

To: City Executive Board

Date: 18th December 2018

Item No:

Report of: Head of Financial Services

Title of Report: Medium Term Financial Strategy 2020-21 to 2022-23 and 2019-20 Budget for Consultation.

Summary and Recommendations

Purpose of report: To propose a Medium Term Financial Strategy and the 2019/20 Budget for consultation

Key decision Yes

Executive lead member: Councillor Ed Turner

Policy Framework: The Council's Corporate Plan and Council's Budget

Recommendations: The City Executive Board is recommended to:

1. **Approve** the 2019-20 General Fund and Housing Revenue Account budgets for consultation and the General Fund and Housing Revenue Account Medium Term Financial Plan as set out in Appendices 1-9, noting :
 - a) the Council's General Fund Budget Requirement of £24.175 million for 2019/20 and an increase in the Band D Council Tax of 2.99% or £8.94 per annum representing a Band D Council Tax of £307.80 per annum (subject to the assumption in paragraph 22)
 - b) the Housing Revenue Account budget for 2019/20 of £43.162 million and a reduction of 1% (£1.03/wk) in social dwelling rents from April 2019 giving a revised weekly average social rent of £102.26 as set out in Appendix 4
 - c) the General Fund and Housing Revenue Account Capital Programme as shown in Appendix 6.
2. **Agree** the fees and charges shown in Appendix 7

3. **Delegate** to the Section 151 Officer in consultation with the Board Member for Finance and Assets the decision to determine whether it is financially advantageous for the Council to enter into a Business Rates Distribution Agreement as referred to in paragraphs 29-30 below; and
4. **Ratify** their decision to implement the Premium Council Tax of 100% for properties that have been empty for more than 2 years and approve the escalated rate of premium council tax when permitted to do so, as referred to in paragraphs 13- 16 below

Appendices to the report:

- Appendix 1 Summary of General Fund Budget by Service 2019-20 to 2022-23
- Appendix 2 General Fund Revenue Budget by Service 2019-20 to 2022-23
- Appendix 3 Detailed General Fund and HRA Service Budgets 2019-20 to 2022-23
- Appendix 4 Housing Revenue Account Budget 2019-20 to 2022-23
- Appendix 5 Council House Rents By Estate
- Appendix 6 General Fund and HRA Capital Programme 2019-20 to 2022-23
- Appendix 7 Fees and charges
- Appendix 8 Risk Register
- Appendix 9 Draft Equalities Impact Assessment

Comment from the Portfolio holder

Once again, this Council budget is being framed in challenging times. Government grant is reducing to zero in 2019, interest rates remain low (and therefore affect the returns on council investments), and we are of course exposed to wider economic risks which might affect the local economy, investment income and commercial property.

However, we are once again proposing a **fully balanced four-year budget**, which **retains front-line services in full, continues to support the most vulnerable, including extra spending towards our aim of ending homelessness and support for the Oxford Living Wage**, and **includes £192 million of General Fund and Housing capital investment over the four-year period**.

At the heart of this decision is the “Oxford Model”, where, rather than choosing to outsource services, we instead “in-source” work to our excellent, wholly-owned company Oxford Direct Services Limited, from other public and private bodies. ODSL was established in April 2018, in order to allow for more such activity to be undertaken. Already next year, a “dividend” of over £1.5 million for Oxford City Council is projected from the organisation, which will enable front-line services to be supported. ODSL is requesting additional capital investment from the council in a range of modernisation activities, which will enable that projected dividend to increase to over £3 million per annum by 2022/23. Clearly the City Council, as the sole shareholder, will guide the company carefully and keep this projected dividend under review, but we believe this distinctive approach shows the benefits of “insourcing” rather than “outsourcing” work and placing faith in the talents of council and ODSL staff.

There are other important areas to highlight:

- We intend continuing the Council Tax Reduction Scheme, in full, for those on low incomes;
- We propose additional promotion of the Oxford Living Wage towards local businesses and other organisations, as well as paying it to our own workforce;
- We propose an “accessibility app” to make the city easier for people with a disability to use fully;
- We are confirming additional funding of £200,000 towards homelessness a year, as proposed in last year’s budget, to be implemented from April 2019, and leisure services will be made available for free to homeless pathway clients;
- We are reviewing how best to use the government’s welcome decision to lift the restriction on borrowing in the Housing Revenue Account, and how both this, and our local housing company Oxford City Housing Ltd., can help address the city’s housing shortage;
- There is no increase in park and ride charges;
- A “crèche” is to be trialled at Ferry Leisure Centre, and three drinking fountains will be installed in parks, to give users a better experience and reduce plastic waste.

Clearly, there are difficult decisions – for instance, we are proposing to phase out our subsidy to “Experience Oxfordshire” over the next three years, and there are modest increases in other charges. However, by being willing to prioritise, we are able to safeguard the front-line and in particular support the most vulnerable in Oxford.

We will consult on this budget, and will welcome feedback in any areas. Developing the “Oxford Model”, which places great faith in its staff, has drawn upon the expertise of officers across our organisation and in ODSL, and we remain grateful for their excellent efforts all year round.

INTRODUCTION

- 1 This report sets out the Council’s Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2019/20 to 2022/23 and gives interested parties the opportunity to comment and be consulted on the Council’s budget proposals for the financial year (2019/20). The report covers all aspects of the Council’s spend: General Fund revenue expenditure funded by the council tax payer, government grant and other sources of income, Housing Revenue Account (HRA) expenditure, funded by council tenants’ rents, and the Council’s Capital Programmes (General Fund and HRA) funded by Capital Receipts, revenue and borrowing.
- 2 The proposed Medium Term Financial Strategy:
 - a) Is financially balanced over the 4 year period;
 - b) Assumes grant from government reduces to zero by 01/4/2019;
 - c) Assumes New Homes Bonus is used to finance the Capital Programme

- d) Assumes contingencies of around £400k per annum in the later years of the MTFs are held against the achievement of high risk efficiencies and fees and charges increases
- e) Assumes a council tax increase of 2.99% for 2019-20 and annual Council Tax increases of 1.99% thereafter, the maximum rate at which there is no requirement for a referendum
- f) Includes £12 million of efficiencies, increased income and services changes across the 4 years;
- g) Facilitates capital investment of £192 million over the four year period including:
 - i. Regeneration in the city
 - ii. Investment in infrastructure to drive additional income streams from Oxford Direct Services Ltd
 - iii. Continued provision of loans to Oxford City Housing Ltd totalling £48 million for the acquisition of houses at Barton, minor extensions, acquisitions from the HRA and new house build
 - iv. Community Centre and Sports Pavilion new build and refurbishment
 - v. Car parks refurbishment and improvement
 - vi. Purchase of homes for local homeless families the Council has a duty to assist
 - vii. Improvements and refurbishments to council dwellings
 - viii. Regeneration of council estates

3 For ease of reading; the report is split into four sections :

- Section A Background and Context**
- Section B General Fund Revenue Budget**
- Section C Housing Revenue Account (HRA) Budget**
- Section D Capital Programme**

Section A Background and Context

Background

4 This report sets out the Council's financial plans for the period 2019/20 to 2022/23. The plans make assumptions about income from Government grants, Council Tax and rents. The plans underpin service provision and the Council's vision of "Building a World Class City for Everyone".

National Economic Position

5 On 13th March 2018 the Chancellor delivered his spring budget to Parliament. The main headlines of this speech were :

- Growth is forecast to be 1.5% for 2018 up from 1.4% previously forecast. Growth will continue at 1.5 % for the next 2 years followed by 1.4% and then 1.5% in 2022.
- The Office of Budget Responsibility warned that Britain's long term outlook was little changed from the last budget
- Inflation was forecast to fall from 3% now to 2% by end of year
- Government forecast to borrow £45.2bn in 2017-8, £4.7bn lower than predicted in November 2017

- Borrowing forecast to fall every financial year down to £21.4bn in 2021-22
- The Government aims to reduce annual public borrowing to zero by the mid-2020s
- Next revaluation of business rates to be brought forward by one year to 2021

Brexit

6 On 15th November 2018 the Government published details on their draft Brexit withdrawal agreement including how much money will be paid to the EU, confirmation of a 21-month transition period after Brexit day next March and commitments on the rights of EU citizens in the UK and UK citizens living in the EU. In short the latest draft includes:

- The removal of a policed frontier between Northern Ireland and the Republic of Ireland
- A UK – EU free trade area that establishes a common rule book for industrial goods and agricultural products meaning the UK would maintain access to the Single European market but allow the UK to enter into trade agreements with other countries
- Free movement of people will stop. The plan suggests a “mobility framework’ so that U.K. and EU citizens can continue to travel to each other’s territories, and apply for study and work.
- The U.K. will collect tariffs on behalf of the EU and refunds will be offered if the U.K.’s tariffs are different
- Planning for no-deal Brexit will be stepped up

The draft withdrawal agreement has been approved by the Cabinet and the 27 other EU member states. The UK Parliament will vote on the draft withdrawal agreement on 11th December 2018 and finally the EU Parliament will vote on it.

7 For local authorities the uncertainty, along with many businesses, makes it difficult to plan for the potential effect of Brexit on our services. Working with local authorities the LGA have published what they see are their key priorities and these include:

- **Autonomy of local government** - Responsibilities repatriated from the EU should not be centralised in Whitehall
- **Developing a new legal base for local government** – Any future review of UK laws of EU origin must lead to new legislative freedoms and flexibilities for Councils so that communities, businesses and consumers can benefit.
- **Securing investment that is currently sourced from the EU**
- **Community cohesion** - With 7 per cent of existing adult social care staff from other EU nations, securing a sustainable adult social care workforce and excellent care skills must be a priority for the Government
- **Addressing local place-based impacts** - In partnership with the LGA, government departments must begin to address the real and varied impacts and opportunities of Brexit at the local level

8 On September 13th 2018 the Government published 28 technical notices on ‘How to prepare if the UK leaves the EU with no deal’ in areas such as applying for EU funded programs, importing and exporting, money and state aid. In a more recent

developments MHCLG are running a number of regional events for local authorities to measure their EU exit preparedness.

- 9 As to what the precise implications are for Oxford City is difficult to say, but a recent paper by the Council's Head of Financial Services highlighted a number of issues including:
- **Non UK European workers in Employment** - Oxford University Hospitals employs around 19,000 doctors nurses and health care staff. A recent survey indicated that at 19.5% Oxford University Hospitals employed the second highest number of EU staff of all hospital foundations.
 - **Effects on higher education, bio tech and research science and technology** all of which rely on access to talent and EU grant funding
 - **Visitor Economy** – domestic and in-bound tourism due to the strength of the pound
 - **Local businesses** especially BMW and Unipart who employ around 5,500 staff locally and are reliant on exports and trade with the EU.
- 10 On 29th November 2018, the Government published its scenario analysis of the economic consequences of Brexit. In short it finds:
- The current Brexit Deal would potentially take 3.9 per cent off UK Gross Domestic Product (GDP), relative to staying in the EU, over the next 15 years.
 - A no-Deal Brexit would potentially take 9.3 per cent off the UK's GDP over the same period.
 - A Canada-style free trade deal is also negative in effect, seen as holding back GDP growth by 6.7 per cent.
 - The small gains from any new trade deal would be more than offset by the economic costs of new trade barriers with the EU and a hit from lower net migration.
- 11 The Bank of England took an equally negative view of a no-Deal Brexit particularly regarding property values. It finds:
- A “disorderly” no-deal Brexit next March could plunge the UK economy into a larger recession than the global financial crisis a decade ago. In a “worst case” scenario the UK's economy would contract by 8 per cent, house prices would fall by a third, unemployment would spike to 7.5 per cent, interest rates would shoot up to 5.5 per cent and the value of the pound would fall to below one dollar.

Autumn Statement October 2018

- 12 The Chancellor delivered his Autumn Statement on 29th October 2018. Hailed as the 'end of the era of austerity' the key highlights were as follows:

Public Finances

- Public borrowing in 2018 to be £11.6bn lower than forecast in March, representing 1.2% of GDP, the total value of goods produced and services provided
- Borrowing as a share of GDP to rise to 1.4% next year
- Borrowing to total £31.8bn, £26.7bn, £23.8bn, £20.8bn and £19.8bn in the next five years
- Debt as a share of GDP peaked at 85.2% in 2016-17, falling to 83.7% this year and to 74.1% by 2023-24
- 1.2% annual average growth in central government departmental spending promised

Other Areas Relevant to Local Authorities

- Removal of the HRA debt cap for all English local authorities enabling them to undertake unlimited borrowing to finance capital expenditure on council housing subject to Prudential Borrowing.
- An extra £1bn over five years to help those moving to the new payments, under Universal Credit which will replace six in-work benefits, and a £1,000 increase in the amount people can earn before losing benefits, at a cost of up to £1.7bn a year
- £45m of additional funding for Disabilities Facilities Grant in 2018/19;
- 100% business rates relief on public lavatories
- £420m in 2018/19 to tackle pot holes and other minor road highways works;
- £400m of in-year capital funding allocations to schools in 2018/19;
- £650m of extra Social Care funding for English Local Authorities in 2019/20;
- An additional £84m of Children's Services funding over 5 years, but across only 20 councils;
- For two years up until the next Business Rates Revaluation in 2021 all retail premises with a Rateable Value (RV) below £51,000 will have their bills reduced by one third; on past precedent it would be expected that Local Authorities will be compensated for this measure through s31 grant;
- £675m of co-funding will be provided through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;
- Additional funding for the Housing Infrastructure Fund (HIF) of £500m will be provided increasing the pot to around £5.5b. HIF is a capital grant programme for new physical infrastructure under which funding is awarded to local authorities on a competitive basis.
- The provision of a business rates Retail Discount scheme for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019-20 and 2020-21. The value of discount should be one third of the bill, and must be applied after mandatory reliefs and other discretionary reliefs funded by section 31 grants have been applied. Where an authority applies a locally funded relief, for instance a hardship fund, under section 47 this must be applied after the Retail Discount.

Premium Council Tax Rate

- 13 Last year the government advised that the long term empty premium, payable on properties that have been empty for over two years could be increased from an additional 50% Council Tax to 100%. At Council in February 2017, as part of the budget setting process for 2017-18 members agreed to implement the premium council tax rate as soon as the legislation came into force.
- 14 The legislation was to form part of the Finance bill that fell due to the general election, but has been resurrected as part of the Autumn Statement 2018, and the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 has now passed Royal Assent.
- 15 The legislation originally contained provision for councils to double the rate of tax on properties that had been empty for 2 years or more. The government is now going further and introducing an amendment that would allow councils to triple the council tax on homes left empty for 5 to 10 years and quadruple it on those empty for more than a decade. Councils are able to charge 100% premiums from April 2019, 100% from April 2020 if empty from 2 to 5 years, and then 200% after 5 years. From April 2021 the Council can charge a premium of 100% from 2 to 5 years, 200% from 5-10 years, and 300% if empty over 10 years.
- 16 At the end of September there were 326 homes that had been empty for 6 months or more in Oxford. At the same time last year it was 301. Eighty three properties are paying the current 50% premium. Clearly, the addition of a further council tax premium may change behaviour in terms of bringing the property back into use more quickly; if it is not changed, then additional income to the council would result.

Interest Rates and Inflation

- 17 The Monetary Policy Committee met on 2nd August 2018 and voted unanimously to increase the base rate by 0.5% to 0.75%, only the second rise in a decade. The Bank of England said at the time that there would be further 'gradual and limited' base rate rises in future. The base rate is generally not expected to increase until the middle of next year. The path outlined at the August rise was gradual and slow and concerns over Brexit and global trade wars are likely to mean Britain does not deviate from that. One worry is that if Britain crashes out of the EU with no Brexit deal, the Bank of England will be forced to raise rates to defend the pound.
- 18 UK GDP growth is expected to slow further in 2018 as public spending cuts and Brexit-related uncertainty weigh on the economy. The unemployment rate is expected to remain close to its equilibrium rate (i.e the rate at which the supply of labour is in balance with the demand for labour) of around 4.5 percent in the near term although wage growth is likely to remain low, resulting in falling real wages. Inflation is forecast to fall towards the Bank of England's 2 percent target until the end of the year, easing the squeeze on households' finances, and house price inflation is expected to average just over 3 percent.

- 19 The annual inflation rate in the United Kingdom eased to 2.4 percent in September 2018 from the previous 2.7 percent in August and was below market expectations of 2.6 percent. It is the lowest reading in three months, mainly due to a slowdown in cost of food, transport, recreation and culture and a fall in clothing prices. Long term the inflation rate is expected to increase to around 3% in 2021.

Local Government Provisional Finance Settlement 2019/20

- 20 The Provisional Finance Settlement for 2019-20 was due to be announced on 6th December 2018. The Secretary of State of the Ministry of Communities and Local Government has further announced that a statement on the settlement will be given after the vote on the European Union (Withdrawal) Act 2018, scheduled for the 11th December 2018.
- 21 The Council is already aware that its Revenue Support Grant with effect from 1/4/2019 will reduce to zero, a reduction of around £9.3million for the Council since 2013-14, as part of a four year deal agreed with the Government in 2016, the last year of the deal being 2019.
- 22 The Government issued a briefing paper in October 2018 with proposed thresholds for Council tax referendum levels for 2019-20 which it is assumed will be confirmed in the Provisional Settlement announcement. Authorities must increase council tax by less than the threshold to avoid the requirement for a referendum. For district councils the referendum level is exceeded if council tax is to be increased by **3% or more and more than £5.00** on a Band D property – i.e. an increase of more than 3% is permitted as long as it does not exceed £5.00 on a Band D property. The Council is proposing an increase of 2.99% since the increase at that level is £8.94 per annum.

Retained Business Rates

- 23 Business rates income collected by Oxford City Council as billing authority is split 50/50 with central government with the billing authority's 50% share split 80/20 between Oxford City Council and Oxfordshire County Council respectively. From its 80% share the Council pays a tariff to central government and retains a baseline amount (set by the Government) together with 50% of the retained income above this baseline. The main components of the system with estimates of individual elements for Oxford City for 2019/2020 are shown below. The overall amount of retained business rates by the authority for 2019-20 represents around 8.5% of total business rates income.

Table 1 : Retained Business Rates 2019-20	
	£million
Estimated Business Rates Income	106.295
Billing Authority Share (50%)	53.147
Oxford City Share (80%)	42.518
Less Tariff paid to Government	29.902

Amount remaining after tariff	12.616
Baseline Business Rates (A)	6.155
Income above baseline (12.616-6.155)	6.461
50% of income above baseline (B)	3.230
S31 Grant adjustment (C)	(0.122)
Total retained business rate income (A+B+C)	9.263

Notes

- **Baseline Business Rates** – The Government’s view of a fair starting point of business rates income for the billing authority based on formula grant distribution. Updated by RPI each year.
- **Tariff** – The amount paid to the government each year by the Council as billing authority. Updated by the retail prices index (RPI) each year.
- **Section 31** – The Governments discretionary grant paying power under the Local Government Act 2003

- 24 The Medium Term Financial Strategy allows for an estimated increase in Business Rates due to Westgate re-opening in December 2017. Projected retained Business Rates income is shown in the Table 2 below:

	Total	Variation
	£million	%
2017/18***	6.817	53.40
2018/19	8.169	19.83
2019/20	9.263	13.39
2020/21*	8.710	(5.97)
2021/22	8.769	0.68
2022/23	8.828	0.67

*** Westgate development completed

* Fairer funding introduced

Fairer Funding Review and 75% Retained Business Rates

- 25 The Government is still committed to its Fairer Funding review alongside the 75% Business Rates retention system which will be introduced with effect from 1st April 2020. Under the retained business rates system the Council will be able to retain 75% of all business rates above the baseline, instead of paying 50% to the

Government. It is thought there will new burdens passed to local authorities in exchange for this change.

- 26 Although there is little information available it is understood that the 'fairer funding' review will seek to:
- Set new baseline funding allocations for local authorities,
 - Deliver an up-to-date assessment of the relative needs of local authorities,
 - Examine the relative resources of local authorities,
 - Focus initially on the services currently funded through the local government finance settlement

75% Retained Business Rates Pilot

- 27 On 1st April 2017 the Government launched five pilots of 100% business rates retention, which Ministers granted to areas with ratified devolution deals (Greater Manchester, Liverpool City Region, The West Midlands, Cornwall and The West of England). It was subsequently decided that London would become a 100% pool pilot in 2018/19 along with 10 other pilot areas. Oxfordshire submitted an application to become a 100% pool pilot but was not successful.
- 28 In a change to original thinking and the original pool pilots, the Government is planning to increase the level of business rates retained by local authorities from the current 50% to the equivalent of 75% in April 2020. In order to test increased business rates retention and to aid understanding of the transition into a reformed business rates retention system in 2020, the government invited local authorities in England to apply by September 2018 to become 75% business rate retention pilots in 2019/20. The Oxfordshire Districts and County Council submitted an application and estimated the potential gain to be £14.7 million across Oxfordshire. If successful in its application it is proposed that 70% of the gain is made available to support economic growth (£10.2 million) and that 30% is retained for financial sustainability of the Oxfordshire authorities (£4.5 million). The outcome of the bid is awaited.

Oxfordshire Business Rates Pool Arrangements

- 29 Should the bid for the 75% Retained Business Rates Pilot be successful then the current West Oxfordshire Business Rates Pool consisting of Oxfordshire County Council (OCC), Cherwell District Council (CDC) and West Oxfordshire District Council (WODC) will not be formed.
- 30 Oxford City Council is not part of the current Business Rates Pool as the Council's inclusion does not optimise the financial return to Pool members given the interaction of levy payments to Government. In order that the Council itself is not financially disadvantaged it is part of a Business Rates Distribution Group (the Group) with South Oxfordshire District Council which receives a distribution of growth achieved from the Pool. A recommendation to join the Group for 2019/20 is part of this report. Should the Pilot bid be awarded there will be no need for such an arrangement going forward.

New Homes Bonus (NHB)

- 31 The current methodology for the allocation of New Homes Bonus allows for the award to be given for 4 years. In addition from 2017 a national baseline for housing growth has been set at 0.4%, below which no New Homes Bonus is

payable. The Government consulted on changes to the New Homes Bonus allocation including increase of the baseline growth percentage and a withdrawal of the bonus from 1st April -2020 in favour of incentivisation based on the Housing Delivery Test (the percentage measurement of the number of net homes delivered against the number of homes required, as set out in the relevant strategic policies). The results of the consultation and the amount of new homes bonus the Council will receive going forward were due to be announced in the Provisional Finance Settlement, on 11th December 2018, although this announcement has since been delayed.

- 32 The Council uses New Homes Bonus to fund its Capital Programme in order to de-risk the Medium Term Financial Strategy. In the event that the grant is lower than estimated or ceases altogether then a mitigating action could be to reduce the Capital Programme.

Table 3 : Anticipated New Homes Bonus				
	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
New Homes Bonus	954	760	427	413
Percentage increase/(decrease)	(25)	(21)	(44)	(3)

Oxfordshire Place Based Housing and Growth Deal

- 33 In 2017 Oxfordshire councils and the Oxfordshire Local Enterprise Partnership (OxLEP) secured an agreement with the Government for an additional investment of £215 million over the next five years (£60 million for affordable housing and £150 million for infrastructure) to build infrastructure, deliver new homes and boost economic productivity across the County, £2.5 million for capacity funding and a further £2.5 million for work on the county wide Joint Strategic Spatial Plan (JSSP)
- 34 Since announcements of the deal in 2017 all Oxfordshire Councils have been working together to deliver the requirements of the deal against the timetables and work to date has included:

- **Joint Statutory Spatial Plan (JSSP)** – Project Sponsorship led by West Oxfordshire District Council and project management by this Council. Established budget in MTFs for £2.5 million over the next 3 years to give budget approval for spend which is funded by grant from the accountable body Oxfordshire County Council via the growth deal (see Appendix 3) .Agreed protocol for the approval to spend, incurring of cost and the monitoring of such spend
- **Affordable Housing** – Grant has been awarded in the sum of £60 million for the delivery of additional affordable housing over a three year period. Revised indicative targets for the numbers of additional affordable, socially rented and shared ownership dwellings to be delivered by each authority over the 3 year period have been agreed with Homes England. This Council will contribute by providing start on site numbers of 99, 169 and 420 over the period 2018-19 to

2020-21. Dwellings will attract grant depending on the tenure mix with those in Oxford expecting to attract grant of approximately £32 million in total. Houses will be delivered through Registered Providers although in the case of Cherwell District Council and this Council they are more likely to be delivered through Local Housing Companies.

- **Infrastructure** – Grant of £150 million has been awarded towards projects which unlock land and provide infrastructure to enable growth in Oxfordshire.

South Oxford Science Village – Grenoble Road

- 35 The vision for land at Grenoble Road outlined a considerable mixed use development which has since been promoted by Oxford City Council, Magdalen College and Thames Water. The estimated development value is around £1.7 billion and would provide for around 3,000 new homes, an extension to Oxford Science Park, retail, leisure and community space as well as schools and a hotel. The Council has been working with its partners on planning related issues and promoting the allocation of the site in the South Oxfordshire District Local Plan, the latest version of which has been recently published.
- 36 Budgetary provision has already been made for £780k which has either been spent or committed on planning related issues. There is a need to allocate a further amount of £600k to take the project forward in terms of development and property related work/agreements with our partners whilst ensuring the Council itself can take specialist external consultant advice as required. . At the appropriate time, it is envisaged that the Partners will enter into a Joint Venture Agreement. This additional £600k will be financed from the Council’s Capital funding reserve.

Supporting People in Poverty

- 37 The Council is committed to supporting people in poverty in Oxford and prioritises services which achieve this. Specific areas which are discussed in more detail below include:
- Hardship fund to assist universal credit claimants
 - Council Tax Support
 - Homelessness
 - Concessions for those on housing benefit or universal credit
 - Welfare Reform Team and Advice Agency Support

- 38 In total the cost of maintaining these services is around £5 million per annum.

Universal Credit

- 39 The roll out of universal credit (UC) commenced in Oxford on 18th October 2017 for all working age claimants that have changes to their benefit entitlement, replacing a number of existing benefits and tax credits. Only 791 claims have been migrated to UC at the moment which is lower than the Benefit Service and DWP predictions. More claims have been received for Council Tax reduction than expected, so the work levels in the service have increased since migration to UC has commenced. There are still a further 4500 claims to be migrated.

- 40 Impact in the Rents and Benefits Services has been considerable. The Benefit Service is receiving a significant amount of additional work, in relation to the number of claims that are UC. For the 791 claims received to date we have received 1523 notices from the DWP, some on which do not relate to the Councils caseload or have no impact on the UC claim.
- 41 In terms of rent collection the Incomes team are seeing a rise in arrears due to the delay in UC being paid to the claimant and the delay in putting Alternative Payment Arrangements in place.
- 42 The Government's October Budget made a number of announcements which will affect benefit/ universal credit entitlement including:
- That UC full migration for working age has been extended out from 2022 to 2024.
 - The Income Tax personal Allowance will rise to £12,500 from April 2019.
 - The National Living Wage will increase from £7.83 to £8.21 from April 2019.
 - Claimants who receive the Severe Disability Premium will not be able to move to UC.
 - The removal of the under 23 age restrictions will occur in December 2018.
 - From October 2019 the maximum rate at which deductions can be made from a UC award for overpayments will reduce to 30% from 40% of the standard allowance.
 - The Work Allowance in UC will increase by £1,000 per year from April 2019
 - There will be a Grace Period for Self-Employed earners
- 43 The Council holds a hardship fund of £25k as a supplement for gas/electric and food advance payments made by DWP pending the processing of the claim. The spend from the fund is minimal partly because of changes to the UC scheme announced last year by the Government that a full month's advance payment would be made to claimants within five days of applying for UC.
- 44 The Springboard Service which is part of the Welfare Reform team provides additional support to claimants who need to claim UC and require additional funding through Discretionary Housing Payments. The DWP has however recently restricted grant funding of this service to the Citizens Advice Bureau and consequently the amount of input by the Council will be reduced accordingly.
- Council Tax Support**
- 45 At the City Executive Board on 18th September 2018 members considered proposals to consult on changes to the existing Council Tax Reduction Scheme introduced on 1st April 2013. It is estimated that the scheme will cost the Council £1.7 million in 2019/20 when Revenue Support Grant is reduced to zero. Most local authorities have reduced the support available to charge payers, in order to reduce the cost of the scheme. Oxford is one of only 37 authorities who have not reduced the support available but they did agree to consult on the following areas:
- The updating of the income band scheme for those applicants on UC to ensure that no-one has to pay more council tax as a result of receiving a small pay rise

- The minimum income floor for self-employed people

46 Members of the City Executive Board will receive the results of the consultation and the revised scheme to approve at their meeting in December 2018.

Homelessness

47 In 2018-19 the cost of providing funding for rough sleeping, single homelessness commissioning, street outreach team, day centre provision and prevention activity is estimated to cost around £1.5 million. Home choice and the private sector leasing scheme cost a further £1million net of income. As one of the Councils key priorities this spend represents approximately 11%-12% of the Council's net expenditure.

48 Funding for the spend is derived from a number of sources

- Rough sleeping grant – currently around £500k per annum this will end in 2019-20
- Flexible homelessness support grant- currently around £600k per annum. Announcements from Government have only confirmed grant of £755k per annum up to 2019-20 although it is assumed that this will continue albeit at a lower level of around £500k per annum due to potential changes in the eligibility formula.
- County Council commissioning – currently around £161k but predicted to rise with confirmation expected in December 2018.
- Homelessness reserve - £2.8 million at 1st April 2018

49 Whilst there are a number of scenarios that could materialise it is estimated that at the current level of spend with no further Government contributions the homelessness reserves will be substantially exhausted at the end of the MTFS period, sooner if County Council contributions do not continue or Flexible support grant discontinues. Choices will need to be made once the reserve is exhausted as to the level of spend on homelessness going forward and the situation will be monitored and updated accordingly.

Fees and Charges Concessions

50 Customers across the organisation are in receipt of means tested benefits and these are being used as qualifying criteria for additional or free council services. The introduction of UC means that many of the benefits and allowances that customers currently receive will be incorporated within the UC single payment but this will not affect the concession that they currently receive, simply how they claim it.

51 With effect from 1st April 2019 in order to reflect the migration of housing benefit claimants to Universal Credit the Council will make it easier for eligible customers to claim discounts by giving concessions for those in receipt of council tax reduction support and the housing element of UC. A summary of the concessions given is shown below:

Leisure Services –

Estimated cost of concession - £100k per annum

The concession is given for various leisure activities including free Swimming for children under 17 at various sessions during the week at a cost of approximately £50k per annum.

The Council is currently considering concessions for further groups that may not be in receipt of Council Tax Support or the Housing element of UC.

Garden Maintenance

Approximately 400 tenants were assisted throughout the year with garden maintenance, to a cost of approx. £110,000; the tenant must be in receipt of Council Tax Reduction Support or the Housing element of UC.

Pest Control

Approximately 2,700 customers in 2017/18 year received concessions of £120,000 for various discounts such as treatment of pests.

To qualify for an Environmental Services concession applicants will advise of such when booking a visit, and must provide evidence of their award of a qualifying benefit (Council Tax Reduction Support, or the Housing element of UC) such as the award letter or evidence of payments to their bank account at the initial visit

Garden waste

Garden waste collection is provided to customers without charge who are on Council Tax Reduction Support or the Housing element of Universal Credit. There are approximately 15,500 garden waste customers and 2,625 (17%) who are provided with the service for free resulting in a subsidy of around £131k per annum.

Section B General Fund Revenue Budget

52 In February 2018 Council agreed a balanced budget for the four years of the Medium Term Financial Strategy 2019/20 to 2021/22. The Strategy including all income and expenditure and planning assumptions have been reviewed and updated to produce the revised strategy covering the four year period to 2022-23.

53 The Budget Strategy included:

- All Heads of Service to identify efficiency savings of 2% on gross spend over the four year planning period together with increased income from fees and charges of 3%
- Service redesign to achieve efficiencies
- Investment in ICT especially software security, mobile working and the electronic agenda
- Analysing General Fund/ HRA recharges
- Income generation especially from planning, building control, town hall, Oxford Direct Services and Oxford City Housing Ltd

Targeted Reviews

54 To drive the budget strategy officers initiated a number of 'targeted reviews'. The reviews have challenged current working practices for a number of services and have also undertaken analysis on significant items of income and expenditure in the budget. Specifically these reviews have included :

- **Community Centres** – The Council has been working to identify the likely maintenance costs of its community centres in the medium and long term, bearing in mind that several are of a similar design to the Bullingdon Community Centre, where urgent action has been needed. The aim is to develop a sustainable plan for its community centres into the medium and long term.
- **Development Control**
 - Initiated review and improvement project with a view to reducing staff turnover, stabilising workforce, reducing the cost of agency staff and introducing software to reduce processing costs. This project has begun and is expected to lead to improved productivity and potentially net cost reduction in future years.
 - A second initiative is to enter into contracts to deliver a customised planning and pre-app service to larger developer clients.
- **Regulatory Services** - Bringing environmental health inspections to national target levels in line with Food Standard Agency advice and developing national policy. This frees up half a vacant post and saves £22k.
- **Business Process Automation** – A pilot project is to be undertaken in Financial Services to establish 'proof of concept' and establish cost savings. The initial saving is projected to be £50k per annum. If successful roll out to other service areas will be undertaken and further savings identified.
- **ASBIT and Community Response Team**– Officers are proposing a review to demand management in this area of work.. In the short term overlaps in service provision will be resolved by a charge on the HRA, with a service redesign exercise to be undertaken –savings £165k per annum to the General Fund.
- **Property Investment** – review identified a number of areas including :
 - Current portfolio of property is 85% retail and Council should develop an action plan to rebalance the portfolio
 - Returns from additional direct property purchases are considered insufficient to cover borrowing costs, but there will be opportunities to invest in future years
 - The risk of reducing income from the Council's retail holdings requires the inclusion of a void loss estimated at £300k per annum
 - The best option for increasing returns to the Council is to purchase more equity in indirect property funds. Notwithstanding the risks of property investments, included in the MTFS is additional income from those investments of £300k per annum from 2020-21.

- **Building Control** – requires action to stabilise the workforce, recruit to vacancies and reduce agency costs. The proposal is to seek to commercialise the business to increase revenue back to the Council recognising that the default position is to reduce the service to provide only the statutory minimum and reduce cost. Work is still ongoing on this work stream.
- **Leisure Centres** – Changes in the leisure industry have led the Council to initiate a review of the service with the Council’s current provider to ensure that it can maintain standards and mitigate financial risks.
- **Grants to external bodies - Experience Oxfordshire (EO)** – Current support given to EO is £78k grant and £95k support in respect of City Council property occupied by the organisation. The proposal is to taper support over the next 3 years.
- **Car Parking** – Review of income trends and information in respect of off street car parks, Park and Ride, proposals for the future of the temporary car park at Oxpens
 - Car parking income is forecast to significantly reduce in the current financial year 2018-19, specifically on Worcester Street and Oxpens, by around £700k per annum. This is expected to continue in the MTFS projections. Car park income generally is expected to fall in the longer term as demand management is implemented. This is a risk to the council’s finances going forward and will require careful handling to mitigate risks in funding.
 - The Council has recently negotiated a licence to occupy and operate land at Oxpens as a car park following its sale to the development joint venture Oxwed. The licence expires on 20th January 2019 and it also states that the decking must be removed (in accordance with planning requirements) and the land reinstated to its previous condition no later than 30th June 2019. The Council is currently negotiating with Oxwed over the extension of the car park in its reduced form until the land is required for development.
- **Oxford City Housing Ltd (OCHL)** – Recent Government announcements on lifting the HRA borrowing cap for all UK local authorities offers the authority options for future Housing Development, since it can be done either in the HRA or through OCHL, with the latter bringing potential significant financial benefits to the Council’s General Fund. Options being considered by officers and members include :
 - undertaking all development in OCHL and selling or leasing social housing to HRA
 - undertaking all housing development in HRA and
 - undertaking all social housing development in HRA and market housing in OCHL

More information is contained below on the current planning assumption included in the Consultation Budget, but this is the subject of active review..

Local Authority Trading Company – Oxford Direct Services Ltd.

55 On 1st April 2016 the Council established a wholly owned local authority trading company for services provided by Direct Services at that time. The company takes the form of:

- A Teckal company (Oxford Direct Services Ltd)– providing all statutory services to the Council benefiting from a procurement exemption together with externally traded services for engineering, motor transport and building works
- A Trading Company (Oxford Direct Services Trading Ltd) – providing externally traded commercial waste services

56 The company became operational from 1st April 2018 and around 600 staff were TUPE transferred to the company.

57 The Company is paid at cost plus 5% for delivering services to the Council and the Council will be paid under a similar arrangement for support services delivered to the company. Surpluses in the form of dividends are paid from the companies to the Council which in the latest business plan has increased significantly as follows:

	£000s	£000s	£000s	£000s
	2019-20	2020-21	2021-22	2022-23
Last year's MTFP	1,547	1,891	1,970	1,970
Revised MTFP	1,552	1,895	2,171	3,136
Additional surpluses	2	4	201	1,166

58 ODS has developed a plan that delivers significantly more value back to the shareholder and the communities the Council supports focussing on a number of key themes:

- Making better use of the Council's assets
- A modern, lean and agile operating model
- Achieving high levels of customer satisfaction
- Building capacity and capability to cost effectively and safely deliver a substantial part of the Council's capital programme
- Delivering sustainable growth in the City
- A great work force and place to work
- Delivering social value to the City's communities

59 From the completion of its plan the company would then operate at a much improved level of efficiency and productivity driving continued value for money for the Council and forming a platform for continued external growth.

- 60 This would be achieved through a combination of improved productivity, efficiency, the delivery of more capital works (in particular linked to the Oxfordshire Housing and Growth Deal) and continued growth of the trading activity.
- 62 The additional dividends require a commitment from the Council for Oxford Direct Services (ODS) of a significant part of the Council's capital programme over the 4 year planning period, together with increased investment from the Council of £14.8 million to support infrastructure and transformation in the following areas:
- £1.6m transformation and restructuring costs
 - £1.8 million for 73 vehicle purchased to reduce the size of the grey fleet
 - £1.2 million for ICT including Customer Relation Management (CRM) software, mobile working devices and applications, customer insight analytics and reporting and management information software.
 - £11 million for modernisation of depot and office facilities
 - Recycling transfer station £3 million
- 63 All assets are purchased by the Council and leased to the Company, which is repaid to the Council inclusive of 7% interest charge over the life of the assets. The majority of these costs are in turn recovered from the Council through the charges for statutory services via ODSL, the Teckal company.

Planning Assumptions

- 64 The following planning assumptions are included within the Medium Term Financial Strategy:
- a) **Base Budget** - The starting point for financial planning is the 2018-19 base budget position as agreed by Council in February 2018, adjusted for any one-off savings and growth.
 - b) **Council Tax Increase** – The current assumption is for a 2.99% rise in 2019-20 the second and final year of the increased level at which no referendum is required, after which this level drops back to 1.99%
 - c) **Investment Interest** – The Bank of England base rate is 0.75% with gradual limited rate rises predicted in the future. Forecasts of interest rates in the MTFS range from 0.7% to 1.3% for the next four years excluding property funds. The Council currently benefits from a number of property investments :
 - **External Managed Property Investments** – The Council has £10 million invested in two funds. The Council makes a return of around 3.5% plus any increase in the capital value. Within the budget an additional amount of £10million has been assumed to be made in similar type funds.
 - **OxWed Development** – The Council has made loans of approximately £10.6 million into its 50/50 Joint venture with Nuffield College which attracts a return of 6.5%. In November 2018 and additional loan of £4.1 million was made to the JV at a similar interest rates in exchange for a capital receipt of £8million for the sale of land at Oxpens.

- **Housing Company** – The Council provides state aid compliant loans to its wholly owned company Oxford City Housing Ltd and makes a return above that which it borrows from PWLB. The Council has already made available approximately £1million of loans to the Company in respect of the acquisition of properties from the HRA in 2016-17 and 2017-18. Over the next 5 years an amount of approximately £55million is assumed to be advanced to the Company, £31million in respect of properties to be purchased from the Barton Development and the balance in respect of other house building and renovation schemes to be undertaken by the company. All loans will continue to be at state aid compliant rates, which for social housing activity is 1% over the PWLB rate and for non-social housing at 4% above PWLB. Interest currently included in the Councils MTFs over the next four years is approximately £1.6million and is dependent on the Company undertaking the developments and consequently drawing down the loans which are currently competitive in the market.
- d) **Inflation** –Most budgets are cash limited. Over the period CPI is expected to increase to 3% which could squeeze budgets harder. The base budget has been increased by an amount of £213k by 2022-23, mostly in ICT relating to software licence increases.
- e) **Pay Assumptions** – April 2019 is the second year of a three year pay agreement. The agreement allows for increases in October each year based on the higher of 1.25% or £500 plus a spinal point increase on 1/10/2019. Inflationary increases have been allowed for thereafter. There will be further negotiations with our trade unions in this area.
- f) **Pensions** - The Medium Term Financial Strategy includes an increase from the current contribution in line with pay inflation increases. The next triennial review will be with effect from 1ST April 2020.
- g) **Increases in Fees and Charges** –Fees and charge income is projected to increase by around £2million per annum by 2022-23 inclusive of income from Oxford Direct Services. Details of specific fees and charges increases in 2019-20 are given in Appendix 8 with summary details below:
- ix. Garden waste bins - £2 per bin per year (4.26%)
 - x. Pre-application advice for planning services - £83.50 - £650 (10% - 20%)
 - xi. Leisure activities
 - Sports - 50p -£1.50 – (3% to 4%)
 - Summer activities – £0 - £50p- (0% -7.7%)
 - Casual Swimming – 10p (2.1%)
 - Adult gym – 40p (4.7%)
 - Adult Skating - 20p (2.4%)
 - xii. Pest Control increases - £1 - £2 (2%-3%)
 - xiii. Cemeteries adult right of burial £30 (3.1%)
 - xiv. Off street Car Parking – No increase for 1-2 hours but increases of 12.5% to 25% for longer stays in city centre car parks. Park and Ride charges will be frozen.
 - xv. Garages – 50p per week (3.2%).
 - xvi. Annual General licences –£1 - £10 (3% -4%)

- h) Capital Financing** - Capital financing for the draft Capital Programme is detailed in Section D. The four year Medium Term Financial Strategy assumes £11.2 million of revenue contributions will be made to finance vehicle replacements and ICT software and hardware over the period together with income arising from New Homes Bonus estimated at around £2.5 million over the 4 years. Any reduction in New Homes Bonus that is announced in the Finance Settlement will increase the pressure on the revenue account.
- i) Planned Repairs and Maintenance** – £2 million per annum for planned maintenance to Corporate Buildings. At the end of the 4 year period the backlog of repairs and maintenance is estimated at around £2.6 million
- j) Contingencies** – The Council has had a good track record of delivering within budget over the past few years and contingencies held against high risk savings have usually been underspent. There are significant increases in income, especially arising from dividends from ODS and interest for OCHL. From 2019 onwards the amount of such contingencies is not prescriptive and has been included as follows:

Table 5 : Contingencies held against efficiencies, service reductions and fees and charge increases				
	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
Total cumulative Savings and increased fees and charges in plan	1,970	2,881	3,194	4,313
Cumulative contingency in MTFS	41	148	408	508
% of total savings covered by contingency	2.1	5.1	12.8	11.8

- 65 Set against a background of uncertainty new items of ongoing revenue expenditure are limited and total around £1 million per annum. These are shown in Appendix 3. The most significant being:

Growth

- **Homelessness - £200k** – This implements an increase in the budget towards the costs of homelessness agreed last year; it is confirmed that it will commence in 2019-20
- **Project Management office and Development Team - £375k –5 FTE posts.** Funding has been derived from existing vacancies in Property services and restructuring within Business Improvement in addition to an additional £100k. The aim of the new PMO is to implement new ways of working, encourage collaboration, connecting people and projects together, and encourage quality documentation to support good decision-making. It will also support improved profiling of spend, better procurement processes

and most importantly, a consistent approach to programme management. The Development Team will work across Council Services to lead on the delivery of major projects as well as building internal capacity to deliver projects in going forward through mentoring and coaching. All these changes will lead to organisational efficiencies, better targeted capital spend robust procurement practices and the delivery of quality projects on time and to budget.

- **City Centre Co-ordinator - £40k for 2 years** – temporary increase in staffing for the city centre from 1 FTE to 2 FTE reflecting the increased intensity of work to city centre retail businesses and work to city centre infrastructure.
- **Equalities action plan - £140k** – sponsoring professional qualifications for BAME employees and developing a programme for the employment of BAME recruits across a number of services in the council, funded from vacancies that arise from the existing staffing establishment
- **Planning establishment - £100k** – an additional 2 FTE posts funded from increased planning income
- **Cycle infrastructure - £250k over next four years** – contribution to improvement to segregated cycle lanes and more cycle parking linked to CIL budget
- **Accessible app – £34k one off** - this app will allow people with a disability to check whether venues in Oxford are suitable for their needs, greatly increasing accessibility of the city.
- **Drinking fountains - £23.7k over next 4 years** – installation of drinking fountains in 3 parks, as part of the realisation of the administration’s manifesto commitments in this area
- **Margaret Road play equipment - £16k** – to fund play equipment for under 5’s at Margaret Road, close to Quarry Pavilion, in recognition that this reflects strong local need.
- **Additional international links resource - £22.8k in 2019-20 and £17k thereafter:** This will ensure that the City Council is able to meet its commitments to the growing number of twinning links and other international partnerships, which is a particular priority following the referendum decision to leave the EU. The focus will be on ensuring that these activities are accessible to those who would not otherwise be able to take part in this.
- **Leisure access for homeless pathways clients - £4.5k per annum**
- **Creche at Ferry Leisure Centre pilot –£10.5k one off.** This will be a pilot project to run a crèche at the Ferry Leisure Centre, making childcare available there for the first time.
- **Living wage promotion - £20k one off.** The City Council already embraces an Oxford Living Wage for its own staff and contractors, but wishes to do more to support its leadership role. An accreditation system will be established for businesses who pay the Oxford Living Wage, a logo will be produced, and celebration events will be held with businesses who become accredited – this will cost around £10k, and an additional £10k is set aside for matched funding of a position, in partnership with the third sector, to promote the living wage in Oxford.

66 The Council's General Fund Budget for Consultation is set out in Appendices 1, 2 and 3 attached and summarised below:

Table 6 : Summary General Fund Medium Term Financial Plan 2019/20 to 2022/23				
	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
EXPENDITURE				
Base Budget	23,888	23,888	23,888	23,888
Efficiencies	(594)	(1,305)	(1,557)	(1,667)
Fees and Charges	(648)	(908)	(1,113)	(2,112)
Target reviews	(255)	(440)	(560)	(570)
Inflation & other pressures	1,855	1,451	1,397	1,450
Revenue Contributions	3,725	3,035	2,160	2,313
Net interest	(2,948)	(3,212)	(3,169)	(3,612)
Corporate costs including MRP, pay	(515)	1,480	2,889	4,297
Contingencies	40	148	408	508
Transfers to/ (from) reserves and working balances	(373)	(292)	(339)	-
Net Budget Requirement	24,175	23,847	24,004	24,495
FUNDING				
Council Tax	(13,956)	(14,376)	(14,808)	15,253
Revenue Support Grant	-	-	-	-
Retained Business Rates	(9,263)	(8,711)	(8,769)	(8,828)
New Homes Bonus	(954)	(760)	(427)	(413)
Total	24,175	23,847	24,004	24,495
Surplus/ (Deficit)	0	0	0	0
GENERAL FUND WORKING BALANCE	4,131	3,839	3,500	3,500

Key

- **MRP – Minimum Revenue Provision** – A charge made to revenue in respect of the cost of borrowing to fund the Capital Programme.
- **NHB – New Homes Bonus** - This grant is given for a four year period based on new dwelling completions in year.

Use of Working Balances

67 The budget assumes transfers to and from the working balance which as at 1st April 2018 were £4.006 million. Over the four year period of the MTFs assuming delivery as planned, the balances are reduced to £3.5 million, a level which is considered by the Head of Financial Services to be prudent, given the level of risk and the levels of reserves held by the authority.

Risk Implications

- 68 The main risks to the balanced position of the General Fund consultation budget (Appendix 8) are that:
- Adverse reaction of businesses and property to Brexit
 - Homelessness reserve is exhausted at a faster rate than anticipated
 - Failure of major partner for instance Leisure
 - Variations of actual income and expenditure against budget especially in volatile areas such as income and property investments
 - Pay negotiations are more than budgeted from April 2021 onwards
 - Trading companies do not perform as well leading to reduced income to Council
 - Business Rates income is lower than forecast
 - Welfare Reform impacts the authority more adversely than assumed
 - Outcome of New Homes Bonus consultation is not as favourable as assumed
 - Interest rates higher than projected
 - Company investments do not materialise
 - Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS

Section C Housing Revenue Account Budget

Background

- 69 The largest fundamental change to the operation of the HRA relates to the debt cap, the control on the amount borrowing that can be undertaken through the HRA for the financing of local authority capital expenditure. The debt cap which restricts the authority's ability to borrow to finance capital expenditure was first introduced for all stock retaining authorities in April 2012 as part of the local government self-financing reforms. The cap which is calculated based on the previous Housing Subsidy system for Oxford City is approximately £240 million. Together with the self-financing payment of £198 million and other borrowing to finance capital spend this level had been reached and further increases in borrowing to finance capital expenditure were only possible if funded from capital receipts or revenue contributions.
- 70 In September 2018, Oxford City Council bid for an additional £84.3m of borrowing in its HRA over 2019/20; 2020/21 & 2021/22. This bid consists of a programme of nearly 500 new affordable homes over 23 sites. This bid excluded the affordable units at Barton Park due to their ineligibility. It was envisaged that these social rent units would be retained and managed within Oxford City Housing Ltd.
- 71 On 3rd October 2018, the Prime Minister announced at the Conservative Party conference that her intention was to remove the debt cap entirely for all stock owning local authorities. On 18th October, the Secretary of State for Housing, Communities and Local Government wrote to all stock owning Local Authorities to indicate that this was likely to be undertaken through government determinations on 30th October 2018, the day after the chancellor's Autumn Statement. The determinations were actually submitted on the day of the budget, namely 29th October 2018.

72 The removal of the debt cap allows local authorities who have a retained HRA to finance the acquisition of new build housing for the first time in many years and in Oxford City Council given its wholly owned company Oxford City Housing Ltd (OCHL) it has a readymade delivery vehicle that allows a number of options to be considered namely:

- To undertake all housing development in the HRA
- To undertake all housing development in OCHL and
 - Lease back social dwellings to the HRA or
 - Sell social dwellings back to the HRA
- A mix of the above

73 The Council is currently considering the financial implications of these options together with the implications and respective advantages and disadvantages of each scenario. Any decisions made will be incorporated into the Budget when it is presented to Council in February 2019.

Key assumptions made in preparing the HRA budget for 2019/20 – 2022/23

- **Rent setting** – In 2002 the Labour Government introduced a rent convergence policy under which, over a 10-year period, rents in social housing (local authority and housing association owned stock) were to be brought into alignment. A rent formula was established with actual rents moving towards a national formula rent which took account of values of properties and local earnings relative to national earnings. As part of the 2013 Spending Round the Coalition Government announced that “from 2015-16 social rents will rise by CPI plus 1 per cent each year for 10 years .The Welfare Reform and Work Bill introduced a policy with effect from April 2016 that social housing rents must be reduced by 1% per year for 4 years from their 8 July 2015 position.
- In 2017 the Government announced that from 1st April 2020 guideline rents could be increased by CPI +1% for a period of 5 years and the Council set a budget that increased formula rents from 2020/21 and beyond by 3% i.e. 2% CPI +1% and actual rent rises of 4% moving closer to rental convergence.
- The Government however have announced in their Green Paper that they would like to hand over the oversight of local authority housing activity to the current housing regulator Homes England from April 2020 and are also proposing rents would rise by CPI plus 1%. The Government have consulted on the matter and Oxford City Council did respond as the prospects of being able to converge under these proposals would be removed indefinitely. The financial impact over a 30 year Business Plan timeframe amounts to a loss of around £50 million. The effect on average weekly rents over the next few years is shown below :

Table 7 : Effect of Rent Changes on Average Rent 2019/20 to 2022/23				
	Actual Average Weekly Rent			Formula Rent
	Change	Change	Average weekly Rent	
	%	£	£	
2019/20	(1.00)	(1.03)	102.26	107.34
2020/21	3.00	3.07	103.73	110.56
2021/22	3.00	3.16	107.92	113.88
2022/23	3.00	3.25	112.18	117.30

- **Debt Management Strategy**

The first £20m PWLB loan of the £198 million self-financing debt was due for repayment on 31 March 2021. Last year it was agreed that this payment would be deferred. This decision would generate an initial saving of £20m offset by the additional annual interest cost of approximately £0.658m per annum. The debt redemption strategy is to repay debt when financially possible allowing for known commitments whilst maintaining minimum HRA working balances of £3.5 million. Further loan repayments of the self-financing loan will recommence in 2025-27

- **High Value Council Housing Levy**

In August 2018 the Government confirmed that it will not go ahead with the 'higher-value asset levy' first announced in 2015. The policy would have required councils to make an annual payment to Government, to be recouped through the sale of higher-value homes as they became vacant. The Council had estimated this could equate to £7 million per annum and had accounted for this previously. This provision will now be removed following the Government's announcement.

- **Right To Buy and other disposals**

Disposals of around 40 dwellings per year continue to be assumed. Additionally, the plan allows for 5 properties to be transferred to the Housing Company which the Council is able to do without the Secretary of States approval under Section 32 of the Housing Act 1985 (as amended) and set out in the MHCLG's General Housing Consents.

- **Inflation and pay assumptions**

All the assumptions for inflation are the same as for the Council's General Fund. The base budget has increased by a further £279k by 2022-23

- **Service Charges**

Service charges such as caretaking, cleaning, CCTV, communal areas etc. will be increased in line with actual costs

Working Balance

- 74 The working balance levels allow sufficient monies for the funding of future years' Capital Programme, the repayment of the debt, as well as an amount of £4 million

as being the minimum required to cover unexpected events such as falling investment income or increased costs. Pending the decision on new build as discussed above surpluses over the life of the Business Plan are predicted.

New investment Proposals

75 Increased HRA revenue expenditure is shown in Appendix 3 with the more significant items being as follows:

- **Communal area cleaning - £120 per annum** –staffing and vehicle costs for cleaning for new developments and to improve standards to existing stock.
- **Income Officer - £41k** one additional post in income collection and administration to deal with increased work arising from Universal Credit and to maintain income collection performance.
- **Tenant involvement - £35k per annum** -1 FTE for involvement in the Tenant ambassador programme
- **Housing Development staff - £35k** – 1 additional post to assist in day to day administration in view of the increasing new housing development
- **Anti-social behaviour and community safety £80k for 2 years** – The ASBIT and community safety team are undertaking additional work on council estates and this is a truer reflection of the costs of this work. In the short to medium term a review of the service will seek to improve its efficiency with a resulting reduction in cost
- **Housing System support team - £164k per annum** – a small team of 3 staff will be created to continue to support the new Housing Management ICT system which will go live in May 2019 to ensure the organisation continues to exploit system capacity.
- **Planned maintenance - £576k per annum** – increase to flooring, painting and external joinery and solar panel maintenance
- **Service contracts - £55k** cleaning to cladding and sprinkler maintenance in tower blocks
- **Revenue funding of capital programme - £465k** ongoing to maintain windows, kitchen and bathroom replacement and rewiring programmes.
- **Feasibility studies and stock condition survey** –one off £250k to inform future investment planning
- **Energy efficiency initiatives** – one off £250k on energy saving schemes linked to Salix funding

Housing Revenue Account Budget 2019/20 to 2022/23

76 Appendix 4 details the HRA Budget for the period 2019/20 to 2022/23 which is summarised below:

TABLE 8 HOUSING REVENUE ACCOUNT	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
Income	(43,162)	(43,426)	(44,505)	(45,606)
Expenditure	40,544	40,878	41,931	42,571
Net Operating Expenditure	(2,618)	(2,548)	(2,574)	(3,035)
Appropriations	-	-	-	-
Investment income	(54)	(50)	(89)	(121)
(Surplus)/Deficit for the Year	(2,672)	(2,598)	(2,663)	(3,156)
(Surplus)/Deficit b/fwd	(7,448)	(10,120)	(12,718)	(15,381)
(Surplus)/Deficit c/fwd	(10,120)	(12,718)	(15,381)	(18,537)

77 The Housing Revenue Account shows a stable financial position over the next four years. The HRA working balance escalates considerably beyond the £3.5million prudent level to maintain which will provide resources to meet the self-financing debt repayments and or resources for further housing related projects.

Risk Implications

78 The main risks to the balanced position of the HRA are summarised below and detailed in Appendix 8:

- Increased arrears due to benefit changes arising from the roll out of Universal Credit
- Non-achievement of assumed Right to Buy sales now required to fund increased capital spend commitments.
- Non-achievement of planned efficiencies.
- Variations in estimates causing cash flow problems

Section D Capital Programme

General Fund Capital Programme

79 In recent years the Council's Capital programme has been subject to additional internal scrutiny to increase the robustness of the estimates for schemes that have been included. The current General Fund Programme, shown in Appendix 6, amounts to around £119 million over the four year period. Significant items include the Museum of Oxford £2.3 million, Seacourt Park and Ride extension £3.2 million, community centre improvements £4.6 million, Disabled Facility Grants £4 million, car parks resurfacing and improvements £1.1 million, ongoing renewal of council vehicles £10.6 million, £45 million loans to companies, investment in ICT £1.7 million, purchase of properties at Barton £26 million and purchase of homeless properties £2.5 million.

- 80 Some schemes such as George Street £9.6 million and HRA new build at East Oxford £10.6 million have yet to reach feasibility stage and will require further work and a change in the budget before they move to build phase. Likewise the projects below provide an initial indication of costs subject to feasibility and whilst they have been included in the capital programme and funded they are likely to be subject to change.

Table 9 : Provisional General Fund Variations to Capital Budget				
	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
New Bids				
ICT (1)	720	60	68	-
Oxford Direct Services				
Food waste truck (8)	125	-	-	-
Electric vehicles- impact of ZEZ (6)	293	508	424	302
Cuttslow compactor	39	-	-	-
Redbridge compactor	23	-	-	-
Parks pathways	91	78	-	-
Recycling Transfer station (2)	1,000	2,000	-	-
Transformation funding (2)	800	400	400	-
Additional fleet (2)	600	1,200	-	-
Depot and office modernisation	1,000	7,000	-	-
Redbridge parking (7)	1,685	-	-	-
ICT and Fixtures and fittings (2)	-	1,200	-	-
Sub total	5,656	12,386	824	302
Other				
Oxford Flood Alleviation Scheme (3)	250	-	-	-
Covered market stalls (4)	505	-	-	-
Bullington Community centre (5)	800	-	-	-
Cycling infrastructure	70	60	60	60
Sub total	1,625	60	60	60
Total General Fund New bids	8,001	12,506	952	362

Notes:

(1) **ICT** – Provision of software for mobile working, software security and robotic process applications

(2) **Investment in Oxford Direct Services** – See paragraph 54-55 -£14.8 million of investment in infrastructure for Oxford Direct Services, which will be leased back to the company by the Council

- (3) **Oxford Flood Alleviation Scheme** – In 2017 the HM Treasury gave Outline Business case approval for a flood alleviation Scheme for Oxford costing an estimated £121million. This was to be funded primarily through Government grant of £65.7million and a grant from the Regional Flood Committee. Local “Partnership” funding made up the balance including contributions from the County Council, the Local Enterprise Partnership, Thames Water PLC and Network Rail., Oxford City Council had already contributed around £1.5 million cash and £600k land including the donation of land. Recent tenders received for the works have identified a further shortfall of £20 + million of which Oxford Council will be requested to contribute a further £250k
- (4) **Covered market** –To avoid lengthy voids, which incurs both cost and periods of no income, works are proposed to increase marketability and thus shorter void periods
- (5) **Bullingdon Community Centre** – The existing capital programme includes an amount of approximately £500k in respect of refurbishment costs to Bullingdon Community Centre. The initial estimate appears inadequate to undertake the works based on current estimates and a further £800k is required if the works are to be completed in full
- (6) **Electric Vehicles** – The Council’s zero emissions policy, to be implemented progressively from 2020, is expected to place restrictions on the movement of petrol and diesel vehicles, initially in the central area and then more widely.. The cost of changing the ODS fleet operating in the central area to electric mode is estimated at £1.5 million. The Council has recently bid for Government funding which would cover the total cost of these vehicles.
- (7) **Redbridge Car parking** – Plans are currently being drawn up to relocate the decking from Oxpens car park to Redbridge. The decking will mitigate any loss of car parking spaces arising from flood alleviation works, the construction of the recycling transfer station and associated infrastructure.
- (8) **Food waste collection vehicle** –Food waste collection is nearing capacity of current fleet due to increased volumes collected, and an additional vehicle is required to optimise routes and avoid potential costs of residents diverting food waste to general waste bins resulting in more expensive disposal (3 times the cost).

81 Funding of the Programme is by revenue £18.5 million (13.3%), Capital Receipts £36.2 million (26.1%) Community Infrastructure Levy and Section 106 £5.5 million (4.0%), borrowing £71.8 million (51.7%) and Government Grants and third party contributions £6.8 million (4.9%). All revenue costs have been included in the General Fund revenue budget.

Housing Company

82 In March 2016 the Council approved the establishment of a Local Authority housing company that was incorporated in June 2016. The Company Business Plan approved at a City Executive Board meeting in December 2016 set out plans to undertake, the purchase and management of affordable rented homes at Barton, the development of new affordable and market housing, the purchase of 5 void properties per annum from the HRA and estate re-generation in The Leys and Barton.

- 83 The Company purchased 5 properties in 2016/17 and a further 3 in 2017-18. In 2018-19 the company is forecast to borrow an additional £10.2 million in respect of further property purchases and extension work to those properties. At this point borrowing from the Council will total approximately £11 million. All properties purchased by the company have been subsequently leased back to the Council for the housing of homeless families.
- 84 The Council lends money to the Housing Company at state aid compliant rates of interest using its prudential borrowing powers with the company repaying the council either based on an annuity or overdraft method. Loans already approved to the Housing Company and included in the Council's capital programme are as follows:

Table 10 : Loans to Housing Company					
	2018/19	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's	£000's
Barton Phase 1	6,667	5,737	223		
Barton Phase 2	-	-	5,614	6,998	7,294
Property extensions	3,721	-	-	-	-
Property acquisitions	850	930	900	900	900
Sandy Lane	-	-	2,000	15,437	-
Total	10,280	6,667	9,710	23,335	8,194

- 85 Gross interest margins net of borrowing costs on the amount of loans is estimated to be approximately £1.6 million by 2022-23.

OXWED

- 86 The Council has a 50/50 partnership with Nuffield College to undertake the development of the land at Oxpens. The Council approved loans totaling £6.5 million as its 50% share of the cost of purchasing land for London Continental Railways in December 2017 and in November 2018 approved another £4.1 million as its 50% of additional land purchased from the Council, for which the Council was paid £8million. The loan investment rate is 6.5%. In addition, loans have also been approved to fund working capital of £150k up to March 2018. Nuffield College has matched the loans given by the Council.
- 87 Oxwed is currently considering bids from suitable organisations to be the development partner for the Oxwed site, the results of which will be known shortly.

Housing Revenue Account Capital Programme

- 88 The draft HRA Capital Programme is intrinsically linked to the HRA Business Plan since the resources to fund the Programme are largely generated through housing

rents. Appendix 6 shows the existing HRA capital programme over the next 4 years totaling £49.9 million including significant items of spend such as disabled adaptations £2.6 million , improvements £4.3 million, kitchens, bathrooms, electrics and heating £20.8 million, estate improvements £8.3 million, HRA new build East Oxford £10.3 million, void repairs £1.7 million and energy works £1.4 million. Additional capital bids include:

Table 11 : HRA Variations to Capital Budget				
	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
New Bids				
Fire doors	200	300	400	500
Stock condition survey	250	0	0	0
Total	450	300	400	500

- 89 The financing of the HRA Capital Programme is from Revenue £40.5 million, Capital Receipts £9.3 million

Risk Implications impacting the Capital Programme

- 90 The main risks to the Capital Programme are set out in Appendix 8 and summarised below:

- Right to buy disposals as detailed in the assumptions are not as forecast causing a shortfall in funding of schemes
- Slippage in Capital Programme and impact on delivery of priorities
- Robustness of estimates

Budget next steps

- 91 The timetable for consultation and for Budget approval by Council is set out in the following table:

Table 12 Budget Consultation Timetable	
Consultation Budget Report to CEB	18th December
Budget Consultation Period	19th December to January 2019
Final Budget Report to CEB including outcome of Consultation	12th February 2019
Budget approval and Council Tax Setting	13th February 2019

- 92 The Council will undertake an online survey as well as the targeted consultation it undertakes with citizens who have expressed an interest in engaging and which is as representative as possible. In addition, the Council will consider placing an advertisement in the local media, subject to cost, to get a response. The Council will share the budget with other stakeholders, such as trade unions and local

voluntary organisations, for comment, and would encourage councillors to promote the consultation to their constituents through their own channels.

- 93 Tenants will be consulted on the HRA budget including rent and service charge changes with a special resident focus group(s) and the tenant newsletter 'Tenants in Touch'.

Financial Implications

- 94 These are covered within the main body of the report

Legal Implications

- 95 The Council is required to set a balanced budget taking account of working balances and any other available reserves before the commencement of the financial year to which it relates. Consultation will be undertaken with the General Public for a period of 6 weeks in accordance with CIPFA Guidance.
- 96 The Local Government Act 2000 states that it is the responsibility of the full council, on the recommendation of the executive to approve the budget and related council tax demand.
- 97 The Local Government Act 2003, section 25 requires the council's Section 151 Officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations. This will be done at Council in February 2019 when the Budget is approved.
- 98 Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999 .

Risk Implications

- 99 These are shown in Appendix 8 of the report

Equalities Impact Assessment

- 100 These are shown in Appendix 9 of the report

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