

To: City Executive Board

Date: 12 February 2015

Report of: Scrutiny Finance Panel

Title of Report: Budget Review 2015/16

Summary and Recommendations

Purpose of report: To present the conclusions and recommendations of the Scrutiny Budget Review Group on the Consultation Budget and Medium Term Financial Strategy 2015-2019

Key decision? No

Scrutiny Lead Member: Councillor Simmons, Chair of Scrutiny Finance Panel

Executive Lead Member: Councillor Turner, Board member for Finance, Asset Management and Public Health

Policy Framework: Corporate Plan and Budget

Recommendations: The Budget Review Group recommend to the City Executive Board:

1. That reserves and balances are reviewed with a view to investing any overstated reserves.
2. That the City Council explores new ways of increasing public engagement in its budget setting process.
3. That Council Tax is increased by 1.99% (rather than the proposed 1.50%) in 2015/16.
4. That the City Council continues to engage constructively with other Oxfordshire Councils in order to optimise any potential benefits available from business rates pooling and distribution arrangements.
5. That the City Council looks at ways of mitigating the impacts of higher than average rents on those Council tenants who will be most affected.
6. That further consideration is given to covering more enforcement costs through higher, related fees and charges. This should include keeping legislation under review and asking the LGA what other local authorities

charge for.

7. That to protect future Park and Ride incomes, the City Council seeks agreement with the County Council on consistent charging rates across all Oxford Park and Rides.
8. That the City Council explores mechanisms for the earlier release of land value locked up in the Barton Park development.
9. That the following efficiency savings are re-rated as high risk:
 - a) Shifting services towards community settings and online (£126k from 2017/18 in Customer Services),
 - b) Application portfolio & telephony review (£150k from 2015/16 in Business Improvement & Technology).
10. That there is a re-energising of attempts to identify new invest-to-save opportunities in future budget rounds (see recommendation 17d).
11. That sufficient flexibility is in place to mitigate the risk of the City Council having to repay £7m to the Housing Revenue Account.
12. That the City Council explores how it can become a more agile operator in the housing market to ensure it secures best value for new property acquisitions.
13. That half of the additional waste disposal costs pressure is re-instated in the budget from 2016/17.
14. That off street parking income is re-modelled in light of the most recent parking data and experience with the temporary Westgate car park.
15. That any savings achieved through lower than assumed energy prices are invested in energy efficiency improvements.
16. That HRA void losses are modelled at 1.0% (rather than the proposed 1.2%), at least in the early years of the budget period.
17. That the following areas should be priorities for further spending in the event that additional general fund resources become available (we have identified some options for raising revenue in the short to medium term). These suggested priorities are listed in no particular order:
 - a) Staff Training and Wellbeing – continue funding the training budget increase (£100k) and funding for staff wellbeing (£75k) beyond 2016/17,
 - b) Apprenticeships – reinstate £50k from 2015/16 or a sufficient amount to fund no fewer than 25 apprentices in future cohorts,
 - c) Community Development (Social Inclusion) Fund – reinstate £60k from

2015/16,

- d) Business Improvement staffing reductions – reverse the £110k cut in 2016/17 in full or in part (see recommendation 10),
- e) Partnership development – new investment,
- f) Fund raising – new investment,
- g) Planning enforcement – continue funding the Beds in Sheds project at the post April 2015 level to April 2016. A more detailed review of alternative funding streams should be undertaken during this period,
- h) Discretionary Housing Payments – continue the current level of funding to April 2016.

Introduction

Background

1. The Scrutiny Budget Review Group 2015/16 (RG) comprised of Councillors Simmons (Chair), Darke, Fooks and Fry. This year the RG was joined by members of the Scrutiny Housing Panel in considering budget proposals relating to housing, and their input was greatly appreciated.
2. The RG would like to thank the Chief Executive, Executive Directors and numerous supporting officers for their helpful engagement with the Budget Review process. In particular the RG would like to thank Nigel Kennedy for his support and advice throughout these considerations.
3. The RG based its Budget Review on the draft budget that was approved for consultation by the [City Executive Board on 17 December 2014](#), rather than the amended budget included in the [12 February 2015 City Executive Board paperwork](#).

Aims

4. The RG aimed to test the robustness and underlying principles used in framing budget proposals, and the extent to which the budget supports the City Council's Corporate Plan priorities.
5. This report is intended to provide a second opinion on the budget proposals, with some constructive commentary and suggestions. The recommendations challenge the City Council to strive to do even better where possible. Recommendation 17 details the RG's suggested priorities for additional investment. The RG has also identified several areas where short and medium term savings could be made. The RG's conclusions and recommendations are structured around key themes that emerged during the Budget Review:
 - a) Overview

- b) Maximising income
- c) Efficiency and investing to save
- d) Pressures and risks
- e) Priorities for additional spending

Method

6. Evidence gathering took place between 10 December 2014 and 3 February 2015. The RG took the following into consideration in scrutinising the budget proposals:
- a) A presentation and discussion with the City Council's Head of Finance on the draft budget proposals,
 - b) A thorough review of the [Budget 2015/16 paperwork](#) that was approved by the City Executive Board on 17 December 2014. This included a line by line review of the detailed budget proposals, and a review of [Equality Impact Assessments](#),
 - c) Responses to written questions put to the Chief Executive and Executive Directors,
 - d) Discussions with each of the Executive Directors and their supporting officers,
 - e) Responses to follow up questions and requests for additional information put to Executive Directors,
 - f) A discussion with the Chief Executive,
 - g) Consultation feedback,

Conclusions and recommendations

Overview

- 7. Overall, the RG is satisfied that the proposed budget is balanced over 4 years and supports the City Council's Corporate Plan priorities.
- 8. City Council Officers are commended for producing a budget that contains few service reductions and no compulsory redundancies in frontline staff in 2015/16. This follows a prolonged period of constrained public spending, which looks set to continue for the duration of the budget period.
- 9. The budget proposals support an ambitious programme of capital investment in 2015/16. The RG welcome the City Council's 10-year programme of house building and found that robust financing is in place to deliver this. It stressed the need for the housing to be built sooner (within the 4 year budget period) rather than later.
- 10. The City Council's reserves and balances have fallen significantly in the last year but remain healthy. The RG endorse plans to review reserves and balances with a view to investing any overstated reserves.

Recommendation 1 – That reserves and balances are reviewed with a view to investing any overstated reserves.

11. The RG recognise that the relative financial health of the City Council can be largely attributed to sound financial decision making over a number of years. This includes decisions taken to keep the delivery of many services in-house, and notably the difficult decision to retain ownership and management of the City Council's housing stock.
12. The general fund proposals include significant efficiency savings across the majority of service areas, totalling £3.97m per year by 2018/19. Service reductions will save the City Council £628k per year by 2018/19. The Scrutiny Committee has already reviewed the City Council's Educational Attainment investments and made recommendations, so the RG chose not to focus on this during the Budget Review.
13. There are greater risks and uncertainties in the later years of the budget period, and the use of contingencies is likely to rise compared to recent years. Over the 4 years, Government grant funding is assumed to reduce to zero and it could 'go negative' in future as central Government seeks to redistribute resources nationally. In some service areas, half the staffing posts are now funded by external income streams and this trend will continue, particularly in the latter years of the medium term plan. There will also be an increasingly important role for services in generating new forms of income.
14. Wider risks to the City Council's plans could include the outcome of the general election, future public spending levels, delayed Universal Credit implementation, judicial reviews and cuts to partner organisations' budgets. Continued uncertainty surrounding whether the City Council could be required to repay £7m that was transferred from the Housing Revenue Account into the General Fund in 2013 remains a significant risk.
15. The RG identified some possible sources of additional general fund resources in 2015/16. These include:
 - a) Additional New Homes Bonus funding
 - b) Higher than assumed Business Rates income
 - c) Additional Revenue Support Grant funding
 - d) Reduced fuel and energy costs
 - e) Grant funding for Individual Voter Registration. This would relieve part of a £110k pressure in the Electoral Registration Budget but the exact level of funding is not yet known.
16. The RG also identified some specific areas where the budget allocation or income projections may prove to be insufficient:
 - a) Off street parking income
 - b) Additional waste disposal costs
 - c) Homelessness in light of reduced funding for Discretionary Housing Payments
17. The RG note that the City Council received a total of 60 responses to its budget consultation this year, compared to 59 responses last year. The RG ask the City Council to look at new ways of improving engagement.

Recommendation 2 – That the City Council explores new ways of increasing public engagement in its budget setting process.

Maximising income

Council Tax

18. The Council Tax referendum level has remained at 2% this year but the draft proposals assume increases of 1.5%. The RG agree that it would be prudent to increase Council Tax by 1.99% in 2015/16. This would have a very marginal impact on household finances, while increasing the City Council's base funding by approximately £57k each year (rising slightly as the tax base grows). The majority of respondents to the budget consultation were in favour of this approach. The RG note that it would be imprudent to assume higher Council Tax increases in future years at this stage due to uncertainty around future referendum thresholds.

Recommendation 3 – That Council Tax is increased by 1.99% (rather than the proposed 1.50%) in 2015/16.

Business Rates Pooling and Distribution

19. The RG note the Oxfordshire Pool Arrangements and efforts to seek agreement to a Business Rates Distribution Group. The level of income that this could potentially generate for the City Council is not yet known, and no income has been factored in to the current budget proposals.

Recommendation 4 – That the City Council continues to engage constructively with other Oxfordshire Councils in order to optimise any potential benefits available from business rates pooling and distribution arrangements.

Rent increases

20. The policy of rent convergence will lead to greater consistency in Council house rent levels and raise £23m of additional resources in the period to 2024/25. On average rents would increase by 3.49% (with a maximum increase of 6.25%).

21. Some 27% of social tenants will be subject to the full impact of the higher CPI+1%+£2 rent increase. It is not known how many of these tenants are currently in arrears. There is a possible risk that arrears will increase, particularly in cases where tenants are on low incomes but not in receipt of housing benefit. However, the RG also recognise that many factors influence tenants getting into arrears, including their financial management skills, the availability of advice, and wider economic factors.

22. Higher rents may also result in more people being affected by the benefit cap, which is likely to be lowered by the next government. The RG note that this could impact the workload of the Welfare Reform Team.

23. Some of the additional revenue generated will be spent on measures that could off-set the impacts of higher rents on household finances. The offer of a free energy audit for every tenant could significantly reduce fuel bills. The RG also welcome the creation a new post to support vulnerable tenants.
24. The RG heard that the tenants who had been engaged with were not unduly concerned by the average 3.49% rent increase proposed and generally came to the view that the balance between rent increases and service improvements is about right. However, the RG remained concerned about those experiencing higher than average rent increases (up to 6.25%).

Recommendation 5 – That the City Council looks at ways of mitigating the impacts of higher than average rents on those Council tenants who will be most affected.

Fees and charges

25. Most fees and charges are increasing with inflation. The RG questioned whether income is being maximised and whether the cost of enforcement activities could be built in to charges. Some enforcement costs are covered by fees and charges but not those relating to legal enforcement e.g. prosecution. The RG note that the legislation governing licencing fees has been subject to challenge and suggest that this should be explored in more detail.

Recommendation 6 – That further consideration is given to covering more enforcement costs through higher, related fees and charges. This should include keeping legislation under review and asking the LGA what other local authorities charge for.

26. Income from Park and Ride parking charges is expected to increase by £500k in 2018/19. This represents a £1 (50%) increase in the current £2 charge, which has been in place for a number of years. This rise is timed to coincide with the completion of major developments in the city centre. It is rated high risk because it is a long way off and difficult to predict. There is also the possibility that County Council Park and Rides could offer lower charges. The RG suggest that the City Council should work with the County Council and negotiate consistent charging increases across all Oxford Park and Rides.

Recommendation 7 – That to protect future Park and Ride incomes, the City Council seeks agreement with the County Council on consistent charging rates across all Oxford Park and Rides.

Competitive bidding

27. A £407k ring-fenced grant for fraud prevention has been received since the draft budget was published, following a successful competitive bid. The RG welcome the City Council's successful record of accessing new funding streams through competitive bidding processes. This grant will result in some loss of income being avoided and the Council will get some properties

back sooner. There will also be a positive preventative effect. The RG asked to be kept abreast of the returns on this investment.

Commercial property

28. No additional commercial lease income is projected in years 3 and 4 of the plan following a large increase of £731k in 2015/16. The RG note that this is a cautious assumption which should be kept under review in future years.

Land value

29. The value of land at Barton is rising but the City Council is unable to realise the benefits of this in the short term. The RG suggest looking at ways of making this asset value more liquid.

Recommendation 8 – That the City Council explores mechanisms for the earlier release of land value locked up in the Barton Park development.

Efficiency and investing to save

Efficiency savings

30. The RG was assured that the total scale of new efficiency savings (£3.97m per year by 2018/19) is stretching but realistic and deliverable. The RG note that some savings are becoming more difficult to achieve because the easier savings have already been made.

31. Where efficiencies are rated as high or medium risk, a contingency of 40% has been allocated, in line with a previous scrutiny recommendation. No contingency is held against efficiencies rated as low risk. Overall, the value of contingency against risk has been significantly reduced. However, given that contingencies have previously been rarely called upon, the RG is satisfied that current levels of contingencies are appropriate.

32. The RG reviewed risk ratings against specific efficiency savings and suggest that the following efficiencies in particular may need to be reconsidered or re-phased:

- a) Customer Contact – Shifting services towards community settings and online (£126k from 2017/18). This assumes the closure of Templar Square following the full implementation of Universal Credit. Savings from shifting services online will be subject to take up. Delivery of this saving could necessitate the closure of other channels, which may not be politically desirable.
- b) Business Improvement – Application portfolio & telephony review (£150k from 2015/16). There is a plan in place to achieve this saving but it involves cultural change and there is a risk of slippage.

Recommendation 9 – That the following efficiency savings are re-rated as high risk:

a) Shifting services towards community settings and online (£126k from 2017/18 in Customer Services),

b) Application portfolio & telephony review (£150k from 2015/16 in Business Improvement & Technology).

Investing to save

33. The Transformation fund is the invest-to-save budget but the RG heard that this has been used to top up other projects. It is proposed that £150k is removed from this budget from 2016/17.

34. The RG note that a management review and an admin review will generate significant savings but there is not much else in the pipeline.

35. The RG express disappointment at the lack of invest-to-save ideas included in the budget proposals. The majority service areas have no new invest-to-save proposals and those that are included in the budget only provide an annual saving of £65k by 2017/18. The RG questioned whether employees are encouraged to contribute invest to save ideas as part of the 4 year planning process and suggest that this area is strengthened. This could be an area of focus for Business Improvement.

Recommendation 10 – That there is a re-energising of attempts to identify new invest-to-save opportunities in future budget rounds (see recommendation 17d).

Pressures and risks

DCLG decision

36. There is a risk that the Department for Communities and Local Government could decide to force the City Council to reverse the transfer of £7 million from Housing Revenue Account that was agreed by Council in September 2013. This would have a substantial £385k general fund impact but would significantly benefit the Housing Revenue Account. The RG recognise that officers have plans for this eventuality and suggest that the City Council retains the flexibility to divert funds from non-mandatory services as necessary.

Recommendation 11 – That sufficient flexibility is in place to mitigate the risk of the City Council having to repay £7m to the Housing Revenue Account.

Right to Buy (RTB) sales

37. The budget assumes 40 RTB sales each year but significant variations on this figure pose considerable risks. Higher RTB sales would provide additional capital funding, but a loss of income in the Housing Revenue Account. Lower than anticipated sales would have the opposite affect; additional revenue income but greatly reduced capital receipts. RTB sales therefore require close monitoring.

Homelessness

38. The RG heard that a projected overspend in 2014/15 is likely to be a temporary pressure. The number of people housed in temporary accommodation is currently within target but occasionally it is necessary to temporarily house large families in hotel accommodation.
39. The RG note that £100k of unallocated grant funding has been diverted from earmarked reserves to pay for frontline homelessness staff. The RG heard that the level of the homelessness reserve is currently deemed to be sufficient.
40. The RG note that government funding for Discretionary Housing Payments (DHP) is being greatly reduced from approximately £514k in 2014/15 to £288k in 2015/16. The RG express concern that this could further increase pressure on homelessness.
41. The City Council's programme of purchasing properties for homelessness has recently been scaled back as additional demand has not materialised. Revenue savings of £140k from 2016/17 may need to be reconsidered in light of this change. If demand does increase, the RG note that the City Council needs to be able to move quickly when purchasing properties in a buoyant property market.

Recommendation 12 – That the City Council explores how it can become a more agile operator in the housing market to ensure it secures best value for new property acquisitions.

Waste disposal costs

42. The RG noted that a £110k pressure relating to commercial waste disposal costs is being removed in 2016/17. Given that this will be subject to negotiations or possibly a legal challenge, the RG suggest that it would be prudent to re-instate part of this pressure.

Recommendation 13 – That half of the additional waste disposal costs pressure is re-instated in the budget from 2016/17.

Off Street Parking

43. The RG considered the impact of the Westgate closure and city centre developments on car parking income, noting that additional demand has not occurred at Oxpens as expected. The RG also heard that parking income is down across the board. The RG suggest that further consideration should be given to understanding whether the budget allocations are sufficient overall.

Recommendation 14 – That off street parking income is re-modelled in light of the most recent parking data and experience with the temporary Westgate car park.

Fuel and energy

44. The RG questioned the impact of a recent fall in oil prices on the budget proposals. The RG heard that reduced fuel prices have in part been amalgamated with savings from driver training. In terms of the City Council's energy bills, the prices are likely to be locked in for a period. The RG suggest that any savings are directed into improving energy efficiency.

Recommendation 15 – That any savings achieved through lower than assumed energy prices are invested in energy efficiency improvements.

Void losses in the Housing Revenue Account

45. Void losses will reduce slightly in 2015/16 when the assumed loss rate is reduced from 1.4% to 1.2%. Losses then rise because there will be more moves when new Council houses come on stream. The RG heard that current performance is 0.6% so future losses appear to be over-stated. The RG suggest that the City Council should aim to continue to bear down on void losses and assume a lower loss rate of 1.0%.

Recommendation 16 – That HRA void losses are modelled at 1.0% (rather than the proposed 1.2%), at least in the early years of the budget period.

Priorities for additional spending

Staff wellbeing

46. There will be no compulsory redundancies in frontline staff in 2015/16. An overall pay increase of 2.5% per year has been assumed. This includes a 1.5% annual pay uplift in accordance with the current 5 year pay deal, plus the impact of incremental rises within pay grades.
47. The proposals include an overall increase in the City Council's staffing headcount of 4 FTE posts in 2015/16. This is followed by decreases in headcount over the following 2 years. The net position at the end of the budget period is a staffing reduction of 16.5 FTE posts. The majority of this reduction (13.5 FTE) is attributed to efficiency savings.
48. The RG questioned how the overall composition of staffing by pay grade has changed over recent years and found that this data provided little or no evidence that de-skilling has occurred.
49. Senior officers acknowledge that many City Council Officers are being asked to do more with less and to work more flexibly. To this end, the RG welcome the new employee assistance scheme but regret the removal of the training budget increase (£100k) and funding for staff wellbeing (£75k).

See recommendation 17a

Apprenticeships

50. The RG reviewed the proposal to remove £50k of funding from apprenticeships, reflecting changes in the labour market. This change won't impact the 25 apprentices currently employed by the City Council but it would reduce the size of future cohorts.
51. The RG heard that there is no lack of demand for these apprenticeship opportunities so this cut seems regrettable if the organisation can continue to adequately support 25 apprentices. The RG suggest that funding is reinstated in order to maintain the current number of apprenticeship opportunities in future years. The RG recognise that the City Council is now creating new apprenticeship opportunities in other ways, and scrutiny will monitor progress in this area.

See recommendation 17b

Community Grant Funding

52. The RG note concern around changes to community grant funding, some of which has been cut, reinstated and then cut again. The current proposal to remove the £60k Community Development Grant does not appear to have been subject to an equality impact assessment. However, it has been considered by the Scrutiny Committee and the RG suggest that this funding is continued.

See recommendation 17c

Business Improvement

53. The reduction of £108k and two posts in Business Improvement is a particular concern as it will affect the City Council's future capacity to identify and deliver further efficiency savings beyond those set out in the medium term plan. The RG heard that there is scope for process improvement work in some service areas and suggest that this proposal is revisited.

See recommendation 17d

Delivery of the Capital Programme

54. The City Council has a very ambitious capital programme, particularly in 2015/16. The RG has separately reviewed the management of the City Council's capital programme and welcomed transformative improvements in this area. Some risk of slippage is still present and rising build costs is also a concern.
55. The RG note that some additional capital replacement costs may need to be factored into the capital programme. For example the longevity of new flood equipment is likely to be dependent on the frequency and extent of future flooding events.
56. The RG express concerns around whether the City Council has sufficient resources and capacities in place to deliver its capital programme, including project management and financial support. The RG also note that a bid for

£46k for an additional Lawyer to provide planning and commercial advice has been rejected.

57. Partnership working is crucially important to the delivery of many of the City Councils functions including various capital schemes. The RG suggest that consideration is given to prioritising and investing in partnership development.

See recommendation 17e

Fund raising

58. The City Council's spending plans are becoming increasingly dependent on new income streams. The City Council has a good recent record of securing external funding and Oxford is a strong brand. The RG suggest that consideration should be given to investing in building on this success.

See recommendation 17f

Planning enforcements

59. The Housing Panel considered work underway to tackle the phenomena of "beds in sheds". Funding for the project will be scaled down in April and lost in September 2015. After this date the work will be mainstreamed within other enforcement services and will have to compete with other priorities.

See recommendation 17g

Discretionary Housing Payments

60. In light reduced government funding for Discretionary Housing Payments (DHP), the RG ask the City Council to explore ways of allocating a higher level of funding for DHP, at around £500k to April 2016.

Recommendation 17 – That the following areas should be priorities for further spending in the event that additional general fund resources become available (we have identified some options for raising revenue in the short to medium term). These suggested priorities are listed in no particular order:

- a) Staff Training and Wellbeing – continue funding the training budget increase (£100k) and funding for staff wellbeing (£75k) beyond 2016/17,***
- b) Apprenticeships – reinstate £50k from 2015/16 or a sufficient amount to fund no fewer than 25 apprentices in future cohorts,***
- c) Community Development (Social Inclusion) Fund – reinstate £60k from 2015/16,***
- d) Business Improvement staffing reductions – reverse the £110k cut in 2016/17 in full or in part (see recommendation 10),***
- e) Partnership development – new investment,***

- f) Fund raising – new investment,***
- g) Planning enforcement – continue funding the Beds in Sheds project at the post April 2015 level to April 2016. A more detailed review of alternative funding streams should be undertaken during this period,***
- h) Discretionary Housing Payments – continue the current level of funding to April 2016.***

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List of background papers:

Version number: 1