

To: Cabinet

Date: 15 December 2021

Item No:

Report of: Head of Financial Services

Title of Report: Medium Term Financial Strategy 2023-24 to 2025-26 and 2022-23 Budget for Consultation.

Summary and Recommendations

Purpose of report: To propose a Medium Term Financial Strategy and the 2022/23 Budget for consultation

Key decision Yes

Executive lead member: Councillor Ed Turner

Policy Framework: The Council's Corporate Strategy and Council's Budget

Recommendation(s): That Cabinet resolves to:

- 1) Approve the 2022-23 General Fund and Housing Revenue Account budgets for consultation and the General Fund and Housing Revenue Account Medium Term Financial Strategy as set out in Appendices 1-9, noting :
 - a) the Council's General Fund Budget Requirement of £22.333 million for 2022/23 and an increase in the Band D Council Tax of 1.99% or £6.37 per annum representing a Band D Council Tax of £326.54 per annum subject to confirmation of the referendum levels contained in paragraph 10 (d) of the report
 - b) the Housing Revenue Account budget for 2022/23 of £47.882 million and an increase of 4.10% (£4.51 per week) in social dwelling rents from 1 April 2022 giving a revised weekly average social rent of £112.00 as set out in Appendix 5
 - c) the increase in shared ownership rental in accordance with the lease as shown in paragraphs 77 -79 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 Board Member for Finance and Assets the decision to determine whether it is financially advantageous for the Council to enter into a Business Rates Distribution Agreement as referred to in paragraphs 25 of the report.
 - 4) To approve the payment into the County Council Pension Fund of £5 million in 2023-24 as referred to in paragraph 32 of the report
 - 5) Recommend to Council the appropriation of Alice Smith House from the HRA to the General Fund in accordance with paragraph 87 subject to any consents which are required.
 - 6) To note the disposal of 4 HRA properties in accordance with paragraph 88 subject to any necessary consents that are required.
 - 7) Approve the increase in the 'multiplier' for the use in Furnished Tenancy charges in accordance with para 84

Appendices to the report

- Appendix 1 Summary of General Fund Budget by Service 2022-23 to 2025-26
- Appendix 2 General Fund Revenue Budget by Service 2022-23 to 2025-26
- Appendix 3 Detailed General Fund and HRA Service Budgets 2022-23 to 2025-26
- Appendix 4 Housing Revenue Account Budget 2022-23 to 2025-26
- Appendix 5 Council House Rents By Estate
- Appendix 6 General Fund and HRA Capital Programme 2022-23 to 2025-26
- Appendix 7 Fees and charges
- Appendix 8 Risk Register
- Appendix 9 Equalities Impact Assessment

Comment from the Portfolio holder

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

On top of this, we face some new pressures. The first is a potential change to government accounting rules, which would severely restrict our ability to lend money to our wholly-owned companies. We have had to set money aside to address this possible change. The government is still considering a move to “fairer funding”, which would cost our council over £2 million a year. We face additional costs because of the recent increase in employer’s national insurance contributions, as does Oxford Direct Services.

To address these challenges, we have been looking hard at ways to increase our efficiency, and mitigate these pressures without cutting front-line savings. Our proposal to reduce our office-space has been further developed, and we propose a range of additional “transformation” savings, for instance on procurement and ICT. However, inevitably there are also some difficult choices to be made in this context – we have tried to ensure that the burden of service reduction does not fall on those that can least afford it. The coming months should provide greater clarity about the change to government accounting rules and local government funding arrangements, and further difficult decisions cannot be ruled out.

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

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

INTRODUCTION

1. This report sets out the Council’s Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2022/23 to 2025/26 and gives interested parties the opportunity to comment and be consulted on the Council’s budget proposals for the financial year (2022/23). 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 £11 million of earmarked reserves.
 - b) Assumes Fairer Funding is delayed by the Government for 1 more year

- c) Assumes New Homes Bonus ends in 2022-23
- d) Assumes a council tax increase of 1.99% for 2022-23 and annual Council Tax increases of 1.99% thereafter, the provisional maximum rate at which there is no requirement for a referendum
- e) Assumes an increase in council house rents of 4.10% in 2022-23 to an average of £112.00 per week
- f) Includes £16.1 million of efficiencies and increased income over the four year period with an ongoing increase of £5.2 million from 2025-26 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 £577 million over the four year period including:
 - Regeneration in the city of around £20 million
 - £19 million in regeneration activity in Osney Mead and Northern Gateway
 - £20million of regeneration in Blackbird Leys Housing estate in the next 4 years
 - Continued provision of loans to (OCHL) totalling £72.5 million for the acquisition of houses at Barton, minor extensions, acquisitions from the HRA and new house build
 - £274 million of 759 affordable housing purchases by the HRA in the next four years from OCHL and a commitment to purchase 1,114 affordable homes over the 10 year period at an estimated cost of £370 million
 - Provision for an additional £8 million on climate change works on Council housing over the next 4 years
 - Community Centre new build and refurbishment at East Oxford and Bullingdon
 - Improvements and refurbishments to council dwellings and regeneration of council estates

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 2022/23 to 2025/26. 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".

Effect of COVID 19

5. As the country struggles to get back on its feet after the harm caused by COVID 19 the financial implications to the Councils finances continue. The Council is

still planning to use around £11 million from reserves to re-balance its finances that it agreed back in July 2020 and its income streams especially in relation to commercial rents and car parking are still well below pre pandemic levels and continue to present a real challenge to the Councils overall financial position in the medium term. This budget and medium term financial plan seeks to limit any further draw on reserves over the coming four year period, whilst continuing to maintain the level of service provision that it provides to the public, whilst continuing to fulfil its legal obligation to set a balanced budget for next year as well as sustainable balanced budgets for the medium term.

National Economic Position

6. In 2020-21 Government borrowing increased by around £299bn largely to fund COVID support the most notable of which was £100 bn to finance the furlough scheme. Forecast of borrowing for 2021-22 were for an additional £200bn in 2021-22 although figures produced by the Office for Budget Responsibility for the first five months to August 2021 indicate net borrowing to have increased by around £93.8 bn, £31.9bn lower than expected. This outperformance is largely due to central government accrued receipts, which came in at £20.3 billion (6.9 per cent) above profile, while central government spending was also £10.3 billion (2.4 per cent) below profile. Borrowing by local authorities was £4.5 billion below profile, while borrowing by public corporations was £3.2 billion above profile.
7. The upside surprise in accrued receipts so far in 2021-22 is dominated by PAYE income tax and NICs (which are up £9.8 billion or 7.7 per cent on profile), corporation tax receipts (which are up £5.0 billion or 30.3 per cent), VAT (which is up £2.2 billion or 4.2 per cent) and stamp duties (which are up £1.7 billion or 31.2 per cent). Overall, the outperformance of receipts in the year to date looks broadly consistent with the higher than expected economic output compared to our March forecast, with stamp duties also boosted by the faster than expected rise in house prices this year.
8. Growth forecasts measured by changes in Gross Domestic Product (GDP) compared to previous forecasts are as were lower than forecast in 2020-21 by 1.3% at -10.9% and 1.3% higher in 2021-22 at 10.8% compared to previous forecasts. On average over the period 2022-23 to 2025-26 revised forecasts are on average -0.25% less per annum at 4.2% to 1.6%.
9. Inflation forecasts have risen since last review as illustrated below

Table 1: Inflation Forecasts

Inflation forecasts		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
		%	%	%	%	%	%
Spending Review 2021		0.6	3.3	3.7	2.3	2	2
Budget 2021		0.6	1.7	1.9	1.9	2	2
Spending Review 2020		0.6	1.4	1.6	1.8	1.9	2
Budget 2020		1.4	1.9	2.1	2	2	

The table indicates that forecasts for CPI are 1.6% higher for 2021-22. 1.8% higher for 2022-23 and 0.4% higher for 2023-24 than at Budget 2021.

Spending Review 2021

10. On 27th October 2021 the Chancellor announced details of the Government Spending Review. For two years the government has only held single-year Spending Reviews. This spending review sets revenue and capital budgets for a three year period 2022-23 to 2024-25. The following significant points affecting local authorities are :
- a) In relation to national pay bargaining the freeze on public sector pay increases will end from 1st April 2022. Additionally the National Living Wage for those aged 23 and above will increase from £8.91 per hour to £9.50 per hour.
 - b) Core spending power i.e. the Governments assessment of increased income to local authorities is reported to have increased by 3% in real terms per year over the 3 year period 2021-22 to 2024-25 on average. In reality at individual local authority level this percentage increase will be a lot less. This calculation relates to items (c) to (k) below
 - c) No announcement has been made on business rates retention (BRR) reset or funding reform although the Government has announced that the BRR pilots will continue throughout the spending review period. It was expected that the pilot would end when there was a reset so their continuation may represent a signal that a reset will not be undertaken during this spending review period.
 - d) The referendum threshold for increases in council tax is expected to remain at 2% throughout the spending review period with an additional 1% per year for social care authorities. District Councils have in the past few years been able to increase Council tax by up to 2% or £5 whichever is the higher. For district councils the referendum level is exceeded if council tax is to be increased by 2% or more and more than £5.00 on a Band D property – i.e. an increase of more than 2% is permitted as long as it does not exceed £5.00 on a Band D property. Oxford City is proposing an increase of 1.99% and since the increase at that level is £6.37 per annum it is assumed that 1.99% will be applied for this authority.
 - e) Social care authorities will be able to charge an adult social care precept of up to an additional 1%
 - f) Additional £3.6 bn of Social Care Reform Funding from the Health and Social Care levy derived from a 1.25% increase in national insurance announced earlier
 - g) No specific announcement on New Homes Bonus although it is included in the governments figures for core spending power and therefore the assumption must be that this continues for the three year spending review period.
 - h) There will be £38m to support modernisation of local authorities' cyber security
 - i) The spending review confirmed the first 105 places to receive funding from the Levelling Up, Fund although Oxford was not one of these.
 - j) £560 million was announced for youth services and £850 million over the SR period for cultural and heritage infrastructure

- k) £7.5 bn for affordable homes programme with £300 million distributed to local authorities to support the development of smaller brownfield sites.
- l) £639 million in funding by 2024-25 as part of the government's commitment to end rough sleeping through the Rough Sleeping Initiative and Homeless Prevention Grant.
- m) Business rates multiplier for 2022-23 for the second year running will not be increased and businesses in the retail, leisure and hospitality sector will benefit from a 50% business rates discount for one year in 2022-23 following the 66% discount introduced from 1st July 2021.
- n) £65 million to digitise the planning system
- o) Authorities will now be allowed to spend Right to Buy receipts over a longer framework (increasing to five years from three years), to pay up to 40% of the cost of a new home (up from 30%) and to allow them to be used for shared ownership and First Homes.

Interest Rate Forecasts

11. 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 2021 to March 2024

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

12. The Bank of England base rate reduced from 0.75% to 0.25% on 11th March 2020 and then subsequently to 0.10% on 19th March 2020. Despite pressure to increase base rate to cope with rising inflation on 4th November 2021 the Bank of England's Monetary Policy Committee agreed to keep base rates at 0.1%
13. 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 the cheapest form of borrowing. As the Capital Financing Requirement increases so will the need to undertake external borrowing.

Minimum Revenue Provision Consultation

- 14 The authority is aware at the time of this report being drafted of a consultation that is shortly to be issued by DLUHC on Minimum Revenue Provision. This is the method by which local authorities charge their revenue accounts over time with the cost of capital expenditure funded from borrowing. The methodology is governed by the CIPFA Prudential Code and it is largely down to the Councils Section 151 Officer to determine an appropriate prudent methodology. In Oxford this MRP Policy approved annually by Council provides for no MRP to be made in respect of companies in which the council has an interest. The repayment to the Council for these loans will be a capital receipt which the Council will set aside to repay that borrowing. Each item where there is no annual MRP charge will be reviewed on at least an annual basis and if there is a likelihood of capital loss, a prudent MRP provision will then be made.
- 15 Some local authorities have been considered to be operating an MRP policy which is contrary to prudence and therefore the CIPFA Code of Practice and the consultation which we understand will shortly be launched by the Government seeks to mandate the MRP Policies that local authorities must follow. It is also understood that the policy will come into force on 1st April 2022.
- 16 Whilst it is difficult to quantify the cost to the authority best estimates would suggest at least an additional £800k per annum for which provision has been made in the budget. However, costs might still be higher still, and cannot be known until the detail of the consultation is published. More work will need to be undertaken once the consultation results have been published and any resultant changes made to the Council's budget accordingly. It is worth noting that should implementation be agreed at 1st April 2022 then that will give insufficient time to make any significant mitigations to the Council's budget in time for February budget setting and this will present a significant challenge. The Council has commenced lobbying of the Government prior to issuing of the consultation to make it aware of the unintended consequences which if not mitigated could put the Council's financial position at risk and create a serious disruption to the Councils Housing delivery programme.

Corporate Priorities

17. 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 2022 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

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

19. The budget re-set strategy has been undertaken by :
 - a) Reviewing all four year assumptions around changes to the base budget
 - b) Reviewing all key income streams and take a prudent assumption on the future impact of COVID 19
 - c) Introducing officer proposals to reduce spend or in some instances increase income where it's prudent to do so
 - d) Assessing the level of financial impact on the Council's wholly owned companies and adjust the level of dividend and financial return to the Council accordingly.
 - 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 apart from the £11.3million already agreed to be taken from the COVID emergency reserve in July 2020.

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

Section B General Fund Revenue Budget

Key General Fund Assumptions

Government Funding

21. Government Grant to support the Council's pressures arising from COVID finishes in June 2021 as the scheme for compensating losses from sales fees and charges, supporting 75% of losses above a 5% threshold, closes. At this point grant received to date from the Government to finance the Councils losses of income and increased spend from COVID will total £14.410 million broken down as follows :

Table 3 : Government Financial Support	
	£000's
Emergency funding received to date*	2,465
Compensation for losses from sales fees and charges *	8,359
Welcome Back Grant	134
Council Tax Hardship	1,156
Containing Outbreak Management (COMF)	2,200
Rough sleeping/ homelessness	32
Enforcement funding	76
Emergency Assistance Grant for Food and Essential Supplies	145
Leisure centres	300
Re-opening streets safely fund	134
Furlough grant	233
Lower Tier authority grant *	120
Support to Clinically Extremely Vulnerable	177
Homelessness protect programme	140
Total	15,671

* Funding of some elements of the council's income losses

Retained Business Rates

22. 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 2022/2023 are shown below. The overall amount of retained business rates by the authority for 2022-23 represents around 8.4% of total business rates income.

Table 4 : Retained Business Rates 2022-23	
	£million
Estimated Business Rates Income	104.438
Billing Authority Share (50%)	52.218
Oxford City Share (80%)	41.775
Less Tariff paid to Government	30.893
Amount remaining after tariff (A)	10.882
Baseline Business Rates	6.362
Income above baseline (£10.882-6.362)	4.520
Levy -50% of income above baseline (B)	(2.260)
S31 Grant adjustment (C)	(1.468)
Total retained business rate income (A+B+C)	7.154

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

23. 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. Moreover it is widely considered that there will be insufficient time for the Government to implement these by 1st April 2022 as originally planned although this will only be confirmed once the provisional Finance Settlement is released in December. There is still also uncertainty as to whether these reforms will be implemented at all or indeed with what the Government may replace them. Assuming some form of reallocation of resources from 1st April 2023 onwards estimated retained Business Rates income is shown in the Table 7 below:

Table 5 : Retained Business Rates		
	Total	Variation
	£million	%
2021/22	6.945	1.59
2022/23	7.154	2.88
2023/24*	4.879	(31.80)
2024/25	5.110	4.73

* Fairer funding and business rates re-set assumed to be introduced

Oxfordshire Business Rates Pool Arrangements

24. For 2022-23 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.
25. 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 2022/23 is part of this report.

New Homes Bonus (NHB)

26. 2020-21 the Government rolled-forward New Homes Bonus payments. In addition to funding legacy payments associated with previous allocations, the Government made a new round of allocations for 2020-21 although there was no repeat of the four year legacy payments that existed under the previous system and the NHB payment was limited to one year. For 2021-22 the Government is making one off New Homes Bonus payments without the four year legacy payments that existed under the methodology which existed in previous years. In the recent Spending Review the Government confirmed that an amount of £900 million had been top sliced to fund New Homes Bonus payments in 2022-23 although no details were given as to how this will work. Further details are expected in the Provisional Finance Settlement in December.
27. The Council uses New Homes Bonus to fund its Capital Programme in order to de-risk the Medium Term Financial Strategy. In the event that the grant is lower than estimated or ceases altogether then a mitigating action could be to reduce the Capital Programme.

Table 6 : Anticipated New Homes Bonus				
	2022/23	2023/24	2024/25	2025/26
	£000's	£000's	£000's	£000's
New Homes Bonus	538	106	-	-
Percentage increase/(decrease)	(15)	(79)	-	-

Corporate Planning Assumptions

28. **Council Tax Increase** – Although to be confirmed in the Provisional Finance Settlement the Spending Review did include provision for maintaining council tax referendum levels at below 2% for District Councils. Council tax increases are included throughout the four year MTFS at 1.99%.
29. **Investment Interest** – On the 4th November 2021 the Bank of England confirmed base rates at 0.10%. Although inflationary pressures still give cause for concern it is widely believed that this rate will remain until next year and depressed into the future. Returns from banks and building societies are likely to be depressed for some time to come mainly as a result of this reduced rate but also as the Council spends reserves to cover the deficits arising from COVID 19. The Council still has investments in joint ventures and companies more details of which are outlined below and officers are seeking to find alternative financial vehicles where the rates of return are higher when balanced against the Council's need for liquidity. Other investments 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. Whilst the value of these funds did decrease in the early weeks of the pandemic these seem now to be picking 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** - Following a recent procurement exercise 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 (typically around 3%) are significantly higher than investments in banks and building societies although clearly the value of such funds can go down as well as up. Within this year's budget round provision has been made for investing an additional £5million either in such funds or within our existing property funds.

- d) **OxWed Development** – The Council has made loans of approximately £10.66 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 £3.1 million with a further £5 million of interest expected over the life of the MTFS.
- e) **Housing Company** – The Council provides state aid 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.
30. **Inflation** –Most budgets are cash limited. Over the period of the MTFS, CPI is expected to increase to between 2-3% over the period of the MTFS which could squeeze budgets harder. To allow for inflation the base budget has been increased by an amount of £50k by 2024-25, mostly in ICT relating to software licence increases
31. **Pay Assumptions** – Last year the Council agreed a one off bonus payment of £400 in lieu of a pay increase. Discussions are ongoing with union representative on the pay deal commencing 1st April 2022. It is assumed that this will be settled in line with the pay envelope. In addition the estimates include for an additional 1.25% on national insurance for the social care levy introduced by the Government earlier in the year estimated to cost an additional £238k per annum.
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 that a similar saving on the revenue account as in previous years. This level of saving has been assumed for future years although the actual amount of saving will be determined by the actuary when they undertake their next tri-ennial 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 million per annum for planned maintenance and servicing contracts to Corporate Buildings. 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 £10 million has been made in capital over the period of the

MTFP. As condition surveys are completed the decisions on whether to refurbish and continue to hold the building or dispose of it will need to be made.

35. **Contingencies** – Provision has been made for contingencies to cover unachieved efficiencies and other risks of around £600k 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. Since 2019 the amount of such contingencies is not prescribed and is now made on judgement taking account of the risk and the levels of reserves and balances.

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, last year we consulted as part of the budget, on a further allocation of NCIL of £1.154m towards important community projects over the MTFS period. 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 2024 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. As at November 2021 we have around £100,000 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 £100,000 towards the Community Grants Programme for the period 2022/3-2025/6. This enables the programme to continue over the MTFS. This would take the total allocation from NCIL to community grants to £700,000 between 2021/22 – 2025/26.

Efficiencies

38. Efficiencies totalling £16.1 million are estimated for the four year period with £5.2 million ongoing from 2025-26 as shown in Appendix 3 including :

Ongoing efficiencies approved last year

- a) **Going cashless** – The pandemic has changed the way that people pay for goods and services. Most retail outlets now only accept payment by card leading to a reduction in the number of payments being made by cash and cheque. The Councils has already commenced reducing the ability to pay by cash and cheques in many of our outlets although larger savings may be obtained from going cashless in car parks, a pilot on which at Gloucester Green car park will commence shortly. Direct full year savings are estimated at around £40k per annum.
- b) **ICT contracts review** – review of software licenses - £200k per annum
- c) **Robotic Process Automation** – automation of processing initially in Revenues and Benefits to achieve savings in external support. Additional savings have also been driven on ICT software licenses - £100k per annum
- d) **Printing and scanning** – Reduction in the costs of providing printing and scanning facilities. The Council have recently re-tendered the service and savings of around £50k per annum are expected
- e) **Reducing office space and remote working** - £630k per annum. 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 a saving based on releasing two floors within St Aldates Chambers possibly as early as December 2022. Officers will also examine options for a more ambitious project to let the entire building at a later stage.
- f) **Communities and Housing Integration** – Although only partly delivered the Council is aiming to deliver £480k per annum from 2022-23. Reducing the cost of providing such services by the deletion of vacant posts and reduction in temporary staffing as well as improving quality and delivery of service to customers and delivering multi-functional locality based integrated teams
- g) **Community Grants** – £200k reduction from 2022-23. The Council currently spends around £1.7 million on grants to community covering, arts and culture, community safety, homelessness prevention, advice and money management, youth work and holiday activities as well as making available sum of money for other small grants. The aim is to minimise the impact of the proposed reduction by supporting organisations to operate more efficiently or access alternative funding streams.
- h) **Housing Needs – £300k per annum** – A review of Housing Needs services to reduce cost of preventing homelessness, gain better access to private rented sector housing, reduce the cost of temporary accommodation, and reviewing the process for applications to the housing register
- i) **Rough sleeping** – £189k on going from 2023-24 -County wide changes to the provision of the service to release efficiencies

- j) **Revenues and Benefits system replacement** – £100k saving per annum from staffing and the resilience contract
- k) **Data Centre and ICT storage**- a package of measures to release £300k of savings per annum in extending the data centre contract with the existing supplier for 4 years and securing additional improvements with the provider, £220k saving. £80k from moving to cloud technology and reducing email and document storage costs

Transformation

39. 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

Whilst his work is in the early stages a target of £250k per annum saving has been included in the MTFS. Early indications are that this is achievable and there may be a potential for more, which will be added to the budget as confidence grows in the potential for delivery.

External Income

40. There is limited capacity to increase fees and charges from services over the period of the MTFS given the impact of COVID 19. The focus for the council is in trying to regain income in areas where it has slipped back.
41. **Fees and Charges** – Details of specific fees and charges increases in 2022-23 are given in Appendix 8 with summary details below:
- a) **Off street Car Parking** – Car park charges will be increased by 50p per hour for inner city car parks, 20p per hour for suburban car parks and 10p per hour for parks
 - b) **Park and Ride** – Nil increase
 - c) **Garden waste bins** - £57 per year to £60 (5.28%) reduced to £47.16 (from £45) for concessions.
 - d) **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.
 - e) **Land charges**- 25% increase to allow for employment of additional staff to cover increased workloads

Leisure activities:

- f) Sports - 60p -£2.00 – (3.08% to 3.96%)
- g) Adult Casual swimming increase of £0.50 (10%)

Other

- h) Cemeteries- no increase
 - i) Pest Control – domestic- increases – £2.60 to £5.20 (3%)
 - j) Taxi Licenses - zero
 - k) General licencing – £4- £10 , 2.20% - 3.17%
 - l) Street Trading consent - zero
 - m) Building control – £26.50 - £60 – 5%
 - n) Garages – £0.73 – 4.49%
42. **Leisure Centre Provider** – In last year’s budget due to adverse usage of leisure centre facilities arising from COVID 19 the Council agreed a budget pressure of £500k up to 2024-25 to be included in the budget in respect of the management fee paid by the operator to the council. Discussions have been ongoing with the operator to determine whether this pressure could reduce more quickly as business begins to pick up. Provision has been made for £300k of this income to be brought forward into 2022-23 and 2023-24
43. **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
44. **Commercial Property Income** – Loss of income arising from the pandemic in 2020-21 was £4.2 million for which a provision for bad debt was established. In 2021-22 commercial rent income is expected to be £3.74 million below normal levels of £13.5 million although in 2023-24 it is expected that income begins to increase by £1.93 million before settling £2million below ore pandemic levels thereafter. Additional income has also been added in relation to the £20 million of spend in terms of regeneration based on previous schemes undertaken including Boswells and Cave Street as approved by Cabinet and Council.
45. **Car parking income**- Car parking in come was around £2.8 million down in comparison to the budgeted income in 2020-21 (46% of gross income). A loss of £1.5 million is expected in 2021-22 before returning to normal pre Covid levels in 2022-23. Fee increases are discussed in more detail above.
46. **Selective Licensing** - Oxford will propose a Selective Licensing Scheme for privately rented housing operational with effect from 1 April 2022. The primary reason is to deal with poor property conditions. This route which would be subject to confirmation from the Secretary of State will be considered by the Council separately. Income from multi-year license fees would make a significant contribution towards overheads.
47. **Museums Income** - £100k per annum has been slipped back to 2023-24.

New Expenditure

48. Increased expenditure totalling £3.2 million is estimated over the four year period, with ongoing spend of £0.582 million from 2025-26 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. New expenditure excluding those funded from capital totals £1.234 million over the 4 year period leading to ongoing expenditure of £288k per annum.
49. **Significant items of new spend includes**
- a) **Additional staff for managing the capital programme- £545k per annum**
 - 2 fte property services
 - 3 fte 2 year fixed term property staff covering project management and carbon reduction
 - 1 fte 2 year fixed term in respect of financial business case analysis
 - 2 fte 2 year fixed term major project lawyers
 - b) **Additional part time practice manager £35k per annum**
 - c) **Additional temp Information Governance Officer - £52k**
 - d) **Additional Executive Assistant in the Business Support Team- £43k per annum**
 - e) **New Contracts lawyer post – £70k per annum** part funded from additional income from conveyancing and Section 106 fees
 - f) **Climate change reduction additional staff 2fte £100k per annum**
 - g) **2 fte additional communications officer £65k per annum**
 - h) **1 fte Business intelligence unit £47k**
50. **Other items of new spend**
- a) **Transformation costs** –Provision has been made in the MTFS for £250k per annum for the funding of a number of staff to be used on driving the efficiencies both in terms of those identified previously and new areas.
 - b) **Partnership Funding** - £100k per annum – Share of Councils funding with other Oxfordshire Councils in terms of Growth Board, Local Nature Partnership, Inclusive Economy Partnership and associated administration costs
51. The Council's General Fund Budget for Consultation is set out in Appendices 1, 2 and 3 attached and summarised below:

Table 7 – Medium Term Financial Strategy 2022-23 – 2026-27

Medium Term Financial Strategy 2022/23 - 2026/27				
	2022/23	2023/24	2024/25	2025/26
	£	£	£	£
Base Budget	33,296,855	33,296,855	33,296,855	33,296,855
Efficiencies	(3,150,100)	(3,298,100)	(4,523,700)	(5,200,100)
Fees and Charges	(360,356)	(932,366)	(1,496,135)	(1,026,600)
New Investment	437,414	726,414	459,414	399,414
Inflation & other pressures	(2,801,679)	(3,472,153)	(3,362,553)	(3,344,553)
Revenue Contributions	0	0	0	0
Net interest	(5,261,011)	(6,821,176)	(10,583,201)	(10,839,833)
Depreciation reversal	(4,822,186)	(4,822,186)	(4,822,186)	(4,822,186)
Corporate costs including MRP, pay	7,879,062	8,776,271	11,320,628	11,434,479
Contingencies	600,000	600,000	600,000	600,000
Transfers to/ (from) reserves and working balances	(3,484,007)	(3,646,791)	215,907	1,326,000
Net Budget Requirement	22,333,992	20,406,767	21,105,029	21,823,476
FUNDING				
Council Tax	(15,074,089)	(15,527,804)	(15,995,175)	(16,476,614)
Retained Business Rates	(7,154,043)	(4,878,963)	(5,109,854)	(5,346,861)
New Homes Bonus	(105,861)	0	0	0
Total	(22,333,993)	(20,406,767)	(21,105,029)	(21,823,475)
(Surplus)/ Deficit	(0)	0	0	0
GENERAL FUND WORKING BALANCE				
B/F	3,855,680	3,855,680	3,855,680	3,855,680
Transfers in/(out)	0	(0)	0	0
C/F	3,855,680	3,855,680	3,855,680	3,855,680

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

52. The Council has around £11 million in a COVID Emergency Reserve and over the 4 year period of the MTFs assuming delivery as planned around £5.588 million will be drawn from this reserve in addition to around £5 million which is planned to be drawn from reserves in 2021-22 albeit that current monitoring suggests that this may be slightly less. Earmarked reserves at 31-3-2021 stood at around £67million although only around £22 million which includes the COVID Reserve) is usable.

Risk Implications

53. 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) Outcome of the expected consultation on Minimum Revenue Provision soon to be released will adversely affect the councils financial position
 - d) Council income streams continue to be affected by the pandemic beyond the provisions already made in the MTFS
 - e) The Homelessness reserve is exhausted at a faster rate than anticipated as assumed Government and contributions in respect of homelessness expenditure are not forthcoming
 - f) Failure of a major partner for instance in Leisure
 - g) Pay negotiations are more than budgeted from April 2022 onwards
 - h) Companies do not perform as well as expected leading to reduced income to the Council
 - i) Business Rates income is lower than forecast
 - j) Variations in interest rates or non-performance of property funds and multi asset vehicles effecting returns to council
 - k) Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS
 - l) Cuts by partner organisations such as the County Council adversely affect service provision

Wholly Owned Companies and Joint Ventures

Oxford Direct Services Ltd

54. 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
55. The company entered its fourth year of trading in 2021-22 since becoming operational from 1ST April 2018. In the first year of trading the Company paid the Council £1.247 million in dividend in line with expectation although no further dividends have been declared since. The Company Board have yet to approve a dividend for 2020-21 although the Council has set an expectation of at least £600k to be paid in this financial year 2021-22. The Company has experienced difficult trading conditions over the course of the pandemic although is expected

to make an overall surplus across the 2 companies of around £800k in 2020-21 to add to their retained earnings of £1.6 million as at 31-3-2020.

56. The revised Company Business Plan was presented to shareholders in July 2021 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. Estimated surpluses are shown in more detail below.

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

57. It is worth noting that the Council will receive and account for the dividend in the following year to which the dividend is declared. The secured dividends are conditional on the company receiving work from the Council at the same level as those currently received. Later years i.e. 2024-25 onwards have been adjusted for increased surpluses arising from the 'single depot' project which for the time being has been removed from the Councils capital programme pending production of a revised business case.

Housing Company- Oxford City Housing Ltd

58. In 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.
59. In October 2021 the OCHL Shareholder approved an updated Company Business Plan. The updated plan will provide for the delivery of 1,829 dwellings over the next 10 year period with 1,114 being acquired by the Councils Housing Revenue Account and the remainder being sold on the open market. In addition to this the company will acquire 354 social dwellings being developed at Barton Park by Barton Oxford LLP (BOLLP), a Limited Liability Partnership between Grosvenor Homes and Oxford City Council. Phase 1 of the development at Barton has already been completed and the Company has already acquired 95 of these dwellings.
60. In return for loans advanced to it from the Council's General Fund to fund development the company pays a state aid compliant loan rate based on the 40 year PWLB rate inclusive of a 3.2% margin. As at 31 March 2021 outstanding loans from the Council to OCHL totaled £40.4 million and accrued interest payable on maturity of the loan and yet to be paid totaled £1.3 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 2022-23 at the earliest.

61. In 2018 following the removal of the debt cap imposed by the Government for the HRA the Council took a decision for its HRA to buy social housing developed by the Company using its new ability to borrow.
62. The revised business plan which will come forward to shareholders in July 2021 introduced changes to the financing of the company business plan which will de-risk the Companies development programme increase the financial resilience of the company as well as provide increased financial returns to the Council which are both greater than previously budgeted and sooner. Such changes will arise from:
- **Loan Margin** - Loan margins charged to the Company by Oxford City Council are set at 3.2%.
 - **Stage Payments from the HRA** –The revised business plan assumed stage payments would be made by the HRA to the company for a number of social housing development schemes where social housing is being purchased by the Councils HRA. This process is considered custom and practice in relation to contracts between Registered Providers and Developers. From a Group position it has the added advantage of :
 - Increasing the profitability of individual development schemes with the Housing Company
 - lowering overall borrowing costs for the company albeit lowering the interest returns to the Council and increasing the cost of development to the HRA
 - Enabling the Housing Company to achieve a surplus position from which it can pay dividends to the shareholder earlier than previously planned i.e. declared in 2023-24 and paid in 2024-25
63. The estimated financial returns, namely net interest and dividends from the Housing Company allowing for some risk adjustment, included in the Council's MTFS are as follows:

Table 9 : Revenue Returns to Council from OCHL 2022/23 to 2025/26				
	2022/23	2023/24	2024/25	2025/26
	£000's	£000's	£000's	£000's
Loans outstanding at year end to Company	51,499	46,293	68,961	76,852
Revenue Returns to Council				
Gross Interest	2,783	2,311	3,493	4,426
Dividends	0	2,000	5,000	5,000
Total	2,783	4,311	8,493	9,426

Oxford West End Development Ltd (OXWED)

64. The Council has a 50/50 partnership with Nuffield College to undertake the development of the land at Oxpens. The Council approved capital loans totaling £10.66 million for its 50% share of:
- a) the cost of purchasing land from London Continental Railways in December 2017 totaling £6.5 million and
 - b) the cost of land owned by the Council at Oxpens in November 2018 (for which the Council received £8.32 million) totaling £4.16 million
65. The loan investment rate is 6.5% with accrued interest to 31st March 2021 of approximately £3.1 million with another £5.0 million over the next 4 years. In addition, loans have also been approved to fund working capital of £600k up to March 2021. Nuffield College has matched the loans given by the Council. Further loans of up to £700k and £300k were approved by Council in November 2021 in relation to the establishing of a Limited Liability Partnership.
66. Oxwed is currently in the process of developing a master plan together with a procurement strategy in order to determine how the site is taken forward for planning approval. A further report is expected to come to Cabinet in February 2022. Given the uncertainty of the overall return to the Council from the development no additional sums other than accrued loan interest have been included in the Council's MTFS.

Section C Housing Revenue Account Budget

Background

67. The Council continues to operate an ambitious programme of investment both in the maintenance and refurbishment of its existing stock of 7,664 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 Capital programme provides for £366 million of capital works over the next four years with £274 million of this being spent on purchases of 759 new build social houses. The commitment to OCHL is for the purchase of 1114 dwellings over a 10 year period for approximately £370 million.
68. In refreshing its 30 year HRA business plan the Council obtained external advice of the direction and financial robustness of plans. The consultants, Savills reported in October 2021 and concluded that
- a) The authority was ahead of most other local authorities in terms of delivery of new build housing
 - b) The Council had a sound platform for modelling the financial inputs and outputs in the HRA
 - c) The suite of economic and inflation assumptions are generally in line with benchmarks but there are some risks to exposure to downside changes in

future rent policy and increases in construction costs although these could be offset by a more prudent approach to borrowing costs.

69. In managing future risks that will inevitably start to rise as more debt is taken on to facilitate new build housing and regeneration the consultants recommended that as well as managing net income per dwelling that more use is made 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 ratio – Turnover / debt

The most widely used ratio is interest cover 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.

In preparation of the revised HRA Business Plan the Section 151 Officer has agreed a trajectory of interest cover ratio from the existing level of 1.10:1 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.

The chart below shows this ratio graphically

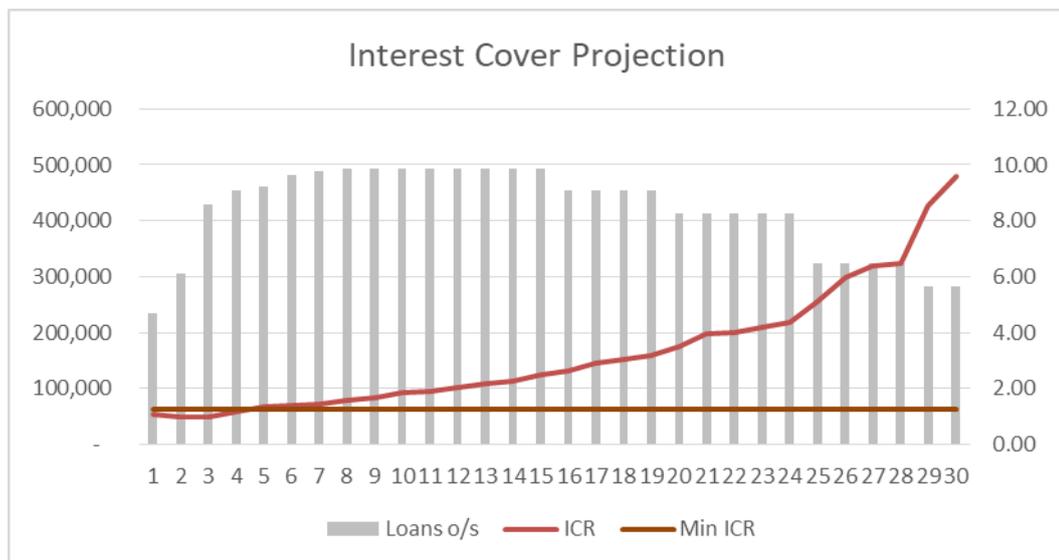


Table 10: Impact on Interest Cover Ratio

Year	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Year in BP	2	3	4	5	6	7	8	9	10
Interest Cover Achieved	1.00	1.00	1.18	1.35	1.38	1.43	1.60	1.69	1.87

Up to 2025-26 the chart indicates that there is no further capacity to accommodate any further spend in the HRA Business Plan although after that capacity does increase

Key Assumptions in the HRA Business Plan

70. 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%
71. 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.
72. 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
73. To accommodate this level of increased activity and cost the first 3 self-financing loans totalling £80 million have been refinanced by the Council with repayment being pushed out from 2031 to 2051.
74. The debt profile of the HRA together with the resulting HRA working balance over the next few years is shown as follows:

Table 11 HRA Outstanding loans and Working Balances		
	Closing Loan Balance	Working Balance
	£000's	£000's
2022/23	305,795	5,894
2023/24	428,738	5,985
2024-25	453,222	3,750
2028/29 – Peak debt	494,090	3,547
2060/61	43,769	1,245,251

75. 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 2022/23 – 2025/26

76. Under the Governments rent standard from 1st April 2020 rent may only be increased by up to CPI +1% for a period of five years for local authority and housing association social rents. 2022/23 is the third year of the rent standard and rent will be increased by CPI + 1% i.e. 4.1% with 3% increases estimated for future years. The effect on the weekly rents is as follows:

	change	change	Average weekly rent	Formula weekly rent
Year	%	£	£	£
2022/23	4.1%	4.51	112.00	116.33
2023/24	3.0%	3.36	115.36	119.82
2024/25	3.0%	3.46	118.82	123.41
2025/26	3.0%	3.57	122.39	127.12

77. Formula rent is based on a combination of individual property values and average earnings in each area. Approximately 4566 properties have reached convergence (where the actual weekly rent is the same as the formula rent), 3,179 have not and will only move to formula rent when they become void.

Shared Ownership Dwellings

78. During 2021-22, 25 Shared Ownership dwellings were purchased from OCHL at Rosehill, to date 19 of these have been sold. The rent charged on shared ownership properties shall initially be set at 2% of the value of the unsold share of the property, but with discretion delegated to the Head of Housing Services to set an initial rent up to the values of 2.75% of the value of the unsold share of the property where the development of the property would be otherwise unviable within the criteria set out in the HRA business plan. 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.
79. 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 September preceding the relevant year and the previous September and A represents the RPI index for September used at the previous i.e 1st April 2022 rent review uses September 2021 (B)/ September 2020 (A)

80. For these shared ownership dwellings purchased within the last 12 months this increase will therefore be 1.005 since there is no relevant RPI indicator for A.

Right to Buy and other disposals

81. Disposal of around 40 dwellings per year is assumed up until 2023/24 and then subsequently reduced to 20. 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

82. All the assumptions for inflation are the same as for the Council's General Fund.

Service Charges

83. Service charges such as caretaking, cleaning, CCTV, communal areas etc. will be increased by RPI at 4.9% across all tenure types in the HRA.
84. The Furnished Tenancy multiplier in respect of charges to tenants who take up the offer of the provision of white goods and other fittings at the start of a new tenancy is proposed to be changed from 1.4642 to 1.5155, an increase of 3.5% for current tenants. This increase is considered to be sufficient to cover the costs of running the scheme.

Working Balance

85. 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:

New Investment

86. Within the budget over the period is approximately £1.6 million per annum new expenditure the most significant of which is:
- a) **External decorations and Repairs (PPJ).** Proposed to increase the fencing budget by £200k, while both the budget for external decorations programme and fencing move from a reactive fencing programme to inclusion in a planned programme and reducing the reactive fencing budget down over the period of the MTFP.
 - b) **Shared Ownership.** Proposed additional budget £100k to support new services to support the development of our shared ownership programme

- c) **Increased staffing for new social housing purchases.** Proposed to increase the number of TMOs and Allocations staff by 4 fte to support the growth in workload from the new supply and increased transfer activity
- d) **Social housing White Paper** Proposed additional 1 fte support for a revised service to meet the new consumer standards and expectation of increased resident engagement.
- e) **Building Safety legislation.** Proposed additional 1 fte to meet our increased obligations under the new legislation
- f) **Furnished tenancy** - Increase in 1 fte to work on furnished tenancy scheme £41k to be covered by additional income

Appropriations and Disposal of properties

- 87. An appropriation of 22 units at Alice Smith House by the Councils General Fund from HRA to be used for the housing of homeless families is planned. The appropriation will be undertaken by the 'equivalent debt' accounting process reducing the Capital Financing Requirement for the HRA and increasing that of the General Fund by an amount of approximately £943k. The appropriation will require Full Council approval which will be obtained in February.
- 88. The HRA currently has 4 properties at 163, Walton Street, 39, Long Close, 8 Cowley Road and 46 Stubbs Close which are currently in need of repair to the value of approximately £1.8 million. When fully refurbished rental would be approximately £10k per annum. As the cost of repair of these properties exceeds many times over the cost of developing new affordable housing, the proposal is to dispose of these properties at a suitable time, removing the repair cost and realising a capital receipt (which may be used to support new affordable housing development).
- 89. Disposals of HRA property out of the Council's ownership whether on a freehold or a leasehold basis require consent under Section 32 of the Housing Act 1985. The position as to whether consent is required will be reviewed further with support from legal services as part of the due diligence process.

Housing Revenue Account Budget 2022/23 to 2025/26

- 90. Appendix 4 details the HRA Budget for the period 2022/23 to 2025/26 which is summarised below:

Table 13 – Housing Revenue Account (HRA) 2022-23 TO 2025-26

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

Risk Implications

91. 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

92. The current General Fund Programme, shown in Appendix 6, amounts to around £211 million over the four year period.
93. Other items worthy of mention include:
- **Regeneration** – An additional £13 million has been included within the budget to add to the balance of £7million that was agreed in 2021-22 budget setting, for use of regeneration of property within the city. Any amount to be spent will be signed off by the Councils Investment Committee.
 - **Stock Condition Survey works** – The Council has yet to receive the results of its stock condition survey work of all General Fund Properties and bridges. An additional £4.8 million has been included on top of the £3million of works required at Leisure's centres to facilitate the installation of heat pumps under the Salix Carbon initiative.

- **Cave Street** -Cabinet in November 2021 agreed to provide an additional amount of £4 million to the initial allocation of £5 million included in the budget a few years ago for the refurbishment of properties at Cave Street for lettings to organisations for offices and studio units
- **Bullington Community Centre** –The current Capital Programme makes provision for £1.1 million in respect of this project.
- **East Oxford Community Centre** - £5.2 million –refurbishment and redevelopment of community centre and associated sites linked to development of social housing and improved community facilities
- **Covered market**- £1 million of planned maintenance and roofing works
- **Osney Mead** - £6 million- the council secured a grant from the Housing Infrastructure Fund (HIF) to provide funding to support the delivery of development at Osney Mead by contributing to the Oxford Flood Alleviation Scheme (OFAS) and walking and cycling improvements
- **Osney Bridge** - £6 million contribution from Oxfordshire Growth Fund to fund construction of Osney Bridge
- **Loans to Oxford City Housing Ltd** – £72 million for funding the development of social, market and shared ownership housing
- **Purchase of vehicles** - £11 million for the purchase of vehicles subsequently leased to oxford Direct Services
- **Blackbird Leys Regeneration** - £17 million General Fund. £4 million HRA for the development of affordable and market housing, community centre, replacement shops and associated infrastructure
- **Refurbish St Aldates Chambers** – £1million -In order to enable the letting of 2 floors in SAC air conditioning and other related works will be required

94. Funding of the Programme is by Capital Receipts £32.6 million (15.5%) Community Infrastructure Levy and Section 106 £16.5 million (7.9%), borrowing £135.1 million (63.8%) Government Grants £25.1 million (11.9%) and £1.8 million revenue (0.9%). All revenue costs have been included in the General Fund revenue budget.

Housing Revenue Account Capital Programme

95. 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 £366 million. Notable inclusions are :
- a) **Planned maintenance and refurbishments** to Council housing stock £41 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 £9.1 million
 - c) **Properties purchased from OCHL** – The cost of these developments over the next four years is estimated at around £274 million which will be financed from borrowing.
 - d) **Purchase of properties by Retained Right To Buy Receipts** -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** - £19.5 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 £8.7 million over the next 4 years. The Council has submitted a bid for government grant which is likely to increase this amount and has also made provision over the following 10 years for a further £40.7 million on climate change and regeneration work

96. The financing of the HRA Capital Programme is from capital receipts £57 million, (15.6%) arranged borrowing £235 million (64.2%), revenue £38.3 million (10.5%) and Homes England Grants £35.9 million (9.7%)

Risk Implications impacting the Capital Programme

97. 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

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

Table 14: Budget Consultation Timetable	
Consultation Budget Report to Cabinet	15th December 2021
Budget Consultation Period	15th December to 31 st January 2022
Final Budget Report to Cabinet including outcome of Consultation	9th February 2022
Budget approval and Council Tax Setting Council	16th February 2022

99. 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.

100. 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

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

Legal Implications

102. The Council is required to set a balanced budget taking account of working balances and any other available reserves before the commencement of the financial year to which it relates. Consultation will be undertaken with the General Public for a period of six weeks in accordance with CIPFA Guidance.
103. The Local Government Act 2000 states that it is the responsibility of the full council, on the recommendation of the executive to approve the budget and related council tax demand.
104. The Local Government Act 2003, section 25 requires the Council's Section 151 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 2022 when the Budget is approved.
105. 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

106. Detailed risks are shown in Appendix 8 of the report.
107. 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 2022-23 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.
108. The pandemic, COVID 19 has resulted in a significant reduction in the Council's income streams over the last year some of which continues in 2022-23 and in respect of commercial rents are unlikely to return to pre COVID levels resulting in an estimated ongoing loss of around £2million per annum.
109. The Spending Review 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 and clarity is not expected until mid-December 2021.

110. Notwithstanding income losses and general uncertainty around some of its main income streams the authority proposes to set a balanced budget over the next 4 years by continuing to use the £11 million COVID emergency reserve set up in July 2020 and finding additional efficiencies from transformation and other savings. No further use of reserves, which will have reduced down to around £11million has been assumed over the next 4 years and indeed the expectation should be that such reserves are increased over the period if the Council is to continue to maintain its level of service provision in a financial prudent manner which mitigates the risk of any further reductions of income.

Equalities Impact Assessment

111. These are shown in Appendix 9 of the report

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