www.oxford.gov.uk OXFORD CITY COUNCIL

To:	**Cabinet:**	**Date:**	**9 February 2022**
To:	**Council**	**Date:**	**16 February 2022**
Report of:	**Head of Financial Services**		
Title of Report:	**Medium Term Financial Strategy 2023-24 to 2025-26 and 2022-23 Budget**		

Summary and recommendations

Purpose of report:	To present the outcome of the budget consultation and agree the Council's Medium Term Financial Strategy for 2022-23 to 2024-25 and 2021-22 Budget for recommendation to Council
Key decision:	Yes
Cabinet member:	Councillor Ed Turner, Deputy Leader and Cabinet Member for Finance and Asset Management
Policy Framework:	The budget is a Budget and Policy Framework document

Recommendations: Cabinet is asked to consider the outcome of the public consultation, agree the amendments to the Consultation Budget and recommend that Council resolves to:

1. Approve the 2022-23 General Fund and Housing Revenue Account budgets for consultation and the General Fund and Housing Revenue Account Medium Term Financial Strategy as set out in Appendices 1-9, noting:

    a) the Council's General Fund Budget Requirement of £22.382 million for 2022/23 and an increase in the Band D Council Tax of 1.99% or £6.37 per annum representing a Band D Council Tax of £326.54 per annum;

    b) the Housing Revenue Account budget for 2022/23 of £47.882 million and an increase of 4.10% (£4.51 per week) in social dwelling rents from 1 April 2022 giving a revised weekly average social rent of £112.00 as set out in Appendix 5;

    c) the increase in shared ownership rental in accordance with the lease as shown in paragraph 44 and the discretion used by the Head of Housing in setting the initial rent for the unsold share of 2% and giving delegated approval to the Head of Housing to set this for future shared ownership rents up to 2.75%;

    d) the General Fund and Housing Revenue Account Capital Programme as shown in Appendix 6.

2) Agree the fees and charges shown in Appendix 7;

3) Delegate to the Section 151 Officer in consultation with the Cabinet Member for Finance and Asset Management the decision to determine whether it is financially advantageous for the Council to enter into a Business Rates Distribution Agreement as referred to in paragraphs 13-15 of the report;

4) Approve the payment into the County Council Pension Fund of £5 million in 2023-24 as referred to in paragraph 20 of the report;

5) Recommend to Council the appropriation of Alice Smith House from the HRA to the General Fund in accordance with paragraph 44 subject to any consents which are required;

6) Note the disposal of 4 HRA properties in accordance with paragraph 44 subject to any necessary consents that are required;

7) Approve the increase in the 'multiplier' for the use in Furnished Tenancy charges in accordance with paragraph 44;

8) Agree the change in the Cabinet decision made in December and reinstate the £25k funding which was reduced by that decision (paragraph 21 relates).

Appendices to the report:

Appendix 1	Summary of General Fund Budget by Service 2022-23 to 2025-26
Appendix 2	General Fund Revenue Budget by Service 2022-23 to 2025-26
Appendix 3	Detailed General Fund Service Budgets Bids and Savings Proposals 2022-23 to 2025-26
Appendix 4	Housing Revenue Account Budget 2022-23 to 2025-26
Appendix 5	Housing Revenue Account Rent by property type
Appendix 6	General Fund and HRA Capital Programme 2022-23 to 2025-26
Appendix 7	Fees and Charges
Appendix 8	Risk Register
Appendix 9	Equalities Impact Assessment
Appendix 10	Budget Consultation

Comment from the Cabinet Member for Finance and Asset Management, Councillor Ed Turner

Our budget situation this year is extremely challenging: this has not changed between the position when we published our consultation budget and the position today.

The principal reason for this is the fallout from the pandemic, which continues to have a profound effect on the Council's finances. We still have businesses struggling to pay rents for their premises owned by the City Council, the trading activity of Oxford Direct Services has been affected, the leisure services in Oxford have seen fewer visitors (as they have nationally), and room hire income is also down. As a result of this, at the start of the year we already planned to use £11 million of our reserves – almost half those held by our Council, to handle the consequences of the pandemic. Regrettably, while government support for local authorities has been welcome, the design of government schemes has left Oxford City Council particularly exposed. No compensation has been offered for reductions in commercial income (such as from our historic property portfolio, with holdings such as the covered market), nor for reductions in income from companies. Yet we rely on these sources in Oxford to fund services: the essence of our Oxford Model has been to develop income streams to replace government funding which was cut.

On top of this, we face some new pressures. The first is a potential change to government accounting rules, which would severely restrict our ability to lend money to our wholly-owned companies. We have successfully lobbied to argue against this change being implemented immediate, while setting aside funds to address it in the future. We face additional costs because of the recent increase in employer's national insurance contributions, as does Oxford Direct Services. The government, having stated it would offer councils stability, has once again just given a single-year budget settlement, which makes planning for the long-term impossible.

To address these challenges, we have been looking hard at ways to increase our efficiency, and mitigate these pressures without cutting front-line savings. Our proposal to reduce our office-space has been further developed, and we propose a range of additional "transformation" savings, for instance on procurement and ICT. However, inevitably there are also some difficult choices to be made in this context – we have tried to ensure that the burden of service reduction does not fall on those that can least afford it.

It is important not just to focus on changes to the budget, but also on things that will continue to be funded. We continue to be committed to implementing the outcome of the citizens' assembly on climate change; we propose to continue full council tax relief for those on low incomes; we continue, in full, our youth ambition scheme; we retain in full our network of community centres, including three new builds; we retain generous funding for our not-for-profit sector (for instance, our local advice agencies). We also so determined to address Oxford's housing crisis, which is why there is funding for a massive council house building programme, with over 1,000 new council homes to be built in the next decade. We propose, in the light of our budget consultation, to reinstate the previous level of grant funding for advice centres, as they do such important work to support our communities.

This remains a worrying time for our Council, and our city. We are very grateful to our excellent workforce for all they do to deliver council services, at a time when they are needed more than ever before.

Introduction

1 This report reflects the outcome of the consultation on the draft budget agreed by the Cabinet on 15th December 2021 as well as incorporating changes which have arisen since the consultation budget was published.

2 The consultation on the draft budget began on 16th December 2021 and ended on 31 January 2022. The consultation document was available on the Council's website and also use was made of the Citizens' Panel.

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

- Section A General Fund Revenue Budget

- Section B Housing Revenue Account (HRA) Budget
- Section C Capital Programme

Section A – General Fund Revenue Budget

4 Since the publication of the Consultation Budget a number of key issues have arisen which affect the budget, these are summarised below:

Local Government Finance Settlement 2022-23

5 The Government published its Provisional Finance Settlement for 2022/23 on 16 December 2021. Following consultation which closed on 13 January 2022 the Government published the Final Settlement.

6 The key points included:

a. **Council Tax -**The council tax referendum limit will as expected be 2% for local authorities with social care authorities allowed a 3% social care precept plus any balance of the 3% which they didn't implement last year. The final settlement confirmed districts will be allowed to apply the higher of the referendum limit or £5.

b. **Business Rates Retention** –

   i. The business rates multiplier has been frozen for 2022-23, as has Baseline Need, NNDR Baseline and Tariff/Top Up amounts. This is the second year in a row.

   ii. The government is considering extending the business rates relief given to businesses due to COVID 19

   iii. Business rates funding reform i.e fairer funding continues to be delayed with no date given for implementation.

   iv. No business rates reset in 2022-23

c. **New Homes Bonus -** The 2022/23 allocations have been announced. These will be paid with legacy payments due from previous years (2019/20). As previously announced, there will be no legacy payments for the 2020/21 in year allocations or 2021/22. The deadweight of 0.4% was maintained.

d. **2022/23 Services Grant** – This new £822m grant has been distributed via 2013/14 SFA shares and is in respect of COVID pressures experienced by local authorities. It would appear that this means of distribution is for one year only. The Councils allocation is £431k.

e. **Homelessness -** £315 m for rough sleepers and those at risk of homelessness during COVID-19 in the form of Homelessness Prevention Grant Allocations. Oxfords allocation of £1.084 million, higher than budgeted of £750k for one year. In addition a top up of the 2021-22 HPG allocation of £224k to help those with rent arrears this winter. These are ringfenced amounts for the sole use on homelessness.

f. **Lower Tier Services Grant** - A further year of lower tier services grant has been given, with a total national value remaining unchanged at £111m. Whilst the distribution methodology is the same as 2021/22. The Councils allocation is £266k

Additional COVID support for Businesses and local authorities

7 Recent Government announcements include additional financial support for businesses and local authorities including :

- **Community Vaccine Champions Scheme** - £22.5 million local authorities to enhance vaccine take up
- **Protect and Vaccinate** - £25 million to local authorities to provide accommodation and increase take up of vaccinations amongst people sleeping rough
- **COVID Additional Relief Fund (CARF)** – £1.5 bn in business rates relief for businesses effected by COVID who have not been eligible for existing business rates support. The Councils allocation of relief is approximately £8.49 m
- **Additional Discretionary ARG** - £100 million prioritised for those local authorities that have allocated their Additional Restriction Grant (ARG) top up. The Councils allocation to distribute is approximately £208k
- **Expanded retail, hospitality and leisure business rates relief**. 50% relief for eligible businesses from 1-4-2022 for one year. A reduction from the existing 66% relief.
- **Omicron Hospitality and Leisure grants -** Up to £6000 for businesses hit by COVID restrictions in the leisure and hospitality industry. The Council's allocation of grant to distribute is approximately £2.112 million.

Inflation/ Interest Rates

8 The Consumer Prices Index rose by 5.1% in the 12 months to November 2021 up from 4.2% in October. The MPC's target CPI rate is still 2% for 2 years time and there is therefore a sense that the rise is temporary.

9 At around the same time on 16th December 2021 the Bank of England increased the base rate from 0.1% to 0.25%. There is always a delay in how quickly interest rate rises start to have an impact. Most of the Council's borrowing to fund capital expenditure is internal as opposed to external borrowing and therefore currently the impact of these rises on the council would be manageable. In the longer term there would be a financial impact on the Housing Company and equally the HRA. A 1% increase in borrowing interest rates could increase capital charges in the HRA by around £1.5 million per annum although HRA the assumption that interest is charged at 3% allows for some mitigation of these rises.

Settlement Funding Assessment (SFA)

10 The Settlement Funding Assessment comprises authorities' Revenue Support Grant (RSG) which for Oxford is nil and the share of locally retained business

rates (the baseline funding level). The figures for Oxford City Council are as follows:

Table 1: Settlement Funding Assessment 2021/22 – 2022-23		
	2022/23 £000's	**2021/22 £000's**
Total SFA	**6,300**	**6,300**
of which Revenue Support Grant	0	0
Baseline Funding Level	6,300	6,300
Increased SFA on previous year (%)	**0**	**0**

Retained Business Rates

11 The Government has issued authorities with their Retained Business Rates Baseline Funding Levels for 2022-23. The actual amount of Retained Business Rates depends on a number of factors including the estimated amount of business rates income net of appeals and write offs, the tariff payable to the Government and the levy paid on additional income above the Baseline. There are no changes to the tariffs levied in previous years. This is in accordance with the assumptions made in the Consultation Budget.

12 Almost certainly the Baseline Funding Level will not be the amount the authority eventually receives in Retained Business Rates. A summary of the changes is shown below but it should be noted that there can be substantial volatility around these figures:

Table 2: Change In Business Rates since Consultation Budget				
	2022/23 £000's	**2023/24 Est £000's**	**2024/25 Est £000's**	**2025/26 Est £000's**
Consultation Budget	**7,154**	**4,879**	**5,110**	**5,347**
Finance Settlement	**7,154**	**4,879**	**5,110**	**5,347**
(Decrease)/ Increase	**0**	**0**	**0**	**0**
Tariff	30,397	30,892	30,892	30,892
Safety net threshold (92.5% baseline)	5,884	5,981	5,981	5,981

Business Rates Distribution Group

13 The Chief Finance Officers have agreed the formation of the West Oxfordshire Business Rates Pool for 2022-23 to be formed by Oxfordshire County Council and West Oxfordshire and Cherwell District Councils as in previous years.

14 The Pool's membership has been set to maximise its income for the good of Oxfordshire. It has also agreed that councils who would benefit from being in a pool (because the levy on business rates growth would be less than if they were outside the Pool) should not be excluded from sharing in the additional income generated by the Pool just because in any year their membership would not generate the optimum retained income for the Pool. These authorities should form a Business Rates Distribution Group and benefit from a share of some of the growth on the Business Pool in exchange for taking on some of the risk of Pool losses not covered by the safety net.

15 It is recommended that the decision to join the Business Rates Distribution Group is delegated to the Section 151 Officer in consultation with the Cabinet Member for Finance and Asset Management once business rates estimates for 2022-23 are known for all Districts within Oxfordshire.

Council Tax

16 The estimate of the tax base for 2022-23 presented to Audit and Governance on 27 January 2022 resulted in a decrease of 190 band D equivalent properties to that used in the consultation budget resulting in a decrease in council tax income as shown below. Reasons for the decrease include additional Council Tax Reduction Scheme claimants and also increased number of properties occupied by students who pay nil council tax.

17 Within the Council's Consultation budget allowance was made for Council Tax increases of 1.99%, which is below the amount of 2% at which a referendum would be required, as confirmed in the Provisional Finance Settlement:

Table 3 Change In Council Tax since Consultation Budget

	2022/23 £000's	2023/24 Est £000's	2024/25 Est £000's	2025/26 Est £000's
Consultation Budget	**15,352**	**15,806**	**16,273**	**16,754**
Revised estimate	15,035	15,480	15,937	16,408
(Decrease)/ Increase	**(317)**	**(326)**	**(336)**	**(346)**

New Homes Bonus

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

Within the 2021/22 Final Finance Settlement allocations have been announced that with some minor change confirms previous announcements. These will be paid with the legacy payments due from previous years (2018/19 to 2019/20). It is the Government's intention to withdraw the bonus from 1 April 2022 a consultation on the replacement for NHB is expected shortly.

19 The amounts for Oxford City compared to the assumptions in the MTFS are shown in Table 5 below:

Table 4: New Homes Bonus Estimates				
New Homes Bonus	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**	**2025/26 £000's**
Consultation Budget	106	-	0	0
Final Finance Settlement	470	-	0	0
(Increase)/ Decrease	**370**	**0**	**0**	**0**

Other Key Assumptions

20 Key assumptions included within the Consultation Budget Proposals that remain unchanged include :

- **Council Tax** – The recently announced referendum principles are in line with previous assumptions and the recommendation of a council tax increase of 1.99%
- **Income streams** – Since the setting of the consultation budget the Council has reviewed it long term income forecasts of key income streams such as car parking, town hall lettings, commercial rents. Prudent assumptions were made within the Consultation budget about how these may be affected over the coming months and year including the speed that they may bounce back. Commercial rental income and car parking revenues remain problematic but the assumptions made in the Consultation Budget still stand and therefore no further adjustment has been made to the forecast income levels.
- **Efficiencies** – largely in accordance with the Consultation Budget with some exceptions detailed below
- **Fees and charges –** largely in accordance with Consultation Budget with a few exceptions below
- **Investment interest –** in accordance with consultation budget
- **Returns from wholly owned companies –** in accordance with the consultation budget
- **Pensions** - The Medium Term Financial Strategy includes an increase from the current contribution in line with pay inflation increases. The next triennial review will be with effect from 1st April 2023. In 2020-21 the Council made Provision within the MTFS for a prepayment into the pension fund of £5million. The prepayment reduces the employer's contribution rate for all employees in the fund both within the City Council and ODS for a period of three years with the contribution rate reverting to the standard rate at the end of the

period. The initiative reduces expenditure by approximately £1.2 million over the three year period as well as returning £4million of the prepayment back to the Council for use in subsequent years. Within the budget re-set provision has been made to prepay an additional £5 million into the fund with effect from 1-4-2023 ensuring that a similar saving on the revenue account as in previous years. This level of saving has been assumed for future years although the actual amount of saving will be determined by the actuary when they undertake their next triennial review of the pension fund in 2023/24

- **Pay**- The staff trade unions, Unison and Unite, have confirmed their acceptance of a 2% pay increase for 2023-24 and a 2.5% pay increase for 2024-25.

Changes since the Consultation Budget

21 A number of other changes have been made to the Council's Budget in comparison to the Consultation Budget agreed at Cabinet on 9th December 2020.

Grant Funding to Advice Centres – As part of a target saving on voluntary sector grants of £200k, Cabinet agreed at their meeting on 15th December to make a reduction of £25k annually in the advice centre funding pot of £473,461 and would seek to support the advice centres to secure additional funding and work with them through the locality hubs. Following consultation, we propose to reinstate the £25k in the grants budget but fund it from the Housing Revenue Account, since the centres in question are predominantly located on council estates.

Land Charges – The Consultation Budget allowed for an increase in fees and charges of 25% to allow for an additional member of staff to deliver GIS technical support in this area. The land charges team have also suffered from a lack of technical expertise to manage the team efficiently and provide a professional input from a planning and legal perspective. In addition to the 1 FTE member of staff a need has been identify for an additional 0.5 fte (£25,000) and the service will be transferred from the Head of Business Improvement to the Head of Planning. It is considered that these changes can be justifiably covered from an additional increase in fees and charges and this proposal increases land charges fees and charges by 34% from £133 per application to £166.25 per application. It is likely that the Government will implement changes in 2023-24 to transfer certain aspects of the work from local authorities to Government which will necessitate a further review of resources and fees and charges in this area.

Car Parking

22 In preparation of the Consultation Budget increases per hour for Headington and St Clements car parks were shown as 50p per hour in line with city centre car parks instead of 20p per hour in line with the intention for suburban car parks. This has been adjusted in the final budget in Appendix 7.

Transformation

23 The financial challenges facing the council, changes to demand on services and the way people use services; and increased workload pressures on staff, all of which have been accelerated by the Covid pandemic, have highlighted the need to change the way we work and deliver services, with greater automation and

digitisation, and streamlining our processes and systems. The transformation programme aims to respond to these challenges to develop a long term, cross organisational approach to delivering costs savings and increased income, improving our services and greater efficiency in use of staff time, helping to release capacity within the organisation.

24 Within the Consultation Budget provision was made for £250k of savings per annum to be achieved from additional transformation initiatives over and above those included in the MTFP last year. Savings already included were around £3.2 million per annum in relation to changes in accommodation at St Aldates Chambers, integration of Communities and Housing Directorates, service changes in Housing needs and Homelessness, printing and stationery and ICT contracts. At the time this new figure was a placeholder pending further work to profile. Since November significant work has been taking place with services to determine a) what level of savings could be quantified against the current scope of work (outlined below) and b) what level of estimated investment was required for delivery over and above £300k per annum investment already included within the MTFP to deliver the savings identified in last year's MTFP. We are taking a cautious and evidenced- based approach and confidence ratings have been applied to the savings identified, meaning savings in later years of the MTFP should increase as the delivery plans are developed. Work will continue with the services to the Summer to identify additional savings.

25 From the work to date, savings and investment required to drive the savings is as follows:

- **Procurement –** the renegotiation of General Fund revenue contracts with suppliers firstly in relation to contracts which come up for renewal on or before 31-12-2022. Renegotiation will also include the making of immediate payments to suppliers or changes to service to achieve a saving.
- **Customer experience–** evidence led approach to better understand the journey of our customers though workshops with services, which have identified savings in our customer contact centre and services, by:
    - Redesigning our web site
    - Automation of our processes
    - Using digital assistance tools such as web chat
    - Further digitalisation of our face to face offer
- **ICT** – a number of efficiencies will be implemented to drive savings in ICT costs by accelerating the Councils move to cloud technology and reducing the number of systems and applications that are used. This will be enabled by:
    - Implementing Microsoft 365 to all staff
    - Moving systems to cloud based technology reducing the need to servers and data centre costs
    - Adopting the use of single applications eg bookings and payments
    - Reducing the number of laptops and phones through the introduction of "bring your own device"

- Core system replacements and upgrades such as Lagan, Vfire , CORVU

26 Evidence from the work to date suggests that further savings should be achievable from these and other initiatives within the transformation programme, however these have not yet been quantified to the degree that they can be included within the MTFP. Work between now and the summer will focus on evidencing additional savings in customer experience, income opportunities, agency spend, procurement, redesign of our support services, further rationalisation of our assets and reviewing our service delivery models.

27 In addition to delivering cashable savings, the investment in transformation will have additional financial benefit in terms of cost avoidance in terms of future pressures arising from ICT and better targeting of services through enhanced use of data.

28 There are a number of non financial benefits which will arise from such a transformation programme including:

- Better security of data, improved user experience and greater efficiency for staff arising from more efficient and reliable systems.
- Benefits in the future efficiencies having a positive impact on staff motivation and commitment, capacity across the organisation, better recruitment and retention, development opportunities and career progression.

Transformation costs

29 Included within the consultation budget was an amount of approximately £300k per annum for the transformation team. The resource is being used to drive out the savings of £3.2 million per annum identified above. To realise more savings in customer, services and ICT, further resource is required to secure them. The additional resources from the provisional finance settlement gives the opportunity to spend to save in this area to achieve additional savings as follows:

Table 5 : Tranformation Costs and savings					
		2022-23	**2023-24**	**2024-25**	**2025-26**
	Staffing	**£**	**£**	**£**	**£**
Resources	Average fte				
Base Budget for year	16-12	1,189,197	789,145	0	0
Capitalised ICT resource	2-3	81,600	163,200	163,200	163,200
ICT revenue and capital		492,200	324,800	0	0
Total Resources available		**1,762,997**	**1,277,145**	**163,200**	**163,200**
Savings from change program					
Impact on general fund					
Procurement		50,000	100,000	100,000	100,000
Customer		16,100	106,863	126,284	126,284
Service based		32,393	122,196	163,833	163,833
net off ring fenced accounts		-3,171	-11,100	-14,281	-14,281
HRA savings		-14,553	-113,585	-131,776	-131,776
ICT		0	46,000	386,000	416,000
Existing savings from transformation		2,260,000	2,702,000	3,202,000	3,202,000
Impact on general fund		**2,340,769**	**2,952,374**	**3,832,060**	**3,862,060**
Risk assessed		2,327,000	2,952,000	3,652,000	3,752,000
Return on investment (%)		132	231	2,238	2,299

30 The return on investment varies but in each year more than exceeds the ‘hurdle rate’ equivalent to around 5%. In addition to the above there is estimated cost avoidance from the use of chrome workbooks and also reduced capital investment on the use of smartphone estimated to be around £500k over a 3-4 year period. The additional investment in transformation produces ongoing savings to the general fund subject to business cases of around £550k per annum at the end of the MTPF with the potential to increase this amount as work to identify further quantifiable savings is carried out. Appointments to transformation internal roles may either come from existing staff with backfill allowing development opportunities for staff or via external appointment probably on the basis initially of 2 year fixed term contracts or secondments. Business cases will be provided to the Corporate Management Team who will have oversight of the transformation programme which will limit the commitment of resources until the business case is signed off with a clear identification of potential savings. Within the table savings that effect the HRA or ring fenced accounts such as Building control or licencing have been netted down since these will not impact the General Fund although the savings obtained from any efficiency drive are clearly important to be captured.

Consultation on Minimum Revenue Provision

31 The Budget Report to Cabinet in December raised concerns about a consultation on Minimum Revenue Provision by the Government which was about to be released. The Consultation was published on 30th November 2021 with a 10 week consultation period ending on 8TH February 2022.

32 Under the Prudential Framework authorities are required to ensure that capital expenditure financed by borrowing is both prudent and affordable and they have a statutory duty to set aside revenue funds to repay the principle of the debt, this is known as Minimum Revenue Provision (MRP). The Government is concerned that some authorities are not sufficiently complying with this duty and is proposing changes to regulations to make sure that practices are prudent and consistent across the sector.

33 The Government is proposing that with effect from 1-4-2023 to make explicit that:

- Capital receipts may not be used in place of the revenue charge
- Prudent MRP must be provided with respect to the authority’s total Capital Finance Requirement (CFR) i.e the total amount of capital expenditure financed by borrowing. The intent is to stop the intentional exclusion of debt because it relates to a capital loan or investment.

34 In Oxford this MRP Policy approved annually by Council provides for no MRP to be made in respect of companies in which the council has an interest. The repayment to the Council for these loans will be a capital receipt which the Council will set aside to repay that borrowing. Each item where there is no annual MRP charge will be reviewed on at least an annual basis and if there is a likelihood of capital loss, a prudent MRP provision will then be made.

35 Whilst the Council welcomes the mandating of some aspects of MRP especially in relation to property or regeneration it does not believe that its MRP policy that provides no MRP where loans are given to organisations such as OCHL with a predetermined repayment period should fall within this mandate. It is welcome

news that the revised policy will not come into force until 1-4-2023 since it is understood that the original intention was to implement from 1-4-2022.

36 Whilst the Council will continue to make representation through the consultation period at this point the best estimate of the financial impact on the Council in relation to loans to Oxwed, Oxford City Housing Investment Ltd (OCHIL) and National Housing Property Fund (NHPF) is shown below.

Table 6: Estimated impact of MRP

MRP	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Consultation Budget	858	787	787	787
Revised Impact	0	536	751	727
(Increase)/ Decrease	**858**	**251**	**36**	**60**

Summary of Changes to Medium Term Financial Strategy (MTFS)

37 The Council's General Fund MTFS is shown in Appendices 1-3 together with assumptions around fees and charges in Appendix 7. A summary of the movement in the Medium Term Financial Strategy from the Consultation Budget agreed in December 2021, taking account of the changes highlighted above, is shown below:

Table 7 Summary General Fund MTFP 2022-23 to 2025-26				
	2022-23	2023-24	2024-25	2025-26
	£000's	£000's	£000's	£000's
Net Expenditure per consultation budget	22,334	20,407	21,105	21,824
Adjustments				
Services grant	-431			
Lower tier grant	-280			
MRP adjustments from original base	-858	-251	-36	-60
Other adjustments relating to capital	-886	-592	-114	533
Pay adjustments	-647	-60	-222	733
Increased cost of funding transformation in addition to £300k	889	489	-300	-300
ICT revenue/capital	574	488	163	163
Adjustment to £250k saving assumption	183	0	-200	-300
NET BUDGET REQUIREMENT	**20,878**	**20,481**	**20,396**	**22,593**
FUNDING				
Council Tax	-14,758	-15,202	-15,659	-16,131
Retained business rates	-7,154	-4,879	-5,110	-5,347
New Homes Bonus	-470	0	0	0
Total funding	**-22,382**	**-20,081**	**-20,769**	**-21,478**
Additional (Surplus)/ Deficit transferred to reserves	**-1,504**	**400**	**-373**	**1,115**

The summarised position of the Council's Net Budget Requirement taking account of these changes is shown below:

Table 8: Summary General Fund Medium Term Financial Strategy 2022/23 to 2025/26

	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Net Expenditure per Consultation Budget	**22,334**	**20,407**	**21,105**	**21,824**
Net change excluding funding	(1,456)	74	-809	769
Adjustment in transfer to/(from) reserves	1,504	(400)	373	(1,115)
Net Budget Requirement	**22,382**	**20,081**	**20,769**	**21,478**

FUNDING				
Council Tax (Table 4)	14,758	15,202	15,659	16,131
Retained Business Rates (table 3)	7,154	4,879	5,110	5,347
New Homes Budget (includes table 5)	470	-	0	0
Total	**22,382**	**20,081**	**20,769**	**21,478**
Surplus/ (Deficit)	**-**	**-**	**-**	**-**

GENERAL FUND WORKING BALANCE				
Opening	**3,856**	**3,856**	**3,856**	**3,856**
Transferred to/(from)	-	-	-	-
Closing	**3,856**	**3,856**	**3,856**	**3,856**

38 The revised MTFP allows for no additional net draw on reserves on earmarked reserves over the four year MTFP although this varies in individual years. Around £11 million of COVID reserve is still intended to be used over the life of the MTFP to balance the budget leaving around £11 million left to divert from their earmarked use should this be necessary in addition to the £4 million General Fund working balance identified above.

Budget Consultation Results

39. The consultation concentrated on a number of key areas which are shown below. There were 72 responses received as at 20th January. Members will be updated at the meeting with any further responses that are received up until the consultation closes on 31st January. Appendix 10 provides the detail of the responses with a summary shown below for each of the main areas:

- **Approach to Budget Setting**
  1. There was strong support for all aspects of the council's budget setting strategy with use of our wholly owned companies to generate external trading income featuring highly (69- 75% either agreeing or strongly agreeing) and reducing our office space with 72% agreeing or strongly agreeing.
  2. there was least support for continue to base the council tax reduction scheme on 100% of the council tax with 51% agreeing or strongly agreeing and 32% disagreeing or strongly disagreeing

- **Alternative approaches to budget setting**
  1. Since respondents generally agreed with our approach to budget setting the alternative responses to budget setting were not generally supported. Least support i.e 62% either disagreeing or strongly disagreeing) was given to freezing council tax and cutting services

- **Service Priorities**
  1. Highest support (84% strongly agreeing or agreeing) in favour of maintaining parks and open spaces, (76%) for provision of affordable housing, introducing a licence for private rented housing (76%) and keeping our city centre clean and tidy (76%)
  2. There was least support for encouraging customers to self serve (50% strongly agreeing or agreeing) and providing grants to voluntary and community groups (56%)

- **Capital Investment**
  1. Highest support (66% strongly agreeing or agreeing) for investment in affordable housing, council house improvements (69%)
  2. Least support was given for investment in Osney Mead (30%) although 45% were neutral improvements, refurbishment of East Oxford and Bullingdon Community Centre (50%) and new ICT hardware and software (51%)

- **Council Housing**
  1. Highest support (59%) was given to building new social housing, improving energy efficiency (54%) and maintaining the quality of existing council homes (48%) with least support given to improving the look and feel of council estates (13%) and targeted estate regeneration such as Blackbird Leys and Barton (13%) although it should be noted that only 4 respondents were council tenants.

- **Use of neighbourhood CIL**
  1. 41% of respondents either agreed or strongly agreed with how the council makes use of neighbourhood CIL, with 21% disagreeing or

strongly disagreeing, 32% neutral and the balance not answering the question.

General Comments

40 A number of general comments were made by respondents with the main themes including :

- More working with universities
- Good budget in difficult circumstances
- Do something about traffic pollution from 'shopping mall traffic'
- Can we afford six councils in a small county?
- Do not invest in the Oxford Arc

Risk Implications

41. The main risks to the balanced position of the General Fund consultation budget (Appendix 8) are that:

a) Companies do not perform as well as expected leading to reduced income to the Council
b) Savings from efficiencies and transformation not achieved
c) Outcome of the expected consultation on Minimum Revenue Provision will adversely affect the councils financial position
d) Council income streams continue to be affected by the pandemic beyond the provisions already made in the MTFS
e) The Homelessness reserve is exhausted at a faster rate than anticipated as assumed Government and contributions in respect of homelessness expenditure are not forthcoming
f) Failure of a major partner for instance in Leisure
g) Companies do not perform as well as expected leading to reduced income to the Council
h) Business Rates income is lower than forecast
i) Variations in interest rates or non-performance of property funds and multi asset vehicles effecting returns to council
j) Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS
k) Cuts by partner organisations such as the County Council adversely affect service provision

Section B Housing Revenue Account Budget

Issues arising since the publication of the consultation budget

42 The Council published its Consultation Budget on 15th December 2021 including the Housing Revenue Account Budget. The budget for the Housing Revenue Account is as detailed in Appendix 4. Appendix 5 shows the effect of the 4.10% increase on council house rents in the city.

43 Following the Budget Consultation exercise the Housing Revenue Account as published at Cabinet on 9th December 2021 remains unchanged:

Table 9 Housing Revenue Account

	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Income	(47,882)	(50,774)	(55,713)	(58,636)
Expenditure	47,899	50,721	53,287	53,632
Net Operating Expenditure	**17**	**(53)**	**(2,426)**	**(5,005)**
Investment income	(80)	(37)	(32)	(25)
Revenue Contributions			4,693	5,254
(Surplus)/Deficit for the Year	**(64)**	**(91)**	**2,235**	**225**
(Surplus)/Deficit b/fwd	5,830	5,894	5,985	3,750
(Surplus)/Deficit c/fwd	**5,894**	**5,985**	**3,750**	**3,525**

Key Assumptions

44 Key assumptions included in the budget include :

- **Inflation** - All the assumptions for inflation are the same as for the Council's General Fund.
- **HRA working balance** The working balance levels allow sufficient monies for the funding of future years' Capital Programme, the repayment of the debt, as well as an amount of £3.5 million as being the minimum required to cover unexpected events such as falling investment income or increased costs.
- **New dwellings** - The HRA BP assumes that it will continue to purchase the affordable housing from OCHL's 10 year development programme 1,114 properties within an overall budget envelope of £367 m before grant and share ownership sales, £289 m when these are taken into account.
- **Debt-** Debt will rise from £306 million in 2022-23 to peak debt of £494 million in 2028-29
- **Disposals -** Disposal of around 40 dwellings per year is assumed up until 2023/24 and then subsequently reduced to 20. The HRA currently has 4 properties at 163, Walton Street, 39, Long Close, 8 Cowley Road and 46 Stubbs Close which are currently in need of repair to the value of approximately £1.8 million which it proposes to dispose of. An appropriation of 22 units at Alice Smith House to the Councils General Fund from HRA to be used for the housing of homeless families is planned at an estimated value of £943k
- **Rent increase** Under the Governments rent standard from 1st April 2020 rent may only be increased by up to CPI +1% for a period of five years for local authority and housing association social rents. 2022/23 is the third year of the rent standard and rent will be increased by CPI + 1% i.e. 4.1% with 3% increases estimated for future years
- **Shared ownership rent** - The rent charged on shared ownership properties shall initially be set at 2% of the value of the unsold share of the property, but with discretion delegated to the Head of Housing Services to set an initial rent up to the values of 2.75% of the value of the unsold share of the

property where the development of the property would be otherwise unviable within the criteria set out in the HRA business plan.

- **Service charges** such as caretaking, cleaning, CCTV, communal areas etc. will be increased by RPI at 4.9% across all tenure types in the HRA
- **The Furnished Tenancy** multiplier in respect of charges to tenants who take up the offer of the provision of white goods and other fittings at the start of a new tenancy is proposed to be changed from 1.4642 to 1.5155, an increase of 3.5% for current tenants.
- **Appropriations** -An appropriation of 22 units at Alice Smith House by the Councils General Fund from HRA to be used for the housing of homeless families is planned. The appropriation will be undertaken by the 'equivalent debt' accounting process reducing the Capital Financing Requirement for the HRA and increasing that of the General Fund by an amount of approximately £943k. The appropriation will require Full Council approval which will be obtained in February.

Risk Implications

45. The main risks to the balanced position of the HRA are summarised below and detailed in Appendix 8:
    - Increase in interest rates together with the requirement to stay within prudent covenants such as interest cover will restrict the amount of activity in the HRA especially in the early years of the business plan.
    - Increased arrears due to benefit changes arising from aftermath of COVID 19
    - Construction delays in Housing Company and subsequent effect on capital spend on new housing and net rental streams
    - Variations in estimates causing cash flow problems

Section C Capital Programme

46 The Council's Draft Capital Programme for consultation amounted to over £577 million over the four year period 2022/23 to 2025/26.

47 Appendix 6 attached details the Council's Capital Programme for 2022/23 to 2025/26. The changes to the Consultation Budget reported in December 2021 are summarised in Table 10 below:

Table 10 Changes to Capital Programme 2022/23 to 2025/26 compared to Consultation Budget

	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
GENERAL FUND				
Consultation Budget Spend	**77,240**	**44,238**	**69,976**	**19,754**
Slippage from 2021-22				
Oxford Growth Deal	2,560	-	-	-
Affordable housing supply	914	1,086	1,000	-
Northern Gateway - HIF	2,000			-

Acquisition of properties	13,000	-	-	-
Other slippage	2,622	(37)	954	64
Additional ICT costs re transformation	188	125	125	100
Total General Fund	**98,524**	**45,412**	**72,055**	**19,918**
HRA				
Consultation Budget Spend	**112,975**	**147,527**	**72,806**	**32,826**
Property purchases from OCHL	(518)			
Total HRA	**112,457**	**147,527**	**72,806**	**32,826**
Total Revised Programme	**210,981**	**192,939**	**144,861**	**52,744**

Funding of the Capital Programme

48 The funding of the Capital Programme is shown in Table 11 below:

Table 11 Capital Programme Financing 2022/23 to 2025/26				
	2022/23 £000's	**2023/24 £000's**	**2024/25 £000's**	**2025/26 £000's**
GENERAL FUND				
Capital Receipts	8,455	10,750	8,293	10,049
Revenue and reserves	806	2,050	1,669	619
Community Infrastructure Levy	11,398	3,045	2,116	-
Grants	24,197	3,080	1,200	1,200
Borrowing	53,668	26,487	58,777	8,050
TOTAL GENERAL FUND	**98,524**	**45,412**	**72,055**	**19,918**
HRA				
Major Repairs Reserve	9,412	9,706	9,706	9,570
Capital Receipts	22,823	8,078	16,765	9,368
Grants	10,303	6,798	17,159	1,680
Revenue Funding	-	-	4,693	5,254
Borrowing	69,919	122,945	24,483	6,954
TOTAL HRA	**112,457**	**147,527**	**72,806**	**32,826**
TOTAL FUNDING	**210,981**	**192,939**	**144,861**	**52,744**

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

a) Interest rate rises increase financing costs
b) Right to buy disposals as detailed in the assumptions are not as forecast causing a shortfall in funding of schemes
c) Delays in construction of new homes by OCHL
d) Slippage in Capital Programme and impact on delivery of priorities
e) Robustness of estimates

Housing Company

50 In December 2020 the OCHL Shareholder considered an update to the Housing Company Business Plan previously approved. The updated plan will provide for the delivery of 1,829 dwellings over the next 10 year period with 1,114 being acquired by the Council's Housing Revenue Account and the remainder being sold on the open market. In addition to this the company will acquire 354 social dwellings being developed at Barton Park by Barton Oxford LLP (BOLLP), a Limited Liability Partnership between Grosvenor Homes and Oxford City Council. Phase 1 of the development at Barton has already been completed and the Company has already acquired 95 of these dwellings

51 The estimated financial returns, namely net interest and dividends from the Housing Company allowing for some risk adjustment, included in the Council's MTFS are as follows:

Table 12: Revenue Returns to Council from OCHL 2022/23 to 2025/26

	2022/23	2023/24	2024/25	2025/26
	£000's	£000's	£000's	£000's
Loans outstanding at year end to Company	51,499	46,293	68,961	76,852
Revenue Returns to Council				
Gross Interest	2,782	2,311	3,493	4,245
Dividends		2,000	5,000	4,889
Total	2,782	4,311	8,493	9,134

Oxford West End Development (OXWED)

52 The Council has a 50/50 partnership with Nuffield College to undertake the development of the land at Oxpens. The Council approved loans totaling £10.6 million for its 50% share of:

a) the cost of purchasing land from London Continental Railways in December 2017 totaling £6.4 million and
b) the cost of land owned by the Council at Oxpens in November 2018 (for which the Council received £8milliion) totaling £4.1 million

53 The loan investment rate is 6.5% with accrued interest to 31-3-2021 of approximately £3.1 million with another £5.0 million over the next 4 years. In addition, loans have also been approved to fund working capital of £600k

up to March 2021. Nuffield College has matched the loans given by the Council. Further loans of up to £700k and £300k were approved by Council in November 2021 in relation to the establishing of a Limited Liability Partnership.

54 Oxwed is currently in the process of developing a master plan together with a procurement strategy in order to determine how the site is taken forward for planning approval. At Cabinet on 10th November members were advised that the most tax efficient vehicle to take forward the development of the Oxpens site would require the formation of a Limited Liability Partnership (LLP). This vehicle was not open to local authorities at the time of establishing the joint venture but legal precedence established since has enabled this route. In December 2021 the Council sold its shares in Oxwed and purchased shares in the LLP together with Nuffield College. At the same time all outstanding debt was novated into the new LLP.

55 Given the uncertainty of the overall return to the Council from the development no additional sums other than accrued loan interest have been included in the Council's MTFS.

Oxford Direct Services

56 The company entered its fourth year of trading in 2021-22 since becoming operational from 1ST April 2018. In the first year of trading the Company paid the Council £1.247 million in dividend in line with expectation although the Company Board have yet to approve any further dividends although they do intend to consider payment of a dividend in respect of 2020-21 at their Board in February 2022. The Councils expectation in accordance with their medium term financial plan is a payment of £600k

57 The revised Company Business Plan will be submitted to shareholders in December. Estimated dividend returns to the Council across the MTFS are based on a split of 'guaranteed income' arising from payments for statutory services and also efficiencies and unsecured income which the company is seeking to derive from commercial sales. This shown in more detail below.

Table 13 : Estimated LATCO dividend 2022-23 to 2025/26				
	£000s	**£000s**	**£000s**	**£000s**
	2022-23	**2023-24**	**2024-25**	**2025-26**
Secure dividend	1,154	1,143	1,220	1,288
Potential dividend	918	1,604	2,433	2,638
Total	**2,072**	**2,747**	**3,643**	**3,926**

Financial Implications

58 These are covered within the main body of the report.

Legal Implications

59 The Council is required to set a balanced budget taking account of working balances and any other available reserves before the commencement of the financial year to which it relates. Consultation will be undertaken with the General Public for a period of 6 weeks in accordance with CIPFA Guidance.

60 The Local Government Act 2000 states that it is the responsibility of the full council, on the recommendation of the executive to approve the budget and related council tax demand.

61 The Local Government Act 2003, section 25 requires the council's Section151 Officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations. This will be done at Council in February 2019 when the Budget is approved.

62 Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999.

Risk Implications

63 These are shown in Appendix 8 of the report and highlighted within the body of the report.

Equalities Impact Assessment

64 A copy of the Equalities Impact Assessment is given in Appendix 9 attached to this report.

Report author	Nigel Kennedy
Job title	Head of Financial Services
Service area or department	Finance
Telephone	01865 252708
e-mail	nkennedy@oxford.gov.uk

Background Papers:
None