

To: Cabinet

Date: 19th December 2019

Item No:

Report of: Head of Financial Services

Title of Report: Medium Term Financial Strategy 2021-22 to 2023-24 and 2020-21 Budget for Consultation.

Summary and Recommendations

Purpose of report: To propose a Medium Term Financial Strategy and the 2020/21 Budget for consultation

Key decision Yes

Executive lead member: Councillor Ed Turner

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

Recommendation(s): The Cabinet is recommended to:

- 1) Approve the 2020-21 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 £24.029 million for 2020/21 and an increase in the Band D Council Tax of 1.99% or £6.13 per annum representing a Band D Council Tax of £313.92 per annum subject to confirmation of the referendum levels contained in paragraph 20-21 of the report below
 - b) the Housing Revenue Account budget for 2020/21 of £44.447 million and an increase of 2.70% (£3.06/wk) in social dwelling rents from 1 April 2020 giving a revised weekly average social rent of £105.32 as set out in Appendix 5
 - c) 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 37-38 below.
- 4) Care Leavers are determined as a class of discount for the purpose of Section 13A(1)(c) of The Local Government Finance Act 1992 from 1 April 2020 as referred to in paragraphs 22-24 below
- 5) To approve the payment into the County Council Pension Fund of £5 million as referred to in paragraph 63 (f)

Appendices to the report

- Appendix 1 Summary of General Fund Budget by Service 2020-21 to 2023-24
- Appendix 2 General Fund Revenue Budget by Service 2020-21 to 2023-24
- Appendix 3 Detailed General Fund and HRA Service Budgets 2020-21 to 2023-24
- Appendix 4 Housing Revenue Account Budget 2020-21 to 2023-24
- Appendix 5 Council House Rents By Estate
- Appendix 6 General Fund and HRA Capital Programme 2020-21 to 2023-24
- Appendix 7 Fees and charges
- Appendix 8 Risk Register
- Appendix 9 Draft Equalities Impact Assessment

Comment from the Portfolio holder

This consultation budget details our spending plans for the next four years. As has been the case for the period since austerity was introduced in 2010, it has had to address multiple challenges. We no longer receive Revenue Support Grant from government (which was previously a key source of income). New Homes Bonus is being cut. We face a “fair funding review” (of local government finance), which despite the name is likely to reduce our level of resourcing, especially when added to the Governments planned re-basing of Business Rates. At the same time, the wider economic context presents its challenges: we are having to work harder to maintain and develop commercial property income, and low interest rates affect Council investments. All this happens in the context of growing pressures upon our services, best illustrated by the appalling growth in rough sleeping, fuelled by the austerity programme, which the budget increases resourcing to tackle. In addition, the City Council has committed to take a leadership role in responding to the climate emergency.

Our underlying philosophy in this budget remains the same as it has been in previous years: we want to make Oxford a fairer, more equal place to live. We want to pay our staff properly, avoid compulsory redundancies, and are committed to the Oxford Living Wage, which we will pay our own staff but also promote through our procurement processes and through local leadership. We of course set a balanced budget – when we know about challenges, there is no sense in “kicking the can down the road”, and delaying difficult decisions would only make the situation worse. We want to avoid front-line service

reductions. But this time, we have also refocused some priorities, to allow significant additional expenditure in two areas: rough sleeping, where we propose an extra £1.2 million per year expenditure, allowing the opening of our new facility to help homeless people at Floyds Row; and tackling the climate emergency, where we are taking important steps to put in place measures proposed by our Citizens' Assembly, the first in the country on this issue with an additional amount of £1.040 million of general fund revenue spend over the next 4 years, and an additional £18 million of new capital spend over the same period. We are also increasing our staffing to work with council tenants to reduce emissions and prevent fuel poverty. That comes on top of around £84 million of ongoing investment in a range of measures to address climate change across Oxford and the wider county that has already been leveraged through the City Council's partnerships with others.

Underpinning these decisions is the Oxford Model, where we look to in-source work and deliver a benefit to the Council, rather than "outsourcing". Over the four years of this budget and Medium Term Financial Strategy, we expect to receive dividends of £8.7 million from Oxford Direct Services and £11.997 million from Oxford City Housing Limited, our local housing company. These are vital in underpinning our services in other areas, but also provide valuable local services in their own right, while treating their staff with respect. To this we propose adding additional commercial property income, seeking to rebalance our portfolio so that it is less dominated by retail.

So amongst the key features in this budget are:

- Additional spending of around £1.2 million per year to tackle rough sleeping: nobody should be forced to sleep on the streets of Oxford;
- Investment to show real leadership in tackling the climate emergency: in total, over £18 million in new capital and £1 million in new revenue is proposed, covering areas ranging from local leadership, through to work with the County Council to reduce traffic congestion, to increased retrofitting of existing Council Housing stock, to electric vehicle charging, and a low carbon heating network. This is on top of around £84 million of other ongoing partnership funding leveraged.
- Extra work to improve the quality of private rented housing, with licensing introduced for family and single people's accommodation, in addition to that already existing for Houses in Multiple Occupation;
- Investment in community centres, including new builds at Bullingdon and East Oxford;
- Continuing to provide full Council Tax Reduction (formerly Council Tax Benefit) to those on the lowest incomes, while making the system simpler for customers and those who administer the benefit;
- Preserving the City Council's grants pot, which is of great benefit in a range of areas, from welfare benefits advice, to support to tackle isolation and loneliness, through to ensuring that culture is available to all;
- £136 million of investment in producing 620 new units of new council housing stock over the next four years
- Continued free swimming sessions available to all local young people, and an improving range of leisure facilities, including the new Horspath Sports Park

- Continued provision of the Youth Ambition Programme to support local young people, while increasing levels of support for such provision on council estates.

As ever, these budget proposals will be the subject of full consultation – we will be in touch proactively with our new citizens’ panel, but welcome all feedback. Together, we want to tackle the biggest challenges Oxford faces: the climate emergency, the consequences of austerity (including rough sleeping and homelessness), the housing crisis, and rising levels of inequality. This budget will make an important contribution to those aims.

INTRODUCTION

- 1 This report sets out the Council’s Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2020/21 to 2023/24 and gives interested parties the opportunity to comment and be consulted on the Council’s budget proposals for the financial year (2020/21). 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 4 year period;
 - b) Assumes New Homes Bonus is used to finance the Capital Programme until it ends in 2023-24
 - c) Assumes contingencies of around £500k per annum in the later years of the MTFS are held against the achievement of high risk efficiencies and fees and charges increases- see Table 5
 - d) Assumes a council tax increase of 1.99% for 2020-21 and annual Council Tax increases of 1.99% thereafter, the maximum rate at which there is no requirement for a referendum
 - e) Assumes an increase in council house rents of 2.7% in 2020-21 to an average of £105.32 per week
 - f) Includes £15 million of efficiencies, increased income and services changes across the 4 years;
 - g) Addition spend on reducing carbon emissions over the next four years of £1.040 million. This is on top of £18m planned capital expenditure on decarbonisation measures and a further £84 million of ongoing partnership funding leveraged
 - h) Additional ongoing investment into tackling homelessness of £1.2 million including the opening of a new assessment centre and shelter for people sleeping rough at 1, Floyds Row
 - i) Facilitates capital investment of £427 million over the four year period including:
 - i. Regeneration in the city and commercial property purchases of around £67 million
 - ii. Investment in infrastructure of around £18 million to drive additional income streams from Oxford Direct Services Ltd

- iii. Continued provision of loans to Oxford City Housing Ltd totalling £75 million for the acquisition of houses at Barton, minor extensions, acquisitions from the HRA and new house build
- iv. £136 million of affordable housing purchases by the HRA in the next 4 years and £319 million gross spend on the purchase of 1,082 social housing units in the HRA over the next 10 years
 - v. Community Centre new build and refurbishment
 - vi. Car parks refurbishment and improvement
 - vii. Improvements and refurbishments to council dwellings
 - viii. Regeneration of council estates

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

- Section A Background and Context**
- 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 2020/21 to 2023/24. 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".

National Economic Position

- 5 On 13th March 2019 the Chancellor delivered his spring budget to Parliament. The main headlines of this speech for the public sector were:
- borrowing has been reduced by four-fifths since 2009-10 and debt has begun its first sustained fall in a generation
 - debt fell last year, and is forecast to fall continuously, to 73.0% of GDP in 2023-24, compared to the peak of 85.1% in 2016-17
 - the government is focused on keeping debt falling so as to not burden the next generation. The government is taking a balanced approach, reducing borrowing and debt, while supporting public services, investing in the economy and infrastructure, and keeping taxes low
 - £717 million from the £5.5 billion Housing Infrastructure Fund to unlock up to 37,000 homes at sites including Old Oak Common in London, the Oxford-Cambridge Arc and Cheshire.
 - through the Affordable Homes Guarantee Scheme, the government will guarantee up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes
 - further progress on delivering growth in the Oxford-Cambridge Arc including £445 million from the Housing Infrastructure Fund to unlock over 22,000 homes, and a joint declaration with local partners, affirming the Governments shared vision for the Arc.

Effect of Brexit at local level

12 Uncertainties over Brexit are clearly having an impact locally. The City Council along with other Councils in the County has set up a working group to discuss the potential impact in Oxfordshire. This includes the following initiatives:

- **Economic Development Officers (EDO)** from the Oxfordshire authorities are meeting regularly to discuss Brexit related support needs and intelligence. SME businesses have been raised locally and nationally as an area of concern and efforts to engage with them will be increased.
- **The Local Enterprise Partnership (LEP)** has been granted a budget for 1-2-1 mentoring/advice worth c100 hours. The group would keep a close eye on demand patterns based on the intelligence.
- **The Department for Business, Energy and Industrial Strategy (BEIS)** are running a number of regional events to address business preparedness. Initial feedback from Businesses in Oxford indicates
 - Property decisions seeing a slight pause since August 2019. It is not putting off purchasers in the region. However, longer leaseholds, are being negotiated with early break clauses. Landlords are having to be flexible.
 - The car manufacturing sector is being challenged not only by Brexit uncertainty but by global issues and technological shifts.
 - The primary impact of Brexit for importers appears to be the devaluing of the pound which has added 10% to costs.
 - The overall message being repeatedly given by investors and expanding companies is they want certainty as investments are being paused

Oxford Direct Services Ltd

13 Oxford Direct Services Ltd (ODS) is working closely with Oxford City Council officers to provide regular updates to the team meetings on any potential issues affecting operations, including:

- People – EU Settlement Scheme
- Supply chain – ODS have contacted all key supply chain suppliers to seek their assurances regarding continuity of supply and anticipated financial impact. The common theme from the supply chain responses is that it is extremely difficult to predict and plan due to the uncertainty surrounding the terms under which the UK will leave or not leave the EU.
- Sub-contractors – The feedback is again the difficulty of predicting the impact of labour resource and vital material elements.
- Fuel – In order to minimise and mitigate the potential disruption to service delivery resulting from the possible delay or restrictions of fuel supply, ODS are in the process of procuring an additional fuel storage tank to be installed at Cowley Marsh, this will increase resilience to ensure that key services are maintained.

Spending Round 2019

- 14 On 4th September 2019 the Government announced its proposals for a one year Spending Review (SR19) for Local Government. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, with the current political turbulence around Brexit, it was announced that a one-year Spending Round would be provided, covering the financial year 2020/21; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.
- 15 Therefore, the publication of a Spending Round, which covers only one financial year, is a departure from the norm that has been established over the last decade. In essence, this is the result of political and financial uncertainty surrounding Brexit, which has meant the government has been unable to produce the Spending Review as originally planned. This is also a Spending Round where there are no recent or updated forecasts from the Office for Budget Responsibility, and therefore, spending commitments are based on fiscal forecasts produced back in March 2019.

Funding Levels

- 16 The Spending Review was delivered within the current fiscal rules, as set out in the Charter for Budget Responsibility. These are to keep the cyclically adjusted deficit below 2% of GDP by 2020/21 (the borrowing rule) and have debt falling as a proportion of GDP in 2020/21 (the debt rule).
- 17 The government highlights that the deficit was 1.1% in 2018/19, compared to nearly 10% of GDP in 2010 and they therefore believe that it is now possible to spend more on public services. In its March 2019 forecast, the OBR set out that the government had headroom against its borrowing rule in 2020/21.
- 18 The Spending Review was delivered without an accompanying forecast from the Office for Budget Responsibility, which it was intending to provide at the time of Budget 2019, planned for later in 2019. However with the General Election on 12th December 2019 this Budget announcement has been delayed.
- 19 The government announced its top priorities in the Spending Review, to which much of the additional funding has been allocated, and these included contributions to health and social care, education and skills, tackling crime, and relationships post-Brexit.
- 20 Other proposals include:
- The business rates baseline reset and fair funding review to be put back to 2021/22
 - Inflation increases to Business Rates Baselines
 - Negative Revenue Support Grant to be removed for 2020/21 – The Council is unaffected by this proposal

- New Homes Bonus legacy payments for grant awarded in previous years for a four year period to be paid together with a one off amount for 2020-21
 - All 75% pilots to end in 2019/20 (the assumption is the 100% pilots from 2017/18 will continue).
 - Council Tax referendum principles – District Council to be 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. The Council is proposing an increase of 1.99% since the increase at that level is £6.13 per annum
 - An additional £54m in 2020/21 to help reduce homelessness and rough sleeping to add to the funding already provided in 2019/20
- 21 Following a period of consultation the Government will come back to Local Government with its proposals in the 2020-21 Local Government Provisional Finance Settlement which they have advised will be after the General Election on 12th December 2019.

Care Leavers

- 22 Oxfordshire councils have agreed a class of discount for Care Leavers for the purpose of Section 13A(1)(c) of The Local Government Finance Act 1992 from 1st April 2020 onwards. Billing Authorities have discretion under Section 13A(1)(c) of the Local Government Finance Act 1992 to reduce the amount of council tax payable for individuals, or for classes of council taxpayer. This includes the power to reduce the amount payable to nil. A Care leaver discount will ensure that the liability for Council Tax payments is reduced to nil for Care leavers between the ages of 18-21. Further arrangements to award a Section 13A discount to care leavers will be made on a case-by-case basis from the age of 21 up to the age of 25, up to a maximum award of 100%. The proposed scheme will have eligibility criteria which will need to be fulfilled before any discount is awarded under this class. There will be an appeals process should any discount be refused, which can ultimately be heard by a Valuation Tribunal.
- 23 Following a review of random case samples which was undertaken earlier this financial year by Oxford City Council, 95% of the cases reviewed had 100% of their Council Tax liability met by Council Tax Reduction, resulting in a zero bill. Not all young people in Oxford City's boundaries had a council tax charge as they were living with other adults in the home or there was no charge to be paid as the property was a house in multiple occupation of which the landlord is the liable party.
- 24 Currently any Section 13A discounts are funded fully by the Billing Authority. Under this scheme it is proposed that the 3 major preceptors accept liability for their share of the discount, in proportion to their precept percentage. The District Councils will be responsible for recovering the relevant share from the County Council and the Police and Crime Commissioner individually and all parties will sign a joint Memorandum of Understanding stating the joint commitment to the proposed scheme.

Interest Rates

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

Table 1: Interest rate forecasts 2019 to 2022

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

- 26 The forecasts have been based on an assumption that a No Deal Brexit is avoided, both now and at the end of 2020. Given the current level of uncertainties, this is an uncertain assumption and so forecasts may need to be materially reassessed in the light of events over the coming months.
- 27 It has been little surprise that the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in the Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth. More recently on 7th November the MPC agreed to hold the base rate on a vote of 7 to 2.

Increase in PWLB Borrowing Rates

- 28 On 9 October 2019 HM Treasury announced that with immediate effect it was increasing its PWLB borrowing rates. In a statement it reported that “Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.” The Local Government Association estimate that this increase could cost councils an extra £70 million a year for borrowing to be undertaken in the next 12 months and present a real risk that capital schemes, including vital council house building projects, will cease to be affordable and may have to be cancelled as a result. The impact on the Council is varied, as set out in the paragraphs below.

General Fund

- 29 The Council currently has no General Fund external borrowing and is actually under borrowed against its Capital Financing Requirement in the order of £30million. Prudential borrowing to date and indeed for the next few years has been undertaken using internal borrowing relying on its reserves and balances as this is the cheapest form of borrowing. In the financial years 2019/20 to 2023/24, the General Fund is forecast to borrow £111.5 million and of this borrowing only £26.7 million relates to schemes other than the Housing Company loans. At some time in the near future the Council will seek to undertake external PWLB borrowing although given the predominance of loans to the Housing Company which are charged to the Housing Company plus a margin then an increase in the PWLB rate actually increases the return to the General Fund estimated to be around £270k per annum from 2020-21

HRA

- 30 External PWLB borrowing was undertaken in 2012 to fund self-financing in the order of £198 million. Interest on this debt was fixed over the 40 year period. Further debt in the order of £256 million over the next 10 years is planned to be taken out mainly to fund social housing purchases from Oxford City Housing Limited. In addition, capital expenditure will also be required to pay for energy efficiency retrofitting in existing council housing. The ongoing assessment of how the housing stock is performing for energy efficiency is expected to be completed in mid-2020, and decisions will need to be taken based on this information and on the balance between different priorities in the HRA. Estimated additional interest as a result of the increase in PWLB rates is around £6 million over the life of the 40 year business plan. Business planning estimates made some provision for interest increases and consequently this has partly mitigated the increased interest. Rescheduling of loan repayments over the period will ensure that the HRA can fund this additional cost and result in limited adjustment to the HRA Business plan priorities.

Housing Company

- 31 Within the business plan an allowance has been made for interest based on a borrowing rate of 4.88% made up of 1.86%, 2.20%, 0.82% in respect of the PWLB rate, a margin for the Council and an estimate for future increases in interest respectively. Consequently in the medium term there is limited effect on the Business Plan given that an allowance for increases in interest rates had already been assumed. Going forward the interest rate used for business planning purposes is 5.88% with a resultant additional interest charge to the Company Business Plan of approximately £10 million with debt repayment being pushed out from 25 years to 35 years.

Inflation

- 32 The annual inflation rate in the United Kingdom was at 1.7 percent in September 2019, unchanged from the previous month and slightly below market expectations of 1.8 percent. It remained the lowest inflation rate since December 2016, amid a slowdown in the cost of transport, as fuel prices dropped at the greatest rate since August 2016. Inflation Rate in the United Kingdom averaged 2.56 percent from 1989 until 2019, reaching an all-time high of 8.50 percent in April of 1991 and a record low of -0.10 percent in April of 2015. Post Brexit there is much uncertainty on the inflation impact going forward.

Retained Business Rates

- 33 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 2020/2021 are shown below. The overall amount of retained business rates by the authority for 2020-21 represents around 8.4% of total business rates income.

Table 2 : Retained Business Rates 2020-21	
	£million
Estimated Business Rates Income	107.225
Billing Authority Share (50%)	53.612
Oxford City Share (80%)	42.890
Less Tariff paid to Government	30.771
Amount remaining after tariff	12.119
Baseline Business Rates (A)	6.292
Income above baseline (12.119-6.292)	5.827
50% of income above baseline (B)	2.914
S31 Grant adjustment (C)	(0.227)
Total retained business rate income (A+B+C)	8.979

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

- 34 The Medium Term Financial Strategy makes some allowance for the changes to be introduced by the Government from 2021-22 in respect of the business rates reset and fairer funding offset by any transitional grant. In reality how these changes will be introduced and the implications for the Council are unknown and the estimates therefore are a best guess. Projected retained Business Rates income is shown in the Table 3 below:

	Total	Variation
	£million	%
2017/18***	6.817	53.40
2018/19	8.169	19.83
2019/20	9.163	12.17
2020/21	8.978	(2.02)
2021/22*	7.374	(17.87)
2022/23	7.471	1.32
2023/24	7.563	1.23

*** Westgate development completed

* Fairer funding introduced

Fairer Funding Review and 75% Retained Business Rates

- 35 The Government is still committed to its Fairer Funding review alongside the 75% Business Rates retention system which will be introduced with effect from 1st April 2020. Under the retained business rates system the Council will be able to retain 75% of all business rates above the baseline, instead of paying 50% to the Government. It is thought there will new burdens passed to local authorities in exchange for this change.
- 36 Although there is little information available it is understood that the 'fairer funding' review will seek to:
- Set new baseline funding allocations for local authorities,
 - Deliver an up-to-date assessment of the relative needs of local authorities,
 - Examine the relative resources of local authorities,
 - Focus initially on the services currently funded through the local government finance settlement

Oxfordshire Business Rates Pool Arrangements

- 37 For 2020-21 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.

- 38 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 2020/21 is part of this report.

New Homes Bonus (NHB)

- 39 The current methodology for the allocation of New Homes Bonus allows for the award to be given for 4 years. In addition from 2017 a national baseline for housing growth has been set at 0.4%, below which no New Homes Bonus is payable. It is the Government's intention to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth they have previously stated their intention to withdraw the bonus from 1st April 2020 in favour of incentivisation based on the Housing Delivery Test (the percentage measurement of the number of net homes delivered against the number of homes required, as set out in the relevant strategic policies). The Government will consult on such changes.
- 40 As part of the roll-forward settlement the Government proposes to retain the £900 million top-slice of Revenue Support Grant to fund New Homes Bonus payments in 2020-21. In addition to funding legacy payments associated with previous allocations, the Government is minded to make a new round of allocations for 2020-21 although there will be no repeat of the 4 year legacy payments that exist under the current system.
- 41 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 4 : Anticipated New Homes Bonus				
	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's
New Homes Bonus	606	119	106	-
Percentage increase/(decrease)	(37.10)	(80.3)	(10.9)	(100)

Corporate Strategy

- 42 Elsewhere on the Cabinet Agenda the Council presents its Corporate Strategy for the period 2020 to 2024. The Medium Term Financial Strategy is an integral part of the Corporate Strategy providing the resources required to undertake the identified

key priorities of the Council in meeting its overall aim to 'Building a world-class city for everyone'. Key aims of the authority over the next few years are to:

- **Foster an inclusive economy**, key deliverables include:
 - o 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
 - o The Council's supply chain supports more local businesses, including social enterprises and cooperatives, promoting wider benefits to the local economy
- **Deliver more, affordable housing**, key deliverables include
 - o The Council have increased the supply of high quality, energy efficient housing with a balanced mix of homes for sale and to rent at different price points
 - o The Council's Blackbird Leys regeneration delivers high quality homes and a better use of space
 - o More Council and private sector tenants are supported to stay in their homes where they face the prospect of eviction
- **Support flourishing communities**, key deliverables include
 - o 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
 - o Children and young people's resilience and confidence is increased through the educational and recreational activities we offer
 - o The Council's public spaces remain clean, safe, well maintained and are more accessible
- **Pursue a zero carbon Oxford** key deliverables include
 - o The City Council making significant progress on the journey to reduce its own carbon footprint to zero
 - o All new building by the Council progressing towards near or net-zero carbon standards
 - o The Council's existing council housing is being made more energy efficient

43 Two areas of significant new investment to support the Council's Corporate Strategy are:

- Homelessness prevention
- Climate Change prevention

Tackling Homelessness and Rough Sleeping

44 Councils and health partners across Oxfordshire have committed to working collaboratively to develop a countywide strategy to ensure an effective whole system approach focused on prevention, early intervention and moving people on from rough sleeping. The Council's plans are part of this transformational approach.

45 The centre piece of the transformational plan is the conversion of 1 Floyds Row into a new assessment centre and shelter for people sleeping rough or at risk of homelessness. The new facility will include a range of accommodation, a treatment room and intensive support to help people move on from a life on the streets.

- 46 On 7th October 2019 the Council agreed to increase its capital budget by £1.89 million to provide for a transformational plan for the conversion of premises at 1 Floyds Row into a new assessment centre and shelter for people sleeping rough or at risk of homelessness. In addition the Council agreed to make budget provision for the gross revenue costs of providing Floyds Row in the sum of £1.069 million in 2019-20 from a range grants and contributions.
- 47 Total spending on the homelessness service from 2020-21 onwards is estimated at £7.4 million per annum. This assumes:
- Full funding of Floyds Row identified above
 - Continuing payments to the County pooled homelessness fund
 - Welfare Reform Team funding
 - Grant support to homelessness prevention organisations
 - Funding of the rough sleeping team
 - Flexible Homelessness support grant continuing at £500k per annum. This has been confirmed for 2019-20 and although the Government has recently announced further funding for homelessness and rough sleeping in SR19 of £54 million for 2020-21 there is no confirmation of the amount that the Council will receive for this year or ongoing.
 - The provision of a rent guarantee scheme
- 48 The net cost of homelessness prevention is currently funded from an earmarked reserve which as at 1 April 2019 stood at £2.9 million. By mid-2022-23 this reserve will be exhausted and the Council has made provision in its base budget based on the above assumptions for an ongoing additional net cost of homelessness of approximately £1.2 million per annum for this point onwards.

Climate Change

- 49 In January 2019, the Council unanimously declared a climate emergency and agreed to create a Citizens' Assembly in Oxford to help consider new carbon targets and additional measures to reduce emissions. Oxford's Citizens' Assembly held in September and October 2019 was the first of its kind for a UK city involving local citizens in considering climate change and assisting the Council in its final decisions on adoption of carbon abatement measures and targets.
- 50 On 29th April 2019, Council set a vision to reduce the City Council's own emissions to net zero by 2030 at the latest, sooner than the Governments deadline of 2050 under the amended Climate Change Act 2008.
- 51 In the build up to the first Citizens' Assembly weekend on 28th and 29th September 2019 the Council commissioned research to develop options and timescales for carbon reduction in areas such as housing and transport, which were put to the Citizens' Assembly. The Assembly heard from a range of independent contributors.
- 52 The first of two days saw Assembly members introduced to the challenges in tackling climate change, hearing from 27 expert speakers who set out the scale of the issue and addressed the range of options to reduce emissions from buildings,

transport, waste, and energy production as well as the role of carbon offsetting and importance of protecting biodiversity.

53 The Citizens' Assembly concluded on the 19th and 20th October and its recommendations will be published on 22 November with the following headline findings :

- The majority of Assembly members felt that Oxford should aim to achieve 'net zero' sooner than 2050. However, even among those who agreed with this, there was little consensus on when 'net zero' should be achieved
- There was widespread belief that Oxford should be a leader in tackling the climate crisis
- Assembly Members found a great deal of encouragement in the examples of what is already being done across Oxford to address climate change and meet the goal of becoming 'net zero'
- Enhanced biodiversity was central to the overall 'net zero' vision of Oxford with increased flora and fauna in the city centre, along with more cycling, walking, and public transport, and far fewer cars
- The buildings sector should adopt improved building standards, widespread retrofitting, and more domestic and non-domestic energy needs being met by sustainable sources
- Around one in four to one in three Assembly Members rejected the most ambitious – and, therefore, challenging to achieve – visions of a future Oxford
- They were also perturbed by the extent to which the burden of change was – in their eyes – being placed on individuals
- There was, therefore, a sense that the council needs to communicate a shared vision and strategy to reaching 'net zero' that shows the roles played by local and national government, businesses, and individuals
- Specifically, Assembly Members wanted more information about how to recycle correctly
- There was a demand for more education and information provided for the wider public in Oxford to help them understand what they can personally do to help

Council's response to climate change to date

54 In response to the Citizens' Assembly the Council has initiated work in the following areas:

- **Zero Carbon Measure** - Included an additional £1.040 million of revenue spend over the next four years in addition to an existing £18 million of capital expenditure over the same period. This will enable the Council from October 2020 to procure all its gas requirements from certified renewable gas producers. A new contract will also be agreed for the provision of green electricity, and carbon offsets will be purchased to cover the Council's remaining emissions - most obviously arising from fuel for vehicles
- **Council Housing Stock** - Instigated an assessment of the Council's housing stock on the investment required to ensure that all dwellings are rated C in

their Energy Performance Certificate (EPC) rating. This will lead to the identification of additional capital funding to the £1.5 million on energy efficiency initiatives already provided for over the next four years.

- **New Build Housing** - Working with its wholly owned Housing Company Oxford City Housing Limited to develop a business plan which includes provision for progressing all new build housing to above Part L of Building Regulation standard and without gas heating.
- **Corporate Assets** - Instigated a wider review of the City Council's non-housing buildings, on which future investment will be agreed, which includes an appraisal of their energy efficiency.
- **City Council Vehicle Fleet** – Working with its wholly owned company Oxford Direct Services budget provision has been made to electrify 25% of the fleet by 2023. This will involve around £4.5 million of capital investment over the next four years.
- **Electric vehicle chargers and infrastructure** - Oxford City Council has secured funding for the implementation of around 400 electric vehicle charging points across the city, as well as trialling pop-up charger technology.
- **Zero Emissions Zone and Traffic Congestion Management** –Oxford City Council and Oxfordshire County Council are working in partnership to introduce a zero emission zone from 2020 in the city centre which aims to cover the whole city by 2035. The Council has included over £200k in its budget plans over the next four years to facilitate this.

These initiatives come on top of one of the most advanced and comprehensive environmental sustainability programmes of any local authority in the UK that has helped leverage around £84 million of ongoing investment in decarbonisation projects within Oxford and the wider county.

Section B General Fund Revenue Budget

- 55 In February 2019 Council agreed a balanced budget for the four years of the Medium Term Financial Strategy 2019/20 to 2022/23. The Strategy including all income and expenditure and planning assumptions have been reviewed and updated to produce the revised strategy covering the four year period to 2023-24.
- 56 The Budget Strategy included:
- 'New Ways of working' to be identified by Heads of Service which seek to make proposals for efficiency savings based on services working together, investment in ICT and use of assets. Such proposals are generally going to take longer to realise and may require resources funded from the Transformation Fund to achieve.
 - All Heads of Service to identify efficiency savings of 2% on gross spend over the four year planning period Service redesign to achieve efficiencies
 - Investment in ICT especially software security, mobile working and the electronic agenda
 - An examination of the base budget for every service to identify base budget savings
 - Analysing General Fund/ HRA recharges

- Continued income generation especially from planning, building control, town hall, Oxford Direct Services and Oxford City Housing Ltd

57 Details of all efficiencies, savings and increased income streams are shown in Appendix 3 with some of the more significant areas discussed in more details below

New Ways of Working

- 58 The Council has initiated a transformation programme of activity. Known as 'New Ways of Working' the Team which is currently being recruited to will be the interface between the Service Providers and the Service enablers such as ICT, Facilities, Human Resources and Finance seeking to identify opportunities to change the 'ways of working' of services in order to drive out organisational efficiency.
- 59 Whilst some work has already begun in Building Control, Environmental Health and Council Tax there is more to be done. The work of this team will assist in achieving some of the efficiency streams already identified under efficiencies within the Council's Medium Term Strategy and begin looking at other areas of business.
- 60 Efficiency in recruitment and examining the potential for joining up services in Corporate Services and Housing are initial areas of focus. Once established the team will report regularly to members on the progress of savings and efficiencies achieved to be included in future iterations of the MTFS.

Efficiencies

- 61 Efficiencies totalling £6 million are estimated for the 4 year period including :
- **Impact of Universal Credit Roll out** - £240k per annum from 2022-23
 - **ICT restructure** – removal of temporary posts - £140k per annum
 - **Robotic Process Automation** – automation of processing initially in Revenues and Benefits to achieve savings in external support - £50k per annum
 - **Mobile phones – reduction in number of renewals required** - £50k per annum
 - **ICT Storage costs** – reduction in data retained resulting in reduced storage costs - £75k per annum
 - **Homelessness grants** – Review of the homelessness and rough sleeping service following the opening of Floyds Row - £150k per annum
 - **Welfare Reform Team** – Reduction in management costs following more joined up working - £132k over 2 years
 - **Council Tax Reduction Scheme** – Changes in the scheme to achieve administrative savings in the Benefits Team and Customer Services Team while avoiding adverse impacts upon claimants - £120k per annum

Increased Income

62 Increased income totalling £9.2 million is estimated over the 4 year period

- **Town Hall** – A number of new initiatives to raise additional income of approximately £100k per annum including: Re-tendering the catering package which expires in March 2020, this will achieve £30k extra revenue through commission, attract higher yielding events, e.g. music concerts, this will achieve £30k extra revenue, letting of vacant space in the Town Hall for offices, this will achieve £10k. Implementing easy to access grants for community groups to reduce booking costs to replace the ad hoc discounted use that has built up over the years, this will provide a £30k saving
- **Commercial Property Income** – Initiatives to rebalance the Council's current portfolio of commercial property investments which are currently predominantly held in retail, as well as releasing and recycling capital in exchange for ongoing income streams. Funds of around £67million re-invested in properties will provide ongoing returns of around £500k per annum from 2023-24. A detailed report appears elsewhere on the Cabinet agenda.
- **Selective Licensing** - Oxford will propose a Selective Licensing Scheme for privately rented housing. 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, and income from multi-year license fees would make a significant contribution towards overheads.
- **Planning income and planning performance agreements** – An increase in planning income arising from the growth agenda and the emerging local plan and changes to the National Planning Policy Framework (NPPF) which has brought about the need to progress the delivery of key housing sites. There are consequences if the Council does not deliver housing numbers over the next three years and thereafter. Taking this more proactive approach and with the employment of an additional 8 additional staff it is estimated the Council could drive additional net income of around £547k per annum from 2022-23 and a significant contribution to fixed overheads.
- **Investigation Services** - £70k increased trading income and council tax income from 2021-22 arising from increased data matching activity.
- **Museums Income** - £100k per annum. New income streams are proposed following the refurbishment of the museum which is currently taking place.

New Expenditure

63 Increased expenditure totalling £1.9 million is estimated over the 4 year period, including the following items:

- **Minimum Revenue Provision (MRP) and Interest** – within the Medium Term Financial Strategy provision has been made for the revenue costs associated with estimated additional borrowing of £10million per annum to allow for items within the capital programme pipeline
- **Marketing the Covered market** –Plans are in place on a business case to refurbish the indoor market. An additional input into marketing will be required for both the existing and future market offer - £50k per annum

- **Additional surveying resources in Property Services** in relation to the property strategy, compliance work and the driving of new property income- £560k over the 4 year period
- **Additional Executive assistant** – An additional Exec Assistant to service the requirements of new Director and Service Head posts - £30k per annum
- **Support post** –A new post to support the work in research and policy making for the Chief Executive £64k per annum
- **Climate change reduction** – Measures to de-carbonise both the city and the Council £150k per annum ongoing. An additional £110k for a significantly up weighted programme of stakeholder and public engagement is needed to provide the education/information the Citizens Assembly has asked for. £62k one off spend to assist in development of the zero Emission zone and a £125k one off spend on proposals to ease traffic congestion.
- **Toilet Attendants to city centre toilets**- An additional 2 full time equivalent cleaners to cover the two busiest toilets in the city centre to combat anti-social behaviour, improve cleanliness and reduce maintenance - £75k in 2020/21.
- **Additional Planning Lawyer and Commercial Property Lawyer** - £132k per annum. Following a review of the Law and Governance structure a number of additional posts to bolster the capacity of the team to meet the Council's priorities have been recommended
- **Data Manager (investigation Services)** – Following a review of the team an additional post to manage and initiate data matching exercises both on the Council's own data and other clients is proposed - £50k per annum
- **Creche at Ferry leisure centre**: following a successful pilot, this is proposed to be continued - £11k per annum.
- **Leisure access for homeless pathway clients** will be continued in the future - £5k per annum.
- **Green neighbourhood grants** will be expanded: £10k per annum.
- **Living wage promotion**: Further work to promote the Oxford Living Wage across the city will be undertaken next year - £30k in 2020/21.

Planning Assumptions

- 64 The following planning assumptions are included within the Medium Term Financial Strategy:
- a) **Base Budget** - The starting point for financial planning is the 2019-20 base budget position as agreed by Council in February 2019, adjusted for any one-off savings and growth.
 - b) **Council Tax Increase** – The current assumption is for a 1.99% rise in 2020-21 and beyond in line with the Spending Review proposals which will not be confirmed until after the General Election in December 2019. At this level under current proposals no referendum will be required.
 - c) **Investment Interest** – The Bank of England base rate is 0.75% with gradual limited rate rises predicted in the future. Forecasts of interest rates in the MTFS range from 1% to 1.3% for the next four years excluding property funds. The Council currently benefits from a number of property investments :

- **External 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. Within the budget an additional amount of £10million has been assumed to be made in similar type funds and the Council is currently researching this.
 - **OxWed Development** – The Council has made loans of approximately £10.6 million into its 50/50 Joint venture with Nuffield College which attracts a return of 6.5% per annum.
 - **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 2.20%. The Council has already made available approximately £4.3million of loans to the Company in respect of the acquisition of properties from the HRA and Barton for the period to the end of 2018/19. At the end of 2023/24 the housing company loan balance is estimated to be £126m, reflecting the proposed increase in planned activity. All loans will continue to be at state aid compliant rates and attract an uplift of 2.20% above the prevailing PWLB rate. The additional gross interest over the forthcoming MTFS period earned by the Council as a result of this housing company lending is estimated to not only meet but potentially exceed the required levels expected from OCHL embedded within the MTFS over the next four years.
- d) **Inflation** –Most budgets are cash limited. Over the period of the MTFS, CPI is expected to increase to 3% which could squeeze budgets harder. The base budget has been increased by an amount of £270k by 2023-24, mostly in ICT relating to software licence increases and materials and supplies within Oxford Direct Services
- e) **Pay Assumptions** – April 2020 is the final year of a three year pay agreement. The agreement allows for increases based on the higher of 1.25% or £500 in April of each year plus an incremental increase in October 2019. Inflationary increases have been allowed in the MTFS thereafter. There will be further negotiations with our trade unions in this area. The City Council remains committed to the Oxford Living Wage.
- f) **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 2020. Provision has been made within the MTFS for a prepayment into the pension fund of £5million in 2020-21. 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 5 years with the contribution rate reverting to the standard rate at the end of the period. The initiative reduces expenditure by approximately £2million over the 5 year period as well as returning £4million of the prepayment back to the Council for use in subsequent years.
- g) **Increases in Fees and Charges** –Fees and charge income is projected to increase by around £2.9 million per annum by 2023-24 inclusive of income from Oxford Direct Services. Details of specific fees and charges increases in 2020-21 are given in Appendix 8 with summary details below:

- ix. Garden waste bins - £2 per bin per year (4.08%)
- x. Leisure activities
 - Sports - 40p -£1.50 – (2.65% to 3%)
 - Summer activities – £0 - £50p- (0% -7.7%)
 - Casual Swimming – 10p (2.1%)
 - Adult gym – 30p (3.4%)
 - Adult Skating - 30p (3.5%)
- xi. Pest Control increases – no increase
- xii. Cemeteries adult right of burial £10 (1.01%)
- xiii. Off street Car Parking – No increase
- xiv. Garages – £0.27 -1.69%

h) Capital Financing - Capital financing for the draft Capital Programme is detailed in Section D. The four year Medium Term Financial Strategy assumes £8.2 million of revenue contributions will be made to finance vehicle replacements and ICT software and hardware over the period together with income arising from New Homes Bonus estimated at around £1.7 million over the 4 years. Any reduction in New Homes Bonus that is announced in the Finance Settlement will increase the pressure on the revenue account.

i) Planned Repairs and Maintenance – £2 million per annum for planned maintenance 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.

j) Contingencies – The Council has had a good track record of delivering within budget over the past few years and contingencies held against high risk savings have usually been underspent. There are significant increases in income, especially arising from dividends from ODS and interest for OCHL. From 2019 onwards the amount of such contingencies is not prescriptive and is now made on judgement taking account of the risk and the levels of reserves and balances. The following amounts have been included in the MTFS:

Table 5 : Contingencies held against efficiencies, service reductions and fees and charge increases				
	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's
Total cumulative Savings and increased fees and charges in plan	2,033	4,463	5,471	5,915
Cumulative contingency in MTFS	190	410	510	510
% of total savings covered by contingency	9.3	9.2	9.3	8.6

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

	2020/21	2021/22	2022/23	2023/24
	£	£	£	£
Base Budget	23,792,238	23,792,238	23,792,238	23,792,238
Efficiencies	(96,497)	(2,475,108)	(3,076,894)	(3,155,083)
Fees and Charges	(1,498,000)	(1,987,600)	(2,394,250)	(2,760,250)
New Investment	657,500	328,748	252,500	164,500
Inflation & other pressures	1,676,946	2,290,563	2,350,931	3,806,931
Revenue Contributions	2,881,254	2,148,987	2,239,861	2,600,000
Net interest	(9,148,866)	(9,629,257)	(10,000,306)	(10,184,696)
Corporate costs including MRP, pay	5,337,317	7,269,919	8,408,432	9,779,597
Contingencies	189,937	409,937	509,937	509,937
Transfers to/ (from) reserves and working balances	236,842	74,681	671,024	(1,353,230)
Net Budget Requirement	24,028,670	22,223,108	22,753,473	23,199,944
FUNDING				
Council Tax	(14,443,712)	(14,830,248)	(15,276,624)	(15,736,435)
Retained Business Rates	(8,978,705)	(7,273,874)	(7,370,988)	(7,463,509)
New Homes Bonus	(606,254)	(118,987)	(105,861)	0
Total	(24,028,671)	(22,223,109)	(22,753,473)	(23,199,944)
Surplus/ (Deficit)	(0)	(0)	(0)	0
GENERAL FUND WORKING BALANCE				
B/F	3,855,680	4,092,522	4,167,203	4,838,227
Transfers in/(out)	236,842	74,681	671,024	(1,353,230)
C/F	4,092,522	4,167,203	4,838,227	3,484,997

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

66 The budget assumes transfers to and from the working balance which as at 1st April 2020 is forecast to be £3.855 million. Over the four year period of the MTFS assuming delivery as planned, the balances are returned to around £3.5 million, a level which is considered by the Council's Chief Financial Officer to be prudent, given the level of risk and the levels of reserves held by the authority. In the final year of the plan around £1.4 million is used to balance the plan which may lead to an increase ongoing pressure in future years which will need to be addressed.

Risk Implications

- 67 The main risks to the balanced position of the General Fund consultation budget (Appendix 8) are that:
- Adverse reaction of businesses and property to Brexit
 - Homelessness reserve is exhausted at a faster rate than anticipated
 - Failure of major partner for instance Leisure
 - Variations of actual income and expenditure against budget especially in volatile areas such as income and property investments
 - Pay negotiations are more than budgeted from April 2021 onwards
 - Trading companies do not perform as well leading to reduced income to Council
 - Business Rates income is lower than forecast
 - Interest rates are higher than projected
 - Company investments do not materialise
 - Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS

Wholly Owned Companies and Joint Ventures

Oxford Direct Services Ltd

- 68 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 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
 - A Trading Company (Oxford Direct Services Trading Ltd) – providing externally traded commercial waste services
- 69 The company became operational from 1ST April 2018 and around 600 staff were TUPE transferred to ODSL. In the first year of trading the companies provided a dividend back to the Council of £1.3 million.
- 70 Increased dividend to the Council is estimated as shown below. No additional dividend is shown after 2022-23 which seems prudent given the scale of change which ODS is undergoing.

	£000s	£000s	£000s	£000s
	2020-21	2021-22	2022-23	2023-24
Dividends	1,557	1,907	2,407	2,873

- 71 The additional dividends require a commitment from the Council for Oxford Direct Services (ODS) of delivery of a significant part of the Council's capital programme over the 4 year planning period, together with increased investment from the

Council of £18 million to support infrastructure and transformation in the following areas:

- £1.6m transformation and restructuring costs – a report on the award of a capital grant to ODS from the Council is shown elsewhere on the Cabinet Agenda
- £1.8 million for 73 vehicles purchased to reduce the size of the grey fleet
- £1.2 million for ICT including Customer Relation Management (CRM) software, mobile working devices and applications, customer insight analytics and reporting and management information software.
- £13 million for modernisation of depot and office facilities- work is ongoing and a report will be presented to Cabinet shortly on the conclusion of this work and next steps

72 All assets are purchased by the Council and leased to the Company, which is repaid to the Council inclusive of 7% interest charge over the life of the assets. The majority of these costs are in turn recovered from the Council through the charges for statutory services via ODSL, the Teckal company.

Housing Company- Oxford City Housing Ltd.

73 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. The Company Business Plan approved at a City Executive Board meeting in December 2016 set out plans to undertake, the purchase and management of affordable rented homes at Barton, the development of new affordable and market housing, the purchase of 5 void properties per annum from the Council's HRA and estate re-generation in The Leys and Barton.

74 The OCHL Shareholder subsequently approved a development and acquisition programme and business plan to deliver 572 new homes over the period 2018 to 2026. This included the purchase by OCHL of the social rented homes being developed at Barton Park by Barton Oxford LLP (BOLLP). As part of the City's drive towards net zero carbon, OCHL is focussing on building sustainable, energy and thermally efficient homes that are resilient to climate change. The strategic approach of the company is currently fabric first – for energy and thermal efficiency with PV panels. However, this strategy alone will not currently achieve net zero carbon and alternative approaches will need to be considered, work on which has already been commissioned.

75 A key objective of the establishment of the Housing Company alongside the delivery of affordable housing is the delivery of returns to the Council's General Fund. In the initial years of the business plan this has been derived from margins on the borrowing undertaken by the Company from the Council.

76 The removal of the HRA borrowing cap in October 2018 necessitated an initial review of the approach previously adopted by the Council and OCHL with respect to affordable housing delivery and subsequent on-going management.

77 The revised 10 year business plan approved by the Shareholder in November allows for:

- The delivery of 1,891 new homes of which, in line with the current Draft Local Plan planning policy, the Housing Group would seek to deliver 57.2% as affordable housing – of which 40% would be Social Rent and 10% Shared Ownership or Intermediate affordable rent housing. This is in addition to the 354 social rented homes that will be purchased at Barton Park of which 47 have been completed. Together these programmes will deliver 2,245 homes. This is a significant expansion of the council’s previous development programme of 572 homes (including Barton Park) from 2018 to 2026.
- The sale of social housing and shared ownership housing from the Company to the Council’s HRA facilitated by additional borrowing within the HRA of around £239.5million over the next 10 years. The Council has indicated to the Company that the first 4 years housing developments will be purchased at an estimated cost of £136 million. At the end of this period the Council will need to review its programme in the context of new regeneration schemes and climate change related works.
- Returns from the Company to the Council in the next 3 years will be solely based on the margins of loans made from the Council based on the new programme. Whilst this will continue over the proceeding 7 years of the Business Plan the return will reduce as the Company, in line with its Business Plan, seeks to repay the outstanding loans. In order to ensure some minimum degree of return to the Council over the period the Company has provided for a minimum return of dividend from surpluses generated by the company between 2023-23 and 2029-30 of £2.5million per annum.

78 Returns from the Housing Company included in the Councils MTFS are as follows appropriately risk adjusted:

Table 8 : Revenue Returns to Council 2020/21 to 2023/24				
	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's
Loans outstanding at year end to Company	51,806	98,685	94,789	126,566
Revenue Returns to Council	1,416	2,856	3,419	4,306

Oxford West End Development Ltd (OXWED)

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

- the cost of purchasing land from London Continental Railways in December 2017 totaling £6.4 million and

- the cost of land owned by the Council at Oxpens in November 2018 (for which the Council received £8million) totalling £4.1 million
- 80 The loan investment rate is 6.5% with accrued interest of approximately £900k per annum. In addition, loans have also been approved to fund working capital of £150k up to March 2018. Nuffield College has matched the loans given by the Council.
- 81 Oxwed is currently in negotiation with a Development Partner for the development of the site which should result in returns to both Nuffield and the Council in the future, the results of which will be known shortly. Given that an approach has yet to be agreed no return other than accrued loan interest has been included in the Councils MTFS.

Section C Housing Revenue Account Budget

Background

- 82 Up until October 2018 the HRA was subject to a debt cap which for the Council had been calculated as £240 million. Together with the self-financing loan of £198 million and other borrowing to finance capital spend this debt cap had already been reached effectively restricting the ability of the HRA to engage with the new house build agenda and resulting in the Council establishing its Housing Development Company.
- 83 In October 2018 the Government removed the debt cap enabling the HRA to borrow to finance capital expenditure providing it was affordable and prudent.
- 84 The recent acceleration of new build housing in the Housing Company agreed by the shareholder in November 2019 provides a steady stream of social and shared ownership housing for the HRA to buy 1,082 houses over the next 10 year period at an estimated gross cost of around £319 million.

Financial Viability and Debt Refinancing

- 85 The financial viability of housing scheme purchases has been set by the Council's Chief Financial Officer as:
- Net present value (NPV)– positive over a 70 year period
 - Payback – 70 years or under
 - Internal rate of return IRR -(the discount rate which equates the Net Present Value to zero) of 3%
- 86 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.
- 87 The purchasing of the new build properties from OCHL over the next 10 years is estimated to cost around £319 million. Work has been undertaken to accommodate

- An increase in the level of HRA debt for the new build acquisitions by £256 million to cover all capital commitments including new affordable housing
 - provide around £48 million over the next 10 years for climate change initiatives to Council owned properties and other regeneration activity in the HRA
 - A £6 million increase in interest costs arising from the unwelcome announcement in October 2019 of a 1% increase in PWLB borrowing rates.
 - All debt self-financing and additional secondary debt to be repaid within a 40 year period
 - HRA working balance not to fall below £3.5 million
- 88 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.
- 89 The debt profile of the HRA together with the resulting HRA working balance over the next few years is shown as follows:

Table 9 HRA Outstanding loans and Working Balances		
	Closing Loan Balance	Working Balance
	£000's	£000's
2020/21	239,568	6,383
2021/22	247,490	8,711
2022/23	287,490	5,590
2023/24	332,690	4,619
2029/30 – Peak debt	496,665	11,858
2058/59	23,769	483,361

- 90 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 2020/21 – 2023/24

- 91 The following key assumptions have been used:
- **Rent setting** –Following a 4 year period of 1% rent reduction under the Welfare Reform and Work Bill, in 2017 the Government announced that from 1st April 2020 under the 2020 rent standard, rent would be increased by CPI +1% for a period of 5 years for local authority and housing association social rents. For 2020/21 the CPI rate is 1.7% and hence council house rents are estimated to increase by 2.7% from 2019-20 levels, with 3% increases estimated for future years. The effect on weekly rents is as follows.

Table 10 : Effect of Rent Changes on Average Rent 2020/21 to 2023/24				
	Actual Average Weekly Rent			Formula weekly rent
	Change	Change	Average weekly Rent	
	%	£	£	
2020/21	2.70	3.06	105.32	110.30
2021/22	3.00	3.15	108.47	113.62
2022/23	3.00	3.24	111.71	117.02
2023/24	3.00	3.34	115.05	120.53

Formula rent is based on a combination of individual property values and average earnings in each area. Approximately 4291 properties have reached convergence (where the actual weekly rent is the same as the formula rent), 3389 have not and will only move to formula now when they become void. Previous Government rent setting policy allowed the authority to converge towards formula rent although the latest Government policy does not allow for this. The potential income loss to the authority is estimated at £877k for 2020/21 which is compounded during the life of the business plan.

- **Right To Buy and other disposals**

Disposal of around 40 dwellings per year is assumed up until 2022/23 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 'staircasing' enabling the homeowner to own a greater proportion of their home.

- **Inflation and pay assumptions**

All the assumptions for inflation are the same as for the Council's General Fund. The base budget has increased by a further £279k by 2022-23

- **Service Charges**

Service charges such as caretaking, cleaning, CCTV, communal areas etc. will be increased by RPI at 2.4%

Working Balance

92 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. Pending the decision on new build as discussed above surpluses over the life of the Business Plan are predicted.

Variations to Budget

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

New Investment

- 93 Growth in the budget over the period is approximately £743k, the most significant of which is:
- **Marketing and dealing with shared ownership properties - £60k per annum** –to facilitate the sale of the shared ownership properties within the HRA
 - **Resident parking team - £89k per annum.** These 1.5 posts are required as an addition to current establishment in order to manage permit and parking enforcement on HRA land. The Council has operated a number of resident parking permit schemes on housing revenue land for a number of years. These would generally be off-street parking bays, small car parks associated with flats or occasionally, small roads that the Council owns.
 - **Tenancy Management Officer - £49k** to deal with extra tenancies as a result of the purchases from OCHL
 - **Allocations team -£50k per annum**
 - **Contributions to youth ambition team £20k per annum** specifically on Council estates, and an **additional £100k** per year from 2020/21 to support wider youth work on council estates
 - **Investment in fire doors -£100k per annum for 4 years**
 - **Great Estates programme - £400k per annum**
 - **Executive Assistant - £39k per annum** to provide additional support for Director of Housing and other senior staff in Housing
 - **Energy and environment team - £97k per annum for 4 years.** These posts are in addition to the 2 posts that are already in place

Efficiencies

- 94 Efficiencies of approximately £220k per annum have been included in the budget the most significant of which are:
- **Business rates and council tax - £100k per annum**
 - **Rents team court costs and postage - £35k per annum**

Additional Income

- 95 Additional income of approximately £530k per annum is forecast, largely due to a rebasing of income estimates, with the most significant arising from:
- Service charges from tenants -£200k per annum
 - Leaseholder services charges - £200k per annum
 - Recharges to OCHL - £93k per annum

Housing Revenue Account Budget 2020/21 to 2023/24

- 96 Appendix 4 details the HRA Budget for the period 2020/21 to 2023/24 which is summarised below:

TABLE 11 HOUSING REVENUE ACCOUNT	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Income	(44,447)	(46,595)	(49,043)	(51,752)
Expenditure	43,216	44,324	52,207	52,763
Net Operating Expenditure	(1,231)	(2,272)	3,164	1,011
Appropriations	0	0	0	0
Investment income	(72)	(57)	(43)	(41)
(Surplus)/Deficit for the Year	(1,303)	(2,329)	3,121	970
(Surplus)/Deficit b/fwd	(5,080)	(6,383)	(8,712)	(5,591)
(Surplus)/Deficit c/fwd	(6,383)	(8,712)	(5,591)	(4,621)

Risk Implications

97 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 the roll out of Universal Credit
- Non-achievement of assumed Right to Buy sales now required to fund increased capital spend commitments.
- Non-achievement of planned efficiencies.
- Variations in estimates causing cash flow problems

Section D Capital Programme

General Fund Capital Programme

98 In recent years the Council's Capital programme has been subject to additional internal scrutiny to increase the robustness of the estimates for schemes that have been included. Whilst there are a number of schemes in the pipeline robust business cases have yet to be prepared and consequently these have not yet been included in the capital budget. These will be brought forward for budget approval in year once the business case has been signed off by the Development Board.

99 The current General Fund Programme, shown in Appendix 6, amounts to around £222 million over the four year period. Significant items include loans to OCHL for new build housing £238 million, Seacourt Park and Ride extension £1.4 million, community centre improvements £4.7 million, Disabled Facility Grants £4.8 million, car parks resurfacing and improvements £1.1 million, ongoing renewal of council vehicles £11.2 million, investment in ICT £2.0 million, investment in ODS £16.1 million, purchase of properties at Barton £23 million pending their onward sale to OCHL.

Table 12 : Provisional General Fund Variations to Capital Budget				
	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's
Approved budget	54,671	43,206	27,142	34,341
New				
Commercial Property (1)	42,000	25,000	-	-
Bullington Community Centre (2)	200	-	-	-
Feasibility studies (3)	850	450	250	250
Total General Fund New bids	97,721	68,656	27,392	34,591

Notes:

(1) Commercial Property purchases –see para 62 above

(2) Bullington Community Centre –The current Capital Programme makes provision for £1.2 million in respect of this project. Latest estimates indicate that the project will require an additional £200k and this is included in the consultation budget.

(3) Feasibility studies – The improvements made to capital processes to enhance the robustness and accuracy of project estimates before entry into the capital programme has increased the requirement for additional feasibility costs at the start of the process. Costs will include additional external resources but also capitalized costs from the Council's Project Management Office. As a result the existing Feasibility Budget will be increased by £250k per annum. An additional £800k has also been included in respect of feasibility studies on the Station Masterplan, Cowley Road Branch Line, Osney Bridge and West End Masterplan funded from Community Infrastructure Levy (CIL).

100 Funding of the Programme is by revenue £17.6 million (7.7%), Capital Receipts £34 million (14.8%) Community Infrastructure Levy and Section 106 £4.4 million (2.0%), borrowing £160 million (70.0%) Housing Infrastructure funding £6 million, (2.6%) and Government Grants and third party contributions £6.9 million (2.9%). All revenue costs have been included in the General Fund revenue budget.

Housing Revenue Account Capital Programme

101 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 4 years totalling £199 million including significant items of spend such as disabled adaptations £2.9 million, improvements £6.2 million, kitchens, bathrooms, electrics and heating £22.9 million, estate improvements £10.4

million, HRA new build East Oxford £10.1 million, void repairs £2 million and energy works £1.34 million other acquisitions £2.7 million and Fire Doors £2.2 million. Additional capital bids include:

Table 13 : HRA Capital Budget				
	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's
Approved budget	18,927	18,728	13,647	11,532
New				
Properties purchased from OCHL (1)	11,600	22,700	40,000	45,200
Purchase of properties by Retained RTB receipts (2)	13,268			
Use of Recycled Capital Grants for purchase of properties (3)	368			
Affordable Housing (4)	3,000			
Total	47,163	41,428	53,647	56,732

Notes

- 1) Properties purchased from OCHL** – Council on 29th July 2019 approved a strategy to purchase social houses from OCHL. The cost of these developments over the next four years is estimated at around £120 million which will be financed from borrowing
- 2) 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 three 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, at up to 30% of the qualifying spend (i.e. £1m spend can be financed by using up to £300,000 of RRTBRs). This receipt/ spend profile is monitored quarterly. Budget provision is required in order of £13million to ensure that the council maximizes its usage of RRTBR's in 2020/21.
- 3) Purchase of Properties using Recycled Capital grants** - The Council has recently received £111k of funds under this regime. The restrictions and requirements for use are broadly similar to RRTBRs and consequently in order to maximize usage of the £100k the Council requires eligible expenditure of £368k on affordable housing for which budget provision is required
- 4) Affordable Housing Purchases** – The Council has received affordable housing section 106 receipts for which usage is restricted to affordable housing supply. Whilst there are a number of receipts in the capital programme which would be eligible for the use of the receipts, there is still a shortfall. A budget provision of £3million for the 'supply of affordable housing' would ensure that such receipts are used within the specified period.

102 The financing of the HRA Capital Programme is from capital receipts £39.1 million, (19.7%) arranged borrowing £108 million (54.5%), affordable housing section 106

receipts, £3 million (1.7%), revenue £30.4 million (15.3%) and Homes England Grant £17.9 million (8.8%)

Risk Implications impacting the Capital Programme

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

- Right to buy disposals as detailed in the assumptions are not as forecast causing a shortfall in funding of schemes
- Slippage in Capital Programme and impact on delivery of priorities
- Robustness of estimates

Budget next steps

104 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	19th December 2019
Budget Consultation Period	20th December to January 2020
Final Budget Report to Cabinet including outcome of Consultation	12th February 2020
Budget approval and Council Tax Setting Council	13th February 2020

105 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.

106 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

107 These are covered within the main body of the report

Legal Implications

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

- 109 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.
- 110 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 2020 when the Budget is approved.
- 111 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

- 112 Detailed risks are shown in Appendix 8 of the report.
- 113 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 from the Council's wholly owned companies is estimated at £3million in 2020/21 rising to over £7 million at the end of the 4 year period representing one third of the Council's Net Budget Requirement.
- 114 Approximately 60% of the £7million income is derived from interest returns from loans to the Council's Housing Company OCHL and whilst the Company's 30 year business Plan to its shareholder gives a clear indication of significant housing development over the medium term, failure to deliver on these aspirations or to undertake future housing development will have significant financial implications for the Council's MTFs. It is important to note that reduced interest rates, which could potentially arise from a no deal Brexit could also have a significant adverse impact on the Council in the region of £3.6 million gross over the 4 years from a 1% interest rate reduction and all other factors remaining equal.
- 115 Oxford Direct Services Ltd has an ambitious Business Plan over the next few years, which seeks to transform services and relocate to a single depot. Transformation is currently underway and if the single depot is approved by Council then it has every chance of achieving the efficiencies that it is forecasting from savings and increased income streams.

Equalities Impact Assessment

- 116 These are shown in Appendix 9 of the report

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