

**To: City Executive Board**

**Date: 11 February 2016**

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

**Title of Report: Scrutiny Budget Review 2016/17**

### **Summary and Recommendations**

**Purpose of report:** To present the conclusions and recommendations of the Finance Panel on the Budget and Medium Term Financial Strategy 2016-2020

**Scrutiny Lead Member:** Councillor Craig Simmons

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

**Recommendations:** The Finance Panel to the City Executive Board:

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

### **Foreword by the Chair of the Finance Panel**

I welcome the opportunity to present these 2016/17 budget recommendations on behalf of the Scrutiny Committee's Finance Panel. I would like to extend my thanks to those Members who participated – including those Housing Panel Members who attended a special housing-themed panel meeting.

Our small panel has thoroughly reviewed the budget papers that were approved for consultation by the City Executive Board on 17 December 2015, with a view to understanding and commenting on the robustness of the budget proposals as well as offering any relevant guidance to the City Executive Board on key decisions.

During this process we have benefited from extensive officer support and covered all 137 pages of the budget papers. In total, we held 5 meetings and spoke to 11 directors, service heads and other senior staff. We requested some further supporting information (e.g. on staffing levels, income and reserves) but were unfortunately unable, due to a lack of time, to do a full zero-based review. I would also like to thank Democratic Services for keeping the whole process on-track.

This budget flows naturally from the last and follows the now familiar themes of diminishing Government Revenue Support Grant counteracted by increasing external income (from trading, grants, fees and charges).

The Finance Panel has been an enthusiastic supporter of external revenue generation as a means of shoring up service delivery in the face of Government cuts to local authority funding and is pleased to have contributed to identifying, encouraging and securing a number of new sources of funding over the past couple of years. Senior officers have wholeheartedly embraced this approach and have demonstrated exceptional entrepreneurial spirit. Personally, I think the Council should be making much more noise about its successful revenue generation efforts.

Largely as a result of steadily rising external revenues, the General Fund is, generally, in good shape. The same cannot be said of the Capital Programme which has been scaled back considerably from the ambitious plans announced last year in response to anticipated changes in Government housing policy. These may, or may not, end up as bad as predicted. But the Council is right to take the cautious approach set out in the four year Capital Programme which puts £20.1m aside to offset high value council housing (HVCH) sales and is shaped around a lower level of Council house rents.

The recommendations are the result of our deliberations.

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## Introduction

### Background

1. The Scrutiny Budget Review Group 2016/17 (RG) comprised of the members of the Finance Standing Panel; Councillors Simmons (Chair), Fooks, Fry and

Hayes. Members of the Housing Standing Panel joined the RG to scrutinise budget proposals relating to housing and the Housing Revenue Account, and their input was greatly appreciated.

2. The RG would like to thank the Chief Executive, Executive Directors, Assistant Chief Executive and their supporting officers for attending meetings to present their proposals and answer questions. In particular the RG would like to thank Nigel Kennedy and Anna Winship for their support and advice throughout the Budget Review process.
3. The RG's report and recommendations are based on the draft budget paperwork that was approved for consultation by the City Executive Board on 17 December 2015, rather than the revised proposals presented to the City Executive Board on 11 February 2016.

### **Aims**

4. The RG aimed to test the robustness of assumptions and underlying principles used in framing budget proposals, and the extent to which these proposals support the City Council's Corporate Plan priorities.
5. This report is intended to provide a considered second opinion on the budget proposals, with some constructive commentary and suggestions. The recommendations are aimed at challenging the City Council to strive to do even better where possible. The report and recommendations are structured around the following themes:
  - Overview
  - Presentation of proposals
  - Maximising income
  - New investments
  - Efficiency savings
  - General Fund pressures
  - Reserves
  - Capital Programme
  - Housing Revenue Account revenue and capital

### **Method**

6. Evidence gathering took place between 14 December 2015 and 28 January 2016. The RG took the following into consideration in scrutinising the budget proposals but due to the tight timescales for this review, the RG did not have an opportunity to review and react to feedback received in the public consultation:
  - 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 paperwork that was approved for consultation by the City Executive Board on 17 December 2015;
  - c) Responses to written questions put to the Head of Financial Services and Executive Directors;
  - d) Discussions with each Executive Director and their supporting officers;
  - e) Additional information requested by the RG including breakdowns of gross income, expenditure and staffing establishment by service and transfers to and from earmarked reserves.

## Summary and recommendations

### Overview

7. The RG found that the proposed Council budget for 2016/17 and Medium Term Financial Plan (MTFP) for the following 3 years are balanced, robust and, as far as possible, support the delivery of the Council's Corporate Plan.
8. The budget proposals were developed in a difficult financial environment and in some respects, the recent budget round has been the most challenging the Council has faced. This is due to reducing funding from Government, which is further increasing the Council's reliance on income generated locally, and the high degree of uncertainty in a number of areas, most notably around the local implications of national housing policy changes.
9. As a result of Government policies such as annual reductions to social rent levels and the forced sale of high value council housing voids, important details of which have not yet been provided, the Council is having to significantly scale back its ambitions for meeting housing need in the city and is not able to proceed with a programme of new build council housing at this time. The Council is actively exploring other mechanisms for delivering a range of new housing but it is likely that pressure on homelessness in the city will continue to increase, and indeed additional revenue funding has been allocated for this.
10. There is also some good news in the budget proposals. The RG found that the Council has deliverable plans in place to continue to reduce costs through efficiency savings and to increase income from trading and its commercial property portfolio. These successes, together with a reduced Capital Programme (with a number of unfunded schemes initially placed on a 'reserve list'), have enabled the Council to protect services and ensure that there are again no compulsory redundancies amongst its workforce.
11. On the whole, the assumptions underlying the budget proposals appear to be prudent and cautious, which is reflective of the risks and uncertainties that the Council faces. These include uncertainties around the following;
  - the local impacts of Government housing policies;
  - future levels of Government grant funding, New Homes Bonus and Business Rates income;
  - the speed and phasing of Universal Credit roll-out;
  - whether local authorities will be exempt from paying a new Apprenticeship Levy (estimated to be £185k per year);
  - the level of the Council Tax threshold in future years; and
  - what the Government's devolution agenda might mean for Oxfordshire.
12. Other possible risks that could negatively impact the Council's MTFP include a possible economic downturn, stronger than expected wage inflation, failure to deliver planned efficiency savings and increased pressure on services such as homelessness, including as a result of County Council cuts.

### **Presentation of proposals**

13. Mindful that an important function of Scrutiny is to seek to open up Council decision making to the public, the RG identified a number of relatively minor changes that could be made in the presentation of future budget proposals to make them more accessible and transparent. These improvements would also assist elected members in scrutinising future budget proposals.
14. The RG requested and reviewed a breakdown of the total income and expenditure of each service and found that Council revenue expenditure totals £109m, which is largely offset by revenue income of over £89m, leaving a net budget requirement of £19.5m in 2016/17. Gross income and expenditure figures are not provided in the budget paperwork and the RG suggest that these should be included in future budget reports, along with details of other grant income achieved (e.g. from successful one-off bids for Government or EU funding).
15. Budget adjustments and staffing FTE impacts (e.g. from efficiency savings) contained in the proposals cannot currently be seen in proportion to the size of the budgets and teams that they relate to. The RG suggest that additional columns should be added to Appendix 3 that show budget allocations and FTE establishment at unit level. The RG also suggest that additional clarity should be provided where figures in the new investments / bids lines represent reversals of investments that have already been made.
16. The RG suggest that details should be provided as to how the Capital Budget (Appendix 6) as a whole is expected to be funded. Details should also be provided, perhaps in the Budget Report, as to how major individual capital schemes will be funded. The RG would also like to see the gross spend on individual capital schemes, given that some are part-funded by partners or other bodies.
17. The RG suggest that where service managers have discretion to set fees and charges (Appendix 8) based on hourly rates and/or what is considered to be reasonable, additional information could be included for transparency, such as indicative hourly rates. The RG also suggest that the descriptions of some of the new charges (e.g. cycling on a pavement) could be more specific.

***Recommendation 1 - That to improve the transparency and accessibility of the Council's budget proposals and in line with the increased reliance on external revenues and more uncertain Government support, the following should be provided in future years:***

- a) Details of gross revenue income and other grants received by service and how these relate to the gross expenditures on these services (Budget Report);***
- b) Staffing establishment (FTE) figures by service or team so that staffing changes can be seen in proportion to the size of the services or teams that are impacted (Appendix 3).***
- c) Net budget allocations in the Detailed General Fund Budget Proposals, so that adjustments can be seen in proportion to the size of the budgets impacted (Appendix 3);***

- d) ***Clearer explanation where adjustments in new investments / bids budget lines are reversals of one-off investments that have already been made (Appendix 3);***
- e) ***Details of how the Capital Programme as a whole and major individual capital schemes are expected to be funded (Appendix 6);***
- f) ***The gross cost of capital schemes, indicating external funding, in addition to the City Council's contributions (Appendix 6);***
- g) ***Indicative fees and charges rates where Service Managers have the discretion to set these (for example the typical hourly rate charged for a senior lawyer) (Appendix 8);***
- h) ***More specific descriptions of what new fees and charges relate to in practice (Appendix 8).***

### **Maximising income**

18. The RG recognise that the Council has a good record of increasing income from trading, grants and fees and charges over recent years, which has helped to ensure that services have been maintained despite annual reductions in Government funding. The budget proposals continue on this trajectory and the challenge continues to grow. Homelessness prevention and other grants have been subsumed into the Revenue Support Grant, which reduces to zero in 2019/20 and could effectively 'go negative' thereafter. The RG identified a number of recommendations aimed at securing and maximising the Council's revenue income over the medium term.

### **Revenue Support Grant**

19. There is an opportunity for the Council to opt in to receiving a four-year 'minimum' Revenue Support Grant (RSG) settlement from Government. This would provide more funding certainty and stability over the coming years as RSG is phased-out, better enabling the Council to plan. However, Government reserves the right to reduce these 'minimum' settlements, for example if its deficit reduction targets are not met. A multi-year settlement would require the production of an efficiency plan and while details of what this involves have not yet been provided, the RG would support the Council opting-in on the basis that it is likely to already have many of the elements in-hand.

***Recommendation 2 - That the Council should look to opt in to receiving a four-year Revenue Support Grant settlement from Government in order to obtain additional (but not absolute) funding certainty and stability in the coming years as this grant funding reduces to zero by 2019/20.***

### **Council Tax**

20. Council Tax increases are planned of 1.99% in year one and 1.5% in years two, three and four of the MTFP. 1.5% was considered to be prudent given that there is uncertainty as to the future level the Government's referendum threshold, which is currently set at 2%. The RG note that the Government's own RSG calculations assume that local authorities will raise Council Tax by an average of 1.75% per year over the coming four years. The RG is in favour of increasing the level of the Council's base funding carried forwards by raising Council Tax by the maximum amount currently permitted by Government. In order to maximise income without significantly increasing risk, the RG suggest that Council Tax

increases should be modelled at 1.75% rather than 1.5% in years two, three and four. This equates to approximately £25k of additional revenue per year. A significant rise in the referendum threshold (or its removal altogether) is considered to be unlikely. In the event that the referendum threshold remains at its current level or even slightly higher, the RG would encourage the Council to raise Council Tax by the maximum amount permitted.

***Recommendation 3 - That Council Tax increases should be modelled at 1.75%, rather than 1.5%, in years two, three and four of the Medium Term Financial Plan and that if the Government's referendum threshold is set above 1.75% in those years, the Council should plan to increase Council Tax by the maximum amount permitted.***

#### Business Rates

21. The Council's Head of Financial Services, in consultation with the Board Member for Finance, is expected to be delegated authority to determine whether the Council should enter into a Business Rates Distribution Agreement, once the relevant data on which a decision would be based is made available. An agreement would enable the Council to share in the proceeds of any additional business rates income retained in Oxfordshire but the Council would also share the risk of any losses above a safety net position. Losses could be incurred if one or more major rate payers ceased to operate in Oxfordshire. Last year a £1.7m maximum potential risk was not deemed worth £279k of additional income. The RG support the Council keeping its position under review each year in this way and would encourage a less risk-averse stance in the event that the likely gains of entering into an agreement were assessed as being more substantial than those on offer last year.

***Recommendation 4 - That annual assessments should continue to be made of the potential benefits and risks to the Council of entering into a Business Rates Distribution Agreement with other Oxfordshire Councils.***

#### Trading

22. Trading income has become increasingly important to the Council. The RG found that although future Direct Services income will be impacted by reduced workload from the Housing Revenue Account, there are plans in place to increase this important income stream by 2.5% per year on average by building up the external customer base. The RG was assured that external trading activities are structured in a flexible and robust way and that Direct Services' contributions to Council overheads would be relatively secure in the event of an economic downturn.
23. The RG note that the Council is also beginning to trade 'white collar' services, such as selling legal advice to external customers. The Council is also expecting to generate £28k by working with Kent County Council to deliver HR support and advice to schools. The RG suggest that, given these are relatively new areas of trading for the Council, progress against these income targets should be closely monitored.



***Recommendation 5 - That progress against new income targets expected to be achieved by trading 'white collar' services (e.g. legal, HR) should be particularly closely monitored given that this is a relatively new area of trading for the Council.***

#### Commercial assets

24. The RG was pleased to note that income from the Council's commercial property portfolio has now surpassed £10m per annum. The RG found that projected additional commercial property lease income of £332k per year by 2019/20, which is assessed as being low risk, is based on a thorough review and considered to be prudent and achievable. The extension of Seacourt Park and Ride is expected to generate an additional £770k over the 4 years assuming the work is completed by January 2017. This projected additional income is rated as high risk due to a number of dependencies.
25. The RG suggest that there may be opportunities for the Council to generate additional income from its assets in innovate ways. One idea supported by a majority of the RG (but not unanimously) is to look for further opportunities to lease spaces above Council-owned car parks, either for buildings, as the Council has already done with St. Clement's Car Park, or for solar power generation.

***Recommendation 6 - That the Council should continue to maximise income from its commercial assets, including by actively exploring the feasibility of generating income by leasing spaces (so called 'air leases') above Council-owned car parks, for example for buildings or solar power generation.***

#### Income generation

26. The RG reviewed the revenue income achieved by each service against the revenue expenditures on those services. The RG suggest that there may be opportunities to generate more revenue income in Environmental Sustainability as that service, which generates £18k of revenue income per year against a total expenditure of £886k, has a good record of achieving one-off funding from external sources.

***Recommendation 7 - That Council Officers should explore whether there are opportunities to generate regular revenue income in Environmental Sustainability in order to reduce the net budget requirement of that service, which has a good record of achieving one-off funding.***

#### Fees and charges

27. The RG reviewed fees and charges income and found that the Council has robust fee setting processes in place. Service Heads are asked to benchmark fees and charges, receive training and have knowledge from competing in markets. The RG found that pest control is the last area where charging levels have been deliberately set below market rates but the Council is gradually increasing these charges towards a position of full cost recovery. Off-street parking income is also being increased significantly to support the Council's budget and the RG note that there is a need to balance the benefits of additional income from parking with other policy aims.



28. The Council is expecting to receive an additional £580k in higher park and ride charges (including £80k from the Seacourt extension) in 2018/19. This is equivalent to an increase in the daily parking charge from £2 to £3 (which the RG does not unanimously support) and assumes that the County Council will follow this price increase. The RG has previously recommended that agreement should be sought on common charging across all park and ride sites serving Oxford. To protect planned additional income from the proposed parking charge increase and to avoid incentivising commuters to drive further for cheaper parking, the RG recommend that the Council continues to engage with the County to achieve common charging, either through a formal agreement or otherwise.

***Recommendation 8 - That the Council should continue to engage constructively with Oxfordshire County Council in order to achieve common charging across all Oxford Park and Ride sites and protect planned additional income of £580k per annum from 2018/19.***

29. The RG identified some areas where the Council could look again at whether there is a case for raising fees and charges in order to maximise income.

30. Given the unique settings that Oxford provides, the RG suggest that there may be opportunities to increase income by charging higher rates for commercial filming in the City, including possibly by charging treble rather than double the normal rates for filming requests with less than 7 days' notice.

31. The RG suggest that charges for householder services such as bulky collections, which are being held at £25, could also be reconsidered.

32. The RG noted that Oxford Town Hall was fully booked in the run up to Christmas and suggest that there may be an opportunity to introduce a 'pre-Christmas premium' on events held in the Town Hall. A similar premium could also be applied to commercial events in prime city centre locations, such as Broad Street and Bonn Square.

***Recommendation 9 - That Council Officers should explore whether there are opportunities to increase income by charging 'premium' and/or seasonal fees and charges, including specifically for the following:***

- a) Commercial filming (including higher premiums for late notice requests);***
- b) Householder services – such as bulky items collection;***
- c) Pre-Christmas premiums for Town Hall bookings and commercial events in prime locations (e.g. Broad Street markets).***

### **New investments**

33. There are few proposals for new General Fund investments and a number of previous investments are due to drop out, with the net impact being a reduction in spending on items classified as 'new investments / bids' of £821k per year by 2019/20. The largest new investment items are in the Planning and Regulatory service. One off funding of £560k has been allocated in 2016/17 for the Grenoble Road planning application fee. This will pay for the Council's share (as one of the major landowners) of technical work, studies, modelling and a submission to the

planning authority. The RG also welcome proposals to increase base budget allocations for Planning Enforcement (£34k) and a Safeguarding Policy Officer post (£24k), both of which have previously been highlighted by Scrutiny as priorities for additional resources.

#### Employee Engagement Survey

34. A relatively modest spend of £11k every second year has been allocated to pay for a new 'Best Companies' staff survey. The RG heard that this survey would enable comparison with other employers and that results would be reported to the Board Member and service heads. The RG suggest that the results should also be made available to elected members.

***Recommendation 10 - That the anonymised results of the new biennial Best Companies employee engagement survey should be made available to elected members.***

#### Educational attainment

35. The Council's Educational Attainment funding will be £43k in 2016/17 and £23k in 2017/18. The RG heard that schools can bid for funding for schemes that promote learning and skills for teaching staff or good practice. There may be an under-spend this year and the RG suggest that if this is the case, the Council should look to phase out the remaining funding allocation sooner, perhaps removing it altogether a year earlier than currently planned.

***Recommendation 11 - That in light of a possible underspend this year, consideration should be given to removing part of the residual £43k of educational attainment funding sooner than planned.***

#### Efficiency savings

36. The proposals include efficiency savings totalling £2.3m per year by 2019/20, the majority of which are expected to be delivered in the first two years. The RG received assurances that officers are always looking for further efficiency savings but were not proposing many specific new savings for years three and four of the MTFP at this stage. Some of the more significant efficiency savings in the budget proposals include savings from; the Council's leisure contract, further office rationalisation, a new IT contract, the impacts of Universal Credit roll-out, the current low cost of fuel and Business Improvement staffing reductions. Some planned efficiencies, for example from combining planning and licensing enforcement functions, are not included in the proposals because they will enable service improvements rather than provide cash savings.

#### Impacts of Universal Credit

37. The roll-out of Universal Credit means that the Council will no longer be required to administer Housing Benefit for working age claimants. Expected savings are split between Financial Services and Business Improvement (which includes Customer Services) and total 9 staffing posts. The RG found that some savings, including the proposed closure of Templar's Square Customer Service Centre, which predominantly deals with Housing Benefit claimants, have been delayed due to uncertainties around the phasing and pace of Universal Credit roll-out.

The RG suggest that these savings should be kept under review and achieved sooner where possible.

***Recommendation 12 - That the delivery of efficiency savings in Business Improvement and Financial Services that are expected to be achieved as a result Universal Credit roll-out, including the closure of Templar's Square Customer Service Centre (which has been put back two years to 2019/20), should be kept under review with the aim of realising these savings earlier if possible.***

#### Promoting on-line self service

38. The RG noted that the Council has a new website and Tenant Portal, and questioned whether there is scope to achieve further savings from a greater focus on 'channel shift' (encouraging customers to interact with the Council in lower-cost ways such as online). Some planned savings are rolled in to a £126k efficiency saving that also includes the closure of Templar's Square Customer Service Centre and has been put back 2 years, from 2017/18 to 2019/20. The RG suggest that the Council should continue to look for opportunities to reduce costs in this way while making sure that services that are accessible to all customer groups, including older people and digitally excluded groups.

***Recommendation 13 - That the Council should continue to look for further opportunities to use IT to reduce the transactional costs of service delivery, whilst continuing to ensure that services are accessible to all customer groups.***

#### Invest to save

39. The RG questioned the lack of new items that are classified as 'invest to save' compared to previous years. The RG found that a number of savings classified as 'efficiency savings', such as recent savings from an admin review and management restructure, were facilitated by investments, so the invest to save classification does not capture everything the Council is doing in this regard. The Council is also investing in mitigating rising demand on services, for example through the work of the Welfare Reform Team. The RG express disappointment at the absence of more proposals that meet the narrower definition of 'invest to save' and, as last year, suggest that officers look again at what opportunities there are to make investments that will deliver revenue savings.

***Recommendation 14 – That Council Officers should be encouraged to look again at what potential there is to develop new invest to save initiatives.***

#### General Fund pressures

40. The RG reviewed the pressures contained in the budget proposals, including building materials inflation, an additional tree surveying resource, leisure equipment replacement costs, legal expertise and homelessness. The RG found that expected variations in 2015/16 have been factored in to these pressures and that they are based on sound assumptions.

### Waste and recycling

41. A £1m pressure has come to light due to an increase in the market price of disposal of co-mingled dry recyclate, which is linked to the current low cost of oil. This pressure is contractually fixed for the next 12 months after which there is a potential upside but also further risk. The Council will be bringing forward proposals to develop a waste transfer station, which is expected to provide £250k of cost mitigation in subsequent years. The RG suggest that the Council should seek to maximise revenues from the waste transfer station including by making the facility available to other bodies and if possible by the local reuse of materials.

***Recommendation 15 - That the Council should look to maximise revenues from the planned new waste transfer station, both by opening up the facility to others and by the local reuse of materials, if such outlets exist.***

### Homelessness

42. There is expected to be an over-spend of £200k this year (2015/16) on private rented and bed and breakfast accommodation for homeless people. Provision has been made to increase this revenue budget by £200k from next year and to cover the over-spend by drawing down the homelessness reserve, which will reduce from £1m to £800k. The RG suggest that given the risks and pressures around homelessness, this reserve should be replenished. This could be done by reducing revenue contributions to capital by £200k.

***Recommendation 16 - That given the pressures on homelessness and the risks around County Council cuts, it would be prudent to redirect £200k of revenue contributions to capital and instead use this to top up the homelessness reserve, which is expected to be reduced from £1m to £800k.***

### Reserves

43. The RG reviewed the Council's reserves and found that the total amount held in reserves as of March 2015 was £38.6m, over half of which was set aside to fund capital schemes and will have mostly been spent. The RG suggest that reserves should be reviewed and where they are held against risks or expenditure that will occur in a future year, funding should be freed up and invested.

***Recommendation 17 - That the Council's reserves and balances should continue to be reviewed at appropriate intervals with a view to investing any suitable funds, such as those held against a risk or item of expenditure occurring in a future year.***

### Capital Programme

44. The General Fund Capital Programme has been scaled back, with revenue contributions to capital reducing from £6.6m in 2015/16 alone to £10.6m over the following 4 years. The RG found that some sources of capital funding such as from New Homes Bonus and capital receipts (including from the sale of Temple Cowley Pools) were not accounted for in the draft budget proposals. A number of capital schemes were initially placed on a 'reserve list' until funding was secured. Nevertheless, funded schemes contained in the draft proposals still total £42.9m over 4 years, the bulk of which is planned for 2016/17.

45. The RG reviewed the Capital Programme and reserve list in detail and found that there have been some changes to funding and to the phasing of certain schemes, such as the £10.3m acquisition of investment properties, which will be spent over five or six years, rather than in one year. The RG suggest that these changes are reflected in the final budget proposals that are presented to Council.

***Recommendation 18 - That the Capital Programme and capital scheme reserve list should be revised in light of recent capital movements, grant income and the need to re-profile some schemes.***

46. The RG questioned how certain the costs of capital schemes are, finding that while a number of schemes have fixed costs, the cost of some schemes are more uncertain. To minimise cost inflation and uncertainty, the RG suggest that the Council should seek to contract the large capital schemes at the earliest opportunity. The RG also suggest that there may be a case for taking a more holistic approach to contracting capital works, rather than contracting capital schemes separately.

***Recommendation 19 - That the Council should seek to contract large capital schemes as soon as possible to minimise price inflation and uncertainty, and consider the case for taking a more programme-based approach to contracting capital works.***

#### **Housing Revenue Account and HRA capital**

47. The combined impact of national policies such as the introduction of a social rent decrease for 4 years and the forced sale of higher value council housing voids (HVCH) has resulted in significant and unknown pressures for the Council's Housing Revenue Account (HRA). The loss to the HRA over four years compared with previous expectations is estimated to be £33.6m. Given the major uncertainties around national policies beyond the four years, in particular in regards to the future direction of social rent levels, the Council has not produced a long term HRA business plan at this stage. To cover the impacts of these changes HRA capital investments have been reduced by over £50m, which includes the creation of a £20m contingency against the forced sale of HVCH.

#### **Social housing new build**

48. The Council's new build programme (excluding homes at Barton) has been removed entirely, reducing from £16.5m to zero. The RG heard that a proposed Housing Company for Oxford is pivotal to mitigating pressures on housing and received confirmation that set up costs have been factored in to the budget. The focus of the Housing Company will be on getting new a range of new housing built and it would also look to buy new build properties at Barton. Any transfer of existing Council stock to the Housing Company would require the Secretary of State's approval. The RG questioned whether there is scope for the Council to use some of its borrowing headroom to fund new build. The RG was advised that the risk of continuing to finance social housing schemes from this account were considered to be too great. A proposal was made to reduce the borrowing headroom from £20m to £10m to fund new build. A majority of members were not in favour of this proposal and a minority of members were in favour.



### Rent reductions

49. The Council has applied for an exemption from the Government's 1% per year rent reduction policy. The RG found that in the unlikely event that the Council is permitted to hold rents at their current level for four years, this would bring in an additional £3.5-4m over the period. The RG questioned whether there are opportunities to increase Council rents in the short term to minimise the impacts of the rent reduction policy but found that this is not possible. The RG also asked whether there is scope to increase service charges but found that these charges have been increased by more than inflation for the last 3 years, have recently been reviewed and need to be fair and reflect the cost of the services provided.

### Forced sale of high value council housing (HVCH)

50. The Government's forced sale of HVCH voids policy will take the form of an annual levy based on a formula and won't require that HVCH voids are actually sold. A £20.1m contingency has been created to enable the Council to retain its HVCH. Further important details of this policy are likely to be made available later in the year and the RG suggest that the Council should closely monitor these with a view to freeing up funds from the contingency where possible.

***Recommendation 20 - That the Council should keep the local impacts of the forced sale of high value council housing (HVCH) policy under review and consider any opportunities or mechanisms to free up funds from the new £20.1m contingency without affecting the Council's ability to retain HVCH.***

### HRA debt

51. The Council has a long-term £198.5m debt to service on its HRA, which is a legacy of the Council retaining ownership of its housing stock. The debt is currently subject to preferential interest rates but if and when portions of it are deferred rather than repaid, they will need to be refinanced at higher interest rates. Given the uncertainties around future rent levels and the Council's capacity to develop new social housing, the RG questioned whether there is a risk that this debt could become unsustainable in the very long term. The RG suggest that the decision to defer a £20m repayment due in 2021, which is outside of the current four-year planning period but was included in the thirty-year HRA Business Plan agreed last year, should be kept under review to ensure that it is still the best decision for the Council and tenants. The HRA surplus moves from £3.5m to £10.8m over plan period and this accumulation could be used towards a debt repayment, if that was assessed as being the best option.

***Recommendation 21 - That in the light of recent housing policy and budgetary changes, it would be prudent to keep the decision taken last year to defer a £20m debt repayment due in 2021 under review to ensure that it is still in the best long-term interests of the Council and Council tenants.***

### Blackbird Leys regeneration

52. HRA funding towards the regeneration of the centre of the Blackbird Leys estate has been reduced from £8.6m to £5.2m and while the scope of what was previously proposed will be reduced, the scheme is still expected to deliver new affordable housing and community facilities. The RG heard that the market will

be adjusting to national policy changes but that the Council may be in a position to go to market later in the calendar year.

#### Energy efficiency programme

53. The HRA Energy Efficiency programme is another area of HRA capital spending that has been significantly scaled back, from £8.6m to £1.2m. The Panel found that there is some uncertainty as to whether the renewable element of the energy efficiency programme could be delivered through a partnership with Low Carbon Hub, as indicated in the Budget Report, and suggest that clarity is provided.

***Recommendation 22 - That clarity should be provided on whether the renewable element of the HRA Energy Efficiency programme could be delivered in partnership with the Low Carbon Hub.***

#### Adaptions for disabled

54. Funding for disabled adaptions, which could be expected to trail off over time as more properties are adapted, increases slightly over each of the 4 years. The RG fully support this use of funding but suggest that it is reviewed to ensure that best value is being achieved. Regular audits should be undertaken of the number of adapted properties and the number of tenants requiring adaptions.

***Recommendation 23 - That HRA capital spending on adaptations for the disabled should be reviewed to ensure that best value is being achieved. An audit should be undertaken and updated regularly of the number of tenants living in adapted properties to ensure that they are used to house people who need them.***

#### Tower Block Refurbishment

55. The RG found that the cost of the Tower Block refurbishment scheme was now contractually fixed at £20m, a significant increase on earlier estimates of £12.1m. As no sinking fund was incorporated into historic leasehold agreements to cover capital works, leaseholders are required to contribute towards the cost of refurbishment, and have been offered a number of payment options. Whilst it would not be feasible to institute sinking funds into leasehold arrangements retrospectively, the RG suggest that these should be built in to future leasehold agreements.

***Recommendation 24 - That 'sinking funds' should be instituted into new build leasehold arrangements where appropriate (e.g. blocks of flats) to prevent potentially high bills for leaseholders when these properties require capital works.***

#### Further consideration

56. The RG agreed to keep the Council's budgetary performance, as well as the details and impacts of national policies, under close review during the year ahead. To enable this, 2016/17 Finance Panel meetings have provisionally been scheduled to coincide with, and enable scrutiny of, the quarterly performance reports that will be presented to the City Executive Board and Council. The RG



reserves the right to have a more detailed examination of the Council's financial position in the event that major changes have to be made during the year ahead.

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