
Scrutiny Budget Review 2023/24

Report of the Budget Review Group 2023/24
Commissioned by Oxford City Council's Scrutiny Committee

February 2023

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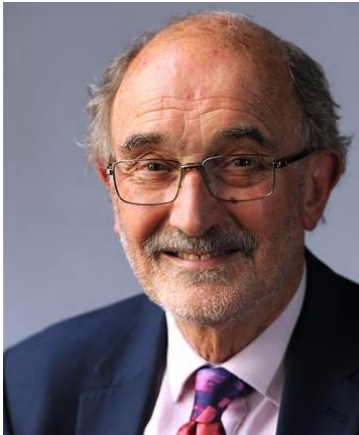
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Foreword by the Chair of the Budget Review Group



Councillor James Fry, Chair of the Budget Review Group 2023/24

It will come as no surprise that the latest Budget Review has come at a particularly challenging time in terms of the external economic environment. The challenges created by high inflation when Council taxes and business rates are effectively capped by Central Government are great enough in their own right, but the legacy of the Covid pandemic in arrears in rent payments on many Council-owned commercial properties adds to pressures on the Budget.

The Government did not allow the Council to pursue payment of such arrears while the pandemic was raging and only now is it becoming possible to assess how much will have to be written off and how much may be recouped under protocols negotiated with individual tenants. It is galling to discover that no compensation is offered for the arrears incurred while following Government instructions. These arrears need to be funded from reserves, which the Council was prudent to accumulate in better times.

Against this backdrop, the Budget Review Group held a series of meetings with senior Council officers to examine in detail the proposals submitted for the next four financial years. On behalf of the Group and the two other councillors who participated in the discussions, Councillor Amar Latif and Councillor Chris Jarvis, I would like to give special thanks to three officers who provided support to the Group during this process, Richard Doney, Scrutiny Officer and Secretary to the Group; Nigel Kennedy, Head of Financial Services; and Anna Winship, Management Accountancy Manager. Without their dedication, we would not have been able to get this Review over the line.

Besides the specific recommendations submitted by the Group, there are two aspects of the Budget that need to be highlighted. One is the role of the “Oxford model” whereby Council-owned companies, notably ODS and OX Place, are generating income for the Council to supplement revenues from more traditional sources, such as Council tax. The contributions from these companies in dividends and interest payments will prove crucial in allowing the Council to navigate the turbulence caused by today’s inflationary pressures.

The other facet of this Budget round that should be noted is the fortuitous delay, due undoubtedly to the turmoil at the top of Government, in implementing reforms to the funding of local government, among which the Fair Funding scheme would be very costly to the Council. These delays have relieved for a short while some of the pressures on the Budget; however, instead of treating these sums as an opportunity to increase spending and using up these unexpected savings, the Group felt that the harsh experience of the past three years, which have drastically reduced uncommitted (i.e., not ear-marked) reserves, should not be used for any ongoing costs.

The recommendations that follow are designed to address specific concerns of the Group about the achievement of the Budget forecasts. Chapter 5, Conclusions, summarises these under five headings: (1) efficiency savings; (2) large projects; (3) windfall gains; (4) the investment portfolio; and (5) transport.

Chapter 1: Introduction

1. The role of Oxford City Council's Scrutiny Committee is similar to the role of UK Parliamentary Select Committees. Scrutiny is led by a cross-party membership of councillors who are not on the Cabinet (the main Council decision-making body) and is empowered to question Council decision-makers and make recommendations to them about policy decisions. Scrutiny can also investigate any issue that affects the local area or its residents, whether or not it is the direct responsibility of the Council. It has a duty under the Council's Constitution to consider the Cabinet's draft budget proposals before they are put to Council for final endorsement.
2. The Scrutiny Committee established the Budget Review Group on 05 July 2022 and agreed [its scope \(or terms of reference\) on 11 October 2022](#). Its membership was agreed to be the same as that of the Finance and Performance Scrutiny Panel, with additional contributions made by the Housing and Homelessness Panel regarding the Housing budget scrutiny, with the contribution in this area also of three of the Council's Tenant Ambassadors who had been co-opted to the Housing and Homelessness Panel. It was scheduled to meet in January 2023 to scrutinise the Draft Budget and Medium Term Financial Strategy (MTFS) as approved for consultation by the Cabinet on 15 December 2022, and to test the robustness of the underlying assumptions used in the proposals. The Council has a statutory duty each February to agree a four year balanced budget. This report of Scrutiny is intended to provide a considered second opinion on the budget proposals with constructive recommendations and suggestions for changes.
3. Having an effective budget scrutiny function is considered a cornerstone of good governance, allowing a cross-section of councillors to ask challenging questions about the budget for various services that the Council delivers, as well as the wider financial context in which the Council operates. In addition to the detailed Budget Review Group process, the [Finance and Performance Panel](#) leads its own work plan year round to review and evaluate spending against the budget. At least five meetings of the Finance and Performance Panel are held each year. To date, this year, meetings have been held both in-person and via Zoom. Meetings and agendas continue to be open to the public.
4. The Budget Review Group has a cross-party membership comprising the following City Councillors:
 - Councillor James Fry (Chair)
 - Councillor Chris Jarvis
 - Councillor Amar Latif
 - Councillor Tom Landell Mills

Housing and Homelessness Panel members are as follows:

- Councillor Paula Dunne (Chair)
- Councillor Lizzy Diggins
- Councillor Laurence Fouweather
- Councillor Jabu Nala-Hartley
- Councillor Rosie Rawle
- Councillor Jo Sandelson

Tenant Ambassadors:

- Jerry Assongu
- Anthony Church
- Gill Taylor

5. This report is written with two audiences in mind. It is directed to the Council's executive body, the Cabinet, which agrees the draft budget and recommends it to Council for approval. Here, the Budget Review Group gives concrete recommendations of actions it would like to see done differently with a rationale for making those changes. However, this report is also written for the public, to assure them that independent testing of the budget proposals has occurred and that public money is not being put at undue risk, and that it is being allocated wisely.
6. This report is not intended to act as a comprehensive review of all aspects of the budget, but rather it draws out the key recommendations which emerged during the review process. The Review Group explored in its meetings questions and issues across all service areas and was satisfied by responses received to the vast majority of questions. It would not be efficient for the Review Group to report on all aspects of its discussions. Given that the principal purpose is to make recommendations to Cabinet on the proposed budget before it, the Review Group has limited the bulk of its report to focus on its recommendations.
7. This report will be presented to the Council's Scrutiny Committee for endorsement on 01 February 2023, and subsequently to the Cabinet and the Full Council on 08 and 16 February 2023 respectively.
8. The Review Group would like to place on record its thanks to all of the people who contributed to the review, which has enabled the recommendations in the report to be made.

Chapter 2: Methodology

9. The Review Group's work involved a total of four meetings which were all held in January 2023. The aim of this work was to provide an independent and cross-party review of the 2023/24 budget proposals to provide assurance concerning the soundness of the budget, and recommendations for improvement and review where necessary. The Review Group used the Cabinet's [draft budget proposals](#) from 15 December 2022 as the principal document for scrutiny. Key themes and questions the Review Group sought to explore included:
- The progress of financial mitigation strategies arising from COVID-19 and the Council's overall expectation of what the 'new normal' looks like financially;
 - The interaction, robustness, and financial impact of the financial returns to the Council from Oxford Direct Services and OX Place business plans;
 - Specific consideration of the Council's planning regarding macroeconomic factors such as inflation and the growing scarcity of workers;
 - The robustness of plans and risks to the Council's anticipated income streams, particularly relating to parking, commercial property and the Council's companies;
 - The robustness of the HRA Business Plan and the effects of upcoming legislative and regulatory changes such as the Social Housing White Paper;
 - Assessment of overall strategy and individual proposals to mitigate lost income and to reduce costs;
 - Planned borrowing levels and the impact of the changes arising from Minimum Revenue Provision;
 - Levels of contingencies and earmarked reserves;
 - Deliverability of the Capital Programme and its relation to previous iterations of the Medium Term Financial Plan
10. The Review Group's findings and recommendations have been informed by evidence provided by senior officers of the Council across its meetings, as well as extensive written testimony in response to pre-submitted questions from councillors. Contributors to the review included:
- Helen Bishop: Head of Business Improvement
 - Tom Bridgman: Executive Director of Development
 - Ian Brooke: Head of Community Services
 - David Butler: Head of Planning
 - Stephen Gabriel: Executive Director for Communities and People
 - Caroline Green: Chief Executive
 - Emma Gubbins: Corporate Assets Lead
 - Tom Hook, Executive Director for Resources
 - Nigel Kennedy: Head of Financial Services
 - Andrew Murdoch: Development Management Service Manager
 - Nerys Parry: Head of Housing (Interim Acting)
 - Carolyn Ploszynski: Head of Regeneration and Economy
 - Susan Sale: Head of Law and Governance
 - Mish Tullar: Head of Corporate Strategy
 - David Watt: Strategic Finance Manager (OX Place)
 - Rachel Williams: Planning Policy and Place Manager

- Jane Winfield: Head of Corporate Property
- Anna Winship: Management Accountancy Manager
- Ian Wright: Head of Regulatory Services and Community Safety

Chapter 3: Findings and Recommendations

Archivist

11. The Review Group noted the proposed reversal of funding for an archivist seconded from the County Council at line 13 of the Community Services section of the General Fund Budget Proposals Summary. The Review Group was concerned that funding for the work of the archives had been progressively cut over the years and that to remove the funding entirely would be a very dangerous step. Section 224 of the Local Government Act 1972 requires councils to “make proper arrangements with respect to any documents that belong to or are in the custody of the council or any of their officers.” The Guidance issued in 1999 by the then Department for the Environment, Transport and the Regions (now the Department for Levelling Up, Housing and Communities (DLUHC)) explained that “‘Proper arrangements’ for the current or recent records of a local authority should involve the skilled supervision of their management by an appropriately trained member of staff.”
12. The Review Group was keen to emphasise the statutory importance of the work and also the fact that the work was supported by that of committed and experienced volunteers. The Review Group expressed concern that, without an archivist overseeing the work, it might be unlikely that the volunteers would continue to offer their services. The Review Group was not satisfied with the proposed arrangements that officers would oversee archives for their specific area and that there would be a thorough document handover.
13. The Review Group considered that the Council should commit to continuing to fund the archivist post and not reverse the funding in the region of £20k.

Recommendation 1: That the Council continues to dedicate funding to the work of the archive and maintains the post of professional archivist to ensure that this statutory duty is satisfactorily complied with alongside highly qualified volunteers.

ODS Depot Consolidation

14. With regard to Oxford Direct Services Ltd (ODS), the Review Group was aware that the intention to have one single depot rather than a number of depots (i.e., depot consolidation) was seen as an important source of revenue and cost reduction, as well as linking to housing targets. It was disappointed to be advised that confidence was low that depot consolidation could be achieved during the period of the forthcoming Medium Term Financial Plan (MTFP). Whilst recognising the validity of the reasons given for the low level of confidence, not least the difficulties of finding a site large enough in the City that was both affordable and practical, the Review Group considered that such work should be prioritised given its importance to the Council’s finances generally.
15. The Review Group noted that, on 21 August 2017, the Planning Review Committee, which at the time was chaired by the current Budget Review Group Chair, had granted permission for a temporary extension of the depot at Cowley Marsh to provide additional storage space for up to five years. Given this, the Review Group was concerned that, almost six years later, there was little confidence that moving to one single site would happen in the next four years – the period of the forthcoming MTFP.

16. The Review Group noted that costs had been incurred in conducting feasibility studies and exploring planning applications that had, so far, not achieved the aim of depot consolidation. The Review Group accepted that acquiring one site appropriate to consolidate and house the depot for ODS was a challenge and appreciated that resolution would not be easy. However, the Review Group considered the current situation unsustainable and requested information, with as much clarity as possible, on the financial trade-offs involved as well as the options already considered and what possibilities might be viable. The Review Group recognised the commercial sensitivity that would be involved in such a document and so accepted that it would not, at this stage, be appropriately placed in the public domain. Nonetheless, the Review Group considered it imperative that the Council move forward on this issue and that Members should be briefed in full.

Recommendation 2: That the Council provides an up-to-date, confidential explanation to all Members of the options available to the Council to achieve the savings that would arise from ODS depot consolidation.

Cemetery

17. The Review Group recognised that there was no statutory requirement for councils to provide burial facilities. However, the Council remained committed to doing so and the revenue from providing this service was significant. The pressure on space in the City remained and the Review Group was pleased to hear that progress was being made on acquiring a new cemetery. Were that to be delayed further, the Review Group was concerned that the Council would risk the loss of a sizeable annual revenue in the region of £300k via dividend from ODS. Whilst some reassurance was offered, the Review Group considered it necessary for the Council to set out the progress made, the options that lay open, and the risks involved so that Members could have appropriate assurance.

Recommendation 3: That the Council provides a statement setting out the options regarding the acquisition of a new cemetery site without which there would be a significant revenue shortfall.

Covered Market

18. The Review Group noted the importance to the Council of the Covered Market. It was both an important source of revenue and a key part of the city's history and life. Its success was essential. The Review Group established that a substantial £4.5m capital investment was proposed, as well as £1m of maintenance and roofing works, and that the intention is that the works will protect and increase revenue. The Review Group noted that the Council's assumption is that income will fall during the first two years of the MTFP but that ultimately it will increase.

19. Members had been repeatedly advised that the Covered Market continued to thrive and that the Council was implementing measures that would ensure its vibrancy and success. One of these measures had been a late night opening trial which had repeatedly slipped and which was now due to begin in the spring of 2023. The Review Group noted that one factor in the delay had been that an on-site alcohol licence for one of the traders had only been approved in January 2023.

20. The Review Group was concerned that the delay in late night opening would have had an impact on revenue, as would continued empty units. The Review Group was advised that these issues had been taken into consideration when projecting revenue for the Covered Market. Nonetheless, the Review Group considered that Members should be assured that there was a robust business plan for the Covered Market which was grounded in reality and was both realistic and pragmatic, rather than overly optimistic.

Recommendation 4: That the Council updates the estimates during the period of the MTFP of the income and expenditure, including capital, on the Covered Market to take account of the slippage in the plans to fill the empty units and in the plans to start evening openings with music to promote footfall.

Unexpected income and supporting residents

21. The Review Group established that the financial statement issued by the Government on 12 December 2023 had resulted in there being approximately £3.5m more available to the Council than had initially been forecast. The Review Group was clear that, given reserves had been used in order to balance the budget, this did not go far towards reducing the challenges ahead but it was nonetheless welcome. £1.1m was to come through additional grants (the Funding Guarantee; the New Homes Bonus; and service-related grants) and approximately £2.4m from the deferral of the Fairer Funding Review which was anticipated to have a negative effect on funding provided to the Council.

22. The Review Group established that the Section 151 Officer's advice was that these funds should be placed into the Council's reserves, given the considerable financial and economic uncertainties that lay ahead, and the Review Group agreed that this idea had significant merit. However, the Review Group also discussed whether it would be appropriate, given the significant financial pressures many residents were enduring and the hardships so many were facing, to use some of the funds to set up a hardship relief fund during the early part of the MTFP. It was proposed that these would be non-recurring costs rather than ongoing ones.

23. The Review Group established that there was already an intention to create a Council Tax Support Fund. This is a result of the £244,230 for 2023/24 of new grant funding intended by the Government to deliver additional support to those already receiving council tax support. It is also intended to provide the Council with the resources and flexibility to determine a local approach to support other vulnerable households in the area. The expectation is that the majority of the funding will be used to reduce bills for current working age and pension age Local Council Tax Support claimants by a one-off payment of up to £25. With 2521 claimants in the City on council tax support, that would amount to approximately £63k leaving approximately £181k to be used for discretionary council tax relief.

24. The Review Group was also advised that there were ongoing conversations with the County Council about accessing money the County Council has been provided with to give financial support to residents. However, these discussions had not yet been concluded.

25. After considerable discussion, the Review Group agreed that the windfall gains should not be committed towards ongoing spending and that the Council should seek to provide support and assistance to residents.

Recommendation 5: That the Council does not commit the windfall gains, arising from the deferral of the Fairer Funding Review and the receipt of additional grants, for spending which would be recurring.

Recommendation 6: That the Council mitigates the pressure on residents arising from the current financial and economic circumstances and provides clear, concise information on the funding schemes available to help residents – including the provision of assistance to those who need it when applying for support.

Commercial property debt

26. The Review Group established that the current level of commercial property debt is £7m with a bad debt provision of £4.87m (meaning that the Council considered it unlikely that the latter figure would be received). The Coronavirus Act 2020 had prevented landlords from taking any meaningful action on the recovery of debt.

27. Council had previously passed a protocol relating to debt recovery which had sought to work with commercial tenants who owed money to the Council so that, if they resumed payments after the pandemic, some of the debt would be written off. Since July 2022, the Council was permitted to recover debts in the usual way. The Council had sought to recover debt in a flexible way, recognising the need to recover money but also to maintain the city centre's viability.

28. The Review Group explored its concerns that the level of bad debt provision in the proposed MTFP was overly cautious, particularly in relation to commercial debt. If such a level of provision were held to be necessary, it considered that would lead to the implication that commercial rent represented a major financial risk area for the Council in both the short- and long-term.

29. The Review Group established that assessments are made regarding bad debt provision at the beginning of each financial year. On 01 April 2022, the level of bad debt stood at £7m. It was highlighted that some larger debts were to be proposed for being written off by Cabinet in March 2023, generally because of insolvency. The Review Group was assured that the level of provision was appropriate and prudent rather than being overly cautious.

30. The Review Group accepted that it was prudent to allow for some debt not to be realised but was not entirely satisfied that the level of provision was not overly cautious. It concluded that the Council should assess the validity of the assumptions being made.

Recommendation 7: That the Council re-assesses the assumptions being made about bad debt provision relating to commercial property.

Investment Diversification

31. In 2022, the Budget Review Group recommended a move away from commercial property investments to alternative forms of investments. The Review Group established that, during the past financial year, agreement was reached for an investment loan to the Low Carbon Hub's Ray Valley Solar Farm, which will deliver a fixed income over the next 22 years. The Review Group was also informed that discussions were in train with other renewables generators to explore potential opportunities for investment.
32. The Review Group noted that, through the Public Works Loan Board (PWLB), HM Treasury offers long-term loans to support local authority investment in service delivery, housing, economic regeneration, and treasury management. The Government had changed lending terms in 2020 and councils were no longer permitted to use PWLB funding to make investments primarily for commercial gain. The Review Group also accepted that the expectation was that investments be made locally. However, challenges to diversification of the Council's investment portfolio need not mean that little progress could be made towards achieving it. Diversification would bring with it considerable benefits and the Review Group was keen that these should be realised.

Recommendation 8: That the Council diversifies its investment portfolio away from commercial property towards the regeneration of Council-owned properties which are eligible for Public Works Loan Board funding, and considers other types of investments and assets, including potential investment in renewal energy projects within Oxfordshire.

Park and Rides

33. The Review Group was grateful for the modelling provided by officers which set out why there was no proposal to increase charges at the Park and Rides. The Review Group accepted that the Council continued to strongly encourage people to use the Park and Rides and that was a key part of its approach to transport in the city. The Review Group also recognised that revenue had still not returned to pre-pandemic levels during the week and, given that large proportions of those who had previously commuted daily were now working with some element of home working, it was difficult to assume that usage figures would return to those seen previously. The Review Group understood therefore the sensitivity of the Council to the risk of discouraging people from using the Park and Ride for any reason. The Review Group was advised that a 10% resistance factor had been built in to the modelling and that even a 1% increase in charges would be likely to lead to an annual net loss of almost £90k.
34. The Review Group established that there was no data available to show what level of resistance had been seen at Park and Rides when prices had been increased previously because it had not been done. Rather, the data available was from when prices had increased at urban and suburban car parks and resistance of between 4% and 18% had been seen. The Review Group recognised that it would be difficult to accurately project reductions in usage of Park and Rides without an increase being implemented but was not satisfied that a 10% reduction in use for any increase was realistic given the different needs and behaviours of those using Park and Rides. The Review Group considered it overly conservative and had doubts that one in ten would not use the Park and Ride if there were an increase of ten pence on a £2 charge.

35. The Review Group accepted that Council-owned Park and Ride charges were set in consultation with the County Council, who also own sites, and the bus companies. The Review Group was also aware that the bus companies had recently launched an advertising campaign promoting the current prices. Nonetheless, and recognising the challenges involved in modelling where directly applicable data does not exist, the Review Group considered that it would be appropriate for the Council to re-evaluate its assumptions regarding projected revenue loss were fees to be increased.

Recommendation 9: That the Council re-evaluates its assumptions around reduction in use of park and rides as a result of changes in charges to create a more realistic picture of what both income levels and usage would look like with different fees.

Florence Park parking charges

36. The Review Group understood that the challenges of car parking revenue had meant that the Council considered it necessary to increase suburban car parking fees and to introduce charging at Florence Park for the first time. However, the Review Group noted that the car park at Florence Park was used by both mobile midwives and those using the services of the midwives, some of whom would be heavily pregnant. The Review Group recognised that it was open to the NHS Trust to purchase permits for staff and to consider how patients might be affected. However, the Review Group considered that the Council should consider further how the latter group might be supported.

Recommendation 10: That the Council considers how patients who need to drive to the midwifery services at Florence Park might be supported with regard to parking charges.

ZEZ revenue

37. The Review Group accepted that all income from the Zero Emission Zone (ZEZ) and any future expansion must be spent on transport-related measures. The Review Group established that between 28 February and 30 November 2022, the ZEZ Pilot generated £255,079 in charges and £247,038 in penalties. The Council took a share of this income after operating costs incurred by the County Council.

38. The Review Group understood why it was anticipated that charges and penalties were projected to lessen given that, as the ZEZ became embedded, people's behaviours and driving habits were likely to have changed. However, the Review Group considered that further information was necessary to justify the assumption that there would be no further reduction in income generated after year 2 of the MTFP. If behaviours were likely to change, the Review Group questioned why it was held that they would not continue to progressively do so.

Recommendation 11: That the Council provides sensitivity analysis of the net revenues to the Council from the operation of the current ZEZ and its proposed expansion during the period of the MTFP in order to justify current assumptions.

Chapter 4: Conclusions

39. The Review Group made 11 recommendations. Almost without exception, these sought to provide challenge to the Council to demonstrate that its underlying assumptions were realistic and justified so as to give assurance to Members and residents.
40. Only one of the recommendations sought a reversal of a proposed efficiency saving (recommendation 1). The Review Group has not traditionally recommended reversals of efficiencies but, on this occasion, considered that the relatively small sum involved and the importance of the archivist's work made this necessary.
41. Three of the recommendations related to large 'projects' (recommendations 2, 3, and 4) which the Review Group was concerned had been the subject of lengthy discussion and noble intention but suboptimal levels of progress. The Review Group recommended that further detailed information should be provided regarding the ODS Depot, the cemetery, and the Covered Market.
42. Two of the recommendations related to funds the Council had received which it had not initially anticipated (recommendations 5 and 6). The Review Group explored at length how best these should be used and, ultimately, concluded that it should recommend that they should not be used for ongoing costs - rather than recommending how they should be used. In that discussion, the Review Group was acutely aware of the difficulties currently being faced by so many residents and was keen that the Council should seek to mitigate these difficulties.
43. Two recommendations (recommendations 7 and 8) related to the Council's investment portfolio. The first of these concentrated on commercial property debt and questioned if the Council's approach was overly cautious and the second sought progress on moving forward with the diversification of the Council's investment portfolio away from commercial property.
44. The Review Group made three recommendations relating to transport (recommendations 9, 10, and 11). One was focused on a particular car park and a particular type of user, namely how support could be given to those using midwifery services at Florence Park. The second was to challenge the Council over the assumptions being made about Park and Ride charges. The third was to ask that greater analysis and explanation be provided about its assumptions regarding revenue from the ZEZ.
45. The Review Group was grateful to officers for the substantial work that had gone into preparing the budget and for their answers and support as the Review Group scrutinised that work. The Review Group considered that, were its recommendations accepted, it would be stronger.