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OXFORD CITY COUNCIL

To: City Executive Board

Date: 13 February 2018

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

Title of Report: Scrutiny Budget Review 2018/19

Summary and Recommendations

Purpose of report: To present the recommendations of the Finance Panel on the Budget 2018/19 and Medium Term Financial Strategy 2019-2022

Scrutiny Lead Member: Councillor James Fry, Chair of Finance Panel

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

Recommendations: The Finance Panel to the City Executive Board:

That the City Executive Board states whether it agrees or disagrees with the 15 recommendations set out in the body of this report.

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Background

1. The Scrutiny Budget Review 2018/19 was undertaken by members of the Scrutiny Committee's Finance Panel; Councillors Fry (Chair), Landell Mills, Simmons and Taylor. As in recent budget reviews, members of the Scrutiny Committee's Housing Panel joined the Finance Panel to scrutinise budget proposals relating to Housing Services and the Housing Revenue Account. Their input was greatly appreciated.

2. The Finance Panel would like to thank the Council's Executive Directors, Assistant Chief Executive and Heads of Service for attending meetings to present the proposals and answer questions. In particular the Panel would like to thank Nigel Kennedy, Head of Financial Services, Anna Winship, Management Accountancy Manager, and Andrew Brown, Committee and Member Services Manager, for their support and advice throughout the budget review process.

Aims

3. The Panel set out to scrutinise the Budget and Medium Term Financial Strategy and to test the robustness of the underlying assumptions used in formulating the proposals. This report is intended to provide a considered second opinion on the budget proposals with constructive commentary and suggestions.

Method

4. Evidence sessions took place 4, 8, 9 and 24 January 2018 and involved:
    a) Responses to written questions put to the Executive Directors, Assistant Chief Executive and Head of Financial Services;
    b) A thorough review of the draft budget paperwork that was approved for consultation by the City Executive Board on 20 December 2017;
    c) Discussions with the Executive Directors, Assistant Chief Executive, Head of Financial Services and other Heads of Service;
    d) Additional information requested by the Panel including lists of monies held in reserves and balances;
    e) A summary of consultation responses received by 24 January 2018.

Summary and recommendations

5. The Panel's discussions covered the full range of budget proposals for all council services. Rather than repeat the Panel's deliberations in full, this report focuses on the areas that resulted in recommendations or other actions. The Panel's findings and recommendations are structured around the following themes:
    - Maximising income
    - Meeting future challenges

Maximising income

6. The Council continues on its path towards becoming financially self-sufficient, with the revenue support grant from HM Government reducing to zero in April 2019. To date the Council has an excellent track record of raising revenues locally to compensate for this, notably from trading services and commercial property income, as well as fees and charges, Council Tax and Business Rates. The Council has created Local Authority Trading Companies in order to be able to continue to earn growing incomes from commercial activities, free of the

constraints imposed upon external revenues by Council departments. The Council has also delivered a substantial programme of efficiency savings, with a further £600k of efficiencies planned over the next three years. As a result the Council is in a position where it is able to continue to invest in priority areas and, in contrast to many other local authorities across the country, there are few difficult decisions contained in the Council's budget proposals. Instead the biggest challenge is to deliver the Council's ambitions effectively.

Council Tax

7. HM Government have announced that for 2018/19 and 2019/20 the Council Tax referendum threshold has been raised from 2%, where it has been held since it was introduced in 2012/13, to 3%. The Panel found that taking advantage of this opportunity would generate an additional £130k per year for the City Council from 2019/20, while costing Band D households less than £3 per year. This additional income would be partially offset to the tune of £40-70k per year by unfavourable changes to Business Rates announced at the same time.

8. The Panel note that the City Council's portion of total household Council Tax bills is relatively small and the greater impact on individual households will be from increases planned by Oxfordshire County Council. Continued funding for the full Council Tax Support Scheme, which will cost the City Council approximately £1.8m by 2019/20, will protect the poorest households in the city. The Panel found that this scheme benefits 8,800 households in the city by an average of £1,114 per year.

Recommendation 1 – That Council Tax is increased by 2.99% in 2018/19 and 2019/20.

9. The Panel note that HM Government plans to allow local authorities to increase Council Tax charges on properties that are long term empty (over 2 years) from 150% of the normal council tax rate to 200%. The Panel would support the Council taking advantage of this proposed new power, both as a deterrent to properties being left empty or as a means of increasing revenue by approximately £12k per year (based on the current number of 83 long term empty properties in the city). This change had not been factored into the Council's draft budget proposals because it required the introduction of primary legislation.

10. The Panel also note that the Council has the ability to offer a 50% discount on second homes but charges the full amount; a policy the Review Group supports.

Recommendation 2 – That the Council continues to charge the maximum premium on Council Tax charges for second homes and empty homes and aims to utilise new powers, when available, to increase Council Tax charges further on empty properties.

11. The Panel also considered the issue of properties in the city that are available for short term lettings, for example through Airbnb, on a seemingly continual basis. Where properties are available to let for 140 days or more per year they should be valued for Business Rates but the Panel feel there are gaps in the system and have referred this issue to the Scrutiny Committee for further exploration.

Business Rates

12. The Panel note that changes to Business Rates tariffs are likely to have an effect on the Council's finances but the extent of the budgetary impact is not yet known. It is thought that an outcome of the Fair Funding Review will see local areas retaining 75% of Business Rates revenues above a baseline position. However, the baseline levels will also be reviewed, which may see HM Government taking an opportunity to shift more resources to upper tier authorities.

13. The Panel explored the impacts of the new Westgate Shopping Centre on the Council's Business Rates income and found that overall Business Rates revenues will increase by £13m compared to the previous shopping centre. Delays in the Valuations Office Agency (VOA) valuing the premises have however caused a loss of cash flow for the Council as well as interest foregone. As of 24 January 2018 only 11 out of the 91 occupied premises had been valued by the VOA. The Panel suggest that the Council continues to lobby HM Government to improve the efficiency and effectiveness of the Valuation Office.

Recommendation 3 – That the Council continues to make the case to HM Government through the Local Government Association that the issue of delays to valuations undertaken by the Valuation Office Agency should be urgently addressed.

14. The Panel note that the opening of the new Westgate Shopping Centre is having an impact on the retail environment in other parts of the city centre. A number of shops have moved to the Westgate from other city centre locations, resulting in a number of empty frontages. While this is to be expected, the Panel suggest that to support city centre businesses, particularly independent retailers, during this period, additional resources should be made available for city centre management activities. Further investment in this area could also help to maximise Business Rates and support the formation of a Business Improvement District (BID) in the city centre, which, if established, could potentially help to fund additional resources for city centre management to complement those committed by the Council.

Recommendation 4 – That provision is made for additional resources for City Centre Management, including help in preparing for a bid for a Business Improvement District (BID), in view of the pressures upon city centre retail businesses located away from the Westgate Shopping Centre.

Fees and charges

15. The Panel received assurances that robust processes are in place to ensure that the fees and charges included in the budget paperwork are in line with market rates or are set at, or moving towards, a cost recovery position where required.

16. The Panel welcome proposals to take advantage of new powers to increase planning fees by 20% above costs and to use this income to increase officer capacity. The Panel note that there have been difficulties in filling planning vacancies over recent years and welcomed the targeted use of market supplements for certain key roles, when these roles change or become vacant.

17. The Panel noted that plans to increase park and ride parking charges from £2 to £3, raising £500k per year, had been abandoned in the draft budget, with charges increased in other car parks instead. The Panel also note that the loss of car parking income from Oxpens has been pushed back and additional income from Diamond Place has also been delayed a year. The Panel welcome additional resources for car park resurfacing, a service that delivers good value for money.

18. The Panel noted that charges for garden waste collections are being increased annually by £2 per year from £45 in 2017/18 towards a target price of £52 per year (£1 per week). The Panel suggest there is an opportunity to move immediately to the £52 target price in 2018/19, which would still represent good value for service users whilst bringing forward additional planned income of £72k over the next three years.

Recommendation 5 – That annual garden waste collection fees are increased from the current level of £45 to the target price of £52 per year in 2018/19.

Trading income

19. The Council has established wholly owned trading companies to provide services to the Council and to trade externally, building on the success of the Council's in-house Direct Services operations. A key assumption in the budget is that the new companies will meet their existing obligations in terms of additional planned income and deliver a further £500k per year by 2020/21. The Panel note that this figure will partly be met through expanding external trading activities and partly through efficiencies. The latter could potentially have been achieved without the move to a company structure.

20. The Panel noted that future budget reports would show the financial contribution (or dividend) from the companies as a single budget line. However, as the dividend will be subject to Corporation Tax, the companies will seek to return financial value to the Council in a number of other ways (e.g. by buying support services from the Council, paying commercial rates for leases, etc.), so it will be important to look at the overall picture. The Panel suggest that future budget reports should provide transparency in this respect.

Recommendation 6 – That future budget reports clearly set out the total value returned to the Council by its Direct Services companies, as well as the dividend.

21. The Panel questioned why the external income target for Legal Services was being reduced from £110k to £40k per year, noting that the target had originally been set in lieu of efficiency savings. The Panel heard that the service had visited other local authorities to generate trading opportunities with some limited success but the £110k target was considered to be unachievable. £40k, while still a stretch, was considered to be more realistic. The Head of Service said she would be reviewing charging rates and trading opportunities and committed to reporting back to the Scrutiny Finance Panel in 6 months' time.

Property purchases

22. A significant portion of the Council's income (over £10m per year) is generated from its commercial assets. The Panel note that the Council is seeking external advice on the case for borrowing to fund commercial properties purchases in the city, or to make additional investments in property funds, which have propped up the Council's treasury returns while interest rates have been historically low. The Panel also note that HM Government has signalled that restrictions may be placed on local authorities borrowing to make financial gains in the property market. It is considered likely that any restrictions will be targeted at investments made outside a local authority's geographical area.

    Recommendation 7 – That consideration is given to the option of borrowing to invest (e.g. in commercial properties within the city), drawing on external advice.

23. The Panel support the Council becoming a more active player in the local property market and pointed to some recent examples of missed opportunities. The Panel suggest that the Council should take steps to ensure it is geared up to be able purchase suitable properties in a timely manner. The Panel note that the Council is also extending its programme of purchasing homes in the local area for homeless families, with at least 80% of total provision situated in the city. While this programme is broadly on track, it may also benefit from this exercise.

    Recommendation 8 – That a review is undertaken to identify whether the Council has the necessary skills, processes and constitutional rules in place to be an active and agile operator in the local property market, while maintaining a watching brief on any emerging government plans to limit such activities.

Rents

24. Council rents are due to be reduced by 1% in years 1 and 2 in line with the policy of HM Government. The budget then assumes increases are applied based on a convergence formula in years 3 and 4 to move rent levels up towards a target rent level. The Panel heard that clarity has not yet been received from HM Government that the Council will be able to use the convergence rent formula in these years, which represents a £400k risk to the Housing Revenue Account.

Meeting future challenges

25. The Council faces a range of uncertainties linked to the direction of the economic climate against a backdrop of the UK's exit from the European Union and the direction and detail of government policy in key areas such as housing. The Panel are satisfied that the Council continues to take a sound and prudent approach to managing financial risks but challenges remain, for example around homelessness, and other future challenges will be more difficult to predict.

Affordable housing

26. Affordable housing remains a major issue in the city. The Panel welcome the range of measures aimed at increasing the delivery of affordable housing, most notably:

- The bid for £60m of government funding for affordable housing together with significantly increased borrowing powers, which could facilitate the delivery of approximately 625 socially rented units.
- The Oxfordshire Housing and Growth Deal which includes a further £60m for affordable housing. This pot could potentially translate to approximately 1,350 new affordable dwellings but other funding would need to be in place to support delivery on this scale.
- The provision of £10.6m for the redevelopment of East Oxford Community Centre which, subject to further feasibility work, is potentially sufficient to see more than 30 units delivered across three sites with 100% of these being socially rented accommodation. £7m of funding for this scheme will come from the contingency set up to mitigate the impacts of the levy on higher value void properties, which HM Government is yet to implement and therefor won't be required in year 1.
- The provision of £5.4m for the regeneration of central Blackbird Leys to make a scheme planning policy compliant in terms of delivering 50% affordable housing (80% of which being socially rented accommodation).

Housing companies

27. The Council has set up a group of housing companies with key aims of maximising the delivery of affordable housing at low-viability sites across the city, taking possession of the affordable housing units at Barton Park and buying the maximum of five properties per year from the Council's housing stock. The Panel note that loans to the housing companies for social housing do not have to comply with State Aid regulations and will therefore provide a lower financial return to the Council than loans for market or non-social housing. The interest earned on loans to the housing companies are expected to total some £7m over the next 4 years based on the projected drawdown of loans by the companies, which may be subject to change.

28. The Panel note that the Council is only planning to transfer 2-3 properties to the housing companies in the current year because it had not been possible to identify five suitable properties that require redevelopment works. The business plan for the housing companies, which is due for a refresh, currently assumes the purchase of five properties per year from the Council. The Panel suggest that the Council should always aim to transfer the maximum of five properties per year given because failure to do so in any year represents a lost opportunity and will, over time, have a detrimental effect on the finances of the companies.

Recommendation 9 – That the Council plans to transfer the maximum number of five properties per year to its housing companies (recognising that decisions to purchase the properties are a matter for the companies).

Homelessness

29. No changes to statutory (i.e. family) homelessness services are included in the revenue budget, other than some savings resulting from the reduced use of bed and breakfast accommodation for temporary accommodation linked to additional homelessness property purchases in the capital programme. From April 2018 the Council will have new statutory responsibilities in relation to single homelessness. In 2018/19 and 2019/20 the additional costs will be covered by

‘new burdens’ funding from HM Government but funding from year 3 is yet to be confirmed.

30. The Panel note that County Council plans to withdraw funding for supported accommodation has created an emerging gap in funding for the homelessness pathway from 2019/20. The draft budget included a proposal to spend an additional £100k on homelessness prevention in 2018/19 to be funded from reserves. The Panel welcome the additional investment but regret that this would reduce the level of the homelessness reserve. In addition, the Panel heard that £25k for two years would be added to the budget to fund a partnership working post. The Panel suggest that every effort is made to identify revenue funding for these additional homelessness pressures, perhaps through the income maximising measures mentioned above or by reducing revenue contributions to the capital programme.

Recommendation 10 – That the Council maintains the Homelessness reserve at its current level by funding all additional spending on homelessness services from revenue.

31. Additional revenue funding of £200k per year for homelessness prevention services has been provided from 2019/20. The Council is also encouraging partner organisations to match this with similar commitments in order to secure full funding for the homelessness pathway. Decisions will need to be taken about how this funding will be spent in order to maximise its effectiveness in improving outcomes but the budgetary provision is very welcome.

Recommendation 11 – That the Council continues to engage with partner organisations on the issue of plugging the emerging shortfall in funding for the homelessness pathway from 2019/20.

Waste and recycling

32. The Panel welcomed the decision to continue funding the Blue Bin Recycling League for a further 3 years when the current grant funding runs out in October 2018. It was recognised that this scheme has been broadly successful in helping to increase recycling rates across the city. Upon exploring the financial impacts of the scheme the Panel found that, perversely, increases in recycling rates are creating additional costs for the Council. This is because the recycling credits the Council receives from Oxfordshire County Council are not sufficient to cover additional disposal costs, which have risen over recent years.

Recommendation 12 – That the Council continues to engage with Oxfordshire County Council to resolve quickly the situation whereby recycling credits paid to the city by the county do not cover higher disposal costs.

33. The Panel noted that China’s decision to ban plastic waste imports had recently been in the news. This was likely to have an impact on disposal costs, even though Oxford does not sell plastic waste directly to China. The Panel suggest that officers review disposal costs in light of expected changes to prices.

Recommendation 13 – That waste disposal costs are remodelled to take account of the expected impacts on market prices of China's decision to ban plastic waste imports.

Pay and conditions

34. The Panel note that pay inflation was not factored in to the draft budget proposals and was instead accounted for in a contingency fund, due to negotiations about the new local pay deal. A local pay deal is now in place with provision for annual pay uplifts of 1.25% or £500 (whichever is higher) between 2018/19 and 2020/21. The Panel note that for all but the lower paid staff this will be lower than the 2% agreed in the new national pay deal (although in reality few local authorities will have budgeted for 2% pay uplifts). Nevertheless it's possible that the national deal may create pressure for higher pay uplifts from year 4.

35. The Panel heard that pension provisions would be reviewed in year 3 to take account of the actuary's triennial review, which would take effect from year 4. The Panel note that in previous years the Council had made budgetary provision for possible increases in contributions and heard that this position may need to be revisited in future years.

Recommendation 14 – That pension provisions are kept under review given that an actuarial triennial review will take place within the MTFP period, and may have a budgetary impact in year 4.

Invest to save

36. The Panel questioned whether enough was being done within the Council to encourage staff to identify invest to save opportunities, given the scarcity of items labelled as invest to save contained within the budget. The Panel recognise that the focus in recent years has tended to be on the bigger ideas such as establishing the companies but would expect to see a continued focus on identifying invest to save projects. Business transformation funding of £150k is still provided each year for such schemes in addition to £958k which is held in reserve. The Panel heard that some Council services may have limited opportunities for invest to save ideas and in those areas the focus is on deploying resources as efficiently as possible.

Recommendation 15 – That greater effort is made to encourage and identify 'invest to save' projects.

Further consideration

37. The Panel have referred the following issues to the Scrutiny Committee for further consideration:
    a) The ICT restructure
    b) Regulation and taxation of properties made available for short term lettings

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