To: **Cabinet**

Date: **14 December 2022**

Report of: **Head of Financial Services**

Title of Report: **Medium Term Financial Strategy 2024-25 to 2026-27 and 2023-24 Budget for Consultation**

Summary and recommendations	
Purpose of report:	To propose a Medium Term Financial Strategy and the 2023/24 Budget for consultation.
Key decision:	Yes
Cabinet Member:	Councillor Ed Turner, Deputy Leader (Statutory) - Finance and Asset Management
Policy Framework:	Council Strategy 2020-24

Recommendations: That Cabinet resolves to:

1. **Approve** the 2023-24 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 £23.433 million for 2023/24 and an increase in the Band D Council Tax of 2.99% or £9.76 per annum representing a Band D Council Tax of £336.31 per annum;

   b) the Housing Revenue Account budget for 2023/24 of £51.577 million and an increase of 7% (£7.51 per week) in social dwelling rents from 1 April 2023 giving a revised weekly average social rent of £114.73 as set out in Appendix 5;

   c) the increase in shared ownership rental in accordance with the lease as shown in paragraph 88 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 Deputy Leader (Statutory) - 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 paragraph 22 of the report;

4. **Approve** the payment into the County Council Pension Fund of £5 million in 2023-24 as referred to in paragraph 32 of the report; and

5. **Agree** to implement the changes to Council Tax charges in respect of second homes and properties empty for more than one year as referred to in paragraphs 23-25 from 1st April 2024 when the Levelling Up and Regeneration Bill is enacted.

Appendices	
Appendix 1	Summary of General Fund Budget by Service 2023-24 to 2026-27
Appendix 2	General Fund Revenue Budget by Service 2023-24 to 2026-27
Appendix 3	Detailed General Fund and HRA Service Budgets 2023-24 to 2026-27
Appendix 4	Housing Revenue Account Budget 2023-24 to 2026-27
Appendix 5	Council House Rents By Estate
Appendix 6	General Fund and HRA Capital Programme 2023-24 to 2026-27
Appendix 7	Fees and charges
Appendix 8	Risk Register
Appendix 9	Equalities Impact Assessment

Comment from the Portfolio holder

With austerity, Brexit, Covid-19, Russia's illegal war in Ukraine and now spiking inflation, the last decade has seen an unprecedented squeeze on the finances of councils across the country.

Most councils have had to make cuts – to bin collections, parks, community centres, leisure centres, grants and museums. Several councils have declared bankruptcy, and others have said they may face that outcome in the coming year.

In Oxford, we have not faced the same challenges as elsewhere. We have maintained vital services, and we have even managed to invest in new facilities – two recent examples are the new Bullingdon Community Centre and the provision for homeless people at Floyds Row.

We've done this by using the Oxford Model. We generate significant amounts of income, both from our commercial property portfolio but also companies that we own and partnerships that we are involved in. For instance, we get a return from solar energy that we have invested in locally. Our locally-owned housing company Oxplace builds homes, including affordable homes, and that gives the Council a return, rather than the profit being captured by the shareholders of a private developer. Our direct services company, ODS, also provides its services to local companies and organisations as well as our community, again providing a return to the city council. Together, these initiatives support our council's finances.

But nonetheless, the scale of the financial challenge all councils face is unprecedented, including our own.

We started on the budget early this year, and for the last five months every team across the organisation has been tasked with finding new ways to generate or save money. We needed to find an additional £6m every single year.

I'm pleased to say that after a lot of hard work from every team across the council, we have achieved it – and we have done it without making major cuts to front-line services.

In Oxford, we intend to provide our 19 community centres; five leisure centres; all our existing parks; full council tax relief for those on low incomes; youth clubs; and more than £1m of grants to local community groups and charities. These are exactly the sort of services that are threatened by cuts elsewhere.

The new financial plan, which takes us to April 2027, also includes £654m of investment in Oxford over those four years. This includes £6m to redevelop East Oxford and Bullingdon community centres, £5.5m to upgrade the Covered Market, £10m to upgrade the energy efficiency of our council houses, and £311m to build 842 genuinely affordable new homes for the city.

Every team across the council has helped to achieve this, which means the new budget includes changes to most service areas over the next four years:

- Our companies will generate an additional £20m by selling their services
- We will re-gear long leases and sell some commercial property to generate £12m
- And we have vacated our main offices in St Aldate's in favour of working from home and using space in the town hall better to generate £6m

We have tried as much as possible to find savings internally, but we will need to ask residents to help us by paying more for some services. For example:

- We will increase car parking charges by 10% in the city centre – but, crucially, not at park and rides, which we have made cheaper this year, or at suburban car parks
- We will start charging for parking at Florence Park for the first time
- And we will start charging – again, for the first time – for replacement bins

Council tax will also go up by 2.99% this year. But that is equivalent to just £9.76 a year, or 19p a week, for Band D properties, it is significantly lower than inflation, and we have retained our 100% council tax discount for low income families – one of few councils to do so. We also plan to consult on charging extra council tax on second homes as and when the law changes to allow us to do so – we are the first district council to propose this in the country, but we believe it is right that those with the luxury of a second home make a fair contribution to local services.

This has been an extremely challenging budget to put together. I am proud that, despite the financial squeeze, we are continuing to invest in Oxford. Ultimately, we want to make Oxford a fairer and more equal place to live, and we think this Budget helps us to achieve that.

INTRODUCTION

1. This report sets out the Council's Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2023/24 to 2026/27 and gives interested parties the opportunity to comment and be consulted on the Council's budget proposals for the financial year (2023/24). The report covers all aspects of the Council's spend: General Fund revenue expenditure funded by the council tax payer, government grant and other sources of income, Housing Revenue Account (HRA) expenditure, funded by council tenants' rents, and the Council's Capital Programmes (General Fund and HRA) funded by capital receipts, revenue and borrowing.

2. The proposed Medium Term Financial Strategy:

   a) Is financially balanced over the four year period with the use of a net £3 million of earmarked reserves.
   b) Assumes Fairer Funding reforms to business rates, which are likely to disadvantage Oxford City Council are delayed by the Government for one more year
   c) Assumes New Homes Bonus ends in 2022-23
   d) Assumes a council tax increase of 2.99% for 2023-24 and 2024-25 and annual Council Tax increases of 1.99% thereafter. This rate has been confirmed in the Autumn Statement as the rate at which there is no requirement for a referendum. Although this rate has not been confirmed for 2024-25 there are indications in the Autumn Statement that, this will be the case.
   e) Assumes an increase in council house rents of 7% in 2023-24 to an average of £114.73 per week
   f) Includes £17.9 million of efficiencies and increased income over the four year period with an ongoing increase of £6.1 million from 2026-27 onwards ;
   g) Includes spend on reducing carbon emissions over the next four years of over £8.7 million in relation to council housing and a further £40.7 million on climate change reduction works and regeneration over the following 10 years.
   h) Facilitates capital investment of £654 million over the four year period.

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

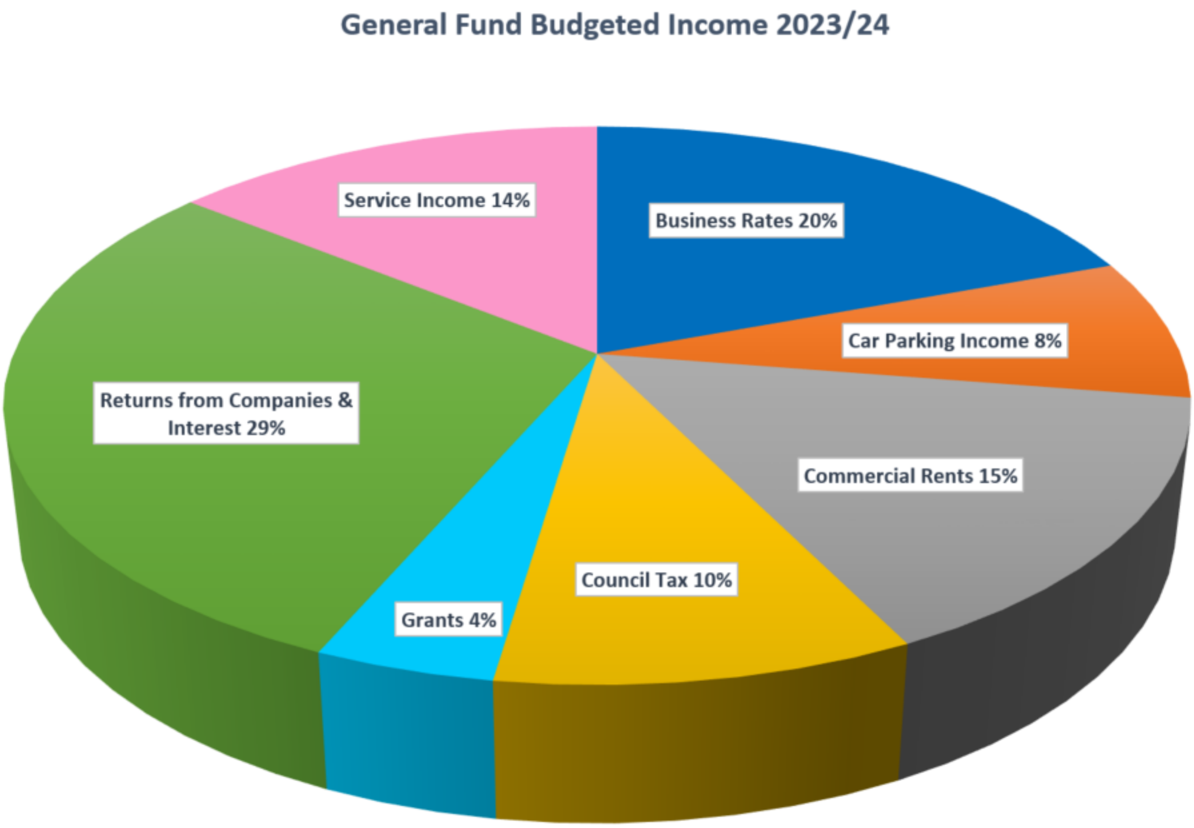
   Section A - Economic context, our priorities and budget setting strategy
   Section B - General Fund Revenue Budget
   Section C - Housing Revenue Account (HRA) Budget
   Section D - Capital Programme

Section A - Background and Context

Background

4. This report sets out the Council's financial plans for the period 2023/24 to 2026/27. The plans make assumptions about income from Government grants, Council Tax and rents. The plans underpin service provision and the Council's vision of "Building a World Class City for Everyone".
5. The Council operates an 'Oxford Model' which seeks to support and maintain services from income stream driven from fees and charges and financial returns

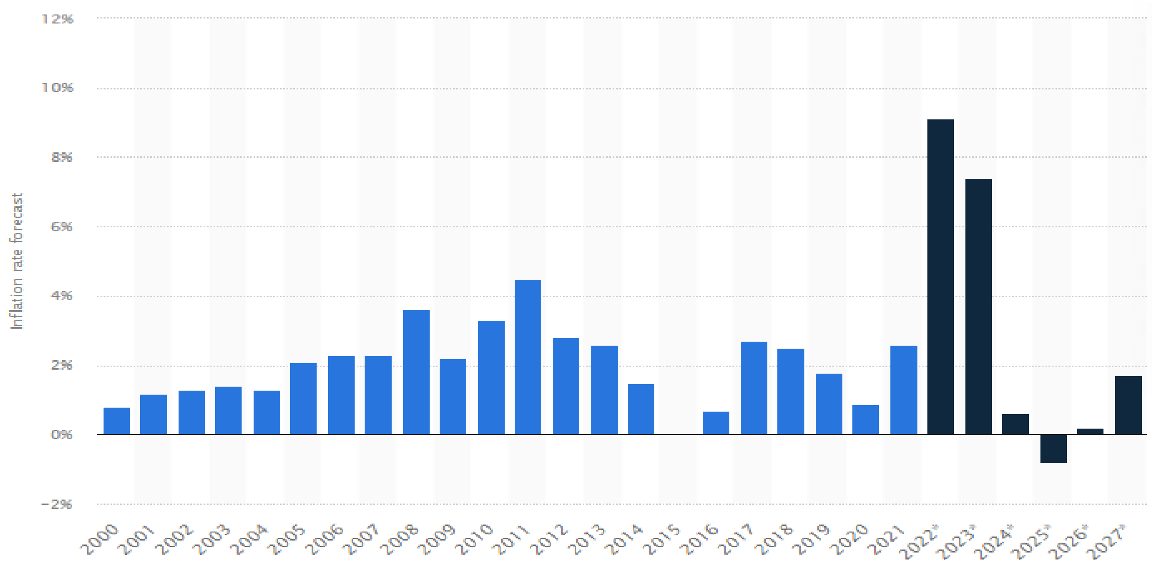
from our wholly owned companies. A breakdown of our gross income shown graphically is given below.



Inflation

6. In October 2022 CPI inflation rose to 11.1% against the 12 months previous, considerably higher than the Bank of England target of 2%. It is expected that this measure will peak at close to 11% in quarter 4 of 2022 although it is expected to fall shortly in the middle of next year. The latest forecasts by the Office for Budget Responsibility (OBR) are that inflation for this year will be 9.1% before falling to 7.4% in 2023 and then 0.6% in 2024. This is in comparison to the highest period of annual inflation since the year 2000, in 2011 when inflation reached 4.1%.

Table 1: Inflation Forecasts



Interest Rate Forecasts

7. On the 3rd November 2022 the Bank of England base rate increased by 0.75% from 2.25% to 3% this is the eighth successive rise from a rate of only 0.1% in December of last year.

8. Link Asset Management, the Councils Treasury advisors, have given their view on interest rate forecasts as shown below:

Table 2: Interest rate forecasts from December 2022 to December 2025

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

9. Base rates will continue to increase, peaking at 4.5% before starting to fall back from June 2024 onwards. Investment earnings will likewise rise as illustrated in 3-12 month money whilst borrowing will equally rise and then fall as indicated.

10. Interest rates on PWLB loans continue to be at a record low. The only debt held by the Council is in respect of HRA self-financing taken out in April 2012 at around £198 million, at fixed interest rates of up to 50 years. The Council capital programme is heavily financed by borrowing although the Council currently uses internal funds, as these are the cheapest form of borrowing. As the Capital Financing Requirement increases so will the need to undertake external borrowing.

Autumn Statement 2022

11. The Chancellor's Autumn Statement originally planned for 31st October was announced on 17th November. The current economic crisis gave rise to a substantial gap in Government finances of around £55 billion. The Autumn Statement fully funded this gap from service efficiencies and tax.

12. The main implications for local Government are :

Council Tax

- From April 2023, the referendum limit for increases in council tax will rise to 3% per year or £5, whichever is greater
- In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year.

Business Rates – It is stated that local authorities will be fully compensated for the loss of income as a result of the new business rates measures detailed below and local authorities will receive new burdens funding for administrative and ICT costs.

- **Revaluation:** from 1 April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of support worth £13.6 billion over the next 5 years will support businesses as they transition to their new bills.
- **Multipliers**: business rates multipliers will be frozen in 2023-24 at 49.9 pence and 51.2 pence, preventing them from increasing to 52.9 pence and 54.2 pence. This will mean bills are 6% lower than without the freeze, before any reliefs are applied.
- **Transitional relief scheme**: Upwards Transitional Relief will support properties by capping bill increases caused by changes in ratable values at the 2023 revaluation. This £1.6 billion of support will be funded by the Exchequer rather than by limiting bill decreases, as at previous revaluations. The 'upward caps' will be 5%, 15% and 30%, respectively, for small, medium, and large properties in 2023-24. They will be applied before any other reliefs or supplements.
- **Retail, Hospitality and Leisure Relief**: support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

Capital Investment

- **Leveling Up Fund (LUF)**: the second round of LUF will go ahead. It will allocate at least £1.7 billion to priority local infrastructure projects. Successful bids will be announced before the year end.

Social Housing

- Rents for social housing will be capped at 7% in 2023-24.

Household Support Fund

- This will be extended for the whole of 2023-24 with total funding of £1 billion. Funding will presumably continue to be channeled through county and unitary councils.

National Living Wage

- This will increase for individuals aged 23 and over by 9.7% to £10.42 and hour from 1-4-2023.

13. It is noticeable that the autumn statement is silent on a number of key points including:

    - The level and distribution of specific grants such as Lower Tier Services Grant
    - Government plans to implement increases to planning fees
    - New Homes Bonus
    - Business rates re-set
    - Fair Funding Review
    - The future of DEFRA's waste consistency reforms
    - The length of this year's local government funding settlement

14. On the face of it the business rates reforms will be funded so that the council does not lose out from reduced income although it is not known at what level and in the absence of information on business rates baselines and tariff levels the overall impact is difficult to assess. There is still no information on fairer funding although the Council has assumed that this will not be implemented in 2023-24. There is no information on New Homes Bonus or any other grants which the council have not assumed in the draft budget. The devil will undoubtedly will be in the detail which will be published in the provisional Local Government Finance Settlement, likely to be in the week of the **21st December 2022.**

Corporate Priorities

15. As in previous years the Cabinet will set a consultation budget in December with a view to presenting a final budget taking account of the results of this consultation to Cabinet and Council in February 2023 in line with its key corporate priorities approved at Cabinet in February 2020 of:

    a) **Enable an inclusive economy**, key deliverables include:
       - The Council's staff are skilled and confident in delivering services our residents want and the workforce as a whole better reflects Oxford's diverse population
       - The Council's supply chain supports more local businesses, including social enterprises and cooperatives, promoting wider benefits to the local economy

    b) **Deliver more, affordable housing**, key deliverables include
       - The Council has increased the supply of high quality, energy efficient housing with a balanced mix of homes for sale and to rent at different price points
       - The Council's Blackbird Leys regeneration delivers high quality homes and a better use of space
       - More Council and private sector tenants are supported to stay in their homes where they face the prospect of eviction

    c) **Support thriving communities**, key deliverables include
       - The Council's services, grants, community and leisure facilities, parks and cultural events have helped reduce inequality, increase cohesion and improve health and wellbeing across Oxford's communities

- Children and young people's resilience and confidence is increased through the educational and recreational activities the Council offers
- The Council's public spaces remain clean, safe, well maintained and are more accessible

d) **Pursue a zero carbon Oxford** key deliverables include

- The City Council making significant progress on the journey to reduce its own carbon footprint to zero
- All new building by the Council progressing towards near or net-zero carbon standards
- The Council's existing council housing is being made more energy efficient

Budget Strategy

16. Although infection levels arising from the COVID 19 pandemic appear to be reducing the financial impact on businesses and the local authority's finances continues to be felt. Income level forecasts from the main income streams continue to be an issue although many of these forecasts set in February 2021 remain unchanged.

17. The budget re-set strategy has been undertaken by:

a) Reviewing all four year assumptions around changes to the base budget

b) Introducing officer proposals to reduce spend or in some instances increase income where it is prudent to do so

c) Liaison with the Council's wholly owned companies on their future business plans and adjusting the amount of financial return and dividend to the Council accordingly.

d) Maximising the use of the assets that we hold

e) Using reserves to smooth out fluctuations in the General Fund over the four year period whilst ensuring that such reserves are not depleted further over the over the four year period beyond the £11 million taken from the COVID emergency reserve agreed at Cabinet in July 2020.

18. Taking account of this strategy the key assumptions are outlined below.

Section B General Fund Revenue Budget

Key General Fund Assumptions

Retained Business Rates

19. Business rates income collected by Oxford City Council as billing authority is split 50/50 with central government with the billing authority's 50% share split 80/20 between Oxford City Council and Oxfordshire County Council respectively. From its 80% share the Council pays a tariff to central government and retains a baseline amount (set by the Government) together with 50% of the retained income above this baseline. The main components of the system with estimates of individual elements for Oxford City for 2023/2024 are shown below. The overall amount of

retained business rates by the authority for 2023-24 represents around 8.4% of total business rates income.

Table 3 : Retained Business Rates 2023-24	
	£million
Estimated Business Rates Income	96.205
Billing Authority Share (50%)	45.413
Oxford City Share (80%)	38.482
Less Tariff paid to Government	30.397
Amount remaining after tariff (A)	**9.090**
Baseline Business Rates	6.259
Income above baseline (£9.090- 6.259)	2.830
Levy -50% of income above baseline **(B)**	(1.415)
S31 Grant adjustment **(C)**	342
Total retained business rate income (A+B+C)	**8.017**

Notes:

Baseline Business Rates – The Government's view of a fair starting point of business rates income for the billing authority based on formula grant distribution. Updated by RPI each year.

Tariff – The amount paid to the Government each year by the Council as billing authority. Updated by the retail prices index (RPI) each year.

Section 31 grant– The Government's discretionary grant paying power under the Local Government Act 2003

20. The recent Spending Review was not explicit in terms of the reforms in respect of Business Rates Retention, (known as fairer funding). The implementation of these reforms has been delayed for the past 3 years and is likely to be delayed again since there is insufficient time for the Government to implement these changes by 1st April 2023. The assumption for budgeting purposes is that this change will be delayed for a further year resulting in a one-off increase in business rates income over that previously assumed of £2 million. The Council awaits further details to be announced in Provisional Finance Settlement on 21st December 2022.

Oxfordshire Business Rates Pool Arrangements

21. For 2023-24 as in previous years the West Oxfordshire Business Rates Pool consisting of Oxfordshire County Council (OCC), Cherwell District Council (CDC) and West Oxfordshire District Council (WODC) will be formed.

22. Oxford City Council is not part of the current Business Rates Pool as the Council's inclusion does not optimise the financial return to Pool members given the interaction of levy payments to Government. In order that the Council itself is not financially disadvantaged it is part of a Business Rates Distribution Group (the Group) with South Oxfordshire District Council which receives a distribution of growth achieved from the Pool in exchange for taking some of the risk for business

rates losses. This risk is deemed acceptable by the Council's Chief Financial Officer given the potential one off return to the Council. A recommendation to join the Group for 2023/24 is part of this report.

Levelling Up and Regeneration Bill

23. The Levelling Up and Regeneration Bill, given its first reading on 11th May 2022 is a key component of the Government's wider programme to level up the country, as set out in the Levelling Up White Paper published in February 2022. The bill in currently making its way through Parliament. Within the bill there is provision to allow local authorities to :

- Introduce a new discretionary council tax premium on second homes of up to 100%
- Apply a council tax premium of up to 100% on homes which have been empty for longer than one year rather than the two years that local authorities are currently able to do.

24. The Local Government Finance Act 1992 requires that such amendments can only be made one year after the billing authority has made a determination to implement and not before financial year beginning 1 April 2024 i.e. a determination by the Council made in this year's budget process, assuming the Levelling Up and Regeneration Bill is enacted may only be implemented from 1 April 2024.

25. Based on current numbers of second homes and dwellings that are empty for between one year and 2 years approving the amendments could raise around £200k additional council tax income per annum assuming a reasonable attrition rate.

New Homes Bonus (NHB)

26. For 2022-23 the Government made a one off New Homes Bonus payment of £365k to the Council but this did not come with the four year legacy payments that existed under the previous methodology. Ongoing legacy payments of £105k were also paid and the total of £470k was reflected in the 2022-23 budget. No further payments have been reflected in this consultation budget as no further details have been given as to whether there will be any. The Council awaits this announcement in the Provisional Local Government Finance Settlement in December.

Corporate Planning Assumptions

27. **Council Tax Increase** – The Autumn Statement included provision to increase the council tax referendum level to 3% or £5 whichever is the higher for District Councils for 2023-24. Although there is no mention of this referendum level for 2024-25 the indication is that the level will be the same. The recommendation is to increase council tax by 2.99% for 2023-24 with a similar increase assumed for 2024-25 before falling back to 1.99% for the remainder of the MTFS period. Each 1% increase represents around £150k on annual income.

28. **Investment Interest** – On the 3rd November 2022 the Bank of England increased base rates by 0.75% to 3%, the eighth consecutive interest rate rise since December 2022. It is also assumed that the base rate will continue to increase further as Bank of England tries to meet its target of keeping inflation at 2 per cent. Latest figures show inflation is currently about five times that target. Analysts currently predict that the base rate could reach 4.75 per cent next year. These

interest rate rises will ultimately feed through to increases in PWLB borrowing and the council's investments. Investment rates should increase with a subsequent positive impact on the council's finances. Increases in PWLB rates will have an adverse impact on the councils wholly owned housing development company OX Place since PWLB is its main source of funds. This could ultimately impact on the council's financial return. The Council do not have any external borrowing to finance capital schemes at present, making use of internal cash reserves to fund such expenditure in lieu, consequently the financial impact is not a significant. This position will change in the future and as it begins to take external funds to finance its ongoing capital programme it will become more susceptible to interest rates rises. Investments held by the authority include:

a) **Externally Managed Property Investments** – The Council has £10 million invested in two funds. The Council makes a return of around 3.5% plus any increase in the capital value. The value of these funds has seen some decrease in recent months but are expected to pick back up. Since March 2020 the revenue return has held up mainly due to occupancy rates from the non-retail property held in the funds remaining high

b) **Ray Valley Solar Farm** – The Council were successful last year in securing a government grant of £10.3 million for lowering carbon emissions. As part of this grant approximately £2million was ring fenced to provide a loan to Low Carbon Hub (CIC) in respect of their development of a solar farm at Ray Valley. In addition to this loan Council agreed a further investment to Ray Valley of £2million on similar terms.

c) **Multi Asset Funds** - The Council has appointed two fund managers Artemis and Fidelity to manage £5million each of the Council's investments. The funds consist of a diverse range of investments including stocks shares and cash the returns from such funds are usually typically around 3% significantly higher than investments in banks and building societies although clearly the value of such funds can go down as well as up. In recent weeks the value of these fund have reduced, reflecting economic conditions. They are long term holdings in nature although the position is being monitored.

d) **OxWed Development** – The Council has made loans of approximately £12.6 million into its 50/50 Joint venture with Nuffield College which attracts a return of 6.5% per annum. Since the Joint Venture has yet to make a surplus this interest is accrued rather than paid. At this point the total of accrued interest is 4.67 million with a further £5 million of interest expected over the life of the MTFS.

e) **Housing Company** – The Council provides subsidy control compliant loans to its wholly owned company Oxford City Housing Ltd and makes a return above that which it borrows from PWLB. The marginal return is currently 3.20%. In addition to interest returns the company makes dividend returns to the council which are estimated at around £12million over the 4 year MTFS.

29. **Inflation** –Most budgets are cash limited. The Consumer Prices Index (CPI) rose by 11.1% in the 12 months to October 2022 up from 10.1% in September. The most significant impact is on materials purchased by Oxford Direct Services in respect of repairs and maintenance and the council's capital programme, for which budgetary provision has been made.

30. **Utility Costs –** £1.2 million – Budgeted spend of electricity and gas in respect of council buildings is around £1.4 million per annum. The Government have placed a cap on the maximum amount that will be paid by business and residents for the

next 6 months ending 31-3-2023. It is estimated that should the cap stay in place then cost increases will be in the region of £1.5 million (£1.2 million General Fund, £300k HRA) which has been included in the budget. Without the cap price increases could be double this amount, which would need to be met from contingencies and reserves.

31. **Pay Assumptions** – Last year the Council agreed a local two year pay deal commencing 1St April 2022 of 2% and 2.5% for 2021-22 and 2022-23 respectively. On 3rd November 2022 two of the three unions nationally agreed the national pay offer for most workers of £1,925 per employee with effect from 1st April 2022 although this has no immediate impact in Oxford due to our local agreement. To reflect economic conditions the Council agreed a one off payment per member of staff of £500 to be paid in November 2022.

32. **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 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 tri-enniel review of the pension fund in 2023/24.

33. **Capital Financing -** Capital financing for the draft Capital Programme is detailed in Section D. Given the budgetary pressures experienced from the Council no revenue contributions have been assumed to finance capital which is largely funded by borrowing, the revenue implications of which have been included in the budget

34. **Planned Repairs and Maintenance** – £2.3 million per annum for planned maintenance and servicing contracts to Corporate Buildings an increase of £332k per annum on previous years to reflect back log repairs. The Council is currently seeking to undertake condition surveys on all its properties which will result in the requirement for additional works for which an amount of approximately £6 million has been made in capital over the period of the MTFP. In addition a further £8million has been provided for planned maintenance to the Town Hall given the more extensive use of that will be made of this building following the vacation of St Aldates Chambers.

35. **Contingencies** – Provision has been made for contingencies to cover unachieved efficiencies and other risks of around £500k per annum across the MTFS. The Council has had a good track record of delivering within budget over the past few years and contingencies held against high risk savings have usually been underspent. There are significant increases in income, especially arising from dividends from ODS and OX Place, making some level of contingency appropriate.

36. **Neighbourhood Community Infrastructure Levy (NCIL) -** In line with CIL regulations 15% of CIL received in unparished areas of the city, which do not have

an adopted neighbourhood plan, are retained by the city council for allocation. This money is for the provision, improvement, replacement, operation or maintenance of infrastructure; or anything else that is concerned with addressing the demands that development places on an area. The City Council currently allocates £5,000 annually to ward councillors not within a parish or neighbourhood plan area. The ward councillors then allocate this on projects that they identify through ongoing engagement with their communities. This approach and allocation will continue. In addition, to date we have allocated as part of the budget following consultation a further of £1.154m from NCIL towards important community projects. The projects and initiatives selected were citywide in nature and are considered to reflect local priorities for Oxford. The projects and activities agreed for this funding source between 2021 and 2025 were:

- Actions from the Citizens Assembly Climate emergency including engagement in the Retrofit Summit, Youth Summit, ZCO Summit and additional biodiversity work (£142k);
- Tackling homelessness including Young People's Pathway Contribution (provides housing and supports 16 to 24 year olds, who are homeless or at risk of homelessness) and raising awareness around homelessness issues (£216k);
- Contribution towards Social Impact Bonds - deliver targeted support for children & young people via a social impact bond (£30k);
- Contribution towards funding of the Community Grants programme (£600k);
- Engagement in transport initiatives across Oxford including Connecting Oxford and Zero Emission Zone (£80k); and
- Support for city restart and economic recovery activity (£86k).

37. The above allocations are not proposed to change as part of this budget. We consulted as part of the budget last year to increase the allocation to Community Grant Programme by £100,000 but this was not confirmed in the final budget. Therefore, as at November 2022 we have the £100,000 from last year plus a further £20,000 received and available for allocation from unparished areas of the city. As part of this year's budget we are consulting on the proposal to make an additional NCIL allocation of £120,000 towards the Community Grants Programme for the period 2023/4-2026/7. This supports the programme to continue over the MTFS. This would take the total allocation from NCIL to community grants to £720,000 between 2021/22 – 2026/27.

Efficiencies

38. Efficiencies totalling £17.9 million are estimated for the four year period with £6.1 million ongoing from 2026-27 as shown in Appendix 3 including:

Ongoing efficiencies

a) **Leisure services** – The current budget assumes that £500k of income currently derived from the management fee will continue when the contract is re-let from 2024-25. A project team has been established to achieve this target saving
b) **Capitalisation of planned maintenance** - £600k pa
c) **Digitisation of planning** files through new technology - £96k pa

d) **Vacancy factor – £250k pa –** application of a vacancy factor against salary budgets assuming posts are held vacant for 1 month from previous post holder leaving the organisation, based on previous staff turnover.
e) **Payments – £35k pa -** digitisation of invoice payment processing
f) **Floyds Row - £100k pa** – Explore options to reduce the revenue gap
g) **Youth ambition service £50k from 2024-25** – Review alternative delivery options that may bring in more funding

Service Reductions

39. There are a number of service reductions which have been included in the budget as follows:

h) **Street scene – £30k pa** Reducing bin emptying for bins which are typically half full or less
i) **Removal of recycling banks- £27k** many authorities have already closed their bring banks without seeing a detrimental impact on recycling. Alternative facilities are available and this will reduce fly tipping.
j) **Communications – £99k pa in full year -**changes in service delivery which result in reduction of in depth communication campaigns run by the council
k) **Cutting of grass verges - £162k per annum** – The County Council previously funded the cutting of grass verges 6 times per annum but initially indicated an intention to reduce this funding to one. Without the additional funding the City Council is no longer in a position to reinstate any saving made by the County Council, however we await their final decision on the number of cuts that will take place.

Transformation – 'Fit for the Future' Programme

40. Council officers have been undertaking work in a number of areas of a more cross cutting nature than some of the efficiencies than have previously been identified. Areas being looked at include:

- Digitisation of services
- Streamlining systems and processes
- Customer experience – streamlining and redesigning how the customer interacts with the council whilst looking to channel shift many of our services towards digitisation
- Reviewing spend from the commissioning of all supplies and services to specific areas such as subscriptions, agency staff and consultancy with a review to cost reduction

41. Approximately £0.7 million of ongoing savings were included in the MTFP last year derived from new ICT development and also customer experience. A further £1.6 million of additional ongoing savings are now included albeit in the later years of the plan, from further transformation work and changes to management arrangements.

42. In addition to the above the council will release further revenue savings from reducing office space and remote working - £1.535 million per annum from 2024-25. The pandemic has changed the way that we deliver back office services. Since March most administrative staff have been working from home.

This work stream will look at the potential for more regular working from home going forward and the reduction of the Council's office footprint. The budget assumes vacation of St Aldates Chambers by December 2022 and providing similar desk capacity at Town Hall.

Income

43. Additional income over the 4 year period is £7.3 million, with £2.5 million ongoing from 2026-27 onwards including:

a) **Corporate Property - £500K** - Potential changes to upper floors of city centre property with a primary focus of Broad Street and George Street, to generate additional income. Also explore other opportunities across the Council's commercial property portfolio

b) **Property disposals and lease re-gears** – target £12 million –Disposal of property and re-gear of long lease holds throughout the city, similar to one recently completed at George Street to create additional capital receipts to be applied to funding capital programme

c) **Shared building control service - £30k pa** - This saving is predicated on the development of a shared Building Control service with Cherwell District Council. Developing a shared service carries risk, with the rationalisation of staffing, systems and premises as well as maintaining brand identity and ensuring due diligence with regards to statutory compliance. The saving has therefore been forecast to commence in 24/25 to allow for these issues to be successfully worked through. Reduced management costs will be a result of sharing the service with the role of the Team Manager being identified as the saving.

d) **Town Hall and lettings–** The loss of income in 2021-22 arising from the pandemic is around £850k (85% of annual income) or £536k net of expenditure savings, in 2022-23 the current assumption is an increase of around £336k before returning to pre pandemic levels in 2023-24 with further increased income of £250k

e) **Community centres -** £191k increased income by 2025-26 to take the budget back up to the actual income in 2019-20 of £452k per annum

f) **Commercial Property Income** – £1million increase over the base budget over the next 4 years. Outstanding debt prior to December 2021 still stands at £4.7 million (with debt recovery work severely constrained), with a further £2million arrears for rent charged in this financial year. Significant work is being undertaken in Property services to recover the position to generate additional income and regeneration schemes such as Cave Street, George Street and the purchase of Cadogen House together with the master plan for the covered market (for which £4.5 million has been provided in the capital program) will generate an additional £1million per annum by the end of the MTFP period.

g) **Car parking income-** Car parking income is still around £1 million down in comparison to the budgeted income in 2020-21 (46% of gross income). No volume increase is assumed although increases in fees by around 10% as discussed below may result in a further additional £80k per annum

h) **Museums Income -** £40k per annum has included in 2023-24. An additional amount of £60k has been included in 2024-25.

i) **Environmental Sustainability –**The Council are at the forefront of introducing vehicle charging technology and derives money from the establishment of a Dynamic Purchasing System (DPS) procurement contract for other authorities to use. Income fluctuates but an amount of £40k ongoing income net of costs to operate the contract has been included

j) **ZEZ pilot - £100k 2 years then £50k ongoing** The Zero Emission Zone pilot has been operating in Oxford city since February 2022. Having funded some of the start-up costs the City Council are currently in discussion with the County Council about the level of net income to be paid to the city based on operating costs, the city having contributed £280k in respect of set up costs. The pilot will run until 2025 at which point a city wide implementation will be considered by the county. Over time as drivers become accustomed to the zone income from penalties should fall.

44. **Fees and Charges** – Details of specific fees and charges increases in 2023-24 are given in Appendix 8 with summary details below:

a) **Off street Car Parking** – Car park charges will be increased by an average of 10% by 50p per hour for city centre car parks only
b) **Park and Ride** – Nil increase
c) **Garden waste bins -** £60 increased to £75 (25% increase) with no increase in the concessionary rate of £47.16
d) **Replacement bins – NEW CHARGE** – for the replacement of two wheeled blue, green and brown bins - £30 per bin
e) **Bulky Waste collection:** There is no increase proposed on the current charge of £20 per item and £30 for larger items, e.g. refrigerators, washing machines etc. with 50% for concessions.
f) **Land charges-** 10% increase

Leisure activities:

g) Tennis court hire – Nil
h) Cricket pitch hire - £1.50 - 2.24%
i) Adult Skating - £1.00 – 10.53%
j) Adult Casual swimming increase of £0.20 (3.6%)

Other

k) Cemeteries- exclusive rights of burial - £10 (0.97%)
l) Pest Control – domestic- increases – £NIL to £17.17 (21%)
m) Taxi Licenses - £5 - £20 – (4.35% - 5%)
n) General licencing – NIL
o) City Centre and Late Night Street Trading consent - £120- (1.47%)
p) Building control – £5 – 0.5%
q) Garages excluding VAT– £0.85 – 5%

New Expenditure

45. Excluding pay inflation there is increased expenditure totalling £7.3 million estimated over the four year period, with ongoing spend of £1.766 million from 2026-27 onwards. Of this amount a significant proportion is charged to capital to assist with the managing of the programme including additional lawyers, finance staff and regeneration managers.

46. Significant items of new spend includes

a) **Utility costs - £1.2 million** – see above

b) **Planned repairs and maintenance** - £2.3 million (£2million capital) see above

c) **Additional staff for managing the capital programme**- £640k per annum
   - 5 fte property services officers
   - 2 fte regeneration managers

d) **Additional property lawyer** £69k per annum

e) **Additional health and safety officer** - £50k per annum

f) **Emergency planning – additional cost of service provision** - £72k per annum

g) **ODS client management costs -** £60k per annum

h) **External/ Internal audit cost** - £160k per annum**.**

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

Table 4 – Medium Term Financial Strategy 2023-24 – 2026-27

Medium Term Financial Strategy 2023/24 - 2027/28	**2023/24 £**	**2024/25 £**	**2025/26 £**	**2026/27 £**
Base Budget	30,606,038	30,606,038	30,606,038	30,606,038
Efficiencies	(2,188,000)	(5,286,000)	(4,783,000)	(5,042,500)
Fees and Charges	(1,168,509)	(1,498,279)	(2,185,792)	(2,452,792)
New Investment	1,153,000	(118,000)	(602,000)	(1,051,000)
Inflation & other pressures	677,026	788,626	632,626	616,626
Revenue Contributions	2,000,000	1,205,400	300,000	300,000
Net interest	(8,762,240)	(11,477,853)	(11,944,819)	(7,791,953)
Depreciation reversal	(5,662,415)	(5,662,415)	(5,662,415)	(5,662,415)
Corporate costs including MRP, pay	8,636,968	12,403,323	14,107,453	14,510,262
Contingencies	554,592	731,593	661,594	661,594
Transfers to/ (from) reserves and working balances	(2,413,493)	401,546	1,488,467	(1,536,800)
Net Budget Requirement	23,432,966	22,093,979	22,618,152	23,157,060
FUNDING				
Council Tax	(15,415,831)	(16,035,532)	(16,518,185)	(17,015,366)
Retained Business Rates	(8,017,135)	(6,058,448)	(6,099,967)	(6,141,694)
New Homes Bonus	0	0	0	0
Total	(23,432,966)	(22,093,979)	(22,618,152)	(23,157,060)
(Surplus)/ Deficit	(0)	(0)	(0)	(0)

Key:

- **MRP – Minimum Revenue Provision** – A charge made to revenue in respect of the cost of borrowing to fund the Capital Programme.

Use of Working Balances and Transfers from Reserves

48. The Council has around £7 million remaining in the COVID Emergency Reserve at 1-4-2022 and intends to use £3 million in 2022-23 and another £2 million over the 4 year period of the MTFS, assuming delivery as planned. Earmarked reserves that are not ring fenced at 31-3-2022 stand at around £11 million although there are plans to use the majority of these over the next 4 year period.

In addition to these reserves there is another £3.6 million un-ringfenced working balance.

Risk Implications

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

a) Provisional Finance Settlement is not as good as assumed when announced in December
b) Savings from efficiencies and transformation not achieved
c) Council income streams continue to be affected by the pandemic beyond the provisions already made in the MTFS
d) Failure or uncertainty of major partners to deliver for instance in Leisure
e) Pay negotiations are more than budgeted from April 2023 onwards
f) Companies do not perform as well as expected leading to reduced income to the Council
g) Business Rates income is lower than forecast
h) Variations in interest rates or non-performance of property funds and multi asset vehicles effecting returns to council
i) Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS
j) Cuts by partner organisations such as the County Council adversely affect service provision

Wholly Owned Companies and Joint Ventures

Oxford Direct Services Ltd

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

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

51. The company's end of year accounts for 2021-22 are still subject to external audit review and although year-end surpluses in accordance with the draft are in line with forecast projections of around £1million it is unlikely that the final dividend will be declared by the company until the accounts have been formally signed off which is not anticipated until the new year. As such the Council cannot be certain of the dividend payment in respect of the last years trading.

52. Dividend in respect of 2020-21 trading year has already been declared by the Board at £600k and the Council expects this to be paid shortly.

53. The revised Company Business Plan will be presented to shareholders in December and revisions to the company dividend return to the council for future

years has been factored into the Councils MTFS based on this revised business plan. With diminishing returns from efficiencies and limited growth in the Teckal company, ODSL, the emphasis of returns to the Council is concentrated on ODSTL. The trajectory of profit after tax now leans towards a 50/50 between the 2 companies by 2025-26 with growth of £3.49 million over the 5 year period being split £1.76m and £1.73 million for ODS and ODSTL respectively. The Estimated surpluses are shown in more detail below.

Table 5 : Oxford Direct Services Revenue – 2021-22 to 2025-26

		£000s 2021-22	£000s 2022-23	£000s 2023-24	£000s 2024-25	£000s 2025-26	£000s 4 Year Growth
Revenue		**68,224**	**73,609**	**77,851**	**82,738**	**87,594**	**19,371**
	ODS	58,457	61,350	61,791	62,245	62,816	4,358
	ODSTL	9,766	12,259	16,061	20,493	24,779	15,012
Profit After Tax		**1,830**	**2,228**	**4,059**	**4,706**	**5,320**	**3,490**
	ODS	1,211	1,727	3,147	3,109	2,975	1,764
	ODSTL	619	501	912	1,597	2,345	1,726

54. It is worth noting that the Council will receive and account for the dividend in the following year to which the dividend is declared. Other points worthy of note include :

- The increase in profit over the 5 year period for ODSL shown above is more pronounced between 2022-23 and 2023-24 following a strategic review of Property Services. The review seeks to drive efficiencies in operatives and supply chain of approximately £750k per annum and increases charges to the HRA in the order of £250k i.e. increased income of £1million.
- Splitting building services, in ODSTL into 3 distinct areas of focus
    - Repairs and maintenance for large scale service contracts (£4.75 million of revenue growth 32% of the total)
    - Construction – (£2.2 million revenue growth - 15% of total)
    - Small works targeting small scale external repairs and maintenance for local authorities and commercial customers (£1.9 million revenue growth 13% of the total)
- Commercial waste revenue growth over the 5 year period is approximately £4.5 million representing 30% of revenue growth.

Housing Company- Oxford City Housing Ltd trading as OX Place

55. March 2016 the Council approved the establishment of a wholly owned Local Authority housing company that was incorporated in June 2016, Oxford City Housing Limited.

56. In November 2022 the OCHL Shareholder approved an updated Company Business Plan. The updated plan continues to provide for the delivery of around 1,829 dwellings over the next 10 year period with 1,114 being acquired by the

Councils Housing Revenue Account and the remainder being sold on the open market. In addition to this the company will acquire 376 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.

57. In return for loans advanced to it from the Council's General Fund to fund development the company pays a subsidy control compliant loan rate based on the 40 year PWLB rate inclusive of a 3.2% margin. As at 31 March 2022 outstanding loans made from the Council to OCHL totaled £38.5 million and accrued interest payable on maturity of the loan and yet to be paid totaled £2.8 million. In addition it is expected that the Company will make dividend payments to the Council from surpluses as they arise although the proposed Company Business Plan projection indicate that this is unlikely until 2023-24 at the earliest notwithstanding that this will paid from retained earnings generated prior to and including 2022-23.

58. A trajectory agreed by the OCHL Board previously would see dividends of £2 million, £5 million and £4.889 million paid to the Council in 2023-24, 2024-25 and 2025-26 respectively which is assumed in the Councils MTFP. The most significant change to the latest OCHL business plan is the retention of debt at the end of the 40 year period. In a change from paying off debt in OCH(I)L as soon as possible, this Business Plan sees debt maintained for a longer period which ultimately releases more surplus into the Business Plan, which can be made available to repay dividend.

59. The latest business plan 'confirms that OX Place remains a financially viable going concern' and the company is able to meet the dividend ask of £12 million over the next three years that has previously been discussed. Additionally the business plan would indicate that further dividends of £1.5 million in 2025-26 and 2026-27 are also achievable. In accordance with the latest business plan dividends and gross interest have been included in the OCC MTFP as follows :

Table 6 : Revenue Returns to Council from OCHL 2023/24 to 2026/27

	2023/24	**2024/25**	**2025/26**	**2026/27**
	£000's	**£000's**	**£000's**	**£000's**
Loans outstanding at year end to Company	82,000	81,000	112,000	121,000
Revenue Returns to Council				
Gross Interest	3,500	5,100	6,500	8,300
Dividends	2,000	5,000	4,889	1,500
Total	5,500	10,100	11,389	10,800

Oxford West End Development (OXWED) LLP

60. The Council has a 50/50 partnership with Nuffield College to undertake the development of the land at Oxpens for residential and commercial purposes.

61. The Council has invested money on a 50/50 basis with its partner Nuffield College at a loan investment rate of 6.5% with loans outstanding at 31-10-2022 of £12.6 million loan and accrued interest of approximately £4.67 million.

62. In March 2021 Oxwed's shareholders resolved to proceed with the preparation of a master plan and the submission of a planning application. Oxwed is in the final stages of finalising the documentation. There will be 2 planning applications. The first Oxwed application will be an outline planning application for the master plan and the second Oxwed application will be a detailed planning application for the enabling works.

63. This approach will require the approval of additional expenditure to support the finalisation of an agreed delivery strategy, and the identification of a development partner(s). This is the next critical step to ensure the best possible return to the Council. There is also the possibility that Oxwed may wish to undertake enabling works to the site to further de–risk the site for development market, and hopefully embed value in so doing.

64. The budget figure for this additional expenditure is currently being developed and will be subject to future reports, and a decision by Council. The drawdown of these loans will also be subject to both Cabinet and Shareholder decisions.

65. The overall development will drive significant gross value added, additional council tax, business rates and dividend return from the LLP. The timing of this return is as yet uncertain but is likely to be outside the next 4 year MTFP period possibly from 2027-28 onwards and at this stage has not been included.

Section C Housing Revenue Account Budget

Background

66. The Council continues to operate an ambitious programme of investment both in the maintenance and refurbishment of its existing stock of 7,791 council dwellings, regeneration of its council estates and also investment in new social housing dwellings constructed by the Councils wholly owned company Oxford City Housing Limited (OCHL). The current HRA Capital programme provides for £427 million of capital works over the next four years with £311 million of this being spent on the purchases of 942 new build social houses. The overall commitment to OCHL is for the purchase of 1,114 dwellings over a 10 year period of which 172 are due to be completed by 31st March 2023.

67. There are currently 18 secure schemes, 9 pipeline schemes, and 3 potential schemes that make up the 1,114 dwellings quoted above. These schemes currently include 457 Shared Ownership units, which are currently under consideration for purchase by a proposed new entity of OX Place.

68. Due to the uncertainty of some of the pipeline and potential developments it is necessary for the HRA to have flexibility within the capital programme to allow for changes to the proposed number of schemes whilst working within the capital budget envelope. Any proposed scheme will need to meet the required prudential indicators as detailed in the next paragraph.

69. In managing the future risks that will inevitably start to rise as more debt is taken on to facilitate new build housing and regeneration the Head of Financial Services as well as paying attention to net income makes use of Prudential indicators to manage these risks. Prudential indicators are used in the Treasury Management Strategy and are a matter of judgement by the Section 151 Officers but those typically used by banks and building societies to assist management would be:

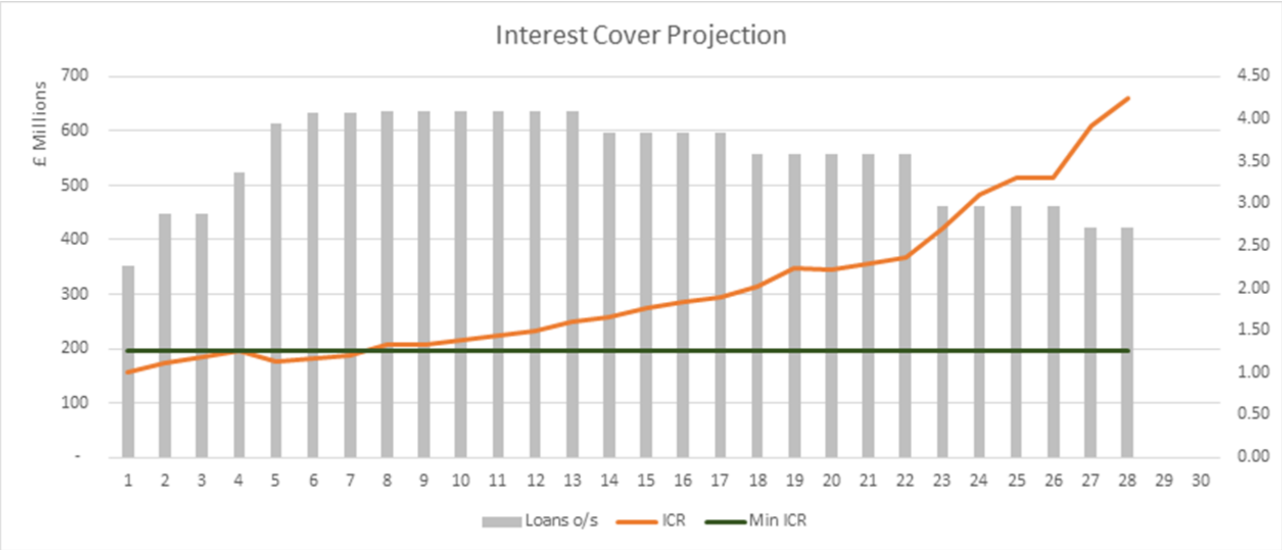
a) Interest cover ratio – ratio of operating surplus divided by interest cost i.e. how many times interest can be paid from surpluses
b) Loan to value ration- outstanding debt/ fixed asset value at year end
c) Debt to income ration – Turnover / debt

70. The most widely used ratio is interest cover which measures how many times surpluses cover the interest charge and typically Registered Providers would operate on a ratio of 1.72:1 and 2.1:1. As a golden rule 1.25:1 would be acceptable especially given the significant housing development being undertaken by the Council.

71. In preparation of the revised HRA Business Plan the Section 151 Officer has agreed a trajectory of interest cover ratio to 1.25: 1 over the first 4 years of the Business Plan and thereafter budgeted spend is approved which seeks to ensure that this ratio is maintained at a level of at least 1.25:1.

72. The chart below shows this ratio graphically

Table 7: Impact on Interest Cover Ratio



Year	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Year in BP	3	4	5	6	7	8	9	10	11
Interest Cover Achieved	1.0	1.12	1.19	1.26	1.14	1.16	1.21	1.32	1.33

73. The chart indicates that there is limited capacity to accommodate any further spend in the HRA Business Plan until 2029-30 for schemes that do not generate a revenue return.

Key Assumptions in the HRA Business Plan

74. 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. The HRA purchases such social dwellings from OCHL based on a set of 'financial viability indicators agreed with the Councils Section 151 Officer as follows:

a) Net present value (NPV)– positive over a 70 year period
b) Payback – 70 years or under
c) Internal rate of return IRR -(the discount rate which equates the Net Present Value to zero) of 3%

75. These criteria are comparable to the Housing Company of a positive NPV over 40 years, 40 year payback and 4% IRR. The HRA criteria are less favourable to reflect the nature of the social dwellings being purchased.

76. Work has also been undertaken to accommodate

a) An increase in the level of HRA debt for the new build acquisitions by £350 million to cover all capital commitments
b) All debt self-financing and additional secondary debt to be repaid within a 40 year period
c) HRA working balance not to fall below £3.5 million

77. The debt profile of the HRA together with the resulting HRA working balance over the next few years is shown as follows:

Table 8 : HRA Outstanding loans and Working Balances		
	Closing Loan Balance	Working Balance
	£000's	£000's
2022/23	309,069	5,307
2023/24	351,863	4,441
2024-25	446,466	3,654
2026-27	522,931	3,757
2027/28	614,515	3,795
2028/29	634,686	3,526
2030/31 – Peak Debt	636,456	3,535
2060/61		417,458

78. The bulk of the loans outstanding with the HRA relate to the self-financing debt taken out in 2012. Interest rates on these loans are fixed at varying rates with an average of 3.5%. Further loans taken out to finance the Business Plan are estimated at £414 million.
79. In the latter years of the 40 year Business Plan, HRA working balances begin to increase once again, enabling increased activity to be undertaken.

Key assumptions made in preparing the HRA budget for 2023/24 – 2026/27

Rent Increases

80. Under the Governments rent standard from 1st April 2020 rent may only be increased by up to CPI (as at September of the preceding year) +1% for a period of five years for local authority and housing association social rents up to 2025-26 at which point this will be reviewed by the Government. The financial year 2023/24 would be the fourth year of the rent standard.

81. With CPI at the end of August 2022 rising by 9.9% over the previous 12 months (and subsequently increasing to 11.1% on 31st October) it is with no surprise that on the 31st August 2022 the Government announced a consultation on introducing a temporary rent cap for social housing for the 2023-24 financial year. The consultation which ran until the 12th October proposed 3 options 3%, 5% or 7% with the government's draft direction based on setting the cap at 5%. The consultation sought views on introducing a rent cap for the 2024-25 financial year and indicated that there would be a review of social rent policy beyond 2025 next year.

82. In the Autumn Budget speech delivered on the 17th November 2022 the chancellor announced a capping of rent rises to 7%.

83. As well as the restriction on maximum increases, rents are also capped as follows:
- **Social Rent** – applies to the majority of council dwellings - rent caps apply as a maximum ceiling on the formula rent, and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap must be used instead.
- **Affordable Rents** – applies to around 50 of our dwellings - The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent. 'Gross market rent' means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

84. The HRA must adhere to these restrictions and caps on rent increases even if a tenant's rent is below formula rent, or if the HRA has previously applied a lower – or no – annual increase. Where this is the case, the HRA may only move the rent up to formula rent when the property is re-let following vacancy (subject to the rent cap).

85. The table below demonstrates the amount of rental income foregone as a result of these restrictions.

Table 9 : Rental Income Foregone			
	Number of Properties	**Total Weekly Rent Foregone**	**Total Annual Rental Income Foregone**
Actual Rent is less than Formula Rent	3,068	£37,176.94	£1,933,200.88
Which Includes: Actual Rents that are restricted by the Rent Cap	185	£671.02	£34,893.04

86. With inflation at 11.1% and borrowing interest rates increasing as the Bank of England continues to increase base rates rental increase of below inflation will lead to the need for savings in expenditure to be made. At a level of 7% it is expected that reductions in expenditure will be minimal whereas they would be significant if the rent is charged at a lower level as demonstrated in the following table:

Table 11 : Effect on Rent Income and spend at varying rent increases			
Rent Increase Cap	Increase in Existing Rental Income £'000	Net Reduction to proposed HRA MTFP budget £'000	Reduction in Borrowing Headroom* £'000
3%	1,349	1,798	41,111
5%	2,248	899	20,548
7%	3,147	-	-

*Based on a PWLB Interest Rate of 3.5% and an Interest Cover Ratio (ICR) of 1.25

87. As a result the current plans are based on a rent increase of 7%.

Shared Ownership Dwellings

88. During 2021-22, 25 Shared Ownership dwellings were purchased from OCHL at Rosehill. A further 12 shared ownership dwellings have been purchased at Harefields during 2022-23. The rent charged on shared ownership properties is initially 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. Rent increases on these will be in accordance with the lease, with an upwards only rent review, with reference to the RPI index set at ‘September’. This is different to Social Rents which uses CPI at September.

89. Rent is charged on shared ownership dwellings at the greater of :

(i) gross rent under the lease immediately preceding the relevant review date (April) X 1.005 and
(ii) gross rent under the lease immediately preceding the relevant review date X ((B/A) + 0.005) where B represents the RPI index at the preceding September and A represents the RPI index for September of the previous year i.e 1st April 2023 rent review uses September 2022 (B)/ September 2021 (A)

Right to Buy and other disposals

90. Disposal of around 20 dwellings per year is assumed from 2023-24 onwards. Within the development programmes to be purchased from OCHL, there will be shared ownerships on most of the schemes. The Council will receive a capital receipt from the element purchased by the homeowner known as ‘stair casing’ enabling the homeowner to own a greater proportion of their home.

Inflation and pay assumptions

91. All the assumptions for inflation are the same as for the Council’s General Fund.

Service Charges

92. Service charges such as caretaking, cleaning, CCTV, communal areas etc. will be increased by CPI +1% (11.1%) across all tenure types in the HRA. This increase will ensure that the income will cover the actual costs that have increased by RPI.

93. There is no proposed increase to the Furnished Tenancy multiplier in respect of charges to tenants who take up the offer of the provision of white goods and other fittings. The current multiplier of 1.5155 is considered sufficient to cover the costs of running the scheme.

Working Balance

94. 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.

Variations to Budget

Variations to the HRA budget are shown in Appendix 3 with explanations shown below:

<u>Investment in housing stock</u>

- **Line 15** The extension of the lease at Southfield Park (£1,500k) will maintain the current levels of HRA stock, and provide security for leaseholders in that area who struggle to obtain mortgages due to the current short lease.

- **Line 26** Energy Efficiency Initiatives (£1,000k) - an increase in funding to support our carbon reduction agenda and deliver our target of 95% of our properties being EPC C or above by 2030 latest through undertaking upgrades of insulation or retro fit new products i.e. boilers and then from 2023/24 EWI to our solid wall properties.
- **Line 27** Capital budget (£2,466k) required to utilise the Retained Right to Buy Receipts (these now fund 40% of the costs) to fund a variety of additional dwellings
- **Line 28** Major refurbishment at Masons Road (£250k) to remediate significant subsidence to a block at Wood Farm which was highlighted in the 21/22 Appendix 3
- **Line 29** Additional funding for adaptations (£200k) due to increased demand through OT referrals.

<u>Service Pressures</u>

- **Line 5-6** Utility costs have increased significantly (£420k) and will have an impact on the costs of communal areas and properties that are void (Standing Charges). In the case of communal areas this will be re-covered in part by a corresponding increase in service charges.
- **Line 7** Recent legislation requires electric vehicle charging points to be installed at new developments. Where this is not possible within the curtilage of the property, an external company is required to manage the publicly accessible charging point and a standing charge is payable (£5k pa).
- **Lines 8 – 14** the implementation of QL & Versaa will enhance the customer experience when transacting with the council. This will result in efficiencies for the tenant and the council. (£170k Revenue pa and £187k Capital Investment)
- **Line 18** Transformation Team Costs (£80k) Investment in a team to deliver the Landlord Services transformation
- **Line 19** Locality Manager (£60k) as part of Service Integration Project
- **Line 20** ODS Commercial Model – a revised model is being implemented which will result in increased costs (£280k) to the HRA
- **Line 21** Increase in Housing Ombudsman subscription (£20k)
- **Line 32** increased demand for fencing repairs / replacement fencing has resulted in an additional requirement of £400k in the short term
- **Line 33** increase in material costs (£200k) over and above previously estimated inflationary increase.
- **Line 35** increase in refuse collection costs (£9k) this will be re-covered in part by a corresponding increase in service charges.
- **Line 36** provision of £400k over the next 2 years for future costs.

95. It should be noted that there are key, significant areas of pressure to come. The new Decent Homes standards, whilst welcome will demand further spend on the stock. Secondly, the challenge of meeting the 2030 EPC C rating, and net zero by 2040 is both operationally and financially a significant demand.

96. Early in 2022 Property Services commissioned Baily Garner to undertake a review of the Housing stock in relation to Energy & Sustainability and to present proposals and cost indication for works. This was completed in July 2022 and provides a clear and concise route map to achieving the Council's targets for Energy & Sustainability by property type.

97. What has become clear is that the challenges in achieving the targets are great and more costly than previously anticipated (£150m to get to EPC C and £500m for net

zero), but in recognising them realistic proposals can be put together in a combined manner for OCC to be in a better position of achieving the targets than would have been possible before.

98. The Council continues to work with Baily Garner as a Partner in the design, development and delivery of Energy & Sustainability projects and works going forward, including the development of a bid into the Social Housing Decarb Fund Wave 2. This will require monies allocated to carbon reduction £8m over 4 years to potentially be brought forward into earlier years. Impacting on borrowing. This re-profiling is reflected in **line 37 of the Appendix 3** £1.865 million having been brought forward from 2025-26 to 2023-24 and 2024-25

Existing ongoing efficiencies and new efficiencies

99. ODS efficiencies and corporate council efficiencies are all planned to be kept in the General Fund.
    - **Line 17** the Rents Team have identified savings (£73k) against the budgets for Court Fees and Postage.

Housing Revenue Account Budget 2023/24 to 2026/27

100. Appendix 4 details the HRA Budget for the period 2023/24 to 2026/27 which is summarised below:

Table 12 – Housing Revenue Account (HRA) 2023-24 to 2026-27

	2023/24 £000's	**2024/25 £000's**	**2025/26 £000's**	**2026/27 £000's**
Income	(51,577)	(56,752)	(59,191)	(63,103)
Expenditure	52,475	55,094	56,179	58,464
Net Operating Expenditure/(income)	**898**	**(1,658)**	**(3,012)**	**(4,639)**
Investment income	(32)	(27)	(26)	(26)
Revenue Contributions	**-**	**2,473**	2,680	4,921
(Surplus)/Deficit for the Year	**866**	**787**	**(358)**	**255**
(Surplus)/Deficit b/fwd	(5,307)	(4,441)	(3,654)	(4,012)
(Surplus)/Deficit c/fwd	**(4,441)**	**(3,654)**	**(4,012)**	**(3,757)**

Risk Implications

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

- Increased arrears due to benefit changes arising from 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 D Capital Programme

General Fund Capital Programme

102. The current General Fund Programme, shown in Appendix 6, amounts to around £261 million over the four year period.

103. New Schemes of around £20 million are included in the budget :

- **ICT –** An additional £1.6 million for replacement of systems
- **Waterways – Tumbling Bay** - Health and safety related works requiring capital expenditure have been identified as required at Tumbling Bay and Long Bridges
- **Contingency - £1.3 million** Across the construction industry there are significant pressures against previous cost estimates and allocated budgets. Index data published by BCIS (Building Cost Information Service) shows a significant increase (estimated at around 19%) since the previous figures between the December 21 and March 22 forecasts. Even these forecasts, which give best indications, are generally recognised as not keeping up with current costs due to the uncertain nature of the market. The above contingency estimates the price increase on construction projects within the capital programme. It is not currently profiled and will act as a contingency to be allocated to projects as and when estimates indicate it is required by officers in consultation with the Head of Financial Services and in accordance with the Council's Constitution.
- **Covered market master plan - £4.5 million** including £2million for enabling works. The rationale for the master plan is that the works will ultimately protect and then increase rent over time. As such, the assumption is that from 2026/27 rents will return to the same level as 2023/24, with an increase in rents seen from 2027/28 in line with the next lease event.
- **Capitalisation of planned improvements to corporate buildings - £ 3millon** over the next 4 years. This is not new money. Financing these schemes via capital resources does allow the cost to be spread other a longer period of time in accordance with the extended asset life and so release pressure on the General Fund Revenue Account.
- **Planned improvements to Town Hall - £2 million per annum**. As the councils moves out of St Aldates Chambers to make more use of the Town Hall as its primary administrative base the need to ensure that the Town Hall building remains fit for purpose becomes more significant. Works have been identified from previous condition surveys that need to be undertaken and it is timely to commence the programme at this time.

104. Other items worthy of note include

- **Regeneration –** An amount of £25.7 million remains of previous monies set aside for regeneration. This will be used to invest in assets within the city.
- **Stock Condition Survey works –** £4.5 million - The Council is undertaking stock condition survey work of all General Fund Properties and bridges.
- **Cave Street £6.2 million -**Cabinet in November 2021 agreed to provide a sum to undertake the replacement of and refurbishment of properties at Cave Street for lettings to organisations for offices and studio units. Work continues to make progress on this scheme
- **Covered market-** £1 million of planned maintenance and roofing works
- **Loans to Oxford City Housing Ltd** – £89 million for funding the development of social, market and shared ownership housing
- **Purchase of vehicles** - £13 million for the purchase of vehicles subsequently leased to oxford Direct Services
- **Blackbird Leys Regeneration** - £20 million General Fund and HRA funds for the development of affordable and market housing, community centre, replacement shops and associated infrastructure over the next 4 years

105. Funding of the Programme is by Capital Receipts £63 million (25%) Community Infrastructure Levy and Section 106 £5 million (2%), borrowing £157 million (60%) Government Grants £28 million (10%) and £8 million revenue (3%). All revenue costs have been included in the General Fund revenue budget.

Housing Revenue Account Capital Programme

106. The draft HRA Capital Programme is intrinsically linked to the HRA Business Plan since the resources to fund the Programme are largely generated through housing rents. Appendix 6 shows the existing HRA capital programme over the next four years totaling £433 million. Notable inclusions are :

a) **Planned maintenance and refurbishments** to Council housing stock £39 million including window replacement, door replacement, electrical repairs, health and safety and a stock condition survey
b) **Estate Improvements** including the great estates programme and Blackbird Leys Regeneration £8.2 million
c) **Properties purchased from OCHL –** The cost of these developments over the next four years is estimated at around £340 million which will be financed from borrowing.
d) **Purchase of properties by Retained Right To Buy Receipts** -£4 million Retained Right to Buy Receipts (RRTBRs) are the receipts that the Council are able to retain from Right to Buy sales over and above the number of units assumed by Government at the time of the HRA self-financing, in 2012. Receipts that are unspent after four years from the time of the sale must be returned to the Government, with interest (4% over base rate). Spend must be on new rented social housing supply, which the recent Government Spending Review has been increased to 40% of the qualifying spend (i.e. £1m spend can be financed by using up to £400,000 of RRTBRs).This funding cannot be used with any other government grant and will be used for street acquisitions or schemes with no grant.
e) **Affordable housing developments in HRA** - £20.4 million in respect of the development of affordable housing in Oxford

f) **Energy Efficiency** – The Council has made provision on its HRA for spend of around £10 million over the next 4 years. The Council has submitted a bid for government grant under the Social Housing Decarbonisation Fund 2.1 bidding round seeking funding towards a retrofit programme for around 300 council houses. If successful the total cost to the council will be around £6million which will attract grant funding of £3million

g) **Southfield Park leases** - £1.5 million – Provision has been made for the extension of the lease at the Southfield Park estate. The extension will maintain the current levels of HRA stock and provide security for leaseholders in that area who struggle to obtain mortgages due to the current short lease

107. The financing of the HRA Capital Programme is from capital receipts £34 million, (8%) arranged borrowing £331 million (76%), revenue £37 million (9%) and Homes England Grants £31 million (7%)

Risk Implications impacting the Capital Programme

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

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

Budget next steps

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

Table 13: Budget Consultation Timetable	
Consultation Budget Report to Cabinet	14th December 2022
Budget Consultation Period	15th December to 31st January 2023
Final Budget Report to Cabinet including outcome of Consultation	8th February 2023
Budget approval and Council Tax Setting Council	15th February 2023

110. The Council will make use of its citizens' panel as well as an online survey. The survey will be publicised in local newspapers and the budget will be shared with other stakeholders, such as trade unions and local voluntary organisations and businesses for comment.

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

Financial Implications

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

Legal Implications

113. Section 30 of the Local Government Finance Act 1992 requires that a local authority ‘must set a balanced budget and council tax before the 11th March in the financial year preceding that for which it is set’. Consultation will be undertaken with the General Public for a period of six weeks in accordance with CIPFA Guidance.

114. The Local Government Act 2000 in particular Section 9 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.

115. 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 2023 when the Budget is approved.

116. 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

117. Detailed risks are shown in Appendix 8 of the report.

118. The Oxford Model where the Council utilises returns from its wholly owned companies and other income streams to support the base budget and maintain council services has served the Council well, over the last few years. Income to fund services provided by the Council for 2023-24 is estimated at around £49 million with an estimated £13 million coming from interest and dividends from the Council’s wholly owned companies Oxford City Housing Ltd and Oxford Direct Services and other entities such as Oxwed.

119. The pandemic, COVID 19 resulted in a significant reduction in the Council’s income streams over the last year with the negative impact on some of these income streams some as commercial rents, lettings and car parks still being experienced with some unlikely to return to pre COVID levels, as organisations like ours change their ways of working.

120. The delayed Autumn Statement has done little to clarify Government thinking at an individual authority level as to the general direction of business rates income retained by the authority.

121. In spite of these issues and other risks around expenditure which are explained in the report the Council has been able to set a balanced budget in each of the four years of the MTPF albeit with a further draw of £3 million on reserves, which has been planned and is considered prudent.

Equalities Impact Assessment

122. These are shown at Appendix 9 of the report.

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Background Papers: None