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OXFORD CITY COUNCIL

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| **To:** | **Shareholder and Joint Venture Group Meeting** |
| **Date:** | **25 September 2019** |
| **Report of:** | **Housing Group** |
| **Title of Report:** | **Monthly Finance Report – June (Q1 - Period 3)** |

| **Summary and recommendations** | |
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| **Purpose of report:** | This report incorporates and seeks to measure the impact of the most recent changes made to the previous approved development programme within OCHL's current Business Plan (BP). The Risk Register is undergoing a significant review given the change in strategic development, accelerated programme activity and future partnering arrangements and this will be reported at the next meeting. Furthermore, a series of development Key Performance Indicators (KPI's) along with several financial performance measures are being identified and collated for reporting in future OCHL performance reports to the Shareholder meetings for review, comment and feedback. |
| **Recommendation(s):** | **That the Shareholder and Joint Venture Group resolves to:** |
| 1. Note the revised development modelling (dashboards), financial performance and financial position of OCHL's combined activities. | |
| 2. Note the revised draft Business Plan schedule of projects at Appendix 1. | |
| 3. Note the impact of the proposed 10 year development programme will have on OCHL activity and debt redemption possibilities, OGD social rented dwelling delivery, HRA headroom borrowing, future OCHL MTFP obligations and new build numbers. | |

| **Appendices** | |
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| Appendix 1 | Revised Development Programme - Exempt |
| Appendix 2 | Development Dashboards (Current Programme and Extensions) - Exempt |
| Appendix 3 | Financial Statements - Exempt |

## Introduction and background

1. This report seeks to identify, incorporate and comment upon the recent revisions made to the company's development programme and how this impacts on the financial performance and position of OCHL across its companies and the link with its Medium Term Financial Plan (MTFP) obligations.

## Development Programme

2. It is clear that OCHL's development programme needs to work alongside and be part of the wider strategic activity being undertaken by the Council in terms of:

    a. Influencing and actively providing additional new build affordable housing for Oxford as a contribution towards meeting the ambitious additional homes needed for the city and region if the growth aspirations for the area are to be met;

    b. Raising the standards of new build in the City in meeting carbon emissions targets and sustainability aspirations;

    c. Assist and enable the social rented numbers of the Oxfordshire Growth Deal (OGD) to be achieved that will in turn secure future Government infrastructure investment that will lay the foundations for the future growth opportunities;

    d. Utilise the HRA as both a registered landlord and another delivery vehicle that with the removal of the borrowing cap be able to procure OCHL new build social housing to increase its stock and secure Government grant funding, be it part of the OGD initially and Homes England over the longer term,

    e. Contribute towards the Shareholder's MTFP by ensuring OCHL continues to be seen as a positive investment opportunity that is providing the much needed returns over the next 4/5 years and beyond with future pipelines of development.

<u>Development Dashboards</u>

3. The revised Development Dashboards for schemes associated with the "*Current Development Programme*" and "*Extensions Programme*" are provided on Appendix 2. These provide a headline overview of the performance projected for each of the development schemes at present.

<u>Development Performance</u>

4. All of the revised development schemes post review continue to meet the company thresholds set for Payback terms (40 years), Net Present Value (NPV) (to be overall positive) and the Internal Rate of Return (IRR) (4%). Given the change in development strategy, namely to sell all dwellings to both the HRA (for the affordable dwellings that includes social rent, affordable rent and shared ownership) with the balance to be sold to the open market instead of managing the properties long term this has clearly given rise to more projected surpluses from sales, if the programme is adhered to and delivered as estimated, that does allow for in turn accelerated debt redemption of company's borrowing position in the early years of the BP. The original BP did indicate that where possible the company would seek to redeem its debt liabilities as quickly as possible and this has continued to be reflected in the revised BP.

5. Clearly, meeting Shareholder MTFP obligations does suggest that resources going back to OCC may change in form, namely from debt uplifts on borrowing to dividends. To that end continuing discussions between the company and the shareholder to meet future MTFP obligations, whatever the activity within OCHL's development programme will be an on-going dialogue so these aspirations are met.
6. Appendix 1 suggests the total development programme will deliver over 1,883 dwellings with Barton providing another 354 for long term management. Of this sum 50.1% will be at SR, 3.0% at AR and 8.9% at SO, 1,386 new dwellings in total.
7. Appendix 1 also shows the proposed phasing of activity and this suggests in 2019/20 this will relate to the initial "*Current Development Programme*" and "*Extension Programme*". It is proposed several new KPI's used as industry standards in this area of activity will be introduced for future monitoring of development performance. These will relate to meeting development deadlines so the programme of activity is not unduly delayed and corrective action can be undertaken. The KPI's may include the following:
    a. Start on site dates
    b. Costs/Tender Prices
    c. Phasing of delivery
    d. Sales Receipts
    e. Profit ratio's and financial surpluses
8. As the OCHL stock grows via Barton acquisitions then KPI's relating to landlord management performance, repairs and maintenance costs, rent collection and customer care etc., will also become a permanent feature of future performance reports.
9. A number of corresponding HRA development schemes have been undertaken reflecting the HRA borrowing position liabilities being considered, utilising the debt cap flexibilities now available, together with potential OGD grant/Homes England grant where applicable. Given the increased higher financial resilience associated with the Council's HRA the development performance thresholds have been slightly relaxed a little for the HRA. This resulted in Payback being extended to 60 years, NPV remaining positive and IRR being 3%. Appendix 1 again shows that all HRA activity meets these parameters for the proposed acquisitions.
10. The revised 10 year programme suggests a 17% return will be delivered, equating to £91m. It is these resources that have been profiled to redeem OCHL debt in the current BP but this is as has been said previously an option that will be continually reviewed in discussions between OCHL and OCC via its shareholder.

<u>Financial Statements</u>

11. Appendix 3 shows the revised financial statements for the period 2019/20 to 2022/23 being the existing MTFP period.
12. The *Statement of Profit and Loss and Other Comprehensive Income* suggests that at the end of 2019/20 the cumulative loss for the year, ignoring non-cash adjustments such as revaluation gains etc. will be £345k. There has been a significant amount of activity during 2019/20 so far boosting the teams necessary to ensure the conveyor belt of development is identified as well as the appointment of an Interim MD to provide the strategic vision necessary as well as the expectation

of the introduction of Non-Executive Directors to bolster independent challenge, scrutiny and enhance company governance.

13. In addition the establishment of the Strategic Finance Position, enhanced SLA's reflecting increased Development Team numbers and the introduction of costs associated with the current Directors have all contributed towards this deficit position for the year. That said the cumulative deficits and increased company annual revenue costs are easily covered by anticipated receipts from future sales receipts that suggests the cumulative income is just under £14m by 2022/23.
14. The *Statement of Financial Position* indicates that as at the end of 2022/23 the asset base of OCHL (before any intermediary revaluations) will have a value of just under £31m, with development activity amounting to just over £53m. Long Term loans will amount to just over £68m.
15. The *Statement of Cash Flows* shows the increase in rental income and management costs, as more Barton properties are delivered in Phase 2 onwards and despite the increased borrowing activity by 2022/23 there are annual positive cash flows being predicted if development occurs as planned and at the costs predicted.

**OCHL Borrowing link with Oxford City Council MTFP**

16. The revised programme continues to generate resources able to meet the company's MTFP obligations.

**Financial implications**

17. These are as detailed in the report.

**Legal issues**

18. There are no legal issues arising from this report.

**Level of risk**

19. A revised Risk Register is being compiled given the changes experienced and will be reported at the next meeting.


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