

Agenda

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Finance Panel (Panel of the Scrutiny Committee)

Date: **Monday 2 December 2019**

Time: **6.00 pm**

Place: **Plowman Room - Oxford Town Hall**

For any further information please contact:

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If you intend to record the meeting, it would be helpful if you speak to the Committee Services Officer before the start of the meeting.

Finance Panel (Panel of the Scrutiny Committee)

Membership

Chair Councillor James Fry

Vice Chair

Councillor Chewe Munkonge

Councillor Craig Simmons

Councillor Roz Smith

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AGENDA

| | | Pages |
|---|--|---------|
| 1 | <p>APOLOGIES</p> <p>Substitutes are not allowed.</p> | |
| 2 | <p>DECLARATIONS OF INTEREST</p> | |
| 3 | <p>WORK PLAN</p> <p>For the Panel to note and agree its work plan, which can be adjusted to reflect the wishes of the Panel.</p> <p>The panel is also asked to consider the draft scope (attached) for the Budget Review Group in January and refer it to the Scrutiny Committee for agreement.</p> | 7 - 12 |
| 4 | <p>NOTES OF PREVIOUS MEETING</p> <p>For the Panel to approve the record of the meeting held on 5th September 2019.</p> | 13 - 18 |
| 5 | <p>INTEGRATED PERFORMANCE REPORT FOR Q2 2019/20</p> <p>Anna Winship, Management Accountancy Manager, will be attending to present the Integrated Performance Report for Quarter 2. The Panel is asked to consider the report and make any recommendations to Cabinet accordingly. This report will be issued as a supplement.</p> | |
| 6 | <p>TREASURY MID-YEAR REPORT 2019/20</p> <p>Bill Lewis, Financial Accounting Manager, will be presenting the Treasury Mid-Year report. The Panel is asked to consider the report and make any recommendations to Cabinet accordingly.</p> | 19 - 36 |
| 7 | <p>PROPERTY INVESTMENT PORTFOLIO ANALYSIS AND STRATEGY REPORT</p> <p>Nick Twigg, Major Projects & Development Manager, with Tom Bridgman, Executive Director, Development, or Jane Winfield, Regeneration & Major Projects Service Manager, will be presenting the Property Investment report. The Panel is asked to consider the report and make any recommendations to Cabinet accordingly.</p> | 37 - 40 |
| 8 | <p>CONFIDENTIAL SESSION</p> <p>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 Board to pass a resolution in accordance with the provisions of Paragraph 4(2)(b) of the Local Authorities</p> | |

(Executive Arrangements) (Access to Information) (England) Regulations 2012 on the grounds that their presence could involve the likely disclosure of exempt information as described in specific paragraphs of Schedule 12A of the Local Government Act 1972.

The Board 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

9 PROPERTY INVESTMENT - CONFIDENTIAL APPENDICES

41 - 136

10 FUTURE MEETING DATES

The next meeting date is subject to discussion in light of interaction with the Budget Review Group.

March 2020 is TBC – The Panel is asked to confirm whether it is happy to hold this on 27th Feb 2020.

All meetings start at 6.00pm.

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.

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FINANCE PANEL WORK PLAN

December 2019 – May 2020

FINANCE PANEL

2 DECEMBER 2019 - REPORTS

| Agenda item | Cabinet item | Description | Cabinet portfolio | Lead officer |
|--|---------------------|--|--|--|
| Integrated Performance Report for Quarter 2 2019/20 | Yes | Financial and Performance data for Q2 2019/20 | Deputy Leader - Finance and Asset Management | Anna Winship, Management Accountancy Manager |
| Budget Review 2019/20 - recommendations update | Yes | To monitor progress on the implementation of the recommendations made in regard to the Budget Review 2019/20. | Deputy Leader - Finance and Asset Management | Nigel Kennedy, Head of Financial Services |
| Property Investment Portfolio Analysis and Strategy Report | Yes | The report contains an overview of the council's existing commercial property portfolio and presents a number of recommendations. This includes options for re-balancing the portfolio, raising finance and capital deployment to support the objective of providing the council with a secure source of income. | Deputy Leader - Finance and Asset Management | Nick Twigg, Major Projects & Development Manager |
| Treasury Mid-Year Report 2019/20 | Yes | To report on the performance of the Treasury Management function for the 6 months to 30th September 2019 | Deputy Leader - Finance and Asset Management | Bill Lewis, Financial Accounting Manager |

6, 8 & 20* (TBC) JANUARY 2020 - ANNUAL BUDGET REVIEW

| Agenda item | Cabinet item | Description | Cabinet portfolio | Lead officer |
|---|--------------|---|--|--|
| Consultation Budget 2020-21 and Medium Term Financial Plan 2021-22 to 2023-24 | Yes | Draft Consultation Budget 2020-21 and Medium Term Financial Plan 2021-22 to 2023-24 | Deputy Leader - Finance and Asset Management | Anna Winship, Management Accountancy Manager |

29 JANUARY 2020 - PROVISIONAL REPORTS

| Agenda item | Cabinet item | Description | Cabinet portfolio | Lead officer |
|--------------------------------------|--------------|--|--|---|
| Treasury Management Strategy 2020/21 | Yes | To present the Council's Treasury Management Strategy for 2020/21 together with the Prudential Indicators for 2020/21 to 2023/24 | Deputy Leader - Finance and Asset Management | Bill Lewis, Financial Accounting Manager |
| Capital Strategy 2020/21 – 2024/25 | Yes | To present the Capital Strategy for approval | Deputy Leader - Finance and Asset Management | Bill Lewis, Financial Accounting Manager |
| Monitoring social value | Yes | To review the Council's current social value weighing in procurement of 5%. | Deputy Leader - Finance and Asset Management | Nigel Kennedy, Head of Financial Services |
| Annual Budget Review | Yes | To consider the draft Annual Budget Review report | Deputy Leader - Finance and Asset Management | Tom Hudson, Scrutiny Officer |

TBC MARCH 2020 - PROVISIONAL REPORTS

| Agenda item | Cabinet item | Description | Cabinet portfolio | Lead officer |
|---|--------------|---|--|--|
| Integrated Performance Report for Quarter 3 2019/20 | Yes | Financial and Performance data for Q3 2019/20 | Deputy Leader - Finance and Asset Management | Anna Winship, Management Accountancy Manager |

Scrutiny Budget Review 2020/21 – Scoping Document

| | |
|---|---|
| Review Topic | Budget Review 2020/21 and Medium Term Financial Plan to 2023-24 |
| Lead Member Review Group | Councillor James Fry |
| Other Review Group Members | <p>Councillor Craig Simmons Councillor Chewe Munkonge Councillor Roz Smith</p> <p>Members of the Housing Panel will be invited to scrutinise Housing-related budgetary items:</p> <p>Councillor Nadine Bely-Summers Councillor Mike Gotch Councillor Richard Howlett Councillor Sian Taylor Councillor Elizabeth Wade Councillor Dick Wolff Tony Buchanan (tenant co-optee)</p> |
| Officer Support and allocate hours | Scrutiny Officer support – approx. 2-3 days per week from mid-December 2019 to mid-February 2020. Additional support from the Head of Financial Services, Management Accountancy Manager and other Senior Officers. |
| Background | <p>The Finance Panel is responsible for scrutinising finance and budgetary issues and decisions, including the Budget 2020/21 decision.</p> <p>The Budget 2020/21 paperwork will be published for consultation on 11 December 2019, ahead of a final decision by full Council on 13 February 2019. In recent years the Panel has formed a Budget Review Group to scrutinise the budget proposals in detail before reporting to Cabinet in February.</p> |
| Rationale | To scrutinise the Council's draft budget for 2020/21 and medium term financial plan for the following three years, and provide public assurance of the Council's budget setting processes and decisions. |
| Key lines of inquiry | <p>Areas of focus for the Budget Review Group this year to include:</p> <ul style="list-style-type: none"> • Slippage in the Capital Programme • Business rate income • The overall shape of expenditure and income (gross and net) at a high level, including data for recent years and future years. • The evolution of Council budgets over recent years, tracking changes from original approved budgets to final outturn. • The impact on council finances of the establishment of the council owned companies, Oxford Direct Services Ltd and Oxford City Housing Ltd In addition to the joint ventures in relation to land at |

| | | | |
|-----------------------------------|--|----------------------------------|-----------------------------------|
| | <p>Barton and Oxpens.</p> <ul style="list-style-type: none"> • Estimates of gross and net income and expenditure • Past and projected changes to external funding streams. • Service area budget proposals including planned savings and efficiencies, cost pressures and staffing (FTE) impacts. • Contingencies and earmarked reserves. • HRA Business Plan in the light of the changes to interest rates charged by the Public Works Loan Board • The expected impacts of any national government policy changes following the December 2019 UK General Election. | | |
| Indicators of Success | <ul style="list-style-type: none"> • Robust independent scrutiny of budget proposals; • Detailed consideration of key lines of inquiry; • The production of an evidenced based report with recommendations; • Broad agreement on conclusions and recommendations amongst Review Group members; • The majority of recommendations are agreed by the Cabinet. | | |
| Methodology/ Approach | <p>Evidence gathering to include:</p> <ul style="list-style-type: none"> • A budget briefing by the Head of Financial Services, • Reviewing Budget 2020/21 paperwork, including options or bids presented to members; • Submitting written questions to Senior Officers and reviewing their responses; • Meetings with Executive Directors, Assistant Chief Executive and Heads of Service. | | |
| Specify Witnesses/ Experts | <ul style="list-style-type: none"> • Assistant Chief Executive; • Executive Director – Development; • Executive Director for Sustainable City; • Executive Director – Communities and Customer (Interim) • Interim Director of Housing; • Head of Financial Services; • Head of Housing Services; • Head of Planning Services; • Head of Community Services; • Head of Business Improvement; • Head of Law and Governance • Head of Regulatory Services and Community Safety • Management Accountancy Manager. • | | |
| Out of scope | <p>Detailed estimates in relation to ODS and OCHL company business plans are out of scope, but not their overall impact on the Council's budget and Medium Term Financial Plan.</p> | | |
| Projected start date | 11 December 2019 | Draft Report Deadline | 29 January 2019 for Finance Panel |
| Meeting Frequency | 4 meetings in January 2019 | Projected completion date | 12 February 2019 Cabinet |

Draft outline of meetings

| |
|--|
| Meeting one – 6 January 2020, 6:00 – 8:00pm |
| <p>6pm: Finance overview, and consider service area budget proposals for:</p> <ul style="list-style-type: none"> • Assistant Chief Executive (Caroline Green) • Nigel Kennedy (Head of Financial Services) <p>Chief Executive, Gordon Mitchell, is unavailable in early January.</p> |
| Meeting two - 8 January 2020, 6:00pm - 8.00pm |
| <p>To consider service area budget proposals and form draft recommendations for:</p> <ul style="list-style-type: none"> • Planning and sustainable development (Tim Sadler and Adrian Arnold) • Housing Services (Paul Leo and Stephen Clarke) • Regeneration and Economy (Tom Bridgman and Jane Winfield) <p>Housing Panel members to be invited to contribute to the discussion on Housing Services</p> |
| Meeting three – 20 January 2019, 6:00pm - 8.00pm * (Date for discussion) |
| <p>To consider draft recommendations from previous meetings, to consider budget proposals and form draft recommendations for:</p> <ul style="list-style-type: none"> • Communities and Customers (Aileen Carlisle, Ian Brook, Helen Bishop and Ian Wright) • Law and Governance (Nigel Kennedy and Anita Bradley) |
| Meeting Four – 29 January 2019 (as part of Finance Panel) |
| To consider the draft review group report. |

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Minutes of a meeting of the FINANCE PANEL (PANEL OF THE SCRUTINY COMMITTEE) on Thursday 5 September 2019

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Committee members:

Councillor Fry (Chair)

Councillor Munkonge

Councillor Simmons

Councillor Roz Smith

Officers:

Nigel Kennedy, Head of Financial Services

Tom Hudson, Scrutiny Officer

James Pickering, Welfare Reform Manager

Apologies:

None

24. Declarations of interest

None

25. Work plan

The Panel considered the work plan and discussed whether to give future consideration to the impact of the Council's incorporation of a social value weighting within its procurement and also to carbon accounting. It was agreed that an update paper on the impacts of the Council's previous adoption of social value measures in procurement would be brought by the Head of Financial Services to the March 2020 meeting. In light of the Scrutiny Committee's consideration of which topics would be considered at Review Groups it was agreed to defer consideration of other topics to be brought to the Panel until the Review Group topics had been agreed.

26. Notes of previous meeting

The Panel considered and noted the record of the meeting held on 01 July 2019.

In response to questions the Panel noted that:

- The slippage of £510k on the purchase of homeless properties as referred to on page 11 of the agenda pack was money that had been brought forward from the previous year, that it formed part of a £10 million programme and that the slippage would not be caught up. Instead, the intention would be to vire the underspend to alternative budgets.
- The creation of separate accounts for the Covered Market was possible, but that the Council had recently submitted a bid for approximately £2.5 million which, if successful, would significantly alter the financial position of the Covered Market, rendering any report made beforehand out of date. It was agreed that

the Head of Financial Services would feed back to the Panel when the outcome of the bid was known.

27. Council Tax Reduction Scheme 2020/21

With the agreement of the Panel the order of the agenda was changed to consider item 6, the Council Tax Reduction Scheme 2020/21 before item 5, the Treasury Management Strategy: Annual Report and Performance 2018/19.

The Panel considered a report presented by the Cabinet Member for Supporting Local Communities, Councillor Marie Tidball, and supported by the Welfare Reform Manager on the proposals to go out for consultation regarding changes to the Council's Council Tax Reduction Scheme for 2020/21. In introducing the report Councillor Tidball drew out a number of key issues around the Council's scheme to support those unable to cover the cost of Council Tax:

- That the previous Central Government provided funding towards the Council Tax Reduction Scheme, the Revenue Support Grant, had been phased out meaning the Council no longer received financial support from Central Government towards the scheme
- The cost to the Council of the scheme for the financial year 2020/21 was anticipated to be £1.7 million, but would be dependent on external factors such as the level of Council Tax
- Monitoring of previous changes to the Council Tax Reduction Scheme around instituting a minimum income floor for self-employed claimants had not shown an increase in costs, but the change had been positive for those impacted and basing discounts on actual rather than assumed earnings was an equitable policy position

The changes proposed for consultation were in relation to:

- Changes that to enable the Council Tax Reduction to be applied from the date of the claim, rather than the Monday after the change.
- Leaving a Council Tax Reduction claim open for six months whilst there is a Universal Credit application in place.
- Whether or not to introduce a banded income approach for working age claimants, in the same way as UC claimants are treated, from 2021/22.

Councillors raised a number of questions as the practicalities of the Council Tax Reduction Scheme and how it operated alongside other Council Tax discounts, such as the Single Person's Discount. It was suggested by the Panel that the subject could be usefully addressed at a forthcoming Member Briefing.

Further discussion focused on the size of the Council's discretionary support, whereby the Council had the right to waive Council Tax in certain circumstances outside the Council Tax Reduction Scheme. It was noted by Councillors that the discretionary support liability would fall exclusively on the Council rather than being apportioned pro rata amongst the preceptors as under the Council Tax Reduction Scheme, meaning write-offs would form 100% of the Council Tax expected, rather than 15.7%. Whilst known to be relatively small it was not possible at the Panel to

confirm the budget for discretionary support, but the Head of Finance agreed to find out and circulate to Panel members. It was also encouraged that access of discretionary Council Tax support be monitored.

Responses to other questions confirmed that the Council had confidence that those eligible for the Council Tax Reduction Scheme were indeed claiming the reduction, and that the Council was aware that Universal Credit meant that a separate claim was required and had been taking active steps to raise awareness. It was also confirmed that the County Council would be unlikely to have strong views on the Council's proposals despite financial implications of the choices made being passed on.

Significant discussion took place with regards to the questions being consulted on and whether they reflected the variety of options open to the Council, particularly in light of more radical options that could be considered in the future due to anticipated medium term financial pressures. In particular, the Panel discussed the merits and demerits of gauging opinion on having a minimum Council Tax payment for all. It was noted that opinion from other authorities was mixed on the cost-effectiveness of implementing such a policy, with some finding the administrative costs of securing low-level payments to outweigh the income, whilst others finding the policy was income generative. In relation to whether the questions of the consultation should be amended the benefit of using the same questions as previously for benchmarking purposes was noted, as was the importance of giving the impression the Council was intending to make radical changes to the scheme when the recommendation was for three fairly small ones. Likewise, it was suggested that the challenges, consequences and viability (or otherwise) of alternative suggestions, such as cutting services and increasing fees and charges were unclear in the consultation questions. It was agreed that no changes should be recommended to the consultation questions but that the points made would be borne in mind for the next year.

28. Treasury Management Strategy: Annual Report and Performance 2018/19

The Panel considered the Treasury Management Strategy: Annual Report and Performance 2018/19.

The Head of Financial Services introduced the report, drawing specific attention to the £96.2 million of investments held by the Council, the fact that interest income from loans of £3.12 million had exceeded targets of £2.91 million, the full impairment of £1.17 million of land values at Barton Park, the size of the Council's debts to the Public Works Loan Board of £198.5 million and the source of that debt as the buy-out of the Housing Revenue Account in March 2012. The other measures referenced in the report were stated as showing that the Council had no major variances and that the report was in compliance with its legal requirements around reporting.

Noting the significant preference for fixed interest investments the Panel discussed the optimal balance of the Council's investment portfolio. It was noted that a significant majority of funds were invested in fixed term investments, yielding over 3% less per annum than the Council's property fund investments. The Head of Financial Services

underlined that the order of priority when assessing investment strategy and allocation was security, followed by liquidity, followed by yield. Nevertheless, it would be possible within those guidelines to invest more in non-fixed term investments and that he was exploring with other local Councils in Oxfordshire and Gloucestershire the potential for investing in social impact bonds, which fund projects such as solar farms, and which pay a regular coupon as well as the return of capital at the end of a specified period. The level of the Council's reserves would allow the loss of liquidity arising. Alternatives to social impact bonds were also being explored, including additional investment in new or existing property funds on that basis that these were more, if not totally, liquid than social impact bonds. Use of investment to enhance the local environment was also explored but it was confirmed that the Council would be looking at making investments in property (primarily offices and industrial units) locally within the Budget and that funding to do so would be made through borrowing. This was welcomed on the basis that it would dilute the Council's retail focus thereby reducing risk.

Councillor Simmons left the meeting at this point.

Regarding borrowing, the Panel sought clarification as to the nature of the external loans referred to on p.19, item 24. It was explained that the loans repaid included loans to the Public Works Loans Board, short-term loans and financing. Further clarifications were sought regarding the nature and working of the Operational Boundary Limit referred to on p.18 item 23. The Boundary Limit was explained to be a self-imposed borrowing limit designed to be a control mechanism to prevent excessive borrowing by requiring Council approval to breach. In light of the changes to the Housing Revenue Account which enables Councils to borrow prudently for housing, the Panel sought information on the theoretical borrowing limit. The Head of Financial Services confirmed that work was already being undertaken to determine the figure, but that by virtue of the need for borrowing to be prudent assessments of the income generation capacity of schemes were necessary, making it a complex process. The current estimate of additional borrowing available to the Council through the Housing Revenue Account would be around a further £200 million.

The Panel spent significant time discussing the £1.17 million impairment of land value at Barton Park as referenced on page 14. Councillors questioned how land valued at over a million pounds at one point could be judged to be valueless later, and whether the Council had therefore incurred a significant loss. It was explained that due to changes to the specification of the Barton Park joint venture the land in question had been independently valued by the valuer to have zero value, and that the write down in value was necessary in accounting terms to reflect this. However, it was explained that the Council had not lost out as the changes made at Barton Park which lay behind the impairment had formed part of a wider deal under which the Council purchased houses built at a preferential rate. This trade-off had been net positive for the Council.

Following on from discussions on impairment at Barton Park, the Panel also sought clarification on the level of risk of something similar occurring with the Council's contribution of land to the OxWED development. It was confirmed that the value of the land had recently been adjudged to be the same as its purchase price and that there had been no impairment.

On a more general note, the Panel sought an explanation of actions being taken following the circumstances leading to the late filing of the Council's accounts. The Head of Financial Services confirmed that the auditors of Oxford Direct Services, Mazars, and the Council, Ernst & Young, were currently blaming one another but that he was holding both to account for the delay.

The Panel also requested an update on the progress of the Project Management Office function launched by the Council in relation to its capital expenditure. The Head of Financial Services confirmed that new projects were being subjected to a far higher amount of rigour, and that legacy projects were being retrofitted in terms of business cases and feasibility studies rather than being cancelled, even though this was a more challenging approach to take. It was requested by the Panel that a distinction in reporting be made between those projects that had been commenced under the auspices of the Project Management Office and legacy projects which had been taken over.

29. Future Meeting Dates

The Panel noted the dates of future meetings as 5 December 2019, 29 January 2020 and a March date TBC.

The meeting started at 6.00 pm and ended at 7.15 pm

Chair

Date: Thursday 5 December 2019

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To: Cabinet
Date: 19 December 2019
Report of: Head of Financial Services
Title of Report: Treasury Management Mid-Year Review for April – September 2019

| Summary and recommendations | |
|--|--|
| Purpose of report: | To report on the performance of the Treasury Management function for the 6 months to 30 th September 2019 |
| Key decision: | No |
| Executive Board Member: | Councillor Ed Turner, (Deputy Leader) Finance, Asset Management and Public Health |
| Corporate Priority: | None |
| Policy Framework: | Efficient and effective Council |
| Recommendations: That Cabinet resolves to: | |
| <ol style="list-style-type: none"> Note the performance of the Treasury Management function for the six months to 30th September 2019; and Recommend to Council: Approve the change of the Indirect Property Funds counterparty category to Pooled Investment Funds. Note that the Council is considering investing in a Multi Asset fund instead of an Indirect Property Fund as was previously anticipated. | |

| Appendices | |
|------------|---|
| Appendix 1 | List of investments as at 30 th September 2019 |
| Appendix 2 | Risk Register |

Introduction and Background

- This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury and has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, covering the following:
 - An economic overview for the first part of the 2019/20 financial year

- A review of the Council's investment portfolio for 2019/20
 - A review of the Council's borrowing strategy for 2019/20
 - A statement of compliance with Treasury and Prudential Limits for 2019/20
2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in suitable counterparties, providing adequate liquidity and security initially before considering optimising investment return.
 3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Economic Overview

4. The over-riding theme for the year so far has been uncertainty and turbulence, mainly down to Brexit which is now expected to happen with some form of deal on the table. The BOE base rate has remained at 0.75% throughout the year, Global economies appear to be slowing and the likelihood of any interest rate rise this year has all but gone with a rate cut now looking more likely in order to support growth. Any interest rate forecasts are subject to material change as the Brexit situation evolves. With so much uncertainty the commercial property market could also be at risk with companies and retailers suffering under the current market conditions.
5. The first half of 2019/20 has seen UK economic growth fall due to the level of uncertainty. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrors investor concerns around the world about a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the MPC left the Bank Rate unchanged at 0.75% throughout 2019 so far and they are expected to hold off on changes until there is some clarity on what is going to happen over the EU exit. The new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and take some pressure off the MPC to cut Bank Rate to support growth.
6. The CPI measure of inflation has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is expected to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time unless there is a no deal exit where inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

Interest and Interest Rate Forecasts

7. The Council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9th October 2019.

| Link Asset Services Interest Rate View | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 |
| 6 Month LIBID | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.30 | 1.40 |
| 12 Month LIBID | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.40 | 1.50 | 1.60 |
| 5yr PWLB Rate | 2.30 | 2.50 | 2.60 | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 | 3.10 |
| 10yr PWLB Rate | 2.60 | 2.80 | 2.90 | 3.00 | 3.00 | 3.10 | 3.20 | 3.30 | 3.30 | 3.40 |
| 25yr PWLB Rate | 3.30 | 3.40 | 3.50 | 3.60 | 3.70 | 3.70 | 3.80 | 3.90 | 4.00 | 4.00 |
| 50yr PWLB Rate | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.60 | 3.70 | 3.80 | 3.90 | 3.90 |

8. The forecasts in the above table are based on an assumption that there is an agreed EU Exit deal at some point in time. Given the current level of uncertainties, this is a significant assumption and so forecasts may need to be materially reassessed in the light of future events.
9. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth. More recently on 7th November the MPC agreed to hold the base rate on a vote of 7 to 2.
10. On 9 October 2019 HM Treasury announced that with immediate effect it was increasing its PWLB borrowing rates. In a statement it reported that "Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.". The LGA estimate that this increase could costs councils an extra £70 million a year for borrowing to be undertaken in the next year and present a real risk that capital schemes, including vital council house building projects, will cease to be affordable and may have to be cancelled as a result. The impact on the Council is varied. The most significant impact will be on its wholly owned Company Oxford City Housing Ltd.

Investment Portfolio and Performance

11. The budgeted investment income for 2019/20 is £0.979 million. As at the 30th September 2019, forecast investment income for 2019/20 is £1.474m. There are a

number of reasons for the variation but the primary impact is the reduced loans made to the Housing Company due to expected slippage in their capital expenditure plans. This has resulted in larger investment interest as there are more funds deposited than budgeted. The budgeted non treasury housing company loans for 2019/20 were £35.3m, the actual loans as at 30th September 2019 were £1.6m and the forecast outturn is £15.9m. The scope of this report only includes treasury investments therefore the interest that would be received from loans to companies is not included in this report.

12. The Treasury Management Strategy for 2019/20 was approved by this Council in February 2019; to date the Strategy has been fully adhered to. There is one proposed change detailed below.
13. As part of its Strategy, the Council aims to maintain a diversified investment portfolio whilst ensuring there are no policy and procedure breaches. Security of investments is always the primary concern when arranging investments with liquidity and yield being secondary, but key considerations.
14. The Council operates an approved counterparty listing which details all institutions with whom the Council may invest, the maximum amount which may be invested with any single counterparty group at any given point and the maximum duration period. The counterparty list is set in association with recommendations from Link Asset Services although ultimate authorisation of approved counterparties rests with the Section 151 Officer. The list is actively managed and reviewed on a weekly basis or more regularly if required.
15. Monthly monitoring meetings are held with the Section 151 Officer, Financial Accounting Manager and Treasury staff to discuss investments in terms of counterparties and maturity dates, cash flow, interest and borrowing rates and Treasury operational and Strategic strategies.
16. The strategy also adopts an ethical approach to investments, stating that:
“The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council’s mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:
 - *Human rights abuse (e.g. child labour, political oppression)*
 - *Environmentally harmful activities (e.g. pollutants, destruction of habitat, fossil fuels)*
 - *Socially harmful activities (e.g. tobacco, gambling)”*
17. The Council has been able to take advantage of some further green deposit notice accounts offered by Barclays Bank who are working in association with Sustainalytics, a leading global provider of environmental, social and corporate governance research and ratings, to achieve a positive environmental impact. Their green framework covers the following environmental areas:
 - Energy efficiency projects and renewable energy
 - Sustainable food agriculture and forestry
 - Waste management
 - Greenhouse gas emission reduction

- Sustainable water

18. The Council currently has £7.5 million in these accounts.

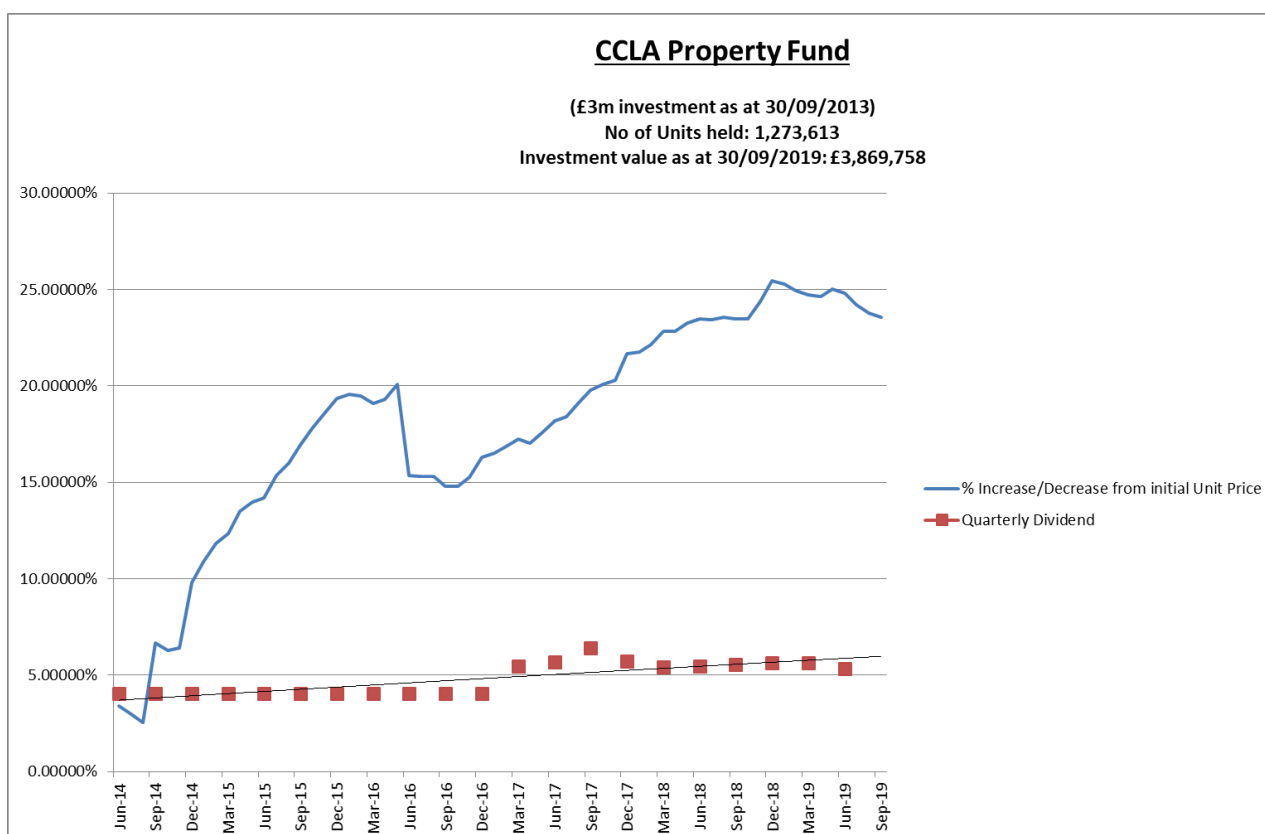
Property Funds

19. At present, the Council has placed investments with two property funds; CCLA Investment Management, which is a property fund that limits its investors to Charities, Churches and Local Authorities and Lothbury Investment Management, a specialist UK property fund manager with a range of funds providing high quality exposure to different property sectors.

CCLA Investment Management Limited

20. The Council has held a £3m investment in the CCLA fund since September 2013. The investment has produced quarterly returns ranging between 5% and 6% and it is expected that the Fund will continue to achieve rates in this region.

21. Additionally, the value of the Council's investment with CCLA has appreciated from £3m to £3.86m as at 30th September 2019, equating to growth of 28.7% to date. However, the values of the individual unit prices have fluctuated over time and the effect of capital appreciation (and depreciation) is illustrated in the graph below.



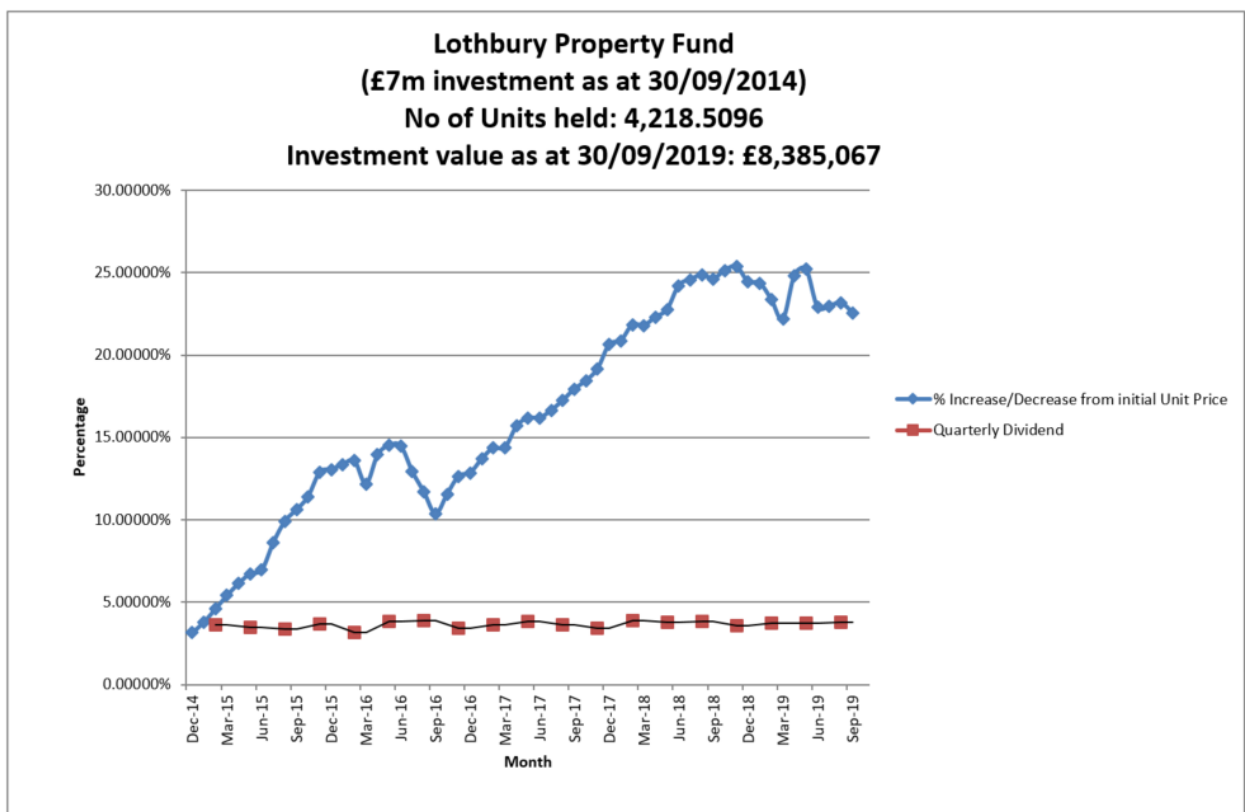
22. Changes to the accounting rules on property funds means that the principal gain or loss will now be charged to the Surplus or Deficit on the Provision of Services, within the Councils Income and Expenditure Account, rather than being held on the balance sheet. However, following consultation by MHCLG the government has introduced a mandatory statutory override for local authorities to reverse out the effect for five years from 1st April 2018 after which surpluses as well as deficit will impact on the Councils revenue position. Even without the statutory override, the

Council would have created a reserve to hold the funds until the return was realised due to the potential for fluctuations in the property markets.

23. The investment returns around £40k per quarter.

Lothbury Investment Management

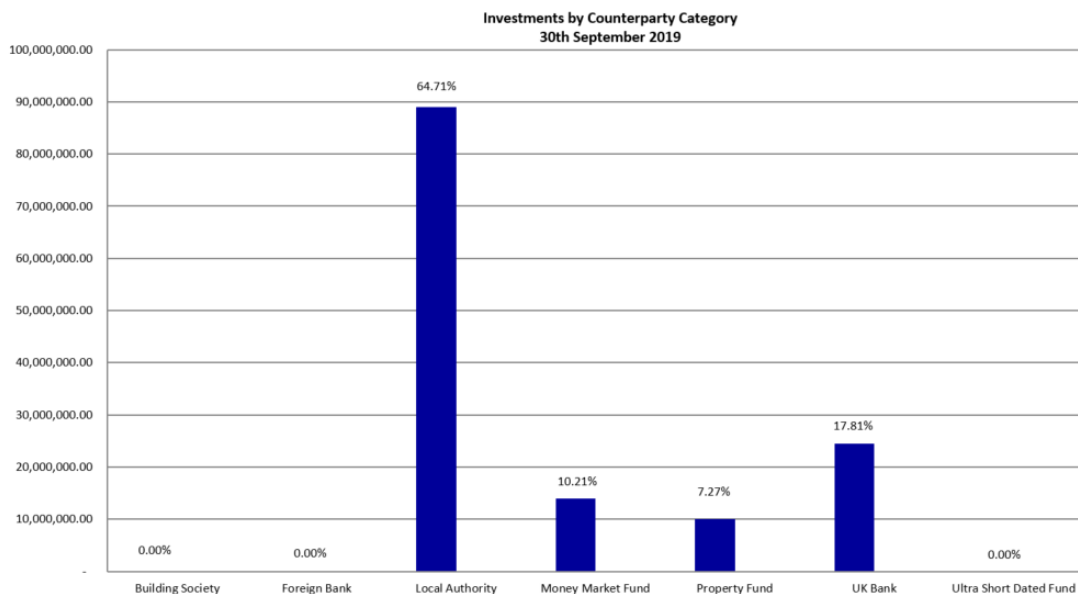
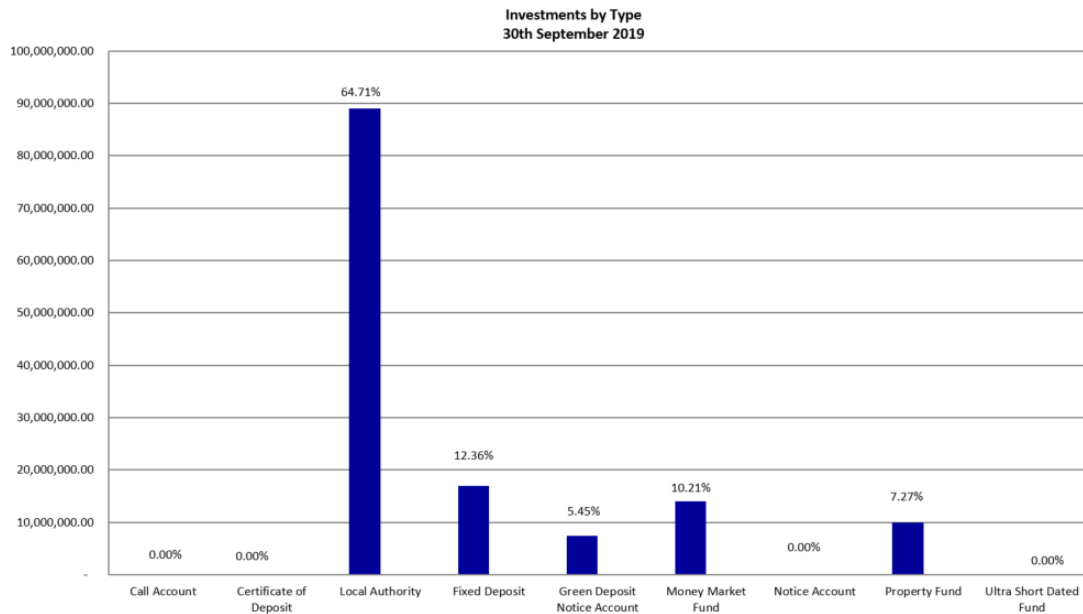
24. During 2014/15, the Council invested £7m in the Lothbury Property fund and the Fund has produced quarterly returns in the range of 3-4%. Furthermore, the Fund has seen a capital appreciation over the period with the value currently standing at £8.39m, compared with £7m at inception, equating to overall growth of 19.79% to date. However, as with CCLA, the values of the individual unit prices have fluctuated over time and the effect of capital appreciation (and depreciation) is illustrated in the graph below. The changes to accounting rules will also affect the Lothbury Property Fund as explained in paragraph 21 above.



The investment returns around £64k per quarter.

Investment Portfolio

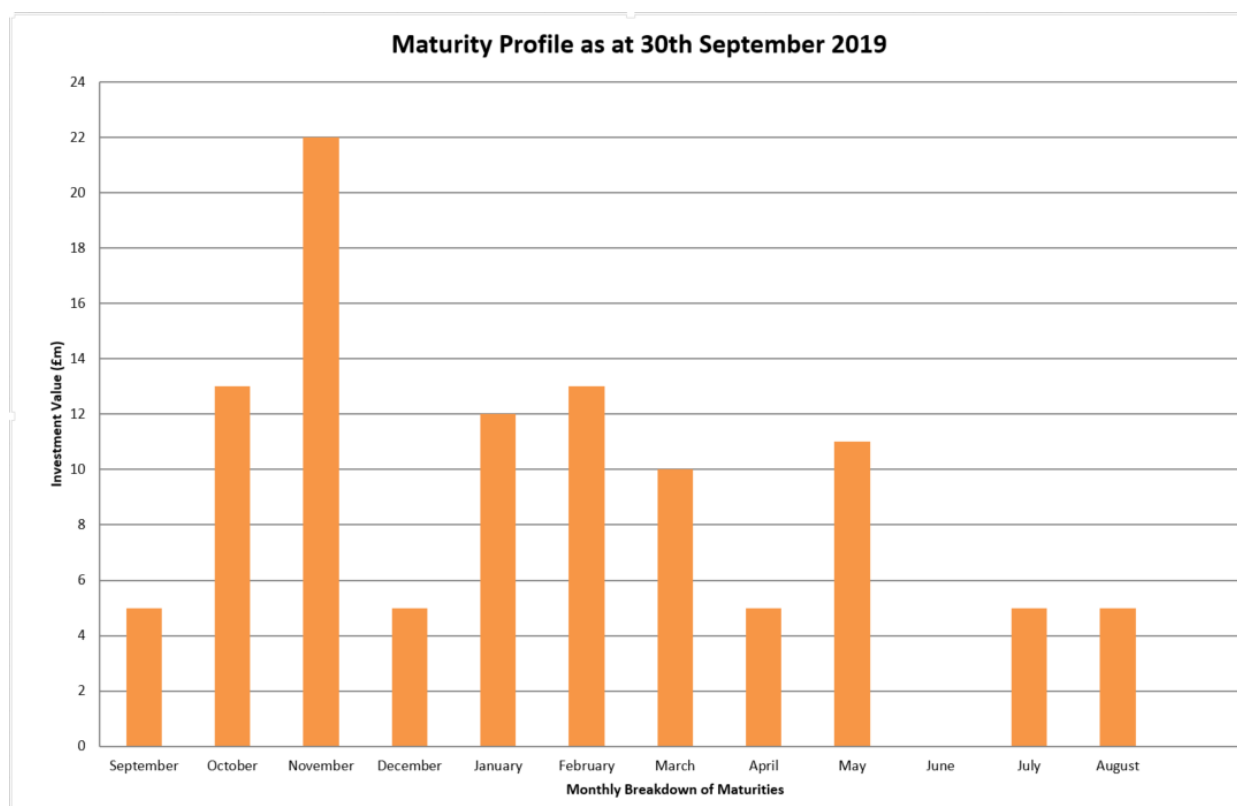
25. As at 30th September, the Council's total investment portfolio amounted to £112.5m, with £10m of this being held in property funds and £14m being held in instant access cash facilities with the balance being held in banks and building societies
26. The graphs below illustrate how Council's investment portfolio is distributed, both in terms of the type of investment and counterparty category:



27. Fixed deposits and certificates of deposits both have an agreed start and end date which are arranged where possible, to suit the cashflow requirements. However, as mentioned previously, it is also important to keep a proportion in instant access funds.
28. The Council's Treasury Management Strategy limits non-specified investments to 25% (or £25m whichever is greater) of the previous year's average investment

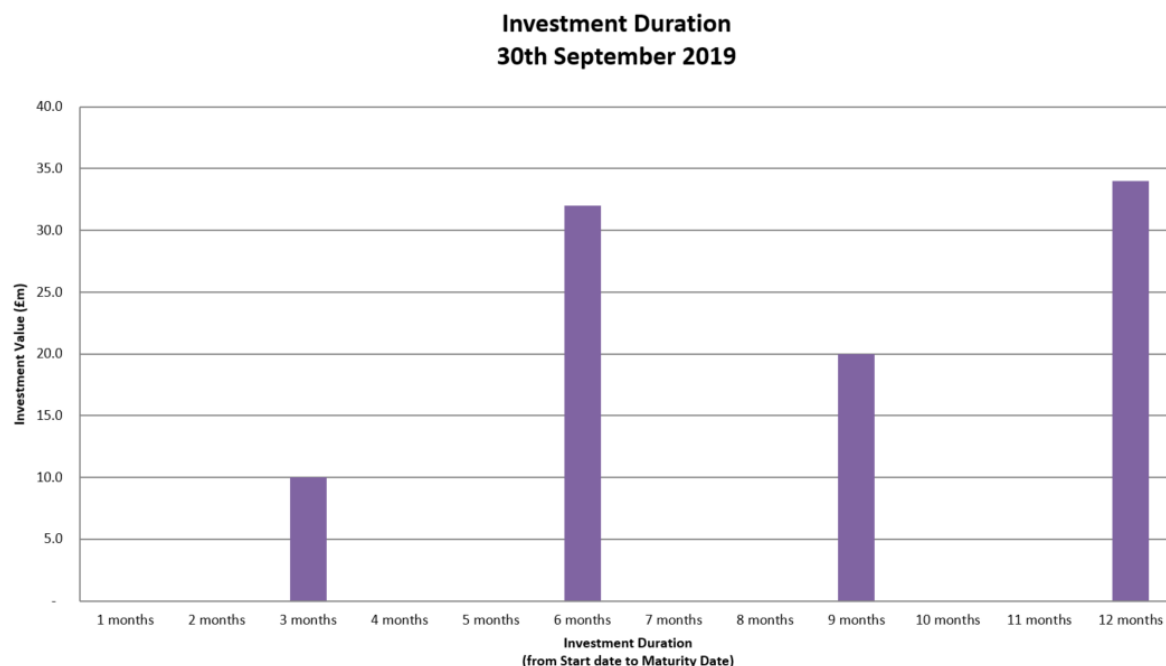
portfolio. This limit is reviewed each year when setting the Strategy in order to ensure a balanced and diversified portfolio of investments. Property funds and investments in excess of 364 days are classified as non-specified due to the associated risk; property funds by nature are high risk due to the volatility of the market. There are several factors that deem longer term investments to be more risky in nature including the risk of interest rate rises and the commitment of cash for longer periods.

29. £10 million is committed in the CCLA and Lothbury property funds and we are currently looking at utilising residual headroom to invest further in some non-specified investments. It should be noted that the £5 million invested in the National Homelessness Property Fund (Real Lettings) is, following discussions with our external auditors, classified as a service investment undertaken using service delivery powers rather than treasury powers under Section 12 of the Local Government Act 2003. This means the counterparty limit for the £5m invested in the National Homelessness Property Fund is not taken into account when assessing the residual headroom available for investment in non-specified investments.
30. The Strategy defines a specified investment as one that is in sterling, no more than one year in duration or, if in excess of one year can be repaid earlier on request and with counterparties that meet the Council's credit rating criteria. Additionally, once the duration of a non-specified investment falls below 366 days, it also falls into the Specified category. The maturity profile for the Council's specified investments (equating to £88.5m when excluding the instant access cash) is illustrated below.



31. The graph below illustrates the same investments by duration period in order to demonstrate duration periods. It is not surprising that the majority of investments have a duration period of six months as this is the limit for most of the banks and

building societies with whom the Council may invest. When the opportunity arises, longer investments are arranged to allow for a greater yield.



Borrowing

32. The Council has not taken on any additional debt during the year to date and so the balance of its external borrowing remains at approximately £198.5 million; this figure relates to funds borrowed from the Public Works Loans Board (PWLB) to buy out the Housing Revenue Account (HRA) from the subsidy system and relates wholly to Housing with interest repayment being met by the HRA. The Council does not consider that debt restructuring and/or premature repayment would be practical at this time as due to the differential in interest rates, the Council would incur a large premium from the PWLB for doing so. The Council continues to monitor borrowing interest rates and forecasts on a regular basis and will continue to review its position on debt restructuring.
33. The Council anticipates borrowing in the future to meet its capital expenditure requirements, including loans to the Housing Company, but does not anticipate any external borrowing during 2019/20.

Treasury and Prudential Limits for 2019/20

34. The Council has operated all of its Treasury Management activity within the parameters set by the Treasury and Prudential indicators in the Treasury Management Strategy for 2019/20.

Proposed Change to Counterparty Lists

35. The consultation budget presented to City Executive Board on 18th December 2018 and ratified at the City Executive Board meeting of 12th February 2019 and Council of 13th February 2019 included a proposal to make a further £10 million investment in property funds. This is within the counterparty limits of the 2019/20 treasury strategy as per the non-specified counterparty limit shown below:

| | Minimum Credit Criteria | Max % of total investments/£ limit per institution | Max maturity period |
|-------------------------|-------------------------|---|---------------------|
| Indirect Property funds | | 25% of total investments or £24 million, whichever is the greater | Medium to long term |

36. In order to provide greater diversification within the treasury investment portfolio, it is proposed to consider investing in a Multi Asset fund instead. This would reduce the Council's reliance on property based income and therefore reduce exposure to this sector. The Council has been advised by their treasury advisors, Link Asset Services, that the financial returns from these types of funds are similar and so there would be no adverse effect on the budgets already approved. It is therefore proposed to amend this counterparty limit to cover Indirect Property Funds and Multi Asset funds.

Other Key Updates

Changes in Risk Appetite

37. The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. Oxford City Council has not made any significant changes to its investment approach at this time although there is the intention to further invest in property funds in the near future. The risk will continue to be managed by understanding the individual investment vehicles and also by considering the appropriate percentage of non-specified investments that can be held in the overall portfolio.

Treasury Advisor

38. Treasury advice and market information is provided by Link Asset Services. Information provided by Link Asset Services is used to advise Council Officers when making investment decisions.

Financial Implications

39. Any financial implications are contained within the body of this report.

Legal Issues

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

Level of Risk

41. 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 considering investment

opportunities. The Council uses external advisors and counterparty credit ratings issued by the rating agencies to assist in this process.

Equalities Impact

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

| | |
|----------------------------|--|
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| Job title | Financial Accounting Manager |
| Service area or department | Financial Services |
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| |
|--------------------------------|
| Background Papers: None |
|--------------------------------|

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| OXFORD CITY COUNCIL LOANS LIST 2019/20 | | | | | | | | | | | | | |
|---|---------------------------------|--|-------------------|---|--------------|------------|---------------|-----------------|------------|--|---------------|--|--|
| OCC Investments as at: | | 30/09/2019 | 112,540,000.00 | | | | | | | | | | |
| Counterparty Group | Group Operational Lending Limit | Counterparty Name | Investment Amount | Interest Rate | Trade Date | Start Date | Maturity Date | Remaining Limit | Broker | | | | |
| SPECIFIED INVESTMENTS | | | | | | | | | | | | | |
| Barclays Bank (NRFB) Fixed Deposits Call Account 6 months maturity limit PJ checked 04/06/2019 | 10,000,000.00 | | | | | | | 2,500,000.00 | | | | | |
| | | Barclays Bank BPA (call account) | - | 0.20% | 13/03/2018 | | | | | | | | |
| | | Barclays Green Deposits: 65-day Notice Account | 2,500,000.00 | 0.85% | 20/02/2019 | | | | | | | | |
| | | Barclays Green Deposits: 95-day Notice Account | 5,000,000.00 | 0.95% | 03/05/2019 | | | | | | | | |
| Lloyds Banking Group (RFB) Lloyds Bank Bank of Scotland £15m operational limit agreed by JY 02/08/16 364-day maturity limit PJ checked 04/06/2019 | 15,000,000.00 | 175-day notice account | - | 0.75% | 27/07/2018 | | | 12,000,000.00 | | | | | |
| | | 1276 Bank of Scotland | 3,000,000.00 | 1.10% | 08/11/2018 | 09/11/2018 | 08/11/2019 | | Direct | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| Royal Bank of Scotland Group (RFB) RBS NatWest 364-day maturity limit PJ checked 04/06/2019 | 10,000,000.00 | | | | | | | 10,000,000.00 | | | | | |
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| | | | | | | | | | | | | | |
| Close Brothers £7m operational limit agreed by NK 25/11/15 6 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | | | | | | | 7,000,000.00 | Tradition | | | | |
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| | | | | | | | | | | | | | |
| Goldman Sachs International £9m operational limit agreed by NK 16/06/2017 6 month maturity limit PJ checked 04/06/2019 | 9,000,000.00 | | | | | | | | Tradition | | | | |
| | | 1292 Goldman Sachs International Bank | 5,000,000.00 | 0.910% | 08/05/2019 | 14/05/2019 | 14/11/2019 | | Tradition | | | | |
| | | 1293 Goldman Sachs International Bank | 4,000,000.00 | 0.880% | 15/05/2019 | 15/05/2019 | 15/11/2019 | | Tradition | | | | |
| | | | | | | | | | | | | | |
| HSBC Bank plc 12 month maturity limit PJ checked 04/06/2019 | 10,000,000.00 | | | | | | | 10,000,000.00 | | | | | |
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| Santander UK plc £7m operational limit agreed by NK 25/11/15 6 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | Santander Instant Access Call Account | - | 0.80% | 31/05/2018 | | | 7,000,000.00 | | | | | |
| | | Corporate Notice Account Statement (31 days) | | | | | | | | | | | |
| | | Corporate Notice Account Statement (95 days) | - | | | | | | | | | | |
| | | Corporate Notice Account Statement (180 days) | - | 0.55% | | | | | | | | | |
| SMBC £7m operational limit agreed by NK 25/11/15 6 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | Sumitomo Mitsui Banking Corporation | - | 0.73% | 02/05/2018 | 02/05/2018 | 02/11/2018 | 7,000,000.00 | Direct | | | | |
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| Standard Chartered £7m operational limit agreed by NK 25/11/15 6 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | | | | | | | 7,000,000.00 | | | | | |
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| Svenska Handelsbanken £7m operational limit agreed by NK 09/06/17 12 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | Instant Access Call Account | - | 0.65% | | 16/07/2019 | | 7,000,000.00 | | | | | |
| | | 35-day Notice Account | | | | | | | | | | | |
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| Coventry Building Society £7m operational limit agreed by NK 25/11/15 6 month maturity limit PJ checked 04/06/2019 | 7,000,000.00 | | | | | | | 7,000,000.00 | Tradition | | | | |
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| Leeds Building Society £7m operational limit agreed by NK 25/11/15 100 days maturity limit PJ checked 04/06/2019 | 7,000,000.00 | | | | | | | 7,000,000.00 | | | | | |
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| | | | | | | | | | | | | | |
| Nationwide Building Society 6 month maturity limit PJ checked 04/06/2019 | 10,000,000.00 | | | | | | | 10,000,000.00 | | | | | |
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| Skipton Building Society 100 days maturity limit PJ checked 04/06/2019 | 3,000,000.00 | | | | | | | 3,000,000.00 | | | | | |
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| Yorkshire Building Society £7m operational limit agreed by NK 25/11/15 100 days maturity limit PJ checked 04/06/2019 | 7,000,000.00 | | | | | | | 7,000,000.00 | | | | | |
| | | | | | | | | | | | | | |
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| | | | | | | | | | | | | | |
| Treasury Bills | 7,000,000.00 | | | | | | | 7,000,000.00 | | | | | |
| Local Authorities £18,977m limit per authority (20% of previous year's average balance) 364 day maturity limit (specified only) as per 2015/16 Strategy | 18,977,000.00 | | | | | | | 13,977,000.00 | | | | | |
| | | 1286 Dundee City Council | 5,000,000.00 | 1.12% | 19/02/2019 | 28/02/2019 | 27/02/2020 | | RP Martin | | | | |
| | | 1284 Lancashire County Council | 5,000,000.00 | 1.09% | 17/01/2019 | 04/03/2019 | 02/03/2020 | | ICAP | | | | |
| | | 1289 Surrey Heath Borough Council | 3,000,000.00 | 0.87% | 17/04/2019 | 30/04/2019 | 31/10/2019 | | RP Martin | | | | |
| | | 1297 Plymouth City Council | 5,000,000.00 | 0.85% | 03/06/2019 | 21/06/2019 | 20/12/2019 | | Tradition | | | | |
| | | 1304 Thurrock | 3,000,000.00 | 0.79% | 11/07/2019 | 12/08/2019 | 12/02/2020 | | R P Martin | | | | |
| | | 1288 Plymouth City Council | 10,000,000.00 | 0.95% | 10/06/2019 | 05/07/2019 | 07/10/2019 | | R P Martin | | | | |
| | | 1291 Thurrock Council | 5,000,000.00 | 1.05% | 30/04/2019 | 03/05/2019 | 01/05/2020 | | R P Martin | | | | |
| | | 1290 Salford City Council | 5,000,000.00 | 0.85% | 28/04/2019 | 14/05/2019 | 14/02/2020 | | Tradition | | | | |
| | | 1294 Thurrock Council | 6,000,000.00 | 1.05% | 15/05/2019 | 28/05/2019 | 27/05/2020 | | R P Martin | | | | |
| | | 1295 Aberdeenshire Council | 5,000,000.00 | 0.90% | 21/05/2019 | 25/06/2019 | 25/03/2020 | | Tradition | | | | |
| | | 1300 Thurrock Council | 4,000,000.00 | 0.81% | 19/06/2019 | 04/07/2019 | 06/01/2020 | | R P Martin | | | | |
| | | 1303 North Wales Fire Authority | 3,000,000.00 | 0.80% | 10/07/2019 | 12/07/2019 | 13/01/2020 | | K&S | | | | |
| | | 1298 London Borough of Croydon | 5,000,000.00 | 0.95% | 06/06/2019 | 15/07/2019 | 13/07/2020 | | Tradition | | | | |
| | | 1296 Aberdeenshire Council | 5,000,000.00 | 0.90% | 21/05/2019 | 31/07/2019 | 30/04/2020 | | Tradition | | | | |
| | | Money Market Funds Overall limit increase approved by Council 29th Sept 2016 £9m operational limit per MMF agreed by JY 02/08/16 | 25,000,000.00 | Legal and General Investment Management | - | | 18/09/2019 | | | | 10,960,000.00 | | |
| | | | | Federated Investors | 9,000,000.00 | | 02/09/2019 | | | | | | |
| Aberdeen Standard | 5,040,000.00 | | | | 27/09/2019 | | | | | | | | |
| | | | | | | | | | | | | | |
| Cash Plus Funds £15m operational limit of Fund agreed by JY 02/08/16 | 15,000,000.00 | Royal London Cash Plus | - | | 15/01/2018 | | | 15,000,000.00 | | | | | |
| | | | | | | | | | | | | | |
| NON-SPECIFIED INVESTMENTS (Discuss with BL before arranging non-specified investments) | | | | | | | | | | | | | |
| Property Funds Unrated Building Societies (100 days maturity limit) Local Authorities (2 years maturity limit) | 20,525,000.00 | CCLA | 3,000,000.00 | | 30/04/2013 | 30/04/2013 | | 10,525,000.00 | | | | | |
| | | Lothbury | 3,500,000.00 | | 06/08/2014 | 06/08/2014 | | | | | | | |
| | | Lothbury | 3,500,000.00 | | 04/09/2014 | 04/09/2014 | | | | | | | |
| | | | | | | | | | | | | | |
| Total Investments as at | | 30 September 2019 | 112,540,000.00 | | | | | | | | | | |

| FORWARD DEALS: (To be moved from this section to Investments List above once start date arrives) | | | | | | | | | | |
|--|---------------------------------|----------------------------|-------------------|---------------|------------|------------|---------------|-----------------|-----------|--|
| Counterparty Group | Group Operational Lending Limit | Counterparty Name | Investment Amount | Interest Rate | Trade Date | Start Date | Maturity Date | Remaining Limit | Broker | |
| | £18,977,000 | 1302 Rugby Borough Council | 5,000,000.00 | 1.00% | 24/06/2019 | 20/01/2020 | 18/01/2021 | 13,977,000.00 | Tradition | |

| | | | | | | | | | |
|--|-------------|--------------------------------|---------------|-------|------------|------------|------------|---------------|-----------|
| | £18,977,000 | 1305 Blackpool Borough Council | 5,000,000.00 | 0.85% | 17/06/2019 | 15/11/2019 | 17/08/2020 | 13,977,000.00 | Tradition |
| | £18,977,000 | 1306 Lancashire County Council | 10,000,000.00 | 0.85% | 11/09/2019 | 15/11/2019 | 13/11/2020 | 3,977,000.00 | Tradition |

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Appendix 2

Treasury Management

Risk Register

Appendix 3

| Risk ID | Risk | | | | | | Gross Risk | | Current Risk | | Residual Risk | | Risk Mitigation |
|---------|---|--------------------|---|--|--|-------------|------------|---|--------------|---|---------------|---|--|
| | Risk Title | Opportunity/Threat | Risk Description | Risk Cause | Consequence | Date raised | I | P | I | P | I | P | |
| 1 | Loss of capital investment due to a counterparty collapsing | T | The Council loses its principal investment or an investment becomes impaired. | Counterparty collapses or hits a financial crisis rendering it unable to repay investments. | The Council may lose money or repayment of funds could be significantly delayed which could have an adverse impact on operational funding levels | 5-Aug-16 | 5 | 3 | 5 | 3 | 5 | 3 | Reducing risk by limiting the use of high risk counterparties. Imposing a maximum investment value on approved counterparties in order to spread and reduce risk. Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. Counterparties are also monitored and reviewed on a weekly basis at least, or more regularly if considered necessary to do so. |
| 2 | Property fund investments lose value | T | The value of the Council's units held in property fund investments decreases. | Uncertainty in the commercial property market following Brexit and slowdown in general economic activity. | Capital depreciation will decrease the overall value of the investment. | 5-Aug-16 | 4 | 3 | 3 | 3 | 3 | 3 | 2 The Council receives monthly valuations from the property fund managers detailing the indicative redemption value of the individual units. These are reported to the Head of Finance on a monthly basis. The Council has the option to sell its units if there is a concern that the fund value is likely to decrease for a prolonged period. |
| 3 | Decline in interest rates | T | Interest rates continue to fall with very little prospect of upward movement in the next 12 months. | Economic growth forecasts remain subdued leading to low interest rates. Consequently lower risk counterparties tend to offer low investment rates. | The Council may not achieve its target level of interest. | 5-Aug-16 | 2 | 3 | 2 | 3 | 2 | 3 | 3 In the current economic climate where rates tend to be static, arranging investments over a longer period of time where possible will allow the Council to capitalise on a higher rate of return without there being an opportunity cost. The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in a difficult economic climate. |
| 4 | Fraudulent activity | T | Potential fraud by staff | Fraudulent activity | Loss of money for the Council Disciplinary action for the staff involved | 5-Aug-16 | 3 | 3 | 2 | 1 | 2 | 1 | 1 Segregation of staff duties, reviewing and monitoring of internal controls to ensure the correct protocol is being followed. Ensuring all insurance policies and the fidelity guarantee are fully up to date. |
| 5 | Money laundering | T | Money laundering by external parties | External parties pay a transaction by cash and subsequently request a refund | Fine and/or imprisonment | 5-Aug-16 | 4 | 2 | 4 | 1 | 4 | 1 | 1 Ensuring the money laundering policy is reviewed and up to date. Checking refunds back to source. Raising awareness of this issue amongst staff and reviewing the financial regulations. |
| 6 | Network failure/Barclays.net being inaccessible | T | The Council is unable to carry out its daily treasury functions due to a network failure | Barclays.net is unavailable or the Council's network has failed | Daily Treasury functions will not be carried out | 5-Aug-16 | 2 | 3 | 1 | 2 | 1 | 2 | 2 Invoke the business continuity plan to minimise the effects of a network issue. |
| 7 | Revenue Budgets | T | Revenue budgets are unable to meet borrowing costs of capital schemes | Revenue budgets come under pressure from restricted government funding or non delivery of programmed savings | The Council may not be able to execute some desired projects. | 5-Aug-16 | 3 | 3 | 2 | 2 | 2 | 2 | 2 Revenue budgets monitored on monthly basis and future year forecasts undertaken. Reserve some capital receipts to cover borrowing costs in the short term. Monthly financial reports and forecasts. |
| 8 | Lack of suitable counterparties | T | The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances. | Rising cash balances and a restricted counterparty list | Use of counterparties not paying best value rates. | 5-Aug-16 | 3 | 4 | 3 | 3 | 3 | 3 | 3 The Council continually monitors its approved counterparty listing in conjunction with cash balances. Any potential new investment opportunities are discussed at Treasury Management performance meetings. The Council utilises money market and enhanced cash funds to deposit surplus cash balances in the event of no space with other counterparties and also to ensure there is always cash instantly available in order to meet payment obligations when they fall due. However, there are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted. |

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To: Cabinet
Date: 19 December 2019
Report of: Tom Bridgman, Executive Director - Development
Title of Report: Commercial property portfolio investment strategy

| Summary and recommendations | |
|---|--|
| Purpose of report: | To agree the council's commercial investment portfolio strategy. |
| Key decision: | Yes |
| Cabinet Member: | Councillor Ed Turner |
| Corporate Priority: | <p>A vibrant and sustainable economy</p> <p>Income derived from the commercial property portfolio is deployed to support the delivery of council services and where possible to support the economic growth of the city of Oxford.</p> <p>An efficient and effective Council</p> <p>The proposed strategy will support the effective and efficient management of the property investment portfolio. It further seeks to reduce/mitigate risk, adopt a prudent approach to raising capital and to raise income above that currently received.</p> |
| Policy Framework: | |
| Recommendations: That Cabinet resolves to: | |
| <ol style="list-style-type: none"> 1. Agree the overarching property investment strategy contained in the confidential appendices; and 2. Note that the Leader will delegate the authority for the decision in relation to individual property transactions to the Cabinet Member for Finance and Asset Management. | |

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| Appendix 1 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Proposed Commercial Property Investment Strategy |
| Appendix 2 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Jones Lang LaSalle analysis of the Oxford City Council Investment Portfolio dated October 2019. |
| Appendix 3 | EXEMPT SCHEDULE CONFIDENTIAL AND NOT FOR PUBLICATION Risk Register |

Introduction and background

1. Oxford City Council's commercial property portfolio provides an essential revenue stream that supports the council's core activities. The portfolio's successful performance is critical to supporting the Council's Medium Term Financial Plan and key to delivering social and economic benefits across the city.
2. The majority of the portfolio is a legacy from historic ownerships spread across the city and comprises assets in the retail, office, hotel and industrial sectors. It also includes agricultural land, moorings, operational buildings, community centres, the covered market and depots. The opportunity has presented itself to undertake a review of these ownerships and seek a strategy that can future proof this income stream.
3. The portfolio now produces around £12m of revenue per annum, up from £8m over the past decade. This increased contribution has in part been due to Oxford's prevailing economic strength and its resilience to macro-economic influencers. However its future success is not guaranteed and new trends and economic instability threaten its continued success.
4. Significant structural changes must be employed within the portfolio to mitigate these risks. This includes diversification away from the over exposure to the retail market, adopting a robust future investment strategy and developing key performance monitoring to support efficient asset management.
5. Supporting these measures will ensure the portfolio can continue to deliver a strong revenue stream to support the council's wider aspirations. A fundamental review has therefore been undertaken to support the council as it navigates its path through increasingly difficult national economic and social challenges.
6. Jones Lang LaSalle Incorporated, (JLL), a leading global professional services and investment management firm specialising in real estate, were instructed to carry out a review of Oxford City Council's (the council) commercial property investment portfolio. JLL has undertaken detailed analysis of the individual assets and the make-up of the portfolio against the objectives below:
 - To provide a long term, secure and independent source of income (primary objective).
 - To provide the council with the potential to exert strategic influence in respect of major policy objectives and place making.
7. JLL has subsequently made a number of recommendations to support a short to medium term strategy.

8. The review has highlighted several risks and opportunities for the council. The full report is attached at confidential Appendix 3.

Key findings

9. The overall investment portfolio provides a solid platform from which a large proportion (40%) of the income is secured against long term leases or ground rents.
10. The portfolio is heavily exposed to one sector with 81% of the capital invested in retail properties. This imbalance provides a high degree of risk and exposure to increased rental voids and negative revenue growth over the short to medium term.
11. The portfolio structure is highly granular with 246 properties generating a rent of £11.3m p.a. (April 2016). Two of these properties account for 31.88% of the income.
12. Just 18.07% of the income is derived from 182 tenants (70%) making the portfolio highly management intensive.
13. To reduce risk and generate long term rental growth it will be necessary to reduce the exposure to retail and diversify the capital distribution into other property sectors. Dependent on market opportunities this strategy can be designed to invest in employment uses such industrial and offices in Oxfordshire and the surrounding counties.
14. The portfolio has historically had the benefit of being relatively shielded from the national economic fluctuations and trends within the retail sector. However, it is clear that the retail sector is undergoing a period of significant change, including a move to more on-line retailing, which is making retail real estate less secure.
15. The council has the option of selling parts of its retail portfolio to balance this risk. However, it also has the opportunity to expand its portfolio into other sectors, which should bring in additional income, while also diversifying the portfolio away from a concentration on retail uses and therefore mitigating its risks.
16. JLL has made a number of suggestions and recommendations to address these key findings. As these recommendation focus on a range of commercially sensitive investment decisions, they are set out in the confidential Appendix 1 to this report. This includes the detail of the proposed future investment strategy to mitigate identified risks that should help to ensure the continued future success of the portfolio.

Financial implications

17. These are set out in the confidential Appendix 1 to this report.

Legal issues

18. These are set out in the confidential Appendix 1 to this report.

Level of risk

19. Further discussion on risk management and mitigation is set out in the confidential Appendix 1 to this report. A confidential risk register is attached as Appendix 3 to this document.

Equalities impact

20. This is an investment property strategy and equalities impact is not relevant.

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| Background Papers: None |
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