Appendix 1

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OXFORD CITY COUNCIL

Scrutiny Budget Review 2019/20

Report of the Budget Review Group 2019/20

Commissioned by Oxford City Council's Scrutiny Committee

February 2019

Contents

Foreword by the Chair of the Budget Review Group

The Budget Review Group has again been very fortunate in the support it has received from senior officers in reviewing the City Council's Draft Budget and Medium Term Financial Plan. The task is made particularly hard by the sudden turns in Central Government policy, such as the announcement that, after years in which councils were not allowed to borrow to build more social housing, they are free to borrow again. This has potentially major significance for the City Council's future strategy for the construction of badly needed social housing.

Brexit and great uncertainty about the outcome overshadows Budget forecasting in a city which welcomes residents from outside the UK. BMW, relying heavily on EU trade, is a major employer and the universities and hospitals rely heavily upon foreign staff.

Against this background, the City Council's Budget is very gratifying in managing once again to maintain or expand services despite the ending of Central Government Revenue Support Grants, until recently a key element of City Council funding. New sources of income, notably the establishment of the wholly-owned Oxford Direct Services Company and the increased business rate revenue from the opening of the Westgate shopping centre, have enabled the Council to avoid cutbacks that have been forced upon many county and district councils.

The City Council rightly prides itself on its ability to increase the provision of housing for homeless people and rough sleepers, and in taking the lead in combatting climate change, exemplified by the creation of the first Zero Emission Zone in the city from 2020, but it is important to note that the City Council's ability to fund extra initiatives is greatly limited by Central Government rules on funding. Two striking statistics are that of total business rate income in the city, after complex reallocation formulae, a mere 8.5% is retained by the City, and even that small share is under threat from the "Fair Funding Review". Another fact to note is that this year 11-12% of total City Council net expenditure is on homelessness services.

As this report notes, the homeless budget will be very challenging going forward. The City Council prudently built up a reserve to cover spending on homelessness in future years but this reserve will be virtually exhausted by the end of the current four year plan, unless Central Government and the County Council resume their previous levels of funding. We must hope, therefore, that the promised end to austerity benefits the City as it should.

Councillor James Fry, Chair of the Budget Review Group

Chapter 1: Introduction

1. The role of Oxford City Council's Scrutiny Committee is similar to the role of UK Parliamentary Select Committees. Scrutiny is led by councillors who are not on the City Executive Board (the main council decision making body) and is empowered to question council decision makers and make recommendations to them about policy decisions. Scrutiny can also investigate any issue that affects the local area or its residents, whether or not it is the direct responsibility of the Council.

2. The Scrutiny Committee established the Budget Review Group (made up from the membership of the Finance Scrutiny Panel) to meet each January to scrutinise the Draft Budget and Medium Term Financial Plan (as approved for consultation by the City Executive Board on 18 December 2018), and to test the robustness of the underlying assumptions used in the proposals. The Council has a statutory duty each February to agree a four year balanced budget. This report is intended to provide a considered second opinion on the budget proposals with constructive recommendations and suggestions for changes.

3. Having an effective budget scrutiny function is considered a cornerstone of good governance, allowing a cross section of councillors to ask challenging questions about the budget for various services that the Council delivers, as well as the wider financial context in which the Council operates. In addition to the detailed Budget Review Group process, the Finance Panel leads its own work plan year round to review and evaluate spending against the budget. At least five meetings of the Finance Panel are held each year at the Town Hall, and meetings and agendas are open to the public.

4. The Budget Review Group has a cross-party membership comprising the following City Councillors:

    - Councillor James Fry (Chair)
    - Councillor Tiago Corais
    - Councillor Mohammed Altaf-Khan
    - Councillor Chewe Munkonge
    - Councillor Craig Simmons
    - Councillor Roz Smith

5. The purpose of this report is to set out the work undertaken by the Review Group, together with their conclusions and recommendations. Each recommendation is supported by a narrative based on the discussions of the Review Group at each of its meetings.

6. This report will be presented to the Council's Scrutiny Committee for endorsement on 5 February 2019, and subsequently to the City Executive Board and the Full Council on 12 and 13 February 2019 respectively.

7. The Review Group would like to place on record its thanks to all of the people who contributed to the review, which have enabled the recommendations in the report to be made. Particular thanks go to Nigel Kennedy and Anna Winship for their work in preparing the Budget, and attending each of the Review Group's meetings, and also to Stefan Robinson in his role as Scrutiny Officer, keeping a full record of the meetings.

Chapter 2: Methodology

8. The Review Group's work involved at total of 4 meetings which were all held in January 2019. The aim of this work was to provide an independent and cross-party review of the 2019/20 budget proposals to provide assurance concerning the soundness of the budget, and recommendations for improvement and review where necessary. The Review Group used the City Executive Board's draft budget proposals from 18 December 2018 as the principal document for scrutiny. Reports were also considered including the Capital Strategy and the Treasury Management Strategy. Key themes and questions the Review Group sought to explore included:

- Slippage in the delivery of capital projects
- Business rates income
- The overall shape of gross and net expenditure and income, and future forecasts
- The evolution of Council budgets over recent years
- Contingencies and earmarked reserves
- The impact on council finances of the establishment of council owned companies (Oxford Direct Services and Oxford City Housing Limited)
- Service area proposals including savings, efficiencies, cost pressures and staffing
- The Housing Revenue Account and government policy changes impacting the freedom of local authorities to fund house-building.

9. The Review Group's findings and recommendations have been informed by evidence provided by twelve senior officers of the Council across its meetings, as well as extensive written testimony in response to pre-submitted questions from councillors. Contributors to the review included:

- Adrian Arnold: Acting Head of Planning
- Helen Bishop: Head of Business Improvement
- Anita Bradley: Head of Law and Governance
- Ian Brooke: Head of Community Services
- Aileen Carlisle: Senior Programme Manager
- Stephen Clarke: Head of Housing Services *and* Oxford Direct Services Client Manager
- Ian Gray: Interim Regeneration and Economy Programme Director
- Caroline Green: Assistant Chief Executive
- Nigel Kennedy: Head of Financial Services
- Rocco Labellarte: Chief Technology and Information Officer
- Tim Sadler: Executive Director for Sustainable City
- Anna Winship: Management Accountancy Manager

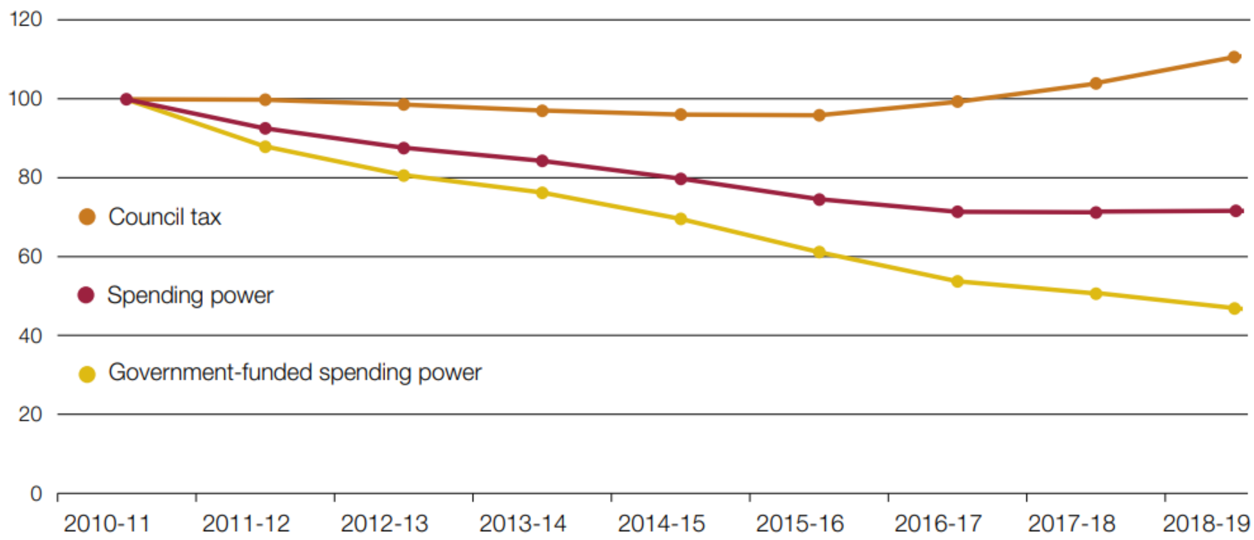
Chapter 3: Background

The National Context

10. Since 2010, successive governments have sought to cut funding for local authorities in England as a means of reducing the national budget deficit. A recent report by the National Audit Office (NAO) highlighted that Government funding for local authorities has fallen by an estimated 49% in real terms from 2010-11 to 2017-18, with overall spending power reducing by 29%.[1] This has placed very acute pressure on the delivery of Council services across the nation; epitomised most recently by the Section 114 Notice issued at Northamptonshire County Council that forecast spending greater than the resources it has available. There are concerns nationally that other local authorities may follow suit.[2]

11. There has been a significant increase in the level of demand placed on Social Care, Highways and Homelessness Services in recent years, as well as widespread cuts in library provision and subsidised bus services. From 2019/20, almost half of all councils (including Oxford City Council) will no longer receive any Revenue Support Grant funding.[3] In these challenging times, it may not be surprising to note that 80% of local authority finance directors lack confidence in their authority's financial sustainability.[4]

Figure 1: Real Terms Local Authority Spending Power (adapted from NAO 2018)[1]



12. A recent NAO Report into the sustainability of local authorities concluded that:

> *Compared with the situation described in our 2014 report, the financial position of the sector has worsened markedly… The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams… Services are continuing to face reducing funding despite anticipated increases in council tax (p.10 -11).*

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[1] The National Audit Office, 2018. The Financial Sustainability of Local Authorities. Available at: https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf

[2] The Guardian. Many Councils will go the way of Northamptonshire. Available at: 2018. https://www.theguardian.com/politics/2018/aug/02/many-councils-will-go-the-way-of-northamptonshire

[3] Local Government Association, 2018. Local services face further £1.3 billion government funding cut in 2019/20. Available at: https://www.local.gov.uk/about/news/local-services-face-further-ps13-billion-government-funding-cut-201920

[4] LGIU. 2018. State of Local Government Finance Survey. Available at: https://www.lgiu.org.uk/wp-content/uploads/2018/02/LGiU-MJ-State-of-Local-Government-Finance-Survey-2018-Full-Report.pdf

13. These pressures are most acutely placed on County and Unitary Councils with responsibility for Social Care. County Councils continue to be identified as more at risk of a financial cliff edge than district authorities. This has a knock on effect however, as cuts to these upper tier services inevitably generate more demand for district services, such as the case after recent cuts to homelessness services by Oxfordshire County Council.

14. The NAO's recent research showed that 10% of County and Unitary Councils had less than 3 years of reserves left, if they continued their current rate of spending. Oxford City Council, has managed well through years of austerity by maximising income through its property assets, fees and charges, whilst driving significant service efficiencies. In the NAO's graph on page six, it is clear that the in introduction of capped council tax rises of 3% in 2012/13 imposed by Central Government had a significant impact on local authorities' abilities to raise revenue through increased tax.

15. Looking forward, local authorities continue to innovate to cope with the strains on local service delivery, sharing services and operating in a more networked and collaborative way than ever before. This is perhaps best exemplified locally by the work of the Oxfordshire Growth Board, which draws on the combined resources and efforts of the six Oxfordshire councils to deliver an ambitious plan for the long term supply of housing for the County.

16. The Chancellor's Autumn Statement on 29th October 2018 called for an end to the era of austerity, which has until now been the main driver for reductions in funding. At least in the short term however there is no clear sign that pressure on local authority funding will ease, and predictions cannot yet be made on the future spending power of local authorities. A recent report from the House of Commons Public Accounts Committee stressed the uncertainty of future funding:

> *The Ministry of Housing, Communities and Local Government has not yet developed a plan to secure local government's long-term financial future. It is not transparent enough about its understanding of the pressures faced by local authorities, meaning Parliament and the taxpayer cannot be sure that it genuinely understands or is addressing the issue…This is an unsustainable situation (p.3).*[5]

Oxford City Council's Spending Priorities 2019/20

17. In spite of these national challenges for local authorities, Oxford City Council has remained financially resilient in its budget setting. Each year the City Council undertakes a systematic review of its budget which starts early in the financial year and involves all senior officers with budget responsibility and the City Executive Board.

18. In terms of overall gross expenditure, the Council's aim to meet local housing needs have a significant impact on the Budget when compared to other priorities. This reflects Oxford's position as one of the least affordable cities in the UK in which to rent or buy a home. Some of the Council's greatest areas of expenditure include housing, cultural and environmental services. Projected annual expenditure on each of the Council's priorities is set out below:

[5] House of Commons Public Accounts Committee. 2018. Financial sustainability of local authorities. Available at: https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/970/970.pdf

Figure 2: Oxford City Council Gross Expenditure on Priorities 2019/20 (including capital spend)	
Meeting Housing Needs	£47.3m
Effective and Efficient Council	£22.8m
Cleaner, Greener, Environment	£21.5
Strong and Active Communities	£6.3m
Vibrant and Sustainable Economy	£5.8m
Total	**£103.7m**

The Housing Revenue Account

19. The Housing Revenue Account is the account through which revenue generated through social rents is managed. By law, this must be managed separately from the General Fund. The Council manages approximately 7,500 residential properties in the City, and has invested in the region of £60m over the past three years, with 113 new houses being delivered in the last year. The establishment of the Council's Housing Company (Oxford City Housing Limited) should improve the speed at which affordable houses can be delivered, including on sites that are not considered viable for developments led by the private sector, whilst returning an income to the Council for further reinvestment into council services.

20. From 2015, local authorities were required to set aside budgetary provision for a levy to Central Government on high value residential properties, and to sell those properties when they become vacant. In December 2017 however, the Government announced that the High Value Levy would not be implemented in 2018-19, but no information was given as to what would happen thereafter. The Council's budget subsequently made provision for of £7.7m per annum for 6 years to pay for this levy making a total of £46 million. In August 2018, the Government stated that it would not go ahead with the levy. The latest refresh of the HRA Business Plan has removed the £46million and adjusted the Plan to repay loans to the Public Works Loan Board earlier than planned.

The General Fund

21. The General Fund is the account through which all other Council revenue income and expenditure apart from the Housing Revenue Account is managed. Last year, each Head of Service within the Council was asked to find 2% of savings and increase income by 3% within their service, and many of their proposals have been incorporated into the Draft Budget. The Business Improvement service area found £322k of savings and Community Services generated an additional £130k of income. The Council continues to invest in ICT systems and development to improve processing efficiency and customer service, and is also looking to broaden its commercial approach to managing its Planning and Building Control services, and improve use of the Town Hall facilities.

22. The Council has achieved £6.9m of efficiency savings over the last three years in its General Fund, whilst continuing to invest in key priorities including promoting the Oxford Living Wage and apprenticeships. Other major developments over the four year Medium Term Financial Strategy include £11.2 million of revenue contributions to finance vehicle replacements and ICT software and hardware.

23. Income from the New Homes Bonus (NHB) also contributes to this expenditure, and is estimated to contribute around £2.5 million over the four years. The NHB was introduced

by the Government to encourage local authorities to grant planning permissions for the building of new houses in return for additional revenue.[6] The Government initially matched the Council Tax raised on each new home built for six years, but this period has been reduced since 2017/18. The 2019/20 NHB allocations show limited change from figures previously announced by Central Government.

24. £69m has been spent in the last three years major capital projects including improvements to pavilions, community centres and car parks. There is also significant capital being invested into the regeneration of council estates and council owned properties. The Council has been working to identify the likely maintenance costs of its community centres in the medium to long term, with the aim of developing a long term plan for the future. A total of £1.685m is expected to be spent in the next year on relocating the Oxpens Car Park decking to Redbridge Park and Ride.

25. One of the most significant pressures on the General Fund relates to a £6m decline over four years in Revenue Support Grant; the grant given to local authorities by Central Government each year, which has now been reduced to zero for the Council from 1 April 2019. On the positive side, the Council could have been subjected to a negative support grant (where the council would effectively pay the Government), but this proposal has since been withdrawn. Some of the key income streams that supplement the General Fund are set out below:

Figure 3: Oxford City Council General Fund Revenue Funding 2019/20

• Fees and Charges	£31.9m
• Council Tax	£14.0m
• Business Rates Retention	£9.3m
• Returns from Oxford Direct Services (Council Company)	£2.1m
• Other Grants and Contributions	£1m
• Revenue Support Grant	£0m

26. A new line appearing in the budget book this year reflects the Council's success in establishing two new groups of Council-owned companies. A group of housing companies was created in 2016 to deliver new social and affordable housing and the Council also formed Oxford Direct Services, which provides a range of services directly to the Council and competes for work in the wider city economy. Regular reports to each of the Shareholder Groups for these companies can be found on the Council's website.

New Growth

27. Whilst efficiencies continue to be made, the Council remains committed to investing in new ideas and projects to meet the needs of local residents. A number of new growth areas are being proposed for 2019/20, and a sample of the larger commitments are set out below:

28. *Homelessness (£200k):* This is an increase in the draft budget towards the costs of preventing and reducing homelessness, which is complemented by additional Central Government grants for extra hostel bed spaces. Recommendation 12 makes proposals to

[6] House of Commons Library. 2017. The New Homes Bonus Scheme. Available at: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05724

improve monitoring and forecasting of the Council's spend from its homelessness reserve.

29. *Project Management Office (£375k):* Funding has been derived from existing vacancies and restructuring with an additional £100k to develop a new cross-council Project Management Office to improve the Council's management of new projects. Recommendation 9 in this report relates to the role and performance of the Project Management Office.

30. *Cycle infrastructure (£250k over 4 years):* A contribution towards improving segregated cycle lanes and more cycle parking.

31. *Equalities action plan (£140k):* Sponsoring professional qualifications for BAME employees and developing a programme for the employment of BAME recruits.

New Challenges

32. Whilst the Council continues to put forward a stable budget position for 2019/20, there are continuing challenges which have the potential to disrupt the delivery of the budget. A sample of the more significant issues are set out below:

33. *Brexit*: The Council is mindful of the implications that the UK's exit from the European Union may have, both in terms of the effect it can have on the Council's own work, but also businesses and investments in the City. The Finance Panel has received regular reports concerning the potential implications of Brexit over the past two years. Most recently, the Panel heard that national shifts in inflation, which were rising and general economic growth, were yet to feed through to the Oxford economy in a tangible way.

34. Business Rates income is holding up, units in the new Westgate Shopping Centre are being let and there has been no significant increase in bankruptcies. BMW recently announced that the next generation Mini would be produced in Cowley, which was good news for the local economy. The impact on the City Council is currently limited in terms of recruitment issues, key income streams and property funds, although like most authorities the Council is suffering from depressed returns from fixed interest investment over the last few years. With current Brexit uncertainties, there remains a lot to be negotiated, there are still a number of issues and concerns for the country, local Government, Oxfordshire and Oxford City Council which are still too early to quantify.

35. *Local Government Funding Review*: The Government is still committed to its Fairer Funding review of local authority funding which will be introduced with effect from 1 April 2020. The review has the potential to affect the Councils budget position, and there are difficulties in long term planning when the outcome of the review will not be known for some time. We have yet to understand the full details of the review, but an initial assessment of the consultation documents would indicate potential adverse financial implications for the Council. Recommendation one in this report sets out actions the Council could undertake to mitigate this risk.

36. *Business Rates Income:* The Council collects tax from local businesses based on rates set by the Valuation Office Agency. There is currently a Central Government consultation underway to review how the system should be reset on a regular basis, the tier split between district and county councils and proposals to reform the levy. Changes in the

rateable values of premises, or volatility in the retail sector due to changing consumer trends and wider economic uncertainty, could adversely affect the Council's income. The Council was unsuccessful in its bid to pilot 75% business rates retention in 2019-20, and so there is no change assumed to this income next year.

37. *Increased pressure on existing services:* The Council is very aware that national changes concerning universal credit, reductions in welfare benefits and mental health services are triggering a national rise in homelessness. Oxford has consistently increased its funding to support those at risk of, and experiencing, homelessness. There is a risk that without a long term national solution to the issue, the Council's reserves may reduce more rapidly than anticipated. More information on homelessness funding can be found in the supporting evidence for recommendation 12.

Chapter 4: Findings and Recommendations

Part 1: Recommendations with budgetary Implications

38. In previous years, the Budget Review Group has put forward recommendations that have had budgetary implications, which have been funded from underspends arising towards the end of the budget setting process. In 2018/19 however, the Review Group understands that there have been no significant underspends, meaning that some of the recommendations put forward in this section of the report will need to be funded through savings elsewhere in the budget. The Review Group asks the City Executive Board to consider how these might be taken forward in preparation for Full Council on 13 February 2019.

Council Tax

39. HM Government 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 each year for the Council, while costing Band D households less than £3 per year. This approach is already proposed in the draft budget report.

40. The Panel noted, as in previous years, 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. At the time of writing this report, the Thames Valley Police and Crime Commissioner was also considering a rise of £24 per year per Band D property.

Recommendation 1: That Council Tax is increased by 2.99% in 2019/20.

Twinning Links in Europe

41. At a Council meeting on 23 July 2018, the Council resolved to:

> *Reaffirm its commitment to do all it can to ensure that Oxford remains an international and European city open to all… We are determined to strengthen and deepen Oxford's links with other cities inside and outside Europe.*

42. This collective view has been supplemented by further motions highlighting the Council's wish to maintain its international associations. The Review Group noted that the draft budget proposal included a £7,000 reduction in funding to support Twinning work. This is not as clear as it could be in the budget papers. Whilst this amount of money may not equate to much officer time, it may be used as a budget to support twinning in other ways, such as signage, promotion and hosting.

43. Such a reduction in funding appears contrary to the Council's objective of maintaining and promoting its links with European neighbours and those further afield. The Review Group therefore believes that the level of funding and resource made available to support Twinning should be as a minimum maintained for 2019/20.

44. The Local Government Association's European and International Unit explains that the impetus for town twinning after the Second World War was to promote peace and reconciliation bringing together countries from across the continent.[7] There are also other practical benefits to be realised in terms of learning from innovation in comparable local authority areas abroad, and promoting international visitor exchanges.[8]

45. In light of the Council's wish to strengthen its links with Europe and beyond, the Review Group believes that a brief prospectus or vision document should be developed to set out the Council's twinning aims, as other councils have done such as St Albans City and District Council. This could set out the purpose and benefits of maintaining international links, the work underway to improve these relationships, and the Council's intentions to stay closely connected with Europe.

Recommendation 2a: That the Council maintains its current level of funding to support international twinning links.

Recommendation 2b: That the Council drafts a vision document for its twinning work, to be presented to the City Executive Board for agreement in 2019/20.

Citizens Assembly and Carbon Management

46. The Review Group noted at its final meeting that the Council passed a motion on 28 January 2019 to "Encourage Council to establish a Citizens Assembly made up of a representative range of Oxford citizens to establish the facts and make recommendations for our city [concerning climate change and carbon reduction]." This motion also saw the Council declare a climate emergency. The Review Group agreed that if a citizen's assembly were to be led effectively by the Council, appropriate resources would need to be made available. Accordingly, the Review Group wishes to make a recommendation to that effect.

47. Furthermore, as a means of remaining aware of the impact that the Council's own work has on the environment, there should be a carbon impact assessment carried out as part of future budget proposals, in a similar way to the equalities impact assessment, for example. This does not need to be an onerous task, but the Council should be provided with independent comment from officers about the impact that the budget as a whole will have on the environment.

Recommendation 3a: That the Council makes available appropriate resources to support the establishment of a citizen's assembly, in line with the climate change motion passed on 28 January 2019.

Recommendation 3b: That future budget proposals feature independent officer comment on the impact that the Council's plans may have on the environment, and how closely aligned the proposals are to the Council's broader environmental ambitions.

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[7] St Albans City and District Council. 2013. Twinning Strategy. Available at: https://www.stalbans.gov.uk/Images/St%20Albans%20Town%20Twinning%20Strategy%202013_tcm15-35248.pdf
[8] Furmankiewicz. 2005. Town-twinning as a factor generating international flows of goods and people. Human Mobility. Available at: https://journals.openedition.org/belgeo/12466?lang=en#citedby

Tackling Public Drug Use

48. Oxford City Council, Thames Valley Police and Oxfordshire County Council recently launched a joint taskforce to tackle open drug dealing and drug taking in Oxford's public spaces. The Taskforce was a direct response to concerns from residents about drug dealing and the number of discarded needles that have been found in the street.

49. The Council's budget previously committed £70,000 of funding towards the Taskforce, but the new draft budget proposes to end this funding from August 2019, without conclusions first being drawn about the effectiveness of its work. The Review Group believes an assessment must first be made before the Council's contribution to the Taskforce discontinues. Councillors said that feedback from the public with regards to the work of the Taskforce had been positive to date.

Recommendation 4: That the Council carries out a full assessment of the impact made by its funding towards the Joint Taskforce to tackle open drug dealing and drug taking in the City, before a decision is taken on its future funding.

Opportunistic Property Acquisitions

50. The Review Group recognises that with the establishment of Oxford City Housing Limited (OCHL), the Council can now operate in a more commercial manner. Specifically, just as private development companies seek to bank land in Oxford and the surrounding area, so too can OCHL. However, this would not be to secure land for higher returns, but rather to provide a long term rolling pipeline of sites for development. On a national scale, it is expected that private sector companies have land banks which if developed, would secure in the region of one million homes.[9] OCHL should compete in this market to ensure these types of sites are developed in an appropriately quick fashion, rather than banked as investment by private companies.

51. The Review Group has concerns that the Council could be acting more quickly to secure development sites. OCHL should be proactive in ensuring that it has its own pipeline of land, which can be developed over the medium term. There are examples of sites which have come to the market, which are then quickly secured by private developers because they are able to act more quickly. It is hoped that through OCHL, the Council can improve how it reacts to ad-hoc acquisitions to be more competitive. This would require the Council to set aside a funding pot for properties to be secured at pace.

Recommendation 5: That the Council, through its Housing Company, should seek to develop a longer term view of its development plan. This should include establishing a broad programme of property and land acquisitions to be supported by a standalone funding pot provided by the Council for purchases.

[9] The Big Issue. 2018. A land banking scandal. Available at: https://www.bigissue.com/latest/finance/a-land-banking-scandal-is-controlling-the-future-of-british-housing/

Part 2: Representations to Central Government

Central Government Funding Adjustments

52. The Review Group found that the local government finance settlement, announced after the draft council budget was issued, was broadly as expected. It is noted with interest that Central Government's review of local authorities' relative needs and resources is currently out for consultation.[10] The consultation seeks views on measuring the relative needs and resources of local authorities, which will in turn determine new baseline funding allocations in 2020-21. The consultation document reads:

    The Government believes that it remains important to continue to take account of councils' relative ability to raise resources. Local resources include council tax... and sales, fees and charges… A relative resources adjustment will therefore be a key step in allocating settlement funding (p.49).[11]

53. In comparison to other neighbouring authorities, Oxford City Council benefits from a relatively healthy level of income generated from fees and charges; principally from off-street car parking. The Review Group are concerned that should Central Government consider off-street car parking income part of the Council's established resources, there could be a comparable reduction of funding for Oxford in the next finance settlement.

54. The Review Group noted that in areas which are less reliant on income from car parking, it is less consequential whether this income is excluded from the settlement. Accordingly, a "relative resource adjustment" may have the potential for Oxford to be penalised disproportionately in comparison to other areas. This income stream has been carefully managed for many years, and contributes to the underwriting of other core council services. As Oxford progresses towards its world leading zero emission ambitions, this income stream will soon reduce in any case.

55. A further concern is raised by the consultation document which explains "The treatment of discounts, exemptions and premiums in the measure of council tax resources needs to be determined (p.52)."[11] The document speculates about the impact of disregarding a local authority's choice to offer discretionary council tax discounts to residents when calculating their overall settlement. It is estimated that providing these discounts will cost the Council in the region of £1.7 million in 2019/20. Oxford is in the minority here, as 277 of the 326 councils in 2017 had reduced the support they offer residents, following the localisation of council tax reduction schemes in 2013.[12]

56. There is a risk that if Central Government uses an assumptions-based approach in calculating Oxford's resources (i.e. they assume a maximum council tax base rate, rather than the actual council tax income) the Council could be penalised. This would in effect act as a "double taxation" on the Council, given that it also takes on the full cost of providing the Council Tax Reduction Scheme. Up until April 2019, the cost of providing

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[10] Gov.uk. 2018. Review of local authorities' relative needs and resources. Available at: https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources

[11] MHCLG. 2018. A review of local authorities' relative needs and resources. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764487/Review_of_Local_Authorities__Relative_Needs_and_Resources_consultation_document.pdf

[12] House of Commons Library. 2017. Council Tax Reduction Schemes. Available at: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06672#fullreport

this scheme was in part supplemented by the Revenue Support Grant, which will be completely withdrawn at the end of the 2018/19 financial year.

57. The use of population statistics in the calculation also has the potential to affect adversely the Council's funding, as it may fail to recognise the significant influx of visitors and commuters to Oxford who rely on the Council's services. The Review Group was also advised that forthcoming changes to the business rates baseline had the potential to erode any recent benefits gained from the opening of the Westgate Centre. An allowance has been made of around £500k as a contingency against these potential changes being implemented.

58. There is also a much broader risk to which the Council is exposed by becoming increasingly reliant on income streams from business rates, fees, charges, joint ventures, and from its wholly owned companies. The rise in income in this area is a positive sign, but the Council must be mindful that it will need to sustain these income levels as a baseline for future budgets.

59. Already next year, a dividend of over £1.5 million for Oxford City Council is projected to come from Oxford Direct Services Limited (ODSL), 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 should enable that projected dividend to increase to over £3m per annum by 2022/23. The dividends expected from ODSL are set out in Figure 4 below, which shows a significant increase on last year's projections by the end of the MTFP:

Figure 4: Estimated ODSL dividend to the Council 2019-20 to 2022/23				
	2019/20	**2020/21**	**2021/22**	**2022/23**
Last Year's MTFP	£1,547,000	£1,891,000	£1,970,000	£1,970,000
Revised MTFP	£1,552,000	£1,895,000	£2,171,000	£3,136,000

60. Any slippage in these projections may have a significant impact on the Council's budget position in future years. The Housing Company is similarly expected to produce increased returns to the Council in 2019/20 and 2020/21. Should this not happen as forecast, then it will have an adverse impact in later years. One possible threat to income, discussed by the Review Group concerns the post-Brexit labour market, which already struggles to match supply with demand, and this could lead to a higher than expected inflation in labour costs. These various pressures led officers to conclude that 2021/22 had the most risks for the Council in the MTFP, principally associated with the demands and uncertainty surround income.

Recommendation 6: That the Council makes strong representations within its response to Central Government's Fairer Funding Consultation ending on 21 February 2019 to the effect that:

a) Council Tax Reduction Schemes should not be taken into account when assessing a local authority's available resources and calculating its baseline funding level. This is to avoid effective double taxation.

b) Income from car parking, fees and charges should not be taken into account when assessing a local authority's available resources and calculating its baseline funding level.

Council Tax for Second Homes

61. The City Council's first Empty Property Strategy was introduced in 2009 when there were 717 empty dwellings recorded across the City. Since then, there has been a substantial reduction in the number of empty dwellings to 323 in November 2017. In England, Local Authorities have powers to charge properties which are unoccupied and substantially unfurnished (Class C) a full council tax bill, which is sometimes referred to as a second home or holiday home tax. Prior to 2013, these homes attracted a 50% discount if they were not a person's sole or main residents.[13]

62. From the start of the 2019/20 financial year, the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 will allow additional powers for local authorities to increase their tax on long term empty properties. A parliamentary research paper explains:

> *In other words, from April 2019, council tax-payers with second homes (those which are unoccupied and substantially unfurnished) may be required to pay 200% of the standard bill after two years; 300% of the standard bill after five; and 400% after ten. It remains up to the billing authority to decide what rate of empty homes premium to impose, within these limits.*[13]

63. Having considered a separate Finance Panel report on Council Tax Exemption Monitoring in the City, the Review Group was of the view that a higher premium than that posed under the existing and future regulations should be applied to second homes, in light of the urgent need for housing in Oxford. This would disincentivise second home ownership in the City to the benefit of first time buyers, and also generate increased revenue to help fund core housing and homelessness services.

Recommendation 7: That the Council writes to Central Government, making the case for greater local discretion to increase Council tax premiums on second homes. The case should also be made for these premiums to come into effect earlier (i.e sooner than the current two year threshold). This could alternatively feature in a consultation response to Central Government if appropriate.

Part 3: Other Recommendations

64. In 2016/17, Oxford City Council's Fraud Investigation Team and Oxfordshire County Council worked in partnership to undertake a review of the Single Person Council Tax Discounts (SPD) offered to people living on their own. The review was carried out using an intelligent risk-based review of all 17,000 SPDs awarded in the City, and was considered a success. The Review Group understands that the Fraud Investigation Team continue to review SPD awards, but not under the same joint arrangements with the County as before.

65. Since February 2015, the Council's Fraud Investigation Team has deployed resources to assist with the review of discounts and exemptions. During this period the team have recovered £765,271 and saved £83,341 from benefit savings.

[13] House of Commons Library. 2018. Council Tax: Empty Properties. Available at: http://researchbriefings.files.parliament.uk/documents/SN02857/SN02857.pdf

66. As a partner that benefits significantly from retaining approximately 70% of all the Council Tax collected in Oxfordshire, the Review Group believes that the County Council should invest resource in carrying out fraud investigations concerning SPDs and fraudulent student declarations. In light of the success of joint working in previous years, there would be merit in engaging with the County Council once more to perform a comprehensive review.

Recommendation 8: That the Council seeks to revive its joint working with Oxfordshire County Council to carry out an investigative review of Council Tax discounts offered to students and single persons.

The Housing Revenue Account Borrowing Cap

67. The Housing Revenue Account (HRA) Borrowing Cap was lifted on 29 October 2018 by Central Government, which opens up options for future housing development to be undertaken through the HRA, development which was previously assumed to take place through the Council's wholly-owned company, Oxford City Housing Limited (OCHL). In the draft budget the General Fund benefits from £1.6m of interest on loans to OCHL linked to housing development. The Review Group questioned senior officers about the future direction of OCHL, in light of these unexpected freedoms very recently being granted through the lifting of the HRA cap.

68. The Review Group heard that work has already begun to consider developing a number of other sites using HRA funding. The OCHL Shareholder Group will need to consider the relative merits of continuing development through the Housing Company, within the HRA, or a mixture of both. The Review Group notes with interest that a report will be presented to the City Executive Board outlining the various ways forward later this year.

69. The Review Group wishes to highlight the need for any future proposals regarding the mechanism to deliver more Council housing to have oversight by the appropriate scrutiny function within the Council. More broadly, strong democratic oversight (not just through the Council's scrutiny function) of the Council's companies should continue, and be championed by councillors, as a means of safeguarding the Council's interests in light of the Council's increasing financial reliance on dividend payments from the companies.

Recommendation 9: That the Council ensures any revisions to Oxford City Housing Limited's business plans receive appropriate pre-decision scrutiny, and that any broader changes to Shareholder governance arrangements remain open to Scrutiny.

Supporting for Major Events

70. The Draft Budget Report explains that one of the most difficult decisions for the Council is to phase out subsidy to Experience Oxfordshire over the next three years. The Council has provided funding to the organisation since its inception. However, the draft budget proposes removing the £78,000 grant and £95,000 support in respect of Council property occupied by the organisation. It is hoped that this organisation will become more self-sustaining and adapt to running without subsidy from the Council.

71. Councillors recognise that Experience Oxfordshire remains a valued partner of the Council, and that the Council continues to hold a place on their Board. Looking forward, the Review Group believes that the Council should now be more aware of major regional events happening in the area, and seek to support and engage with them.

Recommendation 10: That the Council seeks opportunities to support high profile events in the region, for example, the 2022 Commonwealth Games in Birmingham.

Modular Construction Methods

72. The Review Group had a wide ranging discussion concerning the Oxfordshire Growth Deal and specifically about modern construction methods for new affordable housing. Officers explained that modular off-site construction methods only provided comparable efficiencies to brick and mortar developments when built on a large scale. Councillors wanted to understand more about the evidence base for this assertion, and the relative construction savings that may be seen given the scale of housing need in the City, and the speed in which modular homes can be built.

73. There is limited space in the City to provide modular developments on a large scale, but the Review Group nonetheless believes there is merit in pursuing options for small ‘concept’ or ‘demonstrator’ sites. There may be scope to secure external funding if the Council or its housing company can offer a public profile to these developments, which may build the case for further developments of this type. It is understood the OCHL has looked into this as a viable development option, but various challenges to date have meant that delivery of modular units has not been possible.

Recommendation 11: That the Council:

a) Seeks to promote demonstrator or concept modular housing developments within the City, as potentially quick construction models, whilst seeking to secure external investment in such innovative developments.

b) Undertakes a comparative costing of different construction approaches across typical small and large development sites, which includes information on the lower financial contingencies necessary with modular builds, and the financial benefits accruing from more rapid construction.

Project Management Office and Development Team

74. The Review Group welcomed the introduction of a new Project Management Office (PMO) and Development Team with a role to: implement new ways of working, encourage collaboration, connect people and projects together, and encourage quality documentation to support good decision-making. Councillors also heard from officers that

a key impetus for establishing of the PMO is to address under delivery on the Council's capital funding commitments, which have an adverse impact on the revenue budget. With interests rates being relatively low, and high inflation in construction sector costs, there is a real inflationary cost to delays in the capital programme.

75. As a regular feature of the Finance Panel's discussions, it was noted that the Council continues to deliver approximately 70% of its projected capital spend each year. Officers confirmed that this should not be considered normal practice, and improvements could be made. Accordingly, with £375,000 being invested into the new PMO, councillors wish to see a clearer corporate ambition and target to improve delivery against the capital programme.

76. The Finance Panel will want to hear from the PMO over the course of 2019/20, noting that it will also receive updates on the PMO's work as part of the quarterly integrated reports that go to the City Executive Board. The Review Group heard at their final meeting that the new PMO would be set a target of delivering 80% of the capital programme in 2019/20, and 90% in 2020/21. Councillors believe that with five officers in the PMO, the ambition should be greater than 80% for capital delivery in 2019/20.

Recommendation 12: That the Council establishes a target higher than 80% for capital delivery against the budget in 2019/20, which should feature in the Council's Capital Strategy going forward.

Maintenance and Repairs

77. Within the draft budget proposal, £2 million of spend each year is committed through the Council's General Fund to the maintenance and repair of corporate buildings, but there will remain a £2.6m backlog of work to complete after the delivery of the Medium Term Financial Plan (MTFP). The Review Group has questioned whether the annual allocation of £2m is sufficient to address regular maintenance costs and the backlog of works. It is recognised that increased general investment in Council's properties should help to offset any increase in the backlog of repairs.

78. The Review Group believe that this issue should be revisited and a more detailed financial case prepared to establish the optimal pace of maintenance expenditures. It may be that increased investment earlier in the MTFP (i.e, more than the budgeted £2m per annum) will be more favourable to the Council's finances in the long term, as an invest to save scheme. The Review Group recommended last year that more work should be undertaken to identify 'invest to save' projects, and this could be an opportunity.

Recommendation 13: That the Board Member for Finance and Asset Management reviews the four year budget allocation for maintenance and repairs (£2m per annum) to ensure it represents the optimal level of investment for the Council, in light of the £2.6m backlog of works that will remain after year four.

Homelessness Reserves

79. In February 2018, the Council agreed a base budget for homelessness services of £941k per annum. A further commissioning budget was also made available from the Council's own grant budget of £442k. The budget for 2018/19 was further enhanced by £162k allocated from reserves, accumulated from 2016/17 to support the Council's participation in the countywide Adult Homeless Pathway. The overall grants programme to homeless charities in 2018/19 was approximately £1.8m, for which the draft 2019/20 budget proposes an additional £200k.

80. The Review Group notes with concern the use of one-off funds from the Homelessness Reserve from year three onwards for future revenue spending on homelessness services. Whilst there are a number of possible outcomes, it is expected that the Council's current level of spend on homelessness, with no further Central Government contributions, will lead to a substantial exhaustion of the homelessness reserves by the end of the MTFP period; or even sooner if County Council contributions do not continue or flexible support grant discontinues.

81. Last year the Review Group recommended that the Council maintains the Homelessness Reserve by funding all additional spending on homelessness services from revenue. This year's budget proposals show that this is no longer possible for the latter years of the MTFP, without the identification of further revenue streams.

82. The volatility and short termism of one off government grants (welcome though they are) means there remains a risk in maintaining the current level of homelessness services the Council commissions with its partners. The Council is set to provide over 200 bed spaces this winter, and continues to fund a wide range of support services. Prudent planning has enabled the Council to build its reserves in anticipation for these challenges; however, serious consideration must be given to financing these services five years from now, where the revenue requirements of existing services may exhaust any remaining reserves.

83. At present, the Council is forecasting a drawdown on the Homelessness Reserves of £1m in 2022/23. Figure 5 below shows the Council's planned use of the Homelessness Reserves over the MTFP. The Review Group were of the view that appropriate contingency plans need to be made for the end of the MTFP, in light of a very possible adverse funding settlement from Central Government, as set out earlier in this report. It was noted that this was the only area of Council business where reserves were being used to such an extent to support ongoing revenue expenditure. Such contingency plans should be developed, and these will likely form the basis for a scrutiny item in 2019/20.

Figure 5: Homelessness Reserves Balance Forecast

	2019/20	**2020/21**	**2021/22**	**2022/23**
Total net spend	£-197,531	£777,526	£660,000	£1,000,000
Remaining reserves	£3,234,369	£2,456,843	£1,796,843	£796,843

Recommendation 14: That the Council keeps under close review the use of its Homelessness Reserves, and presents a longer-term plan in 2020 which is less reliant on reserves for future revenue expenditure for these services. Appropriate contingency plans should also be developed in light of the uncertainty around long term Central Government funding.

Staff Pay Benchmarking

84. The Review Group discussed the current labour market for Council staff, and the wider Oxfordshire employment context. Recently, there was a national shortage of planning officers which meant that there was significant competition among employers and a high turnover nationally. The Review Group wish to note the success of the Council's four planning apprentices, who have now all successfully become planning officers, with a further three apprentices due to start imminently.

85. With the Growth Deal underway and the Local Plan in its final stages, the Council is wise and fortunate to have expanded its workforce to help manage the growth of the City. Councillors also wish to note that the Council continues to be successful in transferring customer service staff into other service specific roles within the organisation, as more customers switch to contacting the Council using online methods rather than face to face or on the telephone.

86. It was agreed that it would be useful to have some wider narrative and wage indicators within the budget report to assist with forecasting future wage growth for City Council Staff. It is noted however that the Council has agreed a pay deal up until April 2021.

Recommendation 15: That future budget proposals benchmark Oxford City Council's Staff Pay Deal against other national and local wage indicators, to put the Council's pay bill into the wider context, and assist in forecasting future.

Chapter 5: Conclusion

87. The Review Group welcomes the draft budget proposal as a sound plan for the future, but notes the increasing reliance on growing income streams in the medium term from council-owned companies to support core services. Close monitoring should be undertaken to ensure that income targets are met, as there remains minimal room for further efficiency savings to be made within existing services.

88. It is promising to see progress made on key recommendations of the Review Group last year, such as additional resources for City Centre Management and making clear the expected dividend from the Council's companies. There are however concerns that have been carried over from last year concerning the sustainability of funding for homelessness services, and new apprehensions over Central Government's review of the Council's needs and resources.

89. The Review Group hopes that the Group's work will be welcomed by the Council as a positive contribution to the evidence base in determining the 2019/20 budget.

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