Scrutiny Budget Review 2021/22

Report of the Budget Review Group 2021/22
Commissioned by Oxford City Council's Scrutiny Committee

February 2021

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Foreword by the Chair of the Budget Review Group

In setting its budget for 2021/22, the Council must contend with the impacts of two major events which occurred in 2020: the Covid-19 pandemic and the implementation of Brexit. Both bring considerable disruption and uncertainty, though the financial impacts of Covid-19 on the Council are more clearly understood than those of the post-Brexit trade deal, which filter through less immediately.

Unlike many other Councils, the City Council's finances were sufficiently resilient going into 2020 to avoid having to propose an emergency budget following the first national Covid-19 lock-down, making 2021/22 budget-setting the first assessment of the impacts of policy responses to Covid-19 on the Council's finances.

Those impacts have been far-reaching and extensive, with reduced income from Business Rates and council-owned retail properties, ODS commercial services and car parks, for example. The Council has also faced greater costs as it mitigated the impact of Covid-19 on the delivery of services to residents, including the move to home-working. The Council has moved quickly to protect its most vulnerable residents. On average, in any given week, 130 rough sleepers were being provided temporary accommodation and local support hubs developed to coordinate and deliver the Council's Covid response at a local level. Whilst some of this lost income and additional expenditure is covered by government grants, the Council has had to confront its legal duty to produce a balanced budget with a £12m wider shortfall (as it currently is forecast) of revenues against outlays than expected this time last year.

The Review Group understood that the choices faced are less palatable than previous years, and the trade-offs to be made are starker. However, in such circumstances the role of Scrutiny is more crucial than ever in providing a second opinion and on behalf of the Review Group I wish to thank senior officers for their support in reviewing the City Council's Draft Budget and Medium Term Financial Strategy at such a challenging time.

In addition to Covid-19, in 2020 the UK formally left the EU, and whilst a trade agreement was agreed late in December 2020 at the time of writing, the impacts of the terms of this agreement are unclear, particularly when considered in combination with the additional economic uncertainties and government responses to Covid-19.

Amidst these challenges and uncertainties, the Council has remained committed to its core objectives. It has sought to avoid wholesale cuts to services in the face of a long period of reductions in government grants, but instead has invested in its wholly-owned companies and joint ventures to deliver a surplus through trade to underpin its budget strategy. The Council also seeks, through its companies, to deliver more than financial returns to the City, funding to build 1119 houses over ten years places the Council as one of the key house-builders within the City over the coming decade, addressing the urgent issue of scarce affordable housing in Oxford. The Council's commitment to supporting rough sleepers to find accommodation is demonstrated through its funding to the Floyds Row project. Finally, the Council's commitment to the Environment remains, with £7.25m investment over four years in retrofitting and improving Council homes to improve energy efficiency (as well as reducing fuel poverty).

Glossary

Acronym/Phrase	Explanation
FTE	Full Time Equivalent – since not all employees work the same hours, speaking about job numbers can be misleading. Full time equivalents standardise understanding and enable comparison by giving the total number of full time workers proposed.
General Fund	General Fund – the main revenue account for the Council covering all its services bar housing
HRA	Housing Revenue Account – the legally mandated separate account through which the Council pays for its housing-related activity
MHCLG	Ministry of Housing, Communities and Local Government – the ministry within central government responsible for the vast majority of the Council’s functions.
MTFS	Medium Term Financial Strategy – how the Council plans to maintain a balanced budget over the three years following the budget.
ODS	Oxford Direct Services – the Council’s wholly owned direct services operation which comprises two companies; Oxford Direct Services Limited and Oxford Direct Services Trading Limited.
OCHL	Oxford City Housing Ltd – the Council’s wholly-owned housing company
PWLB	The Public Works Loan Board, a department of the government’s debt office. This is the cheapest way for local authorities to access borrowing.

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 a cross-party membership of councillors who are not on the Cabinet (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 on 01 December 2020. Its membership was agreed to be the same as that of the Finance and Performance Scrutiny Panel, with additional contributions made by the Housing and Homelessness Panel regarding the Housing budget scrutiny. It was scheduled to meet in January 2021 to scrutinise the Draft Budget and Medium Term Financial Strategy (MTFS) as approved for consultation by the Cabinet on 09 December 2020, 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 of Scrutiny 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 and Performance Panel leads its own work plan year round to review and evaluate spending against the budget. At least five meetings of the Finance and Performance Panel are held each year. At present such meetings are held virtually, via Zoom. Meetings and agendas continue to be open to the public.

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

   - Councillor James Fry (Chair)
   - Councillor Chewe Munkonge
   - Councillor Craig Simmons
   - Councillor Roz Smith

   Housing and Homelessness Panel members are as follows:

   - Councillor Nadine Bely-Summers (Chair)
   - Councillor Shaista Aziz (vice Chair)
   - Councillor Mike Gotch
   - Councillor Sian Taylor
   - Councillor Liz Wade
   - Councillor Dick Wolff
   - Tony Buchanan (Council tenant co-optee)

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 02 February 2021, and subsequently to the Cabinet and the Full Council on 10 and 17 February 2021 respectively.

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

Chapter 2: Methodology

8. The Review Group's work involved a total of 4 meetings which were all held in January 2021. The aim of this work was to provide an independent and cross-party review of the 2021/22 budget proposals to provide assurance concerning the soundness of the budget, and recommendations for improvement and review where necessary. The Review Group used the Cabinet's draft budget proposals from 09 December 2020 as the principal document for scrutiny. Key themes and questions the Review Group sought to explore included:

- Justifications for additional staff or staffing reductions
- The deliverability of savings proposals and their impacts on service provision
- Seeking greater clarity on the risk profile of the Council's proposals
- The magnitude and sources of the Council's borrowing
- The prudence of the Council's decision to make use of reserves within its MTFS
- The proposals for Homelessness Prevention

9. The Review Group's findings and recommendations have been informed by evidence provided by fourteen 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
- Tom Bridgman: Executive Director of Development
- Ian Brooke: Head of Community Services
- Steven Clarke: Head of Housing
- Caroline Green: Assistant Chief Executive
- Nigel Kennedy: Head of Financial Services
- Paul Leo: Interim Director of Housing
- Nadeem Murtuja: Interim Director of Communities
- Gordon Mitchell: Chief Executive
- Carolyn Polszynski: Head of Regeneration and Economy
- Tim Sadler: Executive Director for Sustainable City
- Jane Winfield: Head of Corporate Property
- Anna Winship: Management Accountancy Manager

Chapter 3: Background

Impacts of the National Context and Policy Changes

10. The present budget-setting exercise has been far more challenging than recent budgets owing to the effect of a number of extraneous influences and policy changes. The most immediate challenge has, of course, been the global Covid-19 pandemic which, in the UK, has led to lockdowns and their attendant curtailment of economic activity. With the country's primary focus being on the management of the pandemic, the ending of the UK's 47 year membership of the EU has received less attention than might have been expected for such a fundamental constitutional, political and economic change. The relative lack of focus does not, however, alter its transformative impact, which inevitably will cascade down to the Council's own finances.

11. Central government policy changes also present challenges to the Council, notably with Business Rates, where it is expected there will be an increase in the amount that is collected by the Council but subsequently being redistributed elsewhere. Changes to the terms of the Council's cheapest borrowing facility, the Public Works Loan Board (PWLB) will also have an impact on the Council, which is relying on borrowing to fund a number of its ambitious schemes at a time when PWLB interest rates are historically low.

Covid-19

12. On 23 March 2020 the government announced a nationwide lockdown in response to curb the spread of the Covid-19 measures and has continued to implement a mix of local and national lockdowns since. Whilst Oxford has not been subject to the same severity of restrictions as some other areas throughout the pandemic, this must be understood from the perspective that the nationwide fall in economic output from the initial implementation of lockdown was the greatest since the 18th century.

13. For the Council, the implications from a financial perspective were two-fold: a deep dip in income, and a rise in expenditure. The adverse change in Councils financial position from the budgeted forecast of last year over the 4 year MTFS compared to now is estimated at around £29m.

14. The collapse in economic activity arising from Covid diminished the Council's sources of income across the board, with losses from car parking revenue, rents from Council-owned properties, income from hirings at the Town Hall, and returns from the Council's trading companies being particularly hard hit. The total reduction in income for the current financial year is estimated at around £9m.

15. In addition to the fall in income, Covid-19 necessitated significant additional work, and cost, for the Council. The pressures of the pandemic raised demand for existing services and duties. Most notably, the 'everyone in' policy by central government put the Council under a duty to make available accommodation for all rough sleepers in the City, which it has done very successfully. The response to Covid has also generated completely new work, such as the establishment of hubs around the City to coordinate the meeting of the basic needs of vulnerable residents, putting in one way systems in the streets to support

social distancing, or disseminating information to increase awareness amongst business owners of government support to which they may be entitled.

16. Central government has provided some support to the Council, including via emergency grants and compensation for loss of sales, fees and charges estimated at £9.4m, though £5m depends on a year-end audit. This support is welcome; without it the Council would face far more challenging choices than it already does. Nevertheless, the support does not come close to bridging the budget shortfall, in spite of the generation of external income through the Council's 'Oxford Model'. The Council is the sole shareholder of two companies through which it seeks to deliver on its corporate priorities to the City while using money earned via dividends from those ventures to pay for additional services to residents. The Council is also involved in a joint venture with Nuffield College to regenerate the West End of the City. The Council receives further income from loans made to these companies. This approach inherently carries commercial risk, but the alternative of cutting back services to match Council expenditure against reduced revenues from taxes and services is not acceptable in times of acute economic challenge such as at present. Without that commercial income, the budget deficit would be proportionally greater than in those councils providing fewer services to their residents.

17. The current situation leaves control of the Council's financial resilience under its own control than normal, and more under central government's. The Council has not assumed within its budget any additional funding that has not been announced, but the possibility of the government relying on local authorities to undertake important parts of the recovery from Covid remains with uncertainty about future compensation. Furthermore, the Council is reliant directly and indirectly on a swift and effective response to Covid that restores the economic activity that will bring people into its Town Hall, use its Park and Ride Facilities, rent its shops, and pay business rates. An ineffective response will extend the economic consequences of Covid and their influence on the Council's finances. It should be noted that even a swift recovery is not without risk. The Council plans to borrow almost £450m over the next four years for its ambitious house-building programme. With a high level of borrowing, interest rates are a material consideration for the Council's finances, and small increases in rates having large financial costs. Though the risk of a swift hike in interest ratesis low, it remains a residual risk.

<u>Brexit</u>

18. Unlike Covid, the effect of Brexit is likely to take a while to filter through to the local economy, and the precise outcomes are uncertain. The threats and challenges posed to key parts of Oxford's economy are real. In the 2011 Census, Oxford ranked as one of the top 5 workforces outside London in its reliance on EU passport holders at 16%. The number is expected to have grown in the subsequent decade. Changes to the immigration status of these workers (as well as their perception of their acceptance in the UK) may make recruitment and retention of staff more difficult. In a global race for talent, Oxford University may find it more difficult to recruit the calibre of staff needed to retain its pre-eminence. Equally lower-paid sectors like the hospitality and care sector may struggle to recruit at current wage rates, raising questions over the viability of enterprises. The increased friction in cross-border trade with the EU, in both time and cost, will inform

the considerations of companies involved in cross-border trade when choosing where to make their investments.

19. The precise impact of Brexit to the local Oxford economy is very difficult to predict. The country is only starting to adjust to the new rules, making it difficult to gauge the reactions of different sectors when the impact of subsequent policy decisions by government is unknown. The degree of attachment held by the individuals making decisions about working or investing in Oxford are often very personal, and are difficult to predict. Notwithstanding the difficulties of quantifying the scale of the task, Brexit presents Oxford with a number of big challenges it must overcome to retain its economic health.

Business Rates

20. Over £109m per year is collected in business rates, but the overwhelming proportion is returned to central government and recycled to support less affluent areas. Of the total sum collected, the Council retains £8.2m, or a mere 8.4%. Despite this precipitous drop, business rates receipts remain a foundational component of the Council's overall income.

21. Central government has for the last two years sought to implement its Fairer Funding Review, which will have the effect of diverting income from business rates from urban areas towards rural ones. This review has been delayed twice, first as Brexit took priority and more recently due to Covid. However, the Review is still expected to be introduced in 2022/23. The exact details are not confirmed, but Oxford is very likely to see a fall in the business rates it retains; current estimates indicate a fall of 25–30%, or in cash terms, a one of £2.0m - £2.5m per year.

PWLB changes

22. The Public Works Loan Board (PWLB) is part of central government's debt office, and is the cheapest source of lending for local authorities. In November 2020 it announced its response to a consultation undertaken on a number of changes. The two principal changes are a 1% reduction on the interest charged on loans, and changes to the terms of those loans.

23. For a Council which over the next four years intends to borrow heavily, close to £500m, for investment, a reduction in interest rates is a very welcome prospect. The other changes, however, make borrowing solely for the purposes of financial return, as opposed to other reasons, such as regeneration, much harder. If the Council were to borrow for the purposes of financial return on one project, that decision would render it unable to access lending from the PWLB for other projects, even if these were, for example, for regeneration. As a consequence, this makes it extremely unlikely the Council will pursue the PWLB for borrowing by the Council to invest for financial gain.

Local Issues and Priorities

Pressures

24. National-level issues manifest themselves in specific local challenges for the Council.

Lost Income

25. The economic impact of the pandemic has had a negative influence on almost all the Council's sources of income, from major sources such as the closure of the Town Hall, to a fall in the number of individuals renting garages, and from the reduced rents received from commercial tenants to fewer fines being issued for licensing breaches. Compared to the original budgeted income, the Council expects to receive £9m less in the current 2020/21 financial year. The main causes of this are a decline in commercial rent received of £4.2m (a 24% reduction), a £2.8m drop in car parking revenue (a 46% fall), Town Hall income falling by 85% from £1m to £150k, and a loss of museum income of £100k.

26. Lockdown affected the operations of the Council's companies, Oxford Direct Services (ODS) and Oxford City Housing Ltd (OCHL), forcing much of their work to stop. This has had a more immediate impact on ODS with updated forecast surpluses over the MTFS significantly lower than previously forecast. The Company have yet to declare a dividend for 2019-20 and are experiencing a significant drop in its surplus for the current financial year 2020-21 which in all likelihood will reduce the dividend paid to the Council.

27. It is important to note that as an actively commercial council which relies on dividends (and margins of interest on loans above PWLB rates) from its companies' trading to support spending on services, the Council is exposed to a relatively higher deficit than most when economic activity recedes. Some councils, heavily reliant on commercial income, face more acute problems. Croydon Council declared its effective bankruptcy in November 2020. Whilst Oxford's loss of commercial income is not as acute as Croydon's, and it entered the pandemic in a far more resilient state, lost income poses a major challenge for the Council in developing a balanced budget especially since several of its important income streams are forecast to be reduced for a number of years to come.

28. Central government has established a scheme to support Councils facing lost sales, fees and charges. However, the losses that are covered do not include rents from commercial property or reduced business dividends, and the reimbursement level is set at slightly below 75% of qualifying losses. Government support is helpful in recouping some of the Council's lost income, but the shortfall, estimated at £12m for the current financial year, remains immense for a Council wishing to provide more than a bare-bones service to its residents.

29. It would clearly be unduly pessimistic to assume that all income lost during the pandemic will never return. When it is safe to do so, people will wish to hold events at the Town Hall or park their cars at the Park and Rides. The Council has therefore made estimates of the speed at which income will return, the major details of which are below:

	2020-21*	2021-22	2022-23	2023-24	2024-25
Commercial Rent	-24%	-21.1%	-10.8%	-11.4%	-11.4%
Car parking	-46%	-24.6%	-1.7%	0%	0%
Town Hall	-85%	-56%	-20%	0%	0%
ODS**	-100%	-28.8%	-7.6%	10%	46.2%

*Percentage figures worked out against budgeted income expectations. All percentage figures for subsequent years based off this baseline figure, bar ODS.

**ODS percentage figures are taken from comparisons between previous and updated business plans. These figures include the effect of anticipated business growth (a non-secure dividend) and do not simply reflect the work undertaken by ODS on behalf of the Council (the secure dividend).

Museum income is not included because funding has been received to look further at the business plan, making predictions more difficult.

30. Although the Council has made its best efforts to forecast the likely return of incomes, the foundations of those forecasts are particularly uncertain at present. The success of the vaccine roll-out, the danger of new mutations, the severity of intervening measures by central government, and even the efficacy of foreign governments in implementing their vaccination programmes, could cause very different outcomes from those forecast, with very different financial outcomes. The Council could, through no fault of its forecasting, find that expectations for recovery in income streams were out by millions of pounds.

Staffing costs

31. Staff wages form an important element of the Council's overall budget, costing £34m per year. The Council is not part of the national pay agreement, and instead sets its wages on a local level.

32. In discussion with the unions, the Council has sought to balance the competing pressures of rewarding staff for their work during the pandemic, maintaining retention rates and retaining experienced staff, reducing costs and avoiding redundancies as far as possible. Given the level of uncertainty the Council faces, rather than a multi-year pay deal a one year pay deal has been agreed. All staff will receive a £400 payment in April 2021. The level of increase is less generous than in previous pay agreements, with the minimum previously being £500. Further, it is non-consolidated; thus the increase does not move the reference level up for future wage discussions, saving money throughout the course of the MTFS, which provides greater flexibility to react to the uncertain future outlook. As a flat rate sum, the pay award is progressive, with the percentage increase higher the lower the pay of the member of staff.

<u>Priorities</u>

33. Amidst the challenges faced, the Council still is making budgetary provision to progress its vision to 'build a world class city for everyone'. Key contributors to the realisation of this vision provided for in this budget include:

- The assumption of the £1.5m per annum financial risk around the Council's Floyd's Row facility in the event that government and partner contributions are not

forthcoming, and the transition costs of £570k to St Mungo's continue once the facility is fully operational as a key element in the Council's homeless strategy.
- Investment in the Young People's pathway of £125k per annum to provide supported housing for homeless young people or those at risk of homelessness.
- Partnering with the County Council to implement a Zero Emissions Zone within the City centre at a cost of £23k per annum for two years
- Engaging in communication and engagement activities to follow the outcomes of the Citizens' Assembly on Climate Change, including a retrofit summit and Zero Carbon Oxford summit, and a switch to green gas (derived from biomass).

Capital allocation over the course of the MTFS includes

- Over £178m for the purchase of new Council houses
- £7.25m for retrofitting Council homes to improve energy efficiency
- Almost £9m for estate regeneration
- £5.2m for East Oxford Community Centre and £1.5m for Bullingdon Community Centre
- £1.28m in disabled facility grants

Financial Strategy

34. It is important to understand the Council's strategy in its wider context. Although the Council did not require a mid-year budget to address the consequences of the first national lockdown, in June 2020 it took a number of measures to mitigate the financial impact. These included pausing items of new expenditure, furloughing staff and drawing on reserves. These were designed to stabilise the situation while a more comprehensive budget was developed with fewer uncertainties at a later point in the financial year.

35. The Council's proposed strategy to address the financial challenge of setting a balanced budget from a projected £12m deficit in 2020/21 alone builds on its approach in June 2020. It seeks to close the gap between income and expenditure in four ways:

- efficiencies and savings
- prudential borrowing and investment to generate returns
- income maximisation from external sources
- use of reserves

Efficiencies and Savings

36. In response to its deficit, the Council proposes to make efficiency savings which, over the course of the MTFS, total £9.5m. The Council is making efficiencies where circumstances have changed and a service is no longer needed, for example its Planning Duty Service, or can be delivered more efficiently if services are redesigned, such as the consolidation of Housing and Community Services. Covid has brought forward a large number of savings arising from the possibilities of technology: remote working enabling the rental of floors in Council offices at St Aldate's Chambers, going cashless, using robotic process automation, and cutting travel costs for training due to greater reliance on online courses.

37. Not all efficiency savings can be made without some downside impacts. Where possible, the Council has striven to offset the effect of efficiency savings so as to maintain overall service levels, to balance reducing funding to the voluntary sector by providing greater non-pecuniary support, or by increasing digital engagement with the Council through the Customer Experience Strategy while protecting those unable to use digital services .

Borrowing and Investment

38. With interest rates at near all-time lows, particularly given the recent 1% reduction in PWLB rates, the rate of return required from investing borrowed money in order to make a positive margin is also low. Although investment returns are always uncertain and so do carry risk, particularly with borrowed money, the lower the rate of interest, the more favourable the risk/return balance becomes. Across the term of the MTFS the Council plans on making capital spends of £314m within its General Fund, and a further £294m in the Housing Revenue Account (HRA). To fund this spending, the Council will be borrowing £447.8m, 73.5% of the combined HRA and General Fund budget. Not all capital spending is made with the purpose of generating a surplus to underpin revenue spending, but the Council is embarking on two notable investments, one in its housing company, OCHL, and the other in activities, such reconfiguring commercial property or renewable energy, which are expected to achieve that. A further investment of £14m to consolidate the depots of Oxford Direct Services (ODS), has a budget line allocated to it, but the project has not yet been signed off and is not discussed below.

Oxford City Housing Limited (OCHL)

39. The Council is the sole shareholder of two companies – Oxford Direct Services and Oxford City Housing Ltd. The Council proposes over the course of the MTFS to borrow £153m to lend to the Housing Company, to achieve its housing development programme. The sources of the Council's returns from this lending are two-fold. Initially, whilst houses are being developed, the main source of revenue is from the margin between the rate at which it borrows from the PWLB and the rate charged to the Housing Company. Later on in the MTFS period, once house sales have been realised, so that borrowing decreases and cash-flow expands, the main source of income from the Council will be in the form of dividend payments. As the table below shows, the size of these returns are extremely significant to the Council's overall income:

	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's
Loans outstanding at year end to Company	77.54m	105.83m	114.65m	65.68m
Revenue Returns to Council				
Gross Interest	2.7m	3.47m	5.9m	6.9m
Dividends	0	0	0.76m	5.1m
Total	2.7m	3.47m	6.7m	12.0m

Commercial Property

40. In December 2019 the Council agreed to the principle of a programme of commercial property purchases valued at £63m. In June 2020 that programme was paused, partially owing to Covid uncertainty, but also whilst clarity was sought on the government's consultations around changes to PWLB rates. The current proposed budget includes provision to make purchases of up to £53m.[1] After interest and other costs, by the end of the MTFS these investments are forecast to contribute £900k per annum to the Council's revenue budget.

Income Maximisation

41. The Council's approach to maximising income from external sources is significantly more nuanced and context-dependent than making across the board price increases. External income largely derives from government grant funding (over which the Council has little to no influence), Council Tax (over which it has some influence) and the Council's own charges (with a varying influence). Each requires distinct strategies, and indeed sometimes multiple strategies, to achieve the maximum, sustainable income whilst simultaneously not breaching the Council's aims to protect the financially vulnerable.

42. As referenced in the Covid-19 section above, in the last year the Council has been in receipt of abnormally high amounts of government funding to help manage the Covid pandemic, both on a general basis but also with targeted funding for specific priority areas such as homelessness, protection of the vulnerable and the safe reopening of streets. In total, the figure to be received by the Council in the current budget year is estimated to be £8.4m. The biggest item, repayments for lost sales, fees and charges, is yet to be received by the Council as a claim must be made at year end, and is subject to audit by government. This figure is expected to be around £5m, but the judgment of the auditor will determine the ultimate figure, meaning there is some uncertainty. Central government has announced a continuation of this scheme for the first quarter of financial year 2021/22, and the Council will seek to recoup as much as it can through this scheme and other funds available.

43. In general, few positive assumptions have been made on the outcome of applications for grant funding from government, even when the Council is relatively confident, such as MHCLG's Rough Sleeping Initiative (round 4). Those that have been made, for example, £100k from government in support of leisure facilities, are extremely conservative. Overall, this reduces downside budgetary risk.

44. The budget does not assume government grants will continue into 2021/22, though it is possible that they may be extended or new funding announced. It should be recognised, however, that much funding is in response to the need for greater outlay, and the level of government support to date has only partially covered Council losses,[2] falling a long way short from the rhetoric of total backing and encouragement to 'do what it takes' by government to local authorities at the start of the pandemic. The Council will continue to lobby for further funding, but the prospects of further government funding should not be considered a panacea for the Council's problems.

[1] Due to changes in the rules for PWLB lending, the Council is currently reappraising its position but no decision has been made.
[2] The government's reimbursement of lost sales, fees and charges, for example, is based on a 75% reimbursement for 95% of the losses incurred.

45. Regarding Council Tax, the Council has budgeted for an income from Council tax of £14.66m in the first year of its MTFS, rising to £16.02m in the final year. Increases are proposed at 1.99%, the maximum level by which Council Tax can be raised without a referendum. When placed against alternative sources of income-raising, such as further efficiencies or higher fees and charges for residents, it is considered prudent to make this decision. Council Tax income equates to approximately 60% of the Council's net budget and generates a highly reliable income, the effect of which is compounded year on year as the base rises. In addition, despite levying the maximum increase, the Council is able through its Council Tax Reduction Scheme to protect those with the least means to pay. The Council is one of fewer than 30 Councils nationwide that retain a 100% discount for the poorest residents, a demonstration of the depth of its commitment to insulating the most vulnerable from further financial demands.

46. The fees and charges set by the Council cover a variety of situations, with a similar variety of issues which shape their level even when seeking to maximise the income derived from them. By law, the Council's licensing functions must not make a profit, but simply cover costs, creating a price ceiling. The Council must also be mindful of the markets in which customers paying fees and charges operate. For instance, maximisation of income has meant a freeze in street trading charges; many street traders' incomes are severely impaired by Covid-19, and forgoing a rise in prices to support businesses and protect demand in the long term is deemed a sensible option. There are instances, however, where the Council has introduced fees for services which in the past it had resisted charges, such as bulk waste collection.

<u>Reserves</u>

47. The magnitude of the deficit precipitated by Covid-19, were the Council to attempt to close it through efficiencies, borrowing and income maximisation, would fundamentally recast the relationship between the Council and its residents, lowering the quality of life for all, but particularly for the most vulnerable. Furthermore, savings from efficiencies and income from investments take time to materialise, and the Council has an obligation to set a balanced budget in the forthcoming year. The Council therefore proposes to close the gaps remaining after taking other steps by drawing on approximately a quarter of its current £40m of reserves, £5.33 in Y1 of the MTFS, £2.95m in Y2, £0.97m in Y3, with anticipated payments into reserves in the final year. The Council will also need to draw on reserves for the current financial year 2020-21, with the total amount to be drawn forecast at just over £11 million over the MTFS period.

48. Use of reserves is not a cost-free decision. Money that is taken from reserves would have been used for an alternative purpose, be it reducing the Council's borrowing needs (and therefore interest), being invested and generating a return, or being spent on projects which would benefit the City's residents. Indeed, although the interest rates are historically low at present (particularly since the 1% reduction in rates from the PWLB), the Council is nevertheless borrowing hundreds of millions of pounds, on which it must pay interest. Furthermore, the use of reserves is not sustainable for the Council in the long-term. Once money from reserves has been drawn down, it is no longer available. It is the duty of the Head of Financial Services, the Council's S.151 Officer, to monitor these outgoings and be able to report that the Council is on a sustainable path and capable of setting a balanced budget. The benefits of heavy reliance on reserves are that such

reserves have been built up in good times precisely to insulate the Council financially in a situation such as it currently finds itself. Though the pool of reserves is finite, drawing them down provides the Council time in which to implement and see the benefits of efficiencies and investments, and to see income sources recover. This course of action carries higher risk than making deep cuts to services, but it avoids the human cost of such action.

Other Issues of Note

49. It is possible to see the significant financial pressures the Council is operating under following the effects of Covid, and the large number of ambitious proposals within the budget, e.g., the move to remote working, increased digitisation, or the Council's borrowing for house-building or income-generation, and to impute a causal relationship between the two, the impression given being one of a sharp reaction made to a big shock.

50. Whilst the pandemic has indeed been a significant shock, and the Council has made concomitantly significant adjustments, these adjustments are far from a sudden reaction. The effect of the pandemic has been to accelerate a number of proposed changes which the Council has been working towards over recent years, particularly around remote working and digitalising Council services. Likewise, the Council's borrowing for house building and proposals to make a margin on investment income are strategies that were originally agreed in 2018 and 2019 respectively. Covid and other changes, such as the PWLB borrowing criteria, do mean that these ideas have been reassessed in the face of changing circumstances, but they reflect the implementation of the Council's long-term strategic aspirations in new circumstances, rather than a knee-jerk flurry of grand projects in response the magnitude of challenges faced.

Chapter 4: Findings and Recommendations

Service Area Budgets

Housing

51. Housing is an area which has been subject to significant upheaval and uncertainty owing to the Covid-19 pandemic. In the general fund, since March, the Council has provided temporary accommodation under the Government's 'everyone in' policy to around 130 single homeless individuals at any one time. In the Housing Revenue Account the level of rental payments from Council housing has held up to date (lower than in 2019, but comparable to 2018), but earlier and more personalised intervention has been and will continue to be necessary to manage arrears in the face of income-uncertainty for Council tenants. Looking further down the line, though Covid did mean the temporary shut-down of the sites being developed for social housing (which will, when tenanted, generate rental income), those delays have been managed and all sites are now progressing. Tighter lockdown measures in the future, however, could be a risk to the timing of new housing, and therefore future revenue streams.

52. By law, money generated through social rents must be managed in a separate account to the General Fund, the Housing Revenue Account. Consequently, those areas of spending relating to HRA and non-HRA funding are addressed separately.

Housing Revenue Account

53. Though not a new item, the Council's purchasing of homes for social rent remains one of the most important financial commitments.

54. The Council currently manages approximately 7,500 residential properties in the City but following the government's decision to remove the debt-cap for HRA borrowing in 2018 the Council has been pursuing a strategy of borrowing to fund the purchase of 1,119 houses over the next 10 year period, developed by the Council's Housing Company.

55. The figures for borrowing over the MTFS period are below:

	Closing Loan Balance
2021/22	£274m
2022/23	£332m
2023/24	£381m
2024-25	£443m

56. For context, it is important to understand that this level of borrowing is not related to Covid. The Council was already committed to an ambitious plan that would increase its housing stock by approximately 15%. Rents from the additional properties from this overall programme are calculated to pay back over 40 years of the HRA Business Plan, with a maximum payback period of 70 years for any individual project, a shorter duration than the expected lifespan of the assets. As a consequence, although the size of the

borrowing is undoubtedly significant, it remains prudent. It is planned borrowing, not a sudden response to Covid, and the maximum level of debt equates to less than £53k per property and the repayments are covered by rental payments.

57. Other notable areas of capital investment within the HRA include an investment of over £9m on estate regeneration and £7.25m in energy efficiency measures for Council housing stock to deliver on the Council's ambition to have 95% of its stock to be EPC rated C or above by 2030.

58. The increase in the Council's housing stock requires increased staff to manage the load, including a tenancy management officer and shared ownership officer. More broadly, the Council will also require increased number of compliance officers and safety engineers to meet new building safety requirements following the Grenfell Tower tragedy with 2 FTEs posts being created.

59. Overall, the HRA is budgeted to generate a small surplus for its first three years, with a greater surplus arriving in the final year of the MTFS. The overall balance of the HRA account is budgeted not to fall below £4m at any point, providing a cushion against unexpected costs or shortfalls in income.

Year	2021/22	2022/23	2023/24	2024/25
Surplus (£000's)	389	522	369	2760
Balance (£000's)	**5,965**	**6,487**	**6,855**	**9,615**

General Fund

60. Although the bulk of the income and expenditure within Housing relates to the Council's provision of housing, and so falls within the HRA, not all of it does so. The Council's duties around homelessness are one of the biggest areas of spending within the General Fund.

61. The two key areas of savings within the General Fund element of the Housing budget are the Housing Needs Systems and Structure Change and the development of a County-wide rough sleeping recommissioning strategy. The former was not discussed by the Review Group, but is a combination of measures. First, allocating more of the costs for some homelessness services to Government grant funding programmes with an equivalent reduction to the base budget. Second, a review of Council structure to deliver greater efficiency which is anticipated to allow a reduction to staffing levels by 2.5FTE.

62. The financial strategy underpinning both key savings is the move away from an emergency response to homelessness and rough sleeping, and instead taking measures to prevent them from occurring in the first place. This would have the twin benefit of not only avoiding the significant cost of temporary accommodation for rough sleepers, but also the avoidance of human costs for the individuals who would otherwise experience homelessness.

63. Another major efficiency, combining elements of the community services and housing directorates will be discussed in the community services section of this report.

Rough Sleeping and County-wide Commissioning

64. The budget proposals around Rough Sleeping occur against a background of the unusual context which the pandemic has created. Given the particular danger to life of those sleeping rough during the first national lockdown, the government instituted, backed by funding, the ‘everyone in’ policy. This policy placed a duty on all housing authorities to provide independent rooms for all rough sleepers. The Council managed this within a three week period. Some people are able to leave temporary accommodation to move to permanent accommodation, and they are replaced by others who have started rough sleeping after losing their accommodation due to the pandemic. Overall, on average 130 people per week have been supported in this way. This backdrop has had two important consequences. First, it provided an opportunity while rough sleepers are accommodated to seek to find more permanent solutions, giving additional momentum to the inter-agency partnership working that has already been taking place across the County. There is, however, a second issue arising from Covid. This is that Oxford’s recently opened facility for supporting Rough Sleepers at Floyds Row, which included temporary accommodation, has been left unable to offer this option due to the communal sleeping arrangements.

65. Regarding partnership working, the issues arising from rough sleeping are broad and usually interdependent, often requiring the input of multiple services to address. In the absence of joined-up working between the agencies responsible for those services, a situation can arise where inputs made by one agency are experienced as savings in another. This mismatch between input and outcome can create perverse incentives that lower the overall level of support, creating poorer outcomes for rough sleepers, and raising costs for all agencies in doing so. The county-wide approach to commissioning recognises the interdependency of outcomes between agencies, pooling costs to deliver overall savings through reducing demand for services. Further efficiency is also enabled by such an approach where, for example, costly accommodation within the City can be substituted by more affordable accommodation elsewhere. For the Council, which has invested significantly in providing a high-quality hub for assessing and supporting rough sleepers at Floyds Row, contributions are required from other agencies towards the cost of the service.

66. The Housing and Homelessness Panel noted the high number of deaths that had occurred within supported accommodation over the previous year (5) and sought reassurance that the level of support within the budget was sufficient to keep individuals safe. Increases in deaths had been reported nationwide, suggesting that the issue was not simply a local problem. Nevertheless, a series of non-budgetary measures had been taken, with the County Council being asked to oversee an in-depth review, and agreement that every death of homeless individuals would routinely be investigated. From a budgetary perspective, the recommendations from the County Council’s report identified multi-exclusion from services as a key contributor to the recent deaths. The Council’s proposed strategy of increased joined-up working within a county-wide approach, whilst delivering savings, would also be expected simultaneously to reduce the risk of similar outcomes occurring in the future.

67. Of particular interest to the Review Group was the growth in budgetary provision for the Council's Floyds Row facility from £400k to £1.5m on an ongoing basis, particularly at a time when the facility is partially unable to be used in its intended manner owing to Covid. The rise in costs to the City Council budget was not unforeseen. The previous year's budget had been agreed in the expectation that funding would be received from the Ministry for Housing, Communities and Local Government (MHCLG), and in the event that it was not forthcoming, that reserves would be used. The disruption wrought by Covid meant that although the Council was indeed awarded this funding, with Floyds Row being closed, the money was redirected with MHCLG's blessing into implementing the Everyone In policy. This year, the budget proposals assume income from government of £400k (along with funding from St Mungo's, Housing Benefit income and contributions from neighbouring districts and the County Council), and it was reported to the Review Group that MHCLG strongly supported the project and there was high confidence of receiving grant support at least in the region of previous grant levels.

68. The Review Group further questioned why the level of spending on Floyds Row was deemed high risk, something more usually associated with savings than spending. Concern was raised whether this meant there was a reasonable possibility that costs could escalate further. It was confirmed that the Council was budgeting on the basis of prudent assumptions for contributions received from partner agencies for the costs of Floyds Row, and that such income was, despite good working relationships, still unsecured. Thus, there was greater uncertainty over its costs relative to other projects.

69. The Review Group, whilst supportive of the positive work in developing relationships with partners locally and at MHCLG, has concern over the overall risk to the Council were external funding not to materialise. This is particularly the case because, without external contributions, the Council relies on its homelessness reserve. Were no money to be received, expenditure at budgeted levels would see the reserve completely depleted by the third year of the MTFS, leaving the Council with difficult decisions to make on whether or how to maintain that same level of spending. It was suggested that it was more transparent that the Council present the worst-case risk within its budget report

Recommendation 1: That the Council includes within its budget report confirmation of the overall cost exposure relating to Floyds Row in the event that no external support is granted

70. A further issue was raised in relation to cost exposure at Floyds Row, that being the decision that would have to be made in the future over whether, because of Covid, it would require reconfiguration from communal dormitories to single, en-suite rooms. At present, the interim accommodation that Floyds Row provides is not necessary because all rough sleepers are offered interim accommodation in non-communal settings, and those costs are met by the government. As such, no decision has been made at present on whether reconfiguration would be required, and hence no budgetary provision made. The Review Group deems this to be an issue of concern. One source of income included within the budget for Floyds Row derives from housing benefit payments. In the event that communal dormitories are found to be inappropriate for the medium to long term on the basis of Covid, the Council would face a bill for reconfiguration, receive no housing benefit income whilst works were being undertaken, and potentially receive a lesser income from housing benefit into the future owing to reduced capacity arising from needing to provide individual bedrooms with en-suite facilities. With reliance at present on the homelessness

reserve, further costs and reductions of income would exacerbate the situation and bring forward difficult decisions.

Recommendation 2: That the Council reviews the financial assumptions for income and expenditure for Floyds Row in light of the implications that reducing the amount of accommodation would have if the facility were to be used as an assessment centre only, or as a provider of individual and en-suite temporary accommodation.

Environment, Sustainability and the Climate Emergency

71. Responsibility for the environment within the Council is dispersed across its entirety. However, it is driven by the Environmental Sustainability team comprising the Environmental Quality and Carbon Reduction Teams.

72. The Environmental Sustainability Team has not, unlike other parts of the Council, seen a significant drop it income. The reason is much of its work is on projects, funded by government departments and other organisations. In the main, those funders have been sympathetic to the disruption arising from Covid and have extended deadlines and delivery funding.

73. The general challenge for the service in contributing to the Council's more straitened circumstances has been to maintain the level of delivery of those bids agreed in last year's budget but subsequently paused whilst the impact of Covid on the Council's finances was being evaluated, particularly around communications following the Citizens' Assembly on Climate Change. The proposals include the use of the service area's own reserves, efficiencies around virtual meetings, and working with partner organisations to increase engagement.

74. The Review Group, having scrutinised the proposals, was in support and makes no recommendations.

Planning and Development

Planning

75. In order to meet its housing targets under the Local Plan, the Council is overseeing as the Planning Authority, significant growth in the number of houses being developed within the City. The main change to the Planning budget, therefore, is an increase in the staffing budget to undertake that work. The cost of this work is being met (and, in fact, contributing £259k in income to the Council) by Planning Performance Agreements paid for by developers to manage higher volume or more complex applications smoothly. Development in the City largely halted during lockdown, but the number of planning applications actually increased. Although relatively small at £10k, income from planning applications are expected to increase each year for the next two years.

76. The sources of Planning's savings are from the removal of a Planning Duty Officer service (£24k each year), providing informal advice on a drop-in basis, increased

digitalisation of the Planning process, which is expected to see a £96k saving per year from the final year of the current MTFS, and consolidating Planning Committees.

Consolidation of Planning Committees

77. The proposals within Planning of consolidating the Council's two Planning Committees, East Area and West Area, into one were scrutinised. Savings would accrue from a number of sources: a reduction in the time required by officers to write reports and attend committee meetings, the removal of a Chair's allowance for one committee, and the cost of equipment hire. It was acknowledged that the savings, estimated to be £45k per annum, would require a reduction in the overall number of applications coming to committee, and an increase in the number delegated to officers to decide. The Review Group recognises that savings are necessary, but considers the reduction in decisions being made by democratically appointed decision-makers has a high non-pecuniary cost. It suggests that the Council should monitor whether the predicted savings are realised, and reinstate the two committees system in the event that the savings are not realised.

    Recommendation 3: That the Council monitors the savings made, and reverses its consolidation of planning committees in the event that the predicted savings are not realised.

<u>Regeneration and Economy</u>

78. The effect of lockdown and travel restrictions has put huge strain on those parts of Oxford's economy which are reliant on office-worker or tourist footfall; on 3 August 2020 footfall was estimated to be 54.6% down on the preceding year, worse than the national reduction of 40.2%. Though these figures were improved by a promotional campaign 'Rediscover Oxfordshire', the improvement was sufficient only to draw level with the national average fall. As an owner of a large portfolio of retail and food and beverage units, this fall will inevitably hit demand for those types of properties, and ultimately the rent received by the Council. Falls in expected income are significant, almost £2m less per annum by the final year of the MTFS compared to the start.

79. Although the government is supporting Councils with a scheme for lost income, fees and charges, the terms of the support do not include rental decreases on commercial property investments.

80. Alongside a number of savings, the most notable budget item is the Council's plan to increase income through borrowing and investment in commercial property and regeneration schemes. This proposal is not being made in response to Covid-related losses, having been agreed in the 2020/21 budget and then subsequently paused whilst the effects of Covid were being assessed. In addition, the budget includes a number of new posts required to facilitate this work.

81. Of particular interest to the Review Group in relation to the recovery of the City's retail sector and visitor economy were proposals for investment in the Covered Market, and the level of financial support for Experience Oxfordshire.

Covered Market

82. The Council's ambition to reinvigorate the Covered Market predates the Covid pandemic, with investment being made on improving the physical fabric of the site, and a further £2.2m for roofing and other planned maintenance being set aside for roofing, high-level glazing, internal decoration, replacement of brick paviours, structural alterations to various units and CCTV. The Review Group sought justification on cost-benefit grounds for that degree of investment.

83. As a Grade 2 listed building the Council is under a legal duty to maintain the building. Its status as a listed building also makes work on it more expensive. Intervention at the present time means further deterioration, increased costs and health and safety hazards may be avoided. That aside, from a purely income and expenditure point of view the Council receives £1.2m per annum in income from the Covered Market, a figure which would be expected to drop both significantly and quickly if the level of investment were to be curtailed. One partial reason for this is that shop requirements in the digital age are different, and less floor space is required. As such, a number of units need to be reconfigured and subdivided to be attractive. Likewise, investment in CCTV would enable new types of tenant, such as later-opening bars. Without such investment, long-term unit voids, lower rent or rent-free periods would be expected, harming returns.

84. With investment being made in the fabric of the site, making it an environment attractive to traders, questions of the plans for promotion and marketing were explored to ensure maximum returns on the investment. This is being undertaken on multiple levels, with an external agent currently managing and promoting tenancies at the market. However, the Council has also increased the marketing with internal resources, with a member of the communications team working up to three days per week on raising its profile. This had already seen increased levels of interest. In the coming months, a rigorous leasing strategy would be agreed, identifying the types and mix of tenants that would bring greatest benefit overall. Once this was agreed, it would be necessary to develop a marketing strategy to bring in the right types of tenant, as well as additional custom to those shops. A possible future option to increase marketing capacity could be through including revenue-based rent elements in tenancy agreements, whereby the more successful the shops were, the more rent they would pay.

85. One idea that could be considered was that the Covered Market might be set up with a ring-fenced trading account. The Review Group is strongly in favour of this idea. It would provide greater financial flexibility and transparency in managing expenditure within an overall envelope, an important consideration when dealing with older buildings and unexpected costs can arise. Furthermore, in times of surplus those surpluses could be retained by the Covered Market to act as a sinking fund, to insulate against future shocks. This would be a reassurance to current and potential tenants, that their rent would be recycled into the upkeep of the Covered Market. Finally, a ring-fenced account has the benefit of making financial performance more transparent on the basis that the accounts would require less unpicking from the Council's overall budget.

Recommendation 4: That the Council establishes a ring-fenced trading account for the Covered Market.

86. One area of concern for the Review Group is that, with the challenges for businesses at the current time, and the retail sector in particular, estimates of predicted income may

potentially be optimistic. At the same time, the Review Group also notes the indirect benefits a healthy Covered Market brings over an unhealthy one, notably a better visitor experience and support for local jobs and supply chains. Both issues would benefit from additional marketing, to encourage greater footfall and attract tenants to empty units. The Review Group considers that in order to realise the direct benefits of rental income, and the indirect benefits of a full Covered Market, the Council may need to invest more in marketing. However, in such difficult times, it is essential that the Council brings in people with private sector experience of successfully developing markets.

Recommendation 5: That the Council increases its investment in marketing the Covered Market, and ensures that spend is directed towards those with a track record of successfully developing markets.

Experience Oxfordshire

87. Experience Oxfordshire is the destination marketing organisation (DMO) for Oxfordshire, which seeks to raise the profile of Oxfordshire as a destination for tourists and other contributors to the visitor economy. Contributions from the public sector are made by Oxfordshire County Council, Chrerwell District Council and the City Council, and amount to £65k per annum. Within the budget proposals, the Council's funding for Experience Oxfordshire is stated to fall after two years, a proposal queried by the Review Group in light of the importance of the visitor economy to Oxford.

88. Whilst the Council is not maintaining its level of funding to Experience Oxfordshire, it has committed to providing £25k of support per annum for the next two years. This is not detailed in the accounts because the payment is being made from central government grant funding made for Covid-related business support and recovery.

89. Members of the Review Group were of the view that the Council's financial support for Experience Oxfordshire is not particularly well known, that the Council being seen to support the recovery of the visitor economy is an important issue for local people, and that there is therefore value in wider communication of this fact. Communications, including a press release, to address this are currently in development.

90. The Review Group believes the City Council is already likely to be the biggest contributor to Experience Oxfordshire from the public sector, but its contributions are still small. With uncertainty over foreign travel, the UK has seen a higher proportion of holiday makers staycationing, a trend that industry experts expect to continue into 2021. For Oxford to capitalise on this trend by enticing visitors to come to the City instead of its competition, its promotion and the facilitation of good visitor experiences will require more than the Council's contribution of approximately one worker's salary. It is recommended by the Review Group that the Council increase funding to Experience Oxfordshire, and that it explores opportunities for more Oxford-centric promotion.

Recommendation 6: That the Council increases its funding for Experience Oxfordshire, and seeks in return greater focus on the promotion of Oxford City as a destination.

ODS Depot

91. Another proposal falling within the Regeneration and Economy service area, unrelated the recovery of the visitor economy, is the rationalisation of the two depots used currently by one of the Council's companies, ODS, into one site. With an initial estimated capital budget of £12m set aside, the project seeks to review and rationalise the satellite depot sites to improve efficiency of operations, support growth of ODS and allow existing sites to be redeveloped.

92. With initial estimates indicating the internal rate of return from the depot rationalisation to be very healthy, some members of the Review Group questioned the potential to expedite the project in order to realise the returns more quickly. Others, looking at the £12m cost, wished to know whether the project could be stopped completely.

93. At present, the project is currently within its feasibility phase, with the capital budget allocation made for it dependent on its business case being made. The decision whether to proceed or not proceed is not one which could be made on an informed basis before the assumptions of the business case are tested in the feasibility study. As such, it would be inadvisable to stop or speed up the project until such information is available. In discussion it was noted that any stop/go decision would have to factor in the multiple interdependencies of the project, including the impact on the ODS business plan and dividend to the Council, and the need to find alternative housing development sites to satisfy Local Plan requirements in the event that the project did not proceed.

Commercial Property

Commercial Property Rental Income

94. As a landlord to over 200 commercial properties, the Council is exposed to the economic impacts of Covid in the form of reduced or unpaid rents, and void periods. This is consistent with the flagged high level of risk from the current portfolio. The estimate of that impact in the budget for 2021/22 is a total of £3.7m, a figure about which the Review Group sought greater clarity and the modelling underpinning it. It was explained that the modelling had been undertaken to review every property for solvency and available external support to evaluate the level of risk. The overall macroeconomic situation could clearly affect the modelling, but the Council had undertaken as rigorous an evaluation as it could in order to provide the most robust forecast. The Review Group recognised the efforts made, but also noted that a degree of risk remained.

Commercial Property Investments

95. The first draft budget of the Council proposed to borrow £53m for commercial property investment, with returns budgeted to be £900k per year by the end of the MTFS.

96. Recently, the government changed the criteria for loans from the PWLB, which is the cheapest source of loans for local government. The changes prevent borrowers from accessing PWLB if that borrowing is made to buy investment assets primarily for yield.

97. This is a significant change and requires the Council to reassess its strategy. At the time of the Budget Review Group, no decision had been made so limited discussion took place. However, one effect of the PWLB changes would be that, in order to qualify,

borrowing would have to be for regeneration purposes, and therefore local. Should the market in Oxford not be deep enough to create sufficient commercial opportunities for £53m, it may be necessary to reduce the sums invested. This would have a difficult impact to quantify on returns. On the one hand, less money invested would mean reduced returns. However, regeneration projects may have a higher overall yield, although their returns may be slower to materialise.

98. In light of the lack of specific detail, the Review Group's recommendations are similarly broad. Firstly, it notes that the argument underpinning the overall Commercial Property Strategy is to reduce risk from its current commercial property portfolio through diversification, and to generate a return on low borrowing rates from the assets purchased. The Review Group considers that if the Council is borrowing money for risk reduction through diversification and for return, it would likely be to achieve these aims more fully if it were to consider investing in assets beyond commercial property. The examples it raises are those of Warrington and West Berkshire Councils' investments in renewable energy. A similar investment by the City Council would remain eligible for PWLB funding, meaning lower borrowing rates, and generate reliable returns with reduced risk; although it is recognised that there are different sub-markets within the commercial property market, which will face periods of difficulty differently, they do remain in the same overall market as the Council's existing commercial property portfolio. This means the downturn in retail (and likely offices) property values, will be expected to have some negative effect on other commercial property asset types. Ultimately, if this were to occur, the Council would have to write down the capital value of those properties (as well as suffering a reduced income), which would have significant repercussions for its budget. Renewable energy is in a completely different asset market, and one whose reliable returns may become more in demand (and therefore valuable) if allocations in more volatile assets start to accrue losses. This would have a smoothing impact on the Council's capital values.

Recommendation 7: That before the Council proceeds with appointing commercial property agents, it undertakes a comparison of the expected risk and returns of alternative asset classes to invest in (including renewable energy)

99. The Review Group's second recommendation is that should the Council decide to proceed in property investment, that it focus its efforts on developing and investing properties already under the control of the Council, and that it includes consideration of residential property development beyond the Council's current housing company plans. The reasoning behind this recommendation is that properties already under the Council's control are more predictable than externally owned properties, reducing the risk of transactions failing. The Council should understand the needs of its own area better than elsewhere, and so is better informed in making judgments over value and risk. Investment in non-income producing assets over the purchase of already-built properties brings greater risk and a slower time-frame for returns, but those returns should be commensurately greater, and would also bring wider benefits to the local area. A willingness to develop additional housing rather than commercial space would be of particular benefit, given the shortage of supply for accommodation within the City.

Recommendation 8: That where the Council invests in property, it focuses on investing in and regenerating properties within its control, rather than purchase properties externally, and that it includes residential property as well as commercial.

100. Finally, building on the above, the Review Group is mindful that risk levels are not static, and that in the current environment different investment options can become significantly more or less risky as uncertainties are resolved. As such, it is important that the Council's appraisals of different investment options should also remain flexible to changes in circumstances.

Recommendation 9: That the Council monitors the performance of its borrowing and investment strategy, and that the strategy is regularly reviewed to account for changing circumstances.

Business Improvement and Assistant Chief Executive

101. The Business Improvement Service covers the Council's Customer Service Centre, HR and ICT functions.

102. Business Improvement's responsibilities mean it has been an area particularly affected by lockdown, with near-closure of St Aldate's Chambers and the move to remote working primarily being implemented through the Business Improvement service area. This has required an increase in spending on data (£300k), and on IT and other physical equipment to facilitate remote working (£250k). The budget presupposes continuing remote working, with the costs of the former recouped through rationalising the contract with the infrastructure provider. Having been incurred once, the cost of setting up staff to work from home are unlikely to recur, or at least be at a far reduced level, though other transformation-related work is anticipated and budgeted for.

103. The key response to the pressures on the service area's budget lies in efficiencies made through the rationalisation and streamlining of operating systems and processes, digitalisation and automation, enabling more flexible working and reducing costs when renegotiating contracts. Substantial savings are anticipated from the renegotiation of two major ICT contracts (£200k per year), savings from having fewer printers and renegotiating an external printing contract (£50k per year) and robotic process automation following successful trials to reduce data entry requirements (£50k per year). It should be noted that the realisation of these savings relies on other service areas making changes, although the budget saving sits in ICT. Ensuring this takes place will be managed through the Corporate Transformation Board

104. Although Business Improvement and the Assistant Chief Executive are distinct service areas in terms of the budget, they are combined into one here because, owing to its size, the Assistant Chief Executive's few proposals required discussion. The one that did fits neatly with the wider-discussion on digitalisation, and so is included alongside it.

Digitalisation

105. Savings arising from efficiencies through digitalisation form an important component in the Business Improvement service area strategy. Savings through digitalisation are planned to be realised from multiple angles: increasing access to self-service through improvements to the website and new customer portals for council tax and housing benefit, robotic process automation, the use of more powerful software capable of doing

some currently-manual processes automatically, and the provision of video-conferencing facilities to customers.

106. Review Group questioning on this area focused on the intended outcome of digitalisation. At what point would the move towards digitalisation have been successfully achieved? No corporate targets were set at present; there is a service level KPI that is reported to Scrutiny regarding % of transactions carried out online, but the overarching aim of digitalisation was the same as the Customer Experience Strategy, adopted by Cabinet earlier in the year which sought to enable those capable of using self-service to do so, still maintaining direct support for those that are unable to help themselves or use digital channels, thereby enabling sufficient resources to support those who are not. The shutting of the Council's offices had brought impetus to this drive towards greater self-service. In response to this impetus, the Review Group asks whether the learning of lockdown could extend the ambition of the Customer Experience Strategy towards further digitalisation. It is also of the view that not having targets relating to use of digital communication and self-service during this deeply disrupted year is very understandable, but that monitoring of performance remains an important part of ensuring paper savings are realised, making the adoption of targets for next year necessary.

Recommendation 10: That the Council reviews its Customer Experience Strategy in light of the lessons arising from responses to lockdown and identifies where it could go further towards a wholly digital model of interaction.

Recommendation 11: That the Council adopts corporate targets for 2021/22 around increasing digital interaction with the Council.

107. The Assistant Chief Executive's service area is composed primarily of the Policy, Partnerships and Communications Service. Its budget is relatively straightforward, with the overriding costs being staffing. Within the budget there are some issues of note, including an increase in capacity in data analysis to support the Council's Business Improvement agenda, the pausing of a previously-planned engagement and communication programme around climate change, and the creation of a digital communications officer position.

108. The justification for the digital communications officer role within the budget was presented as being an investment to save, the mechanics of which were queried by the Review Group. In a survey of residents on how they would like to be communicated with, almost 2/3 stated their preference for email, a channel of communication the Council has to date been less proactive in prioritising relative to others. The role of the digital communications officer would be to implement a customer email distribution system across the organisation, and to manage the system and wider digital communications aimed at residents. By sharing information to residents in the way they ask to be communicated with and simultaneously promoting digital self-service, fewer calls and visits to the Council would be necessary, resulting in savings. The Review Group does recognise the validity of the business case in terms of delivering efficiencies, although it does question whether rapid reductions can be achieved in numbers preferring alternative means of communication, such as the telephone, once 2/3 of people had switched to email contacts.

Apprenticeships

109. The Review Group noted that throughout the budget proposals, only one apprentice was mentioned to be recruited, a surprising policy in light of the challenging job market young people in particular face. It was explained that the Council recruits apprentices on a two-year cycle. The most recent cohort had graduated in September 2020, but the Council's planned promotional activity in schools prior to an intake in October 2020 had been paused and reviewed owing to the Council's prudent approach to recruitment across the organisation bearing in mind Council finances. Recruitment for previous cohorts has been a detailed and structured campaign working with schools and colleges and in the community to ensure we recruit apprentices that are representative of the community we service. The impact of lockdown and limited access to community facilities and schools/colleges exacerbated recruitment of the next cohort. It was, however, confirmed that after the budget review process for 2021/22 it was the Council's intention to recruit a new cohort for commencement in 2021/22. The Review Group are surprised that there has been need for a hiatus, given that other councils have managed to recruit apprentices in the last year.

Regulatory Services and Community Safety

110. The Regulatory Services and Community Safety service area consists of Building Control, Business Regulation, HMO Enforcement, Private Sector Safety, the Home Improvement Agency and Community Safety, which includes General Licensing, Community Response Team and Anti Social Behaviour Investigation Team.

111. Covid has had a dual impact on the budgets of the Regulatory Services and Community Safety service area. Implementing a Selective Licensing scheme, a standards-raising exercise for the private rented sector but one with the biggest source of cost-saving at £369k per year, was delayed for a year. Equally, income has been reduced by Covid, from reductions in fines income to reduced demand for fee-incurring services, such as street trading consents and building control inspections.

Licensing

Selective Licensing

112. Although its primary purpose is to drive up standards in the private rented sector, Selective Licensing is a proposal which has important budgetary implications in that it enables significant savings. As noted above, the Council is unable to make profit from licensing activity, but income from licensing can be used to replace the base budget costs of the work to administer the licensing scheme.

113. In last year's budget, the savings had been anticipated to begin in 2021/22. However, the process of seeking government approval for the scheme was delayed due to government guidance to delay implementing discretionary licensing schemes. The application to government must be informed by public consultation, a process which owing to the pandemic the Council was unable to undertake. With the government taking significant time to decide any applications (Hastings, for example, have been waiting nine months to date), and the need for a three month publicity period after permission is granted, the savings are not expected to materialise until 2022/23.

114. Review Group members passed on concerns from members of the public that renters would have the costs of the selective licensing fee fed through to them. In fact, an independently authored, MHCLG report in 2019 on the effect of selective licensing on this issue concluded that 'no real substantive evidence of this effect emerged during the review. The privately rented sector is a competitive market and market forces mean that rents are set at a level the market will bear.'[1] For lower-standard properties, the far bigger determinant of rent levels was housing benefit. Furthermore, at the proposed fee level of £500 for a five-year licence, the cost per week would be approximately £2.

Street Trading

115. With lockdown, street traders have seen significant falls in footfall, cutting income to the Council from consents by £150k this year and by a projected £30k in the 2021/22 year, but these figures are anticipated to rebound in future years. To support this rebound, however, a planned increase in trading licence fees has been reversed; otherwise the Council would likely lose out from fewer traders seeking consent to trade. It was noted by the Review Group, however, that a decision to freeze fees in one year would have an ongoing impact for future years also and the possibility of putting a significant increase forward with generous reductions might be a means of balancing the short and longer term imperatives. The Review Group were informed that this suggestion was not necessary or feasible. The Council would have the power to increase licence costs in the future to make up for any decision at present not to increase burdens on businesses already stressed by the pandemic. However, as with the other forms of licensing, the Council would never be able to raise fees beyond the level necessary to cover costs.

116. On the back of this discussion, it was raised that a common complaint made to Review Group members by members of the public is over licensing fees and why the Council does not use fees as a means of implementing policy, by deterring activity it did not want or using fees to subsidise other activities. It is the request of the Review Group that the bar on profiting from licence fees be made explicit in the budget document.

Recommendation 12: That the Council includes within its budget report reference to the fact that the Council is unable to raise fees for licensed activities beyond covering its costs.

Community Services

117. The Community Services consists of Active Communities, Cultural Services, Community Hubs, the Town Hall and Facilities Management. Responsibility for the Council's leisure provision, the Town Hall and Museum, and the Council's community centres fall within this service area, all areas which have been hit hard by Covid. Support from government has helped to offset a proportion of the impacts in these areas with the Council receiving £2.45m in emergency funding to date, helping to cover the costs of establishing and running the Covid Emergency Response Hubs, with targeted recovery

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[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833217/Selective_Licensing_Review_2019.pdf s. 9.39

funding for the Museum awarded from the Cultural Recovery Fund and the Heritage Lottery Fund. Nevertheless, the fall in rental income from the Town Hall alone in the current year, at £850k, is reflective of the pressure the service is under.

118. In light of these pressures, significant efficiencies are being proposed, including some of the most visible changes to the way the Council works, internally and with residents. These include the partial rental of St Aldate's Chambers to other users, consolidation of some elements of Housing and Community Services to build on positive aspects of lessons learnt from the Council's Covid hub-provision, and the reduction in the grants budget amidst a broader restructuring of the relationship between the Council and its grant recipients.

St Aldate's Chambers and Remote Working

119. One major change within the Council in response to lockdown in March was the move, for the overwhelming majority of staff, to remote working. This is an area where the Council was already moving towards in response to staff demand, to reduce commuting and as a source of savings prior to Covid. The pandemic accelerated this process. Having invested to enable home working, received favourable staff feedback and seen productivity maintained or enhanced, the Council proposes to make two floors at St Aldate's Chambers available for rent. This would mean a capacity of 46% of pre-pandemic levels, generating an income of over half a million pounds per annum by the end of the MTFS.

120. Review Group members questioned the apparent absence of budget provision for making remote working permanent feature of the Council, but was informed that provision had already been made. Much of the initial equipment and IT expenditure on enabling remote working was undertaken at the start of the first lockdown and would not need to be repeated. Continuing support, around health and wellbeing and training managers to support the particular needs of a remote workforce, did not form discrete budget lines but were earmarked in the Council's wider health and wellbeing and People Strategy spend.

121. Comment was made by Review Group members that their experience was towards businesses requiring less office space, raising a doubt over the likelihood of stated income revenues. To mitigate that risk, the Council has engaged consultants for advice, and plans to try market testing before proceeding. It has flexibility to increase the floor space available to rent if that increases overall lettability. The space on offer has some particular strengths, namely its city centre location and big floors. Despite these offsetting measures, the Review Group recognises that the risk is high. One further means of mitigation is that demand for office space is very different in the current environment for different types of office. It is likely that consultants and advisors will tend to offer what they know, and that in addition to letting floors out wholesale to single clients, the Council investigate options around flexible working space, which is currently in higher demand.

Recommendation 13: That the Council seeks advice from advisors with experience of letting and management of multiple models of office provision, including flexible working space.

Consolidation of Housing and Communities

122. At the beginning of the March 2020 lockdown, the Council established a number of Local Response Hubs, providing a one-stop shop for vulnerable people access support. Feedback from residents has been positive towards having a single point of contact, and in consolidating the front-line aspects of the Housing and Communities directorates efficiencies on the combined £5.2m of spending can be driven whilst also providing a higher standard of service within local communities. Efficiencies are anticipated to arise from the deletion of one of the two current director posts, investing in training staff to reduce the number of specialist roles required (though not abandoning such roles completely), and allocating work in the most efficient way possible, for example using Contact Centre staff to oversee mass communication with residents instead of specialists. By 2022/23 the expected savings are budgeted to be £430k per annum.

Community Grants

123. In discussion, the Review Group challenged the proposed £200k reduction of income for community grants from 2022/23 on the basis that with the economic, health and social impact of the pandemic, need for voluntary services would be likely to have increased, making a reduction inappropriate.

124. One reason the reduction is scheduled for 2022/23 rather than earlier is to allow a one-year period in which the Council can assess the impact of Covid on its grant recipients before making changes. It also allows time for the Council to make a number of non-pecuniary changes which are expected to add value.

125. Further challenge was received from the Review Group. It said that the rationale for having regular reviews of the efficiency and efficacy of the Council's grant-giving structure was good, and savings could probably be identified without affecting service-levels, but the Council could alternatively seek to reinvest those savings rather than remove them from the budget. It was agreed that that this would be a welcome option, but the pressures of the Council's losses and its call on reserves meant that unwelcome efficiencies had to be included, of which this proposal was one, and despite cost reductions expected to improve overall voluntary and community sector capacity overall. Nevertheless, with demand exceeding supply for voluntary sector services more acutely than usual in the coming years, the Review Group suggests that maintaining the current level of grant funding should be the Council's top priority if its funding situation improves.

Recommendation 14: That the Council, if its financial situation develops more favourably than anticipated, reinvests the savings deriving from its review of its relationship with the voluntary and community sector back into the grants pot, rather than realising them as a saving.

Social Impact Bonds

126. Reference in the budget is made to income from 'social impact bonds'. The Review Group sought clarification on how such bonds worked, given that no reference appears in the budget for interest or other payments to act as the return for the bondholders.

127. Social impact bonds are contracts between philanthropic investors and delivery organisations. The investors effectively underwrite the delivery costs for positive activities in order to enable social changes in particular areas. These changes will have longer term benefits and cost savings (e.g., antisocial behaviour, the health benefits from reducing inactivity, education, social housing etc.). If the activities are effective and the savings are realised, then a proportion of those savings will be passed back to the investors (who may then use that money to invest in other projects). If the savings are not realised, the investors are either not repaid or are repaid less. In effect, social impact bonds pass the financial risk of providing positive activities to the investor rather than the delivery organisations. This frees up the deliverer to be innovative and try out a range of creative solutions without fear of failure and therefore can lead to better outcomes all round.

128. The bonds are being trialled within the youth ambition programme, with funding being received from Big Issue Invest and Sport England, the scheme is being piloted across 12 local authorities nationwide. For receipt of a budget of c£60k from the bondholders to run projects to tackle health inequalities, anti-social behaviour and school attendance, the Council must repay £15k per year, alongside Active Oxfordshire as the co-commissioner. These are payments the cost of which are covered by the savings for the wider community generated from negative outcomes being avoided. The term of the bond is three years, during which time the Council would hope to secure re-investment from its bondholders, or new investment from alternative providers.

129. The Review Group welcomes the effect of the social impact bond in that it attracts additional funds to the City for worthwhile purposes than would otherwise be possible to finance in the current budget. The Review Group is supportive of the principle of social impact bonds, but does have a degree of scepticism towards their mechanics in this instance. Although the social impacts the bonds seek to achieve, notably improvements around health inequalities, anti-social behaviour and school performance, are laudable, to the Review Group their difficulty lies in their imprecision. Two of the three target areas of the bonds are primarily the responsibility of other agencies, with the Council's involvement being more tangential than fundamental. This means not only that the Council specifically is paying back the bondholder on the basis of savings which accrue broadly across the public sector, but because it is not the agency with primary responsibility for those social impacts it is hard to determine what the cost savings to the Council are of avoiding the negative outcomes. As a counterbalance to this, however, it is recognised that the issues being tackled are complex ones, which require multi-agency efforts, and the favourable income vs expenditure of the bond's design is intentional precisely to bring in second-tier stakeholders.

130. To be clear, the Review Group is in support of the use of social impact bonds generally, but it has a preference for impacts whose focus is primarily experienced within the City Council, for example homelessness reduction, energy efficiency or green energy.

Recommendation 15: That the Council focuses any future social impact bond use on social impacts which are closely aligned to the Council's responsibilities and which can be easily monetised.

Law and Governance

131. The Law and Governance service covers the Council's Legal Services team, the Committee and Member Services team, Electoral Services and Information Governance. The service has very recently undergone a restructure, which reflects the budgetary pressures the Council is under. With staffing comprising the majority of the expenditure for the service area, the budget proposals do not go much further than these, with small efficiencies around court fees and councillor refreshments proposed.

132. Following approval by Cabinet in December 2020 and subject to approval of the Council, one area of expected budgetary growth of note is the recruitment of two additional lawyers, a cost agreed to in the previous year's budget but paused whilst re-evaluation of budgets was undertaken owing to Covid. The Planning and Regeneration/Commercial Property lawyer posts are justified by the need for additional capacity and expertise in these areas in order to facilitate and enable the Council's wider strategic priorities.

Non-Service Area Releated Recommendations

133. A number of the Review Group's recommendations are made not in response to specific budget items but more generally about strategy, approach or simply presentation.

Risk

134. The effect of Covid on the Council to date has been enormous: closing the Town Hall, emptying St Aldate's Chambers, finding accommodation for rough sleepers ,delaying capital projects and jeopardising rents from commercial properties just to name just a few of the ways it has been of impact. The Council has had to make prudent assumptions on how its finances will be affected by the changes, and officers have shown great diligence to profile risk as accurately as possible. It remains inescapable, however, that the full impact of Covid (not to mention Brexit) is impossible to predict, and that the environment in which the Council is trying to set a budget has become more volatile and unpredictable. Greater volatility and unpredictability means greater risk, and it is the view of the Review Group that in a period of increased risk a prudent measure would be to increase the size of its contingencies to enable the Council to ride out unanticipated additional financial challenges.

Recommendation 16: That the Council increases its contingency provision.

Use of Reserves

135. Similar to the above, with the heightened uncertainty on forecasts at the moment the Council's approach to reserves is important. The Review Group is of the view that it would be financially sensible that, in the event that the Council receives greater revenue support from government (or other sources) than anticipated, to reduce the draw on the Council's level of reserves. It is recognised that the Council is minded to divert any surplus income into reserves already. The Review Group does see the replenishment of

reserves as being important to the Council's overall financial resilience. However, there are also some priority areas which have been identified that carry a cost, and in a period of uncertainty there may be others which arise which are currently unforeseen. As such, the Review Group does wish to commend the Council's plan to replenish reserves, but to be open to showing flexibility on this aim in relation to known and potential priorities.

Recommendation 17: Notwithstanding the recommendations elsewhere in this report, that the Council, should it receive more income than forecast, uses some of the surplus income to reduce the call on reserves.

Contextualising Income and Expenditure Figures

136. Even though the Council's forecasts are inherently more unpredictable at present than at other times, it is important that best efforts are made. Internally, this has been done, but the Review Group notes the importance of giving residents and council tax payers confidence in the Council's judgement. One means of doing so, would be to provide the current and pre-Covid years' figures in the budget's income and expenditure. The year 2020/21 is, we hope, the year most disrupted by the pandemic; therefore, providing these details would give a context to those reviewing the magnitude of the impact of Covid on the Council's finances, and hence help people to make reasoned judgements as to the Council's forecasts for future changes.

Recommendation 18: That the Council provides in its budget estimates, information on the current year's income and expenditure and pre-Covid years to act as a contextual reference.

137. Another area where the Review Group considers it possible to improve the transparency of its finances is on the expenditure data on its website. At the time of publication of this report, the last publicly available data on expenditure over £500 by the Council ran up to 31 December 2019. For those wanting to understand Council spending at a more granular level, this lag makes the process impossible. The Review Group encourages the Council to bring this information up to date, and to update it on a quarterly basis.

Recommendation 19: That the Council brings the publication of its expenditure on items over £500 and updates this information on a quarterly basis in the future.

Mid-Year Budget Update

138. There is awareness across the Council that the current budget-setting process is far more uncertain than usual. The success of the Covid vaccine could lead to a bounce back in economic activity. Equally, mutations could delay the vaccine roll out and precipitate extended lockdowns, with consequences for the virtually all the Council's income streams, from council tax to planning applications to dividend payments from its companies. Unusually, a large portion of the Council's budget is also uncertain in that the £5m repayment from government regarding lost income, fees and charges is subject to audit. It is impossible to predict what will happen, and because of that the range of potential outcomes for the Council financially spans differences in the millions of pounds.

The financial decisions that Council may have to make in-year, therefore, could be very different to those envisaged by the budget.

139. It is recognised by the Review Group that the Council did, in emergency circumstances, make notable and sensible changes to its budget mid-year. However, the Review Group considers that a more formalised process would enable better engagement, including by the Scrutiny function, in the process. The Review Group does not wish to overburden the Council with an entire additional comprehensive budget, but suggests that a budget update is scheduled mid-year, where significant changes are proposed and subjected to non-executive Scrutiny.

Recommendation 20: That the Council schedules a mid-year Budget update

Treatment of OCHL Revenue

140. The budget report has disaggregated the overall forecast dividend revenue from ODS into secure (deriving from work for the Council) and non-secure (deriving from contracts external to the Council) categories. The Review Group welcomes this as a way of communicating the degree of risk attached to the Council's income expectations. A similar distinction exists with the Council's Housing Company, OCHL. Of all the houses being built, the Council plans to purchase a number through the HRA, but there are others which are due to be sold on the open market. It is recognised that OCHL sites, some of which are complex, must secure planning permission which matches the business plan, and if that is not granted those properties cannot be sold to the HRA or on the open market. Nevertheless, sales to the Council do present a lower risk than open market sales and greater transparency over this would be a source of reassurance given the importance of the company's returns to the Council's budget in the latter part of the MTFS.

Recommendation 21: That the Council disaggregates, so far as possible, the forecast dividend receipts from OCHL into secure, i.e., deriving from Council purchased sales, and non-secure categories.

HRA Energy Efficiency Spending

141. Reference is given in the budget report to a spend of £50m from the HRA on energy efficiency measures over the next decade to raise the EPC ratings of Council houses, a period significantly beyond the duration of the MTFS. It is understood that this is based on the Council's business plans for the HRA, which extend to 40 years. However, the Review Group recognises that the Council is facing and will continue to face great financial uncertainty as well as the potential for political change during that time period. This figure is, therefore, less certain, and the Review Group considers that it would be preferable that reference to it in the budget and budget report be removed, and replaced by the Council's committed spend over the MTFS period.

Recommendation 22: That the Council removes reference to its £50m HRA spending commitment over a decade in its budget and budget report, and replaces them with its budgeted spending commitments that cover the period of the MTFS.

Minimum Thresholds for Capital

142. In accounting, the delineation between revenue and capital is extremely important, with different rules applying to expenditure on each. The Council sets a minimum threshold for expenditure which is deemed to be capital, rather than revenue. This figure is set at £5000. The Review Group notes that this sum has been constant for a number of years. The effect of inflation means more and more items will become treated as capital, creating a growing burden to record them as such. The Council does have the power to set this sum at a different level, but it must do so with the support of its auditors. The Review Group considers that having not addressed this in some time, it is worth discussing the issue with auditors to see whether the threshold could be increased, and the administrative burden associated with recording and managing this information reduced.

Recommendation 23: That the Council seeks the advice of its auditors on the suitability of the Council's current £5000 threshold for inclusion within capital spend, including comparing the COuncil's threshold with those of other councils.

Use of CIL Income

143. Community Infrastructure Levy (CIL) funding, a levy made on qualifying developments to pay for the infrastructure pressures caused by that development, legally must be held by the Council. However, in areas which are parished or have a neighbourhood forum, a proportion of that CIL money (15 or 25%, depending on whether the area has a neighbourhood plan) must be allocated to projects identified by those groups. The Council's MTFS includes projects which are to be funded by CIL income, including projects which the Council expects to undertake on behalf of parishes or neighbourhood fora. The Review Group considers that there is likely greater degree of uncertainty over projects being undertaken on behalf of parishes proceeding, particularly those towards the end of the MTFS. CIL monies are uncertain; not only are they dependent on developments coming forward, but there is also a risk that central government may change the threshold at which it becomes payable. It is difficult to predict what a parish or neighbourhood forum is likely to want four years out, priorities may well change during the intervening period. This is particularly the case if budgeted sums are liable to change. As such, the Review Group suggests that the Council's should delineate between its own CIL-funded projects, and those that are expected to be undertaken on behalf of parishes and neighbourhood fora to reflect the differing risk profiles of the two types of project.

Recommendation 24: That the Council delineates in its budget between projects it is undertaking using its own CIL monies, and those it is undertaking on behalf of parishes and neighbourhood fora.

Chapter 5: Conclusions

144. The Covid-19 pandemic has created a financial environment for the Council utterly different from that forecast a year ago. The Council has had to set its budget in a position where, even with government support, it is forecast in the current year to have an expenditure £12m greater than its income. The challenge for the Council in response to such a financial shock is to stabilise and recover, whilst continuing to deliver on its strategic priorities.

145. The Council's budget proposals meet its legal duty to set a balanced budget, and shows how it intends to maintain this stability throughout the period of the MTFS. However, in order to do so it has needed to make assumptions on a wide variety of issues within an environment which, owing to the pandemic, are liable to very big changes. More severe responses to curtail the pandemic than anticipated would, as well as increasing expenditure, push back the recovery of the Council's income sources or even, potentially, damage them further. For a council such as Oxford, reliance on self-generated income through its Oxford Model is particularly important, and losses in this area have not and are unlikely to be supported by government. The Council is currently relying on its reserves to buy time for revenue streams to recover and efficiencies to start making pay back, but its capacity to continue to do this is finite. As such, and not through the fault of the Council, this budget bears a much higher risk than recent budgets.

146. This being said, the Review Group is broadly supportive of the draft budget proposals. They plot a practical path between over-confidence, with excessive risk taking to avoid making difficult choices about trade-offs between corporate priorities, and risk aversion which would require more service reductions and inflict a high human cost. This approach is sensible, and allows the Council to make adjustments, positive or negative, when some of the uncertainty about the impact and trajectory of the pandemic begins to dissipate.

147. The Review Group makes some recommendations, shifting priorities slightly, but its most significant recommendations are around ways of trying further to mitigate risk and uncertainty. Its greatest wish is to see the Council retain the ability to be flexible to respond to changes in the circumstances underlying its uncertain forecasts, whilst maintaining transparency and democratic oversight of decisions.