

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE

3RD DECEMBER 2014

REVISED MEDIUM TERM FINANCIAL STRATEGY 2014-2024

REPORT OF FRANK WILSON, STRATEGIC DIRECTOR

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(The Committee is invited to pass its comments to Cabinet who will propose recommendations to Council)

1. PURPOSE

To consider the annual refresh of the Medium Term Financial Strategy.

2. RECOMMENDATIONS

That the Committee passes its comments to Cabinet on the revised Medium Term Financial Strategy; spending targets and principles supporting it, as set out in the Appendices.

3. BACKGROUND

- 3.1. In January 2014 Council approved a revised Medium Term Financial Strategy. The strategy set out the consequences of significant changes in local government funding methodology in light of the introduction of the Business Rates Retention scheme and the replacement of Council Tax Benefit with Council Tax Support.
- 3.2. Key to the changes, together with the confirmation of no changes to New Homes Bonus methodology, was a move towards increased local control over funding streams but with an increased risk which would be borne locally rather than by central government. The key aspects of the approved strategy were:-
 - Continuing real terms cuts in Revenue Support Grant (RSG);
 - Improved Business Rates income due to local growth;
 - A slightly slower trajectory of interest rate rises;
 - Improvements in the Year End outturn for 2011/12;
 - Council Tax Capping (Referendum Criteria) of 2%;
 - Depletion of Capital reserves over the life of the strategy;
 - Continued public sector pay restraint;
 - Significant budget pressures arising from County Council waste funding changes, National Insurance increases and pension contribution increases.
- 3.3. The approved strategy sought to rebalance the budget over the medium term by extending the savings targets remaining in the strategy from £1.1m to £1.2m over the horizon to the end of the

strategy in 2022/23 but also recognised that Use of Reserves would be reduced over the time frame giving the Council a more positive position that had previously been expected.

4. CHANGES TO THE EXTERNAL ENVIRONMENT

- 4.1. Over the last 12 months since the current strategy has been in force the significant changes in the funding regime have bedded in and a more certain outlook can now be projected. Risks remain and they are considered in more detail in the risks section of the report, but the key risk is around the future of New Homes Bonus consequent to next year's General Election. The key components of the funding regime are set out below.

Revenue Support Grant

- 4.2. In theory this remains the balancing factor between the **needs** of the Council as determined by the formula grant formulae set by the Department of Communities and Local Government (DCLG) and the **resources** of the Council as determined through the Council Tax base and Business Rates base.
- 4.3. The level of RSG has already been set for 15/16 but, in the future, changes to distributional factors in the formula remain possible and the government will continue to use the overall level of resources distributed through RSG to meet the control totals required by funding targets set by the Treasury.
- 4.4. One of the key risks to the amount of RSG distributed is the level of top slice required to finance New Homes Bonus. Should payments of New Homes Bonus nationally be higher than projected then additional top slice will be necessary from RSG to meet government funding limits.
- 4.5. The second major risk in respect of RSG is the continuing public sector deficit still running at some £100bn annually but targeted to be eradicated by 2020. The last spending review carried out by the Chancellor identified further cuts to local authority spending and any new government coming to power in 2015 will need to continue these and probably increase them as other services such as the NHS continue to be protected from cuts.
- 4.6. On the basis of the above factors the RSG reduction trajectory has been steepened with RSG forecast to be nil by 2021. Effectively the Council will have become self-sufficient through Council Tax and Business Rates income.

Business Rates

- 4.7. The new business rates baseline introduced in April 2013 has been very positive for this Council with increases in rates income (and New Homes Bonus) outstripping falls in RSG. The key increases in the business rates base of the district to date have been:-
- Growth on base at RAF Brize Norton
 - Supermarket, Carterton
 - Noble Foods, Standlake
 - Retail Growth, Witney
 - Premier Inn, Witney
 - Solar Farm, Barnard Gate
- 4.8. The government baseline set at the outset for the Councils business rates income for 14/15 was around £1.9m whilst our budgeted income was some £2.7m – this increase exceeded the Councils

expectations for the scheme and led to its decision to form a business rates pool with Cherwell District Council and Oxfordshire County Council in 2014/15, the additional benefits of which are discussed below.

- 4.9. Whilst this is clearly a positive start to the new business rates regime, risks remain, particularly in respect of business insolvencies and appeals against rateable value.
- 4.10. Any business insolvencies or empty properties lead to a reduction in rateable income within the year and a level of each is estimated by officers as part of the budget process. This year there has been two major insolvencies in respect of Cordell Furniture and Caterham the latter of which remains as an uncertain outcome. Empty business units lead to short term income losses but theoretically not to longer term income losses due to empty property rates.
- 4.11. The risk around appeals against rateable value remains a key business risk for the Council bearing in mind that the rateable values being appealed go back to 2010. Consequently any successful appeal will not only lead to loss of future rates income but also a backdated refund to a date which pre-dates the new business rates scheme.
- 4.12. Officers have provided for losses in income through the establishment of a business rates appeals reserve in the Collection Fund of £2.2m which will form the first call for financing any such appeals. Officers will monitor whether this remains a sufficient sum going forward. The amount of Rateable Value (RV) still subject to appeal was £7.8m as at the end of August 2014 out of a total district RV of some £80m.
- 4.13. Further growth in renewable energy sources has been anticipated in respect of Kencot Solar Farm and this funding stream is shown separately in the strategy now.

Business Rates Pooling

- 4.14. As part of the new Business Rates Retention scheme Councils can pool with neighbours to benefit jointly from growth or spread the risk. The benefits of pooling are that the government levy on growth above a Council baseline of 50% (their share of growth) can be reduced in exchange for the safety net (their risk) being taken away. Effectively, therefore, if a Council is willing to take on additional risk it can reap additional reward.
- 4.15. In the first year of the new scheme no Oxfordshire Councils pooled, as officers were uncertain of the balance of risk and reward in the system, and there seemed little headroom above baseline to generate additional rewards. The increases in RV set out in 4.7 above and similar impacts in Cherwell led both this Council and Cherwell to set up a pool in 14/15 together with the County Council as an enabling partner. Other districts considered joining but the overall savings would have lowered with more partners and their positions were less clear cut than both this Council and Cherwell.
- 4.16. Looking ahead it is likely that additional partners may wish to join the pool from 15/16 and finance officers are currently assessing the relative merits of this and potential benefit splits. The likely consequence of this is that future benefits to this Council will be reduced as other districts share the benefits of growth they have been unable to in 14/15.
- 4.17. In respect of the current year it is anticipated that the benefits of pooling to this Council will be significant although the outturn position and exact accounting arrangements remain unclear at the present time. For the purposes of the financial strategy we have now included a new funding line called pooling distribution and attached some estimated returns for the next three years until the new business rates list comes into effect in 2017. We will review potential pool funding streams beyond that period in 2016 when we have an indication of the yield from the 2017 list.

New Homes Bonus

- 4.18. The New Homes Bonus revenue stream was originally introduced in 2011/12 as a reward to Councils who generated additional house building within their districts as part of the government's initiative to stimulate the housing sector. One of the drawbacks of the formula grant scheme was that additional taxbase driven by new housing growth created new resource capacity for a district and therefore, under the resource equalisation mechanism, reduced RSG. So whilst a district with increased housing might have seen slightly increased needs assessment, typically (in an area like West Oxfordshire) the increased resource available through Council Tax gets offset by a reduction in RSG leaving the Council largely in an unchanged revenue position but with increased service costs for the likes of waste collection. The New Homes Bonus sought to resolve this contradiction by rewarding growth for a period of six years before full resource equalisation set in.
- 4.19. Over the period since New Homes Bonus was introduced the Council has seen this funding stream increase as RSG has fallen – this is anticipated to continue up to the sixth year in 16/17. In the following years the oldest year of NHB funding will fall out to be replaced by a new year. If the new year's funding is larger than oldest years then funding will increase, if it is smaller then funding will decrease.
- 4.20. The Councils NHB actual and estimated future funding trajectory is shown below:-

Year	Amount	Completion Rate
2011/12	£350,000	300
2012/13	£670,000	270
2013/14	£1,123,000	385
2014/15	£1,510,000	330
2015/16 (preliminary)	£1,825,000	270
2016/17 (estimate)	£2,250,000	360
2017/18 (estimate)	£2,400,000	425
2018/19 (estimate)	£2,600,000	445

- 4.21. The figures for 2017/18 and 18/19 represent a significant increase in build rate and assume that West Witney will be generating significant housing completions by that stage.

Given the increasing scale of this revenue stream the relative risks to the financial strategy are also increased should any future government change the methodology of the funding stream or revert to RSG.

Other Changes

- 4.22. In the grant settlement in December 2013 the government kept the tax increase threshold at 2% but did not continue the de-minimus approach to Council Tax capping allowing the lowest levying Councils to raise tax by up to £5 irrespective of the %. Therefore this flexibility, which was hard won in 2012, appears now to have been lost.
- 4.23. Further changes in the strategy include an acceleration of the increased budget growth to reflect a need to finance items that are currently financed from capital expenditure from the revenue budget. This is necessary as available capital receipts have become depleted through the life of the strategy and the remaining items being financed are more of a recurring nature, for example, disabled facilities grants and community facility grants neither of which produce an asset for the

balance sheet. This change means the financial strategy becomes a long term fully sustainable strategy.

- 4.24. Other budget growth includes the following provisions:-
- £162,000 phased reductions in waste incentive grant from County Council;
 - £100,000 provision for increase in pension contributions upon triennial actuarial review;
 - £150,000 provision (in 2016/17) for Employers National Insurance increase to pay for National Minimum State Pension of £144;
 - £186,000 reductions in funding from OCC in respect of highways grass cutting and schools swimming (as part of end of pool dual use arrangement) and increased tipping charges for trade waste at the OCC facility.
- 4.25. The waste contract contingency funding is now considered unlikely to be required until the end of the current contract and has therefore been removed from the budget in 2015/16 but phased in later in the strategy to meet the contract renewal dates.
- 4.26. In line with the decision in June 2014 the Interest Rate Smoothing Reserve has now been closed with the funds allocated to an earmarked reserve for investment property improvements.
- 4.27. A line has also been introduced into the strategy to show the effects of the decision to pay the annual pension fund back-funding payment upfront for the next three years which required a supplementary estimate of £890,000 in 14/15 but required repayment to reserves of an equivalent amount over the following two years to equalise the transaction.
- 4.28. An amount has been included in future years in respect of the Collection Fund in recognition of the fact that both Council Tax and Business Rates have had a historic tendency to be understated due to timing differences in income flows.

5. FINANCIAL IMPLICATIONS

- 5.1. A summary of the revised strategy is shown below compared to the current approved strategy showing the revenue balances figure in 2022/23 of each scenario.

	Approved Strategy	Revised Strategy
Savings Target	£1,200,000	£1,400,000
2022/23 Revenue Balances	£9,909,758	£12,053,244
2022/23 Use of / (Contribution to) Balances	£138,069	(£16,043)
Capital Balances	£2,347,000	£1,513,000

- 5.2. The strategy delivers a significant increase in the level of revenue balances by the end of the strategy compared to the current version driven largely by one off or short term type gains from the likes of the business rates pool which itself delivers half of the improved position.

5.3. The strategy still requires significant savings to be made from the revenue budget but over a long timeframe. An outline review of savings potential previously identified the following broad estimates where savings could be made should members determine they are options to pursue:-

- Further shared services (agreed) Up to £600,000
- Raising Council Tax at £5 Up to £125,000 per year used
- Contribution to Pension Scheme £50,000 per £1m contribution
- Office Consolidation Up to £200,000
- Procurement & Commissioning £100,000

2020 Vision

5.4. The 2020 Vision Shared Services project which will be considered by Cabinet later this month could deliver the bulk of the potential savings activities mentioned above. At this stage no specific 2020 savings targets have been built in but should it be approved it is possible that the savings trajectory can be more significantly front loaded – this should release additional savings through early delivery but is likely to require some one off set up costs which are not yet included in the strategy.

5.5. At this stage the outline business case for 2020 suggests recurring savings in the order of £1.3m per annum by the end of the life of the strategy (cumulative savings of some £10m) and therefore theoretically the 2020 programme can deliver almost all of the savings required in this strategy. One off costs remain uncertain at this stage and are dependent upon the level of any grant award made by government but could be in the region of £1.5m which would be a three year payback period.

6. RISKS

- 6.1. The key risks to the Council are associated with the principal variable revenue streams of New Homes Bonus and Business Rates. These risks carry both estimation and delivery risk, and, particularly in respect of New Homes Bonus, significant political risk.
- 6.2. Risks in respect of business rates income are focused mainly around appeals risk and this is mitigated by the holding of an appeals reserve in the Collection Fund. From April 2017 a new rating list will come into force and there is a risk that rateable values will fall from the levels of the 2010 list and this could therefore have an impact upon business rates income.
- 6.3. In 2020 a business rates reset is anticipated and there is a risk that the balance of RSG and Business Rates could alter significantly at the reset leading to significant cliff edges in funding streams. Officers will keep this under review as the reset approaches and have already started to lobby for the reset to be abandoned.

7. REASONS

To be recognised as a leading Council that provides efficient, value for money services and maintain the Council's position within the ten lowest levying district councils is England.

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Background Papers: DCLG Website – 2014/15 & 15/16 Grant Settlement Papers

APPROVED STRATEGY JAN 2014

APPENDIX A

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Assumptions										
Inflation	1.01	1.01	1.01	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Taxbase	1.005	1.0075	1.0075	1.0075	1.0075	1.0075	1.0075	1.005	1.005	1.005
External Support	0.95	1.01	0.91	0.90	0.97	1.00	1.00	0.99	0.99	1.00
Interest Rates	1.7	2	2.75	3.5	4	4.5	5	5	5	5
Tax Increase	1.000	1.000	1.020	1.020	1.020	1.020	1.020	1.020	1.020	1.020
Base	9,988,100	9,732,400	10,120,402	10,364,171	10,789,097	10,902,879	11,018,936	11,170,746	11,292,161	11,416,004
Savings Target	- 400,000	- 200,000	- 200,000	- 200,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000
Capital Financing		200,000	200,000	200,000						
Unavoidable Growth		287,800	40,550	213,375			32,775			
Target Budget (NOE)	9,588,100	10,020,200	10,160,952	10,577,546	10,689,097	10,802,879	10,951,711	11,070,746	11,192,161	11,316,004
Financed by:										
Rev Support Grant	2,818,050	2,195,807	1,512,421	1,000,000	800,000	700,000	600,000	550,000	500,000	500,000
Business Rates Share	1,734,164	2,391,233	2,660,182	2,739,987	2,822,187	2,906,853	2,994,058	2,994,058	2,994,058	2,994,058
less Grant to Parishes	- 174,289	- 160,690	- 151,518	- 148,746	- 146,526	- 146,526	- 142,086	- 139,866	- 137,646	- 137,646
One Off Grants	39,481									
New Homes Bonus	1,107,217	1,509,796	1,900,000	2,350,000	2,500,000	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
Tax Freeze Grant	34,778	35,000	35,000							
Investment Income	550,000	550,000	652,805	816,387	916,868	1,014,984	1,122,859	1,122,475	1,122,114	1,118,176
Collection Fund	111,191									
Inv Interest Smoothing	140,000	140,000	100,000	83,000						
Council Tax	3,268,222	3,315,388	3,407,058	3,501,263	3,598,073	3,697,560	3,799,798	3,904,862	4,002,874	4,103,346
Use of Reserves	- 40,714	43,666	45,004	235,654	198,495	30,009	- 22,918	39,216	110,760	138,069
TaxBase	40,037.02	40,614.82	40,919.43	41,226.33	41,535.52	41,847.04	42,160.89	42,477.10	42,689.49	42,902.93
Band D	81.63	81.63	83.26	84.93	86.63	88.36	90.13	91.93	93.77	95.64
Tax increase	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Rev Balances	10,727,714	10,684,048	10,639,044	10,403,389	10,204,894	10,174,885	10,197,803	10,158,587	10,047,827	9,909,758

PROPOSED STRATEGY DEC 2014

APPENDIX B

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Assumptions										
Inflation	1.01	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Taxbase	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01
External Support		0.89	0.88	0.97	0.97	0.97	0.96	0.96	1.00	1.00
Interest Rates	1.6	1.9	2.25	2.75	3.25	3.75	4	4	4	4
Tax Increase	1.000	1.000	1.020	1.020	1.020	1.020	1.020	1.020	1.020	1.020
Base Budget	9,717,100	10,204,998	10,525,123	10,725,808	11,036,204	11,307,928	11,465,517	11,694,828	11,826,724	11,961,259
Savings Target	- 200,000	- 200,000	- 200,000	- 200,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000
Capital Financing	200,000	400,000								
Unavoidable Growth	287,800	- 86,250	190,375	294,000	150,000	32,775	100,000			100,000
Target Budget (NOE)	10,004,900	10,318,748	10,515,498	10,819,808	11,086,204	11,240,703	11,465,517	11,594,828	11,726,724	11,961,259
Financed by:										
Rev Support Grant	2,196,367	1,512,421	900,000	700,000	500,000	300,000	150,000			
Business Rates Share	2,729,627	2,864,144	2,957,349	3,053,319	3,152,133	3,253,871	3,253,871	3,253,871	3,253,871	3,253,871
Renewables	50,000	170,000	173,400	176,868	180,405	184,013	187,694	191,448	195,277	199,182
Pooling Distribution	500,000	200,000	200,000							
less Grant to Parishes	- 160,690	- 148,188	- 139,866	- 137,646	- 137,646	- 133,205	- 130,985	- 128,765	- 128,765	- 128,765
New Homes Bonus	537,398	1,825,000	2,250,000	2,400,000	2,600,000	2,700,000	2,800,000	2,900,000	2,900,000	2,900,000
Tax Freeze Grant	35,587	71,174								
Investment Income	550,000	650,000	763,329	944,106	1,108,114	1,273,792	1,358,852	1,356,195	1,351,191	1,345,701
Collection Fund	723,632	140,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Pension Fund Adjust	- 890,000	473,000	473,000							
Council Tax	3,315,388	3,348,542	3,449,668	3,553,848	3,661,174	3,771,741	3,885,648	4,002,994	4,123,885	4,248,426
Use of Reserves	417,591	- 787,345	- 561,382	79,313	- 27,977	- 159,509	- 89,562	- 30,915	- 18,734	92,844
TaxBase	40,614.82	41,020.97	41,431.18	41,845.49	42,263.94	42,686.58	43,113.45	43,544.58	43,980.03	44,419.83
Band D	81.63	81.63	83.26	84.93	86.63	88.36	90.13	91.93	93.77	95.64
Tax Increase	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Rev Balances	10,474,409	11,261,754	11,823,136	11,743,823	11,771,800	11,931,309	12,020,871	12,051,786	12,070,519	11,977,675