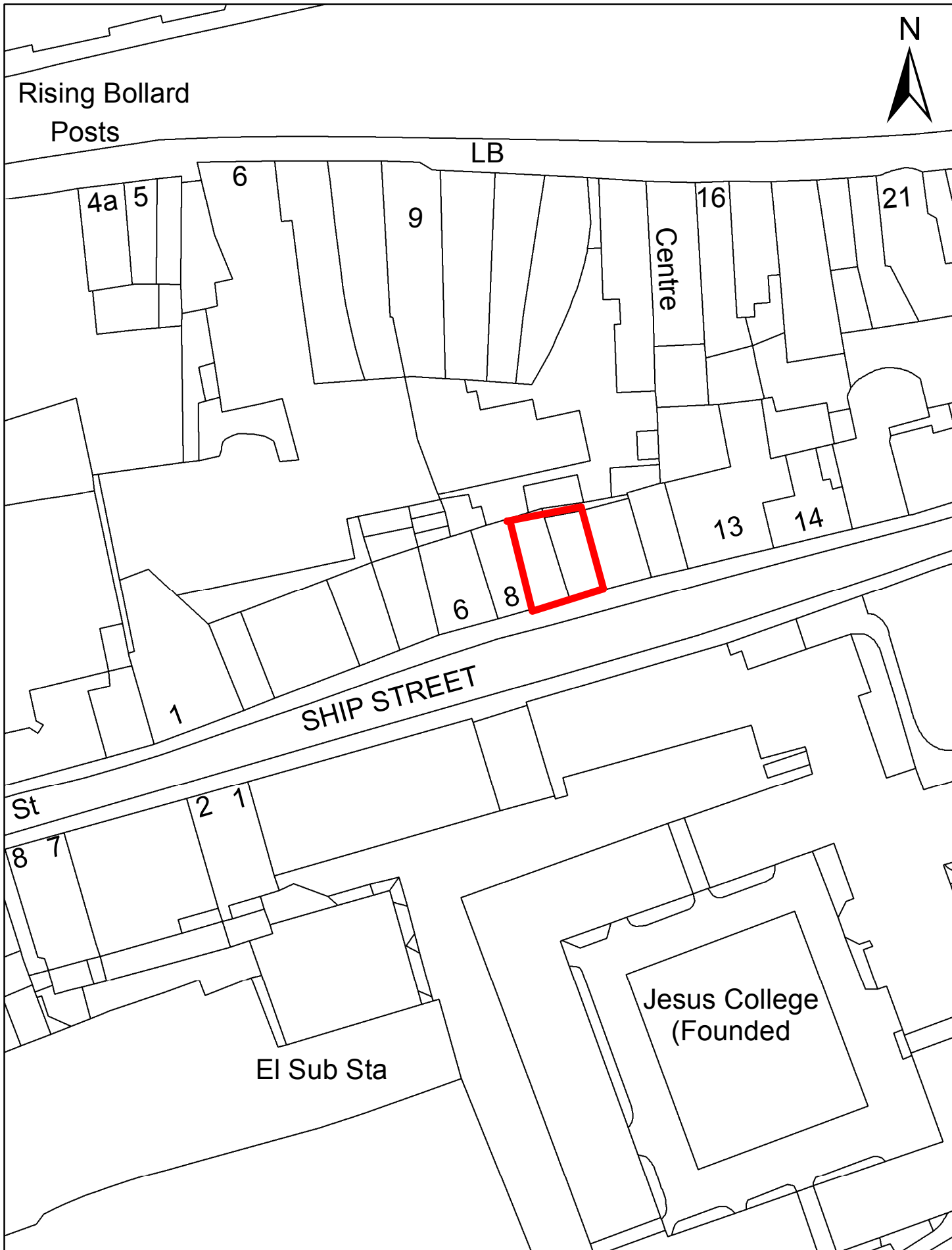
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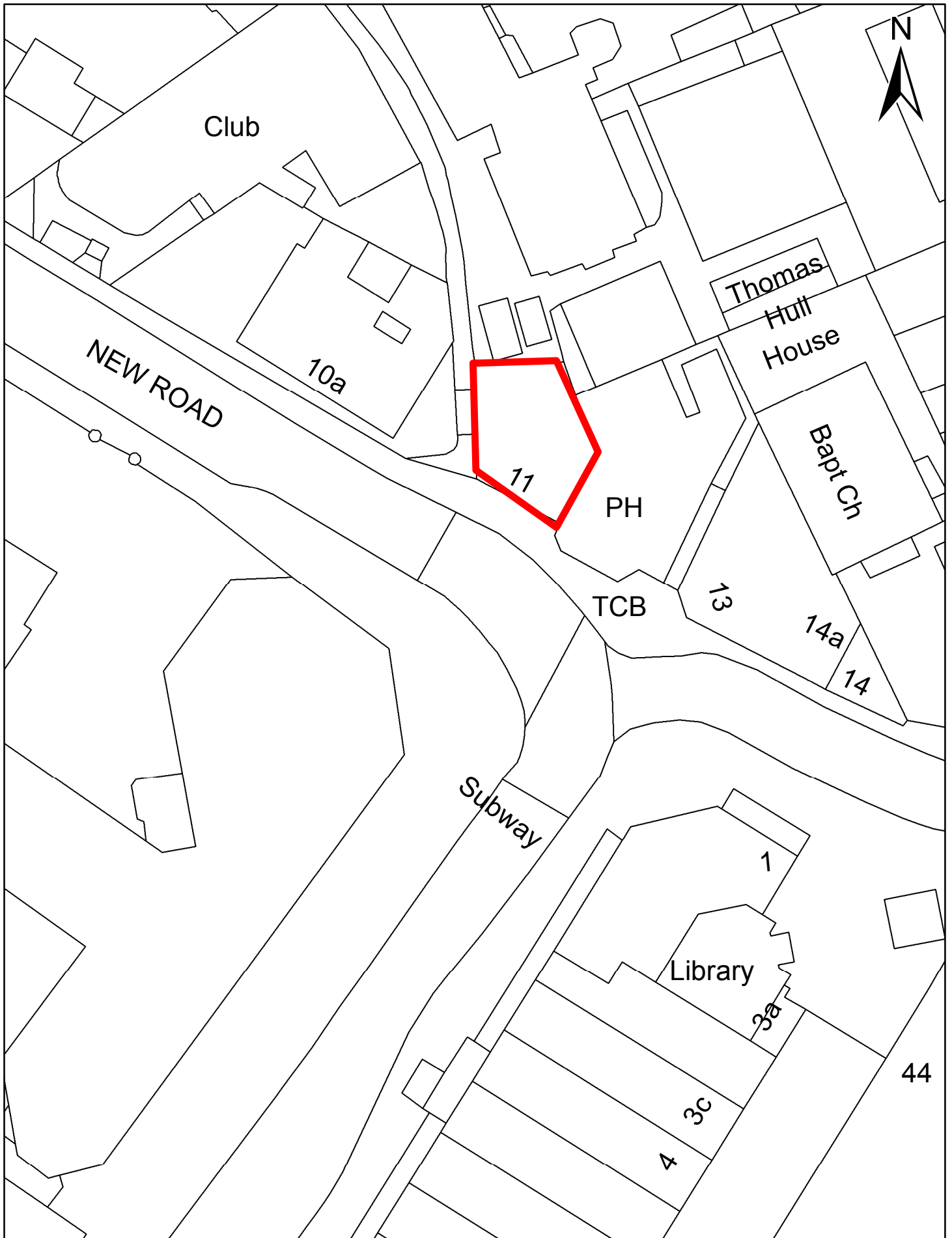
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Appendix 6

Investment Properties - Expenditure Profile

	Year	2107-2018		2018-2019		2019-2020		2020-2021	
Property									
1-5 George Street									
Original	3,635,000	£	300,000	£	2,620,000	£	715,000		
Proposed	9,750,000	£	300,000	£	3,500,000	£	5,500,000	£	450,000
Standingford House									
Original		£	822,000	£	284,000				
Proposed		£	440,000	£	2,050,000	£	1,700,000	£	-
Ship Street & New Road									
Original		£	-						
Proposed		£	300,000	£	-	£	-	£	-

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FINANCE PANEL

4 SEPTEMBER 2017 - PROVISIONAL REPORTS

Agenda item	Decision	Description	CEB Portfolio	Report Contact
Budget monitoring - quarter 1	No	To monitor the Council's finances at the end of quarter 1 (June 2016).	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Local impacts of Brexit	No	To monitor the impacts of Brexit on the Council and the local economy.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Treasury Management: Annual Report & Performance 2016/17	Yes	The Treasury Management Performance Report 2016/17 is submitted twice a year: Sept 2017 – the position at 31 March 2017 (Full Year)	Finance, Asset Management	Bill Lewis, Financial Accounting Manager
Investment in existing property portfolio	Yes	To update CEB on feasibility studies in relation to the investment property development opportunities and seek additional funding for development opportunities.	Finance, Asset Management	Nick Twigg, Major Projects & Development Manager

7 DECEMBER 2017 - PROVISIONAL REPORTS

Agenda item	Decision	Description	CEB Portfolio	Report Contact
Budget monitoring - quarter 2	No	To monitor the Council's finances at the end of quarter 2 2016-17 (September).	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Budget Review 2017/18 - recommendations update	No	To agree recommendations following the annual scrutiny budget review.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Budget 2018/2019	Yes	A briefing on the new Budget for the period 2018/2019.	Finance, Asset Management	Section 151 Officer
Treasury Management Performance: Annual Report and Performance 2017/18	Yes	The Treasury Management Performance Report 2017/18 is submitted twice a year: December 2017 – the position at the 30 September 2017 (Half Year)	Finance, Asset Management	Bill Lewis, Financial Accounting Manager

Council Tax Reduction Scheme for 2019/20	Yes	To review the Council Tax Reduction Scheme	Customer and Corporate Services	Paul Wilding, Programme Manager Revenue & Benefits
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31 JANUARY 2018 - PROVISIONAL REPORTS

Agenda item	Decision	Description	CEB Portfolio	Report Contact
Capital Strategy 2018/19	Yes	To consider the Capital Strategy 2018/19	Finance, Asset Management	Anna Winship, Management Accountancy Manager
Treasury Management Strategy 2018/19	Yes	To present the Council's Treasury Management Strategy for 2018/19 together with the Prudential Indicators for 2019/19 to 2020/21.	Finance, Asset Management	Bill Lewis, Financial Accounting Manager

14 MARCH 2018 - PROVISIONAL REPORTS

Agenda item	Decision	Description	CEB Portfolio	Report Contact
Budget monitoring - quarter 3	No	To monitor spend against budgets and projected outturn on a quarterly basis.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Fundamental service reviews	No	To consider the outcomes of comprehensive reviews of a number of service area budgets undertaken as part of this year's budget setting process.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services
Monitoring social value	No	To consider the case and opportunities for monitoring social value through integrated financial, social and environmental accounting.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services

FINANCE PANEL - TO BE SCHEDULED

Agenda item	Decision	Description	CEB Portfolio	Report Contact
Impacts of changes to IR35 (intermediaries legislation)	No	To consider the possible impacts of changes to intermediaries legislation on the Council's wage bill.	Finance, Asset Management	Nigel Kennedy, Head of Financial Services

FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE)

Thursday 6 July 2017

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

OFFICERS PRESENT: Andrew Brown (Scrutiny Officer), Nigel Kennedy (Head of Financial Services), Anna Winship (Management Accountancy Manager) and Paul Wilding (Programme Manager Revenue & Benefits)

49. APOLOGIES

There were no apologies.

50. DECLARATIONS OF INTEREST

None.

51. ELECTION OF CHAIR FOR THE 2017/18 COUNCIL YEAR

Councillor James Fry was elected chair for the 2017/18 Council year.

52. COUNCIL TAX REDUCTION SCHEME FOR 2018/19

The Revenue and Benefits Programme Manager introduced the report. He said that significant reductions in a range of benefits are making it harder and harder for people to live in the city. Responsibility for supporting low income working age households with Council Tax was passed to local authorities from the Department for Work and Pensions in 2013 with 10% of the funding removed. The devolved funding was subsequently subsumed into the Revenue Support Grant, which is on course to reduce to zero in April 2019. The Council is one of only 37 local authorities to maintain a local Council Tax Reduction (CTR) scheme that provides the same level of support as the Council Tax Benefit it replaced. CTR currently costs the Council £1.2m and this figure will rise to at least £1.8m in April 2019 when the Council bears the full cost of the scheme (this is already built into the Council's Medium Term Financial Plan). The Panel note that the cost of the scheme is likely to increase in the event of an economic downturn.

The Panel note that the cost of the scheme is shared between the precepting authorities and that the total notional income foregone by these authorities will be in the region of £11m by 2019. The Panel received assurances that the County Council and Thames Valley Police were fully involved in the original detailed design of the scheme and are aware of the direction of travel. The Panel heard that the Council has a duty to consult with the other precepting authorities and wants to work with them but those authorities have no veto or recourse to challenge the Council's scheme if they are consulted.

The Panel voiced support for the Council's CTR scheme and the principle of supporting the lowest income households in the city with a full Council Tax reduction rather than billing those who genuinely can't afford to pay. This approach contributes to wider Council aims such as homelessness prevention.

The Panel noted the difficulty in ensuring a worthwhile response to consultation on the options. The reasons for favouring options that continue the CTR scheme will need to be explained carefully, as the apparent savings from scrapping the scheme may appeal to residents who see this as a way in which to cut Council spending.

The Panel considered the merits of the various options for changing the scheme and made the following observations:

- Option 1: Introducing a banded scheme that is calibrated to income for Universal Credit recipients and provides the greatest level of support to households with the lowest incomes seems very sensible. While this option would add costs in the short term it would over time simplify administration and release efficiency savings as Universal Credit is rolled out more widely. The Council would retain flexibility to adjust the income parameters in future years should it wish to do so.
- Option 2: This is a stand alone cost-saving option that is not linked to Housing Benefit.
- Options 3-7 & 9: These options would align the scheme with Housing Benefit. None of the options directly complement each other but each option would help to simplify the scheme and reduce administrative costs over time.
- Option 8: While limiting the number of dependent children within the CTR calculation to 2 for new claimants would also align the scheme with Housing Benefit, the Panel feel this would be punitive and ethically wrong.
- Option 10: Introducing a minimum charge is a stand-alone option that would significantly reduce the cost of the scheme to the precepting authorities (with the County Council being the biggest beneficiary). The potential saving to the City Council would be partially offset by a lower collection rate and the need for additional resources to recover charges from low income households. The Panel feel this option is objectionable as it would be unduly harsh on the lowest income households currently in receipt of 100% support. However, the Panel think it would be prudent not to take this option off the table altogether for future years, with the provisos that it should only be seriously considered in extremis and that further work would need to be undertaken on identifying and costing protections for certain groups. The Panel concluded that consulting on Option 10 as an option that is 'not preferred' (with reasons that should be explained) would have some merit and would present consultees with more of a choice.
- Option 11: Capping the cost of the scheme at the current level would release some savings but there is no clear proposal for how this would be achieved in practice. A cap is likely to be difficult to implement and onerous to administer.
- Option 12: The do nothing option would be revenue neutral but it would not enable the Council to realise efficiency savings linked to the wider roll

out of Universal Credit. It is likely that (all things being equal), the cost of the scheme would continue to rise in the years beyond the Medium Term Financial Plan due to Council Tax bills increasing in those years.

The Panel agreed to recommendations to the City Executive Board on 18 July 2017 that the Council:

1. Consults on option 1 and perhaps makes it clear that this is a 'preferred option', giving reasons.
2. Consults on options 2-7 & 9 as options that could form part of a package of measures to simplify the administration of the scheme and/or reduce costs.
3. Does not consult on Option 8.
4. Consults on Option 10, 11 and 12 making it clear that these are not the Council's preferred options, giving reasons.

53. BUDGET MONITORING - QUARTER 4

The Head of Financial Services introduced the report. He said that the City Executive Board agreed the recommendations in June. He highlighted that 78% of the original capital budget agreed in February 2016 had been spent although the capital programme had been monitored monthly and adjusted during the year. The reasons for the variances were given on page 43. He also advised that there was one red risk on the corporate risk register which related to the governance of new Council-owned companies.

In response to a question, the Head of Financial Services confirmed that the £220k that had been transferred to the capital financing reserve was not earmarked and was a relatively small sum in the context of a £60m capital programme.

The Panel asked what the latest situation was regarding cladding on tower blocks in light of the Grenfell disaster and how any additional costs would be met. The Head of Financial Services said that it was unclear whether government would provide additional funding to local authorities so it would be a case of looking at reserves generally. The Council was quantifying what the precise cost of removing cladding from two tower blocks would be but a figure of £1.6m had appeared in the press. By the next Panel meeting the situation would be clearer.

The Panel asked for a comment on the red risk and the Head of Financial Services said that there was lots of work to do such as creating client side monitoring arrangements for the trading company. The housing company was more established but was still finding its way. The Council's internal auditors would be reviewing company governance arrangements in the coming months.

The Panel noted the report and responses.

54. WORK PLAN

The Panel asked for a briefing on the Discretionary Business Rates Relief Scheme report, which would be presented to the City Executive Board in August. The Head of Financial Services explained that the Council had been allocated grant funding over 4 years for a local scheme to offset some of the impacts of the national Business Rates revaluation, with an initial £480k reducing down to £18k per year. The Council was proposing to fund 70% of any Business Rates increase greater than 12.5% for those premises with a rateable value of more than £200k. The Council would ensure that it would not exceed the grant allocation because doing so would result in a direct cost to the Council.

The Panel agreed:

- Not to look at the Discretionary Business Rates Relief Scheme if it goes to CEB in August.
- Not to look at Building Control as this had been considered in some depth by Audit and Governance.
- To invite experts in monitoring social value to a future meeting.

55. NOTES OF PREVIOUS MEETING

Noted.

56. FUTURE MEETING DATES

The Panel agreed to move the date of their next meeting from 11 September 2017 to 4 September 2017.

The meeting started at 6.00 pm and ended at 7.10 pm

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