

**To: City Executive Board**

**Date: 13 October 2016**

**Report of: Finance Panel (Panel of the Scrutiny Committee)**

**Title of Report: The implications of Brexit on the Council's finances**

## **Summary and Recommendations**

**Purpose of report:** To present recommendations of the Finance Panel on the financial implications of Brexit on the Council's finances.

**Scrutiny Lead Member:** Councillor Craig Simmons

**Executive lead members:** Councillor Ed Turner, Board Member for Finance, Asset Management and Public Health

**Recommendation** of the Finance Panel to the City Executive Board:

**That the City Executive Board states whether it agrees or disagrees with the recommendations set out in the body of this report.**

## **Introduction**

1. The Finance Panel requested a report from the Head of Financial Services on the implications of Brexit for the Council's finances. This followed the outcome of a public referendum held on 23 June 2016, which resulted in a decision for Britain to leave the European Union. The Finance Panel considered this item at a meeting on 7 September 2016 and would like to thank Nigel Kennedy for presenting his report and supporting the discussion.

## **Summary of the discussion**

2. The Head of Financial Services advised that many impacts of Brexit had not yet played out but that there were some immediate impacts on the Council that were already known, most notably:
  - Lower interest rates would hit the Council's annual treasury income by approximately £400k.
  - Property fund appreciation values had dropped but remained well above purchase values and dividend income had not been affected.

- An Oxfutures Programme target for achieving leveraged income of €23m had increased by £1.8m since the Brexit decision and the fall in the exchange rate. This target would now be significantly harder to achieve and in the event that it isn't achieved, a portion of the £1.2m grant is repayable to the EU.
3. The Panel suggested that the Council could face higher procurement costs and potentially difficulties in achieving planned levels of trading income following the Brexit decision and any resulting economic downturn. The Panel noted that it would be helpful for the Council to track these impacts over time, in addition to income from car parking, commercial rents, investments and planning fees.
  4. The Panel noted that on the upside, the cost of borrowing was cheaper and the Council did have a borrowing requirement within its Medium Term Financial Plan, which was expected to be met from a combination of internal and external borrowing. The Head of Financial Services advised that officers would explore whether or not it would be advantageous to bring planned borrowing forwards to take advantage of historically low interest rates, given that there would be a cost of carrying borrowing that was not yet needed.
  5. The Panel questioned whether there would be a case for closing and refinancing some or all of the Council's £198.5m Housing Revenue Account debt, which was originally borrowed at preferential rates. The Panel heard that the Council would look again at whether or not to refinance the first £20m repayment due in 2021. Officers had looked at whether there was an opportunity to refinance the debt outside of the repayment tranches but had found this option to be too punitive.
  6. The Panel also considered whether there was a strong case for increasing council borrowing in order to increase investment spending. The Head of Financial Services advised that this would be kept under review but that the Council was already taking a lead in many respects compared to benchmarked authorities, for example by investing significantly in commercial property and new build housing. Going even further would depend on the Council's appetite for borrowing and risk. The Panel agreed to encourage new borrowing to fund revenue generating opportunities, including potentially renewable energy schemes, where there is a strong business case for doing so.

***Recommendation 1 - That the Council explores whether there are opportunities to increase its levels of borrowing at historically low interest rates in order to fund additional revenue generating schemes.***

7. In terms of the wider economy the Panel suggested that Brexit could reduce inward investment and joint funding opportunities. The Panel noted that the impact on Business Rates income of one or two major employers relocating away from the City could be very high, with the Council liable to lose £500k before government safety net payments kicked in. The Panel heard that 19 business premises accounted for 22% of rateable values in the City. The Panel noted that the Government was consulting on proposals to grant local authorities 100% Business Rates retention. It was expected that this would only apply to growth above a baseline not the full Business Rates take but there was a lot of

uncertainty around what these changes would mean for the City, including whether safety net payments would still apply in future.

8. The Panel suggest that the Council should look to partner with local organisations in commissioning a study of the expected impacts of Brexit on the local economy. The findings of such a study could help to inform scenario planning by the Council and other local bodies such as the Local Enterprise Partnership.

***Recommendation 2 - That the Council looks to partner with local Universities or economic institutions to study the wider impacts of Brexit on the economy of Oxford.***

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