

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE

7 DECEMBER 2016

REVISED MEDIUM TERM FINANCIAL STRATEGY 2016-2026

REPORT OF FRANK WILSON, STRATEGIC DIRECTOR AND HEAD OF PAID SERVICE

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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 February 2016 Council approved a revised Medium Term Financial Strategy. The key aspects of the approved strategy were:-

- Continuing real terms cuts in Revenue Support Grant (RSG) with RSG phased out after 2019/20;
- Improved Business Rates income due to local growth but significant appeals provision creating a drag on this growth performance and with a reset getting closer the potential for a cliff edge in funding to arise;
- A slightly slower trajectory of interest rate rises;
- Improvements in the Year End outturn position;
- Council Tax Capping (Referendum Criteria) of 2% or £5 increases;
- 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;
- The introduction of garden waste charging to alleviate the waste service cost pressures.

- 3.2. The approved strategy sought to rebalance the budget over the short term by:-
- extending the savings targets in respect of the 2020 efficiency programme remaining in the strategy from £0.94m to £1.27m by 2020;
 - Raising Council Tax by £5 a year over each of the four years starting 1 April 2016 raising an additional £560,000;
 - Introducing garden waste charging raising an additional £500,000.
- 3.3. Even with these changes the MTFs would only briefly achieve balance by 2019 before the cliff edge in funding brought about the business rates reset required a further £500,000 or so of savings to be found. Given that the details of the reset methodology remained unknown and the 100% business rates retention system methodology remained unknown, Council determined to leave the post 2020 deficit unfinanced.

4. CHANGES TO THE EXTERNAL ENVIRONMENT 2016

- 4.1. Over the last 9 months since the current strategy has been in force there has been significantly less certainty moving forward than officers would have hoped. Risks around the future of New Homes Bonus have not been resolved as the government has failed to deliver its plans after consulting on changing the scheme significantly. This remains the main risk to the strategy set out in this paper.
- 4.2. In addition whilst the four year settlement has now been approved, given the relatively small element of the Councils funding within the settlement, there remains significant uncertainty around other elements of funding in addition to New Homes Bonus. These are considered in detail below.

Revenue Support Grant

- 4.3. The level of RSG was set out in the local government finance settlement released in February 2016 and is incorporated into the appendices. As part of the sectors contribution to balancing the government deficit RSG is effectively being removed over a four year period.

Business Rates

- 4.4. The new business rates baseline introduced in April 2013 has been very positive for this Council with increases in rates income initially outstripping falls in RSG when combined with New Homes Bonus.
- 4.5. The government baseline set at the outset for the Councils business rates income for 16/17 was around £2m whilst our budgeted income in 2016/17 was some £3m – 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.
- 4.6. This positive start to the new business rates regime has been partly offset by significant appeals against the business rates valuations which were originally set in 2010. These backdated appeals represent a significant business risk to the Council and have led to significant swings in business rates income between years. As part of the 2016/17 budget setting a Collection Fund deficit of more than £1m was declared. This was due to backdated appeals being paid and an increase in provisions for further backdated appeals.

- 4.7. To manage these significant revenue swings Council approved the establishment of the Business Rates Movement Reserve as part of the closedown of the 14/15 accounts and this will continue to be utilised to manage these revenue flows.
- 4.8. Whilst officers have begun to examine the business rates reset due in 2020 the government has failed, so far, to set out how it intends to carry out the reset. Officers have made some preliminary estimates based upon a partial reset rather than full reset but the funding cliff edge remains significant.

Business Rates Revaluation

- 4.9. From 1 April 2017 all businesses will have their rates bills based upon new valuations which utilised an effective valuation date of 1 April 2015. West Oxfordshire businesses have been hit particularly hard by the revaluation process and are facing an average increase in rateable values of 16.2%. Whilst this will not result in a bill increase of 16.2% (as the multiplier will fall slightly) the average business will be faced with increases in excess of 10%.
- 4.10. Changes to Small Business Rate Relief due at the same time will lift many of our smallest businesses out of rating but many businesses will see significant increases.
- 4.11. Whilst the income from West Oxfordshire businesses through increased bills will be collected by this Council it will not itself see additional funding as the government will equalise the revaluation nationally. Some summary statistics on the revaluation are shown in appendix A. Indeed this Council will itself face a significant increase in its rates bills due to increased RV's.
- 4.12. Given these increases in RV's it is highly likely that appeals against the new valuations will be very high and this will create further uncertainty within the system when we are still dealing with many appeals relating to the 2010 list.

Business Rates Pooling

- 4.13. As part of the new Business Rates Retention scheme Councils can pool with neighbours to benefit jointly from growth or spread the risk. The financial benefit of pooling is to reduce the government levy on growth above the Council baseline which is set at a rate of 50%. This levy is reduced in exchange for the safety net (government risk) being taken away. Effectively, therefore, if a Council is willing to take on additional risk it can reap additional reward.
- 4.14. In the first year of the new scheme no Oxfordshire Councils pooled but when the benefits to Oxfordshire became clear this Council and Cherwell 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. The Council accrued a benefit of £568,000 in 14/15 and these funds were utilised to create the Business Rates Movement Reserve.
- 4.15. In 15/16 the pool remained in its 14/15 form and a further dividend of £453,000 was received. For 16/17 the latest estimate of the return from the pool is in the order of £490,000. Given the uncertainties in business rates flows it still does not seem appropriate for the Council to budget for any return with any surplus being dealt with as part of the closedown report with other business rates movements. For the purposes of the financial strategy therefore they have continued to be treated as one off and excluded from the strategy.

New Homes Bonus

- 4.16. 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 old 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. The New Homes Bonus sought to resolve this contradiction by rewarding growth for a period of six years before full resource equalisation set in.
- 4.17. 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 is intended to fall out to be replaced by a new year thereby always keeping a rolling six years of funding.
- 4.18. As part of the Local Government Finance Settlement last year DCLG consulted on various changes which would lead to a reduction of at least 33% funding for this Council with the potential for this to be a significantly larger reduction.
- 4.19. Given the breadth of issues raised in the consultation paper and the lack of a government response at this stage, the MTFs will utilise the underlying indicative figures quoted in the local government finance settlement of £1.36m for New Homes Bonus.

Inflation and Taxbase

- 4.20. Inflation and taxbase growth had previously been modelled at 1% per annum up to 2019/20. However, in terms of inflation the impact of 'Brexit' has shown an immediate spike, consequently it is prudent to increase inflation to 2% on-going. The taxbase has also shown growth of nearly 2.6% this year, so a forecast of 2% is now incorporated into the strategy.

Other Changes

- 4.21. Other budget growth includes the following provisions:-
- Negatively impacting on financial strategy
- £450,700 part year impact of new waste contract;
 - £300,100 one off increase in funding for waste contract implementation and garden waste early handover;
 - £32,000 reduction in funding from Department of Work and Pensions for housing benefit administration;
 - £108,800 increase in rates due on Council Offices and Car Parks;
 - £34,100 to cover CCTV monitoring after a reduction in funding by the Police;
 - £25,000 schools swimming reduction in leisure service;
 - £40,000 adjustment to Building Control service due to rebasing of income levels;
 - £58,000 reduction of RV's in solar farms;
- Positively impacting on financial strategy
- Increased income of £645,000 in respect of Garden Waste;

- Increased income of £259,100 (net) in respect of new investment property acquired.

2020 Vision

- 4.22. The savings from the 2020 Vision Programme have been increased to reflect the latest business case. Set up costs have been funded from earmarked reserves

Capital

- 4.23. Capital balances are fully depleted with the majority of the underlying capital expenditure being financed by revenue contributions. There are no major assets available for sale which could readily enhance the level of capital receipts without having a negative impact on the revenue account.
- 4.24. Any major new capital items will therefore need to be either financed from borrowing or other external sources such as capital grants or section 106 agreements. Any additional New Homes Bonus above the levels specified in the final approved MTFS could also be utilised to finance new capital expenditure.

5. FINANCIAL IMPLICATIONS

- 5.1. A summary of the updated current estimated position is shown below compared to the current approved strategy (Feb 2016). No alternate strategy is provided at this stage to move the budget back to balance in the medium term but members views are sought on how this might be achieved.

	Approved Strategy	Current Est Position
Savings Target / Rev Improvement	£2,226,000	£2,504,600
2024/25 Revenue Balances	£8,096,640	£6,918,816
2024/25 Use of / (Contribution to) Balances	£679,026	£695,081

- 5.2. Clearly the financial outlook has significantly weakened for the Council over the last year and a balanced budget looks difficult to achieve in both the short and longer term without further action.
- 5.3. In broad terms the Council will need to improve its annual revenue position by in the order of £0.6m post 2020 to maintain a sustainable long term financial position. This is in addition to figures set out in the table above in respect of the current estimated position. Up until 2020 the Council will need to utilise in the order of £750,000 of its reserves to maintain a balanced budget unless other actions are taken to reduce its expenditure or increase income.
- 5.4. The key reasons for this significant worsening of the Councils position are set out in 4.21 above.
- 5.5. The strategy already requires significant savings to be made via the 2020 Vision Programme. If these savings fail to be made then the alternate savings programmes would also need to deliver those savings to the revenue budget.

5.6. There are only a limited number of options that remain open to the Council in respect of delivering these additional savings as the Council has implemented two significant changes in the current strategy (Council Tax increases and Garden Waste Charging). Some of the options would require long lead in times and could be subject to periods of statutory consultation:-

- Discretionary Service Cuts Up to £650,000 per annum
- Reduction in Cost of Democracy £50,000 per annum

5.7. An option to the Council is to further increase its investment property portfolio. Any purchase would require the Council to borrow to fund such an investment and as well as creating new debt it would also increase the Council's reliance on rental income to finance its base operating budget. This course of action would need careful consideration, balanced between risk and the merits of reward.

5.8. Given that the Council has substantial revenue reserves the Council does not need to take immediate action in respect of the full anticipated revenue deficit having already taken action in respect of Council Tax and Garden Waste. However ultimately delaying taking any action will mean that the cuts that need to be taken later will need to be larger.

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 in respect of policy changes within central government.

6.2. The consultation paper on changes to the New Homes Bonus saw West Oxfordshire income fall by at least one third but other options in the consultation paper indicated a reduction of up to 2/3rds. In such a scenario the revenue improvement targets are likely to increase substantially as the modelling has to date been based upon the former scenario of a third reduction.

6.3. 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 appeals from the substantial increase in rateable values could destabilise the system and therefore have an impact upon business rates income.

6.4. 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. This is currently estimated at around £600,000 per annum reduction but officers will keep this under review as the reset approaches.

6.5. The savings required to be made to deliver the strategy and forecasts set out are significant in addition to the already significant savings to be delivered through the 2020 Vision Programme.. Failure to meet these targets or delayed implementation will lead to a reduction in the council reserves and a requirement for increased savings later in the strategy.

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 in England.

Frank Wilson

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Background Papers:

None

Approved Strategy (Feb 2016)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Assumptions									
Inflation	1.01	1.01	1.01	1.01	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
External Support	0.87	0.90	0.93	0.92	0.74	1.02	1.02	1.02	1.02
Interest Rates	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Tax Increase	1.06	1.06	1.05	1.05	1.02	1.02	1.02	1.02	1.02
Base	10,594,300	10,328,563	10,329,839	9,801,887	9,918,135	10,116,498	10,318,828	10,525,204	10,735,709
Savings Target	(419,000)	(181,000)	(561,000)	(111,000)					
Revenue Improvement Target		(250,000)	(250,000)						
Budget Rebase Exercise	(454,800)								
Capital Financing									
Unavoidable Growth	505,800	330,000	186,000	32,775					
Target Budget (NOE)	10,226,300	10,227,563	9,704,839	9,723,662	9,918,135	10,116,498	10,318,828	10,525,204	10,735,709
Financed by:									
Revenue Support Grant	1,057,446	636,596	372,528	77,568			0	0	0
Business Rates Share	2,814,027	2,842,167	2,870,589	2,899,295	2,207,281	2,251,426	2,296,455	2,342,384	2,389,232
Renewables	251,358	253,872	256,410	258,974	264,154	269,437	274,826	280,322	285,929
less CTS Grant to Parishes	(128,765)	(88,687)	(76,962)	(63,865)	(60,421)	(60,421)	(60,421)	(60,421)	(60,421)
New Homes Bonus to Revenue	1,831,431	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770
Rural grant	126,172	101,878	78,367	101,878					
Investment Income	657,500	713,957	764,005	829,871	905,406	953,698	992,461	959,242	924,524
Collection Fund	(110,587)	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	3,596,187	3,841,785	4,102,063	4,368,248	4,511,309	4,659,054	4,811,638	4,956,949	5,106,649
Use of Reserves	131,531	515,225	(72,932)	(159,078)	679,637	632,533	593,099	635,957	679,026
TaxBase	41,512	41,927	42,451	42,982	43,519	44,063	44,614	45,060	45,511
Band D	86.63	91.63	96.63	101.63	103.66	105.74	107.85	110.01	112.21
Tax increase	6.13%	5.77%	5.46%	5.17%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Revenue Balances	11,600,109	11,084,883	11,157,815	11,316,893	10,637,256	10,004,722	9,411,623	8,775,666	8,096,640

Updated (Nov 2016)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Assumptions										
Inflation	1.01	1.01	1.020	1.020	1.02	1.02	1.02	1.02	1.02	1.02
Taxbase	1.025	1.020	1.020	1.020	1.020	1.015	1.015	1.015	1.015	1.015
External Support	0.87	0.90	0.94	0.93	0.80	1.02	1.02	1.02	1.02	1.02
Interest Rates	2.00	2.00	2.00	2.25	2.50	2.75	3.00	3.00	3.00	3.00
Tax Increase	1.06	1.06	1.05	1.05	1.02	1.02	1.02	1.02	1.02	1.02
Base	10,594,300	10,267,400	10,155,222	9,939,514	10,048,315	10,249,282	10,454,267	10,663,353	10,876,620	11,094,152
Savings Target	(419,000)	(186,800)	(561,000)	(121,000)						
Rephasing Savings		(203,900)	203,900							
Revenue Improvement Target		(645,000)								
Budget Rebasng Exercise	(454,800)									
Capital Financing		(117,000)								
Unavoidable Growth	505,800	541,300	246,600	32,775						
One-Off Growth		300,100	(300,100)							
Target Budget (NOE)	10,226,300	9,956,100	9,744,622	9,851,289	10,048,315	10,249,282	10,454,267	10,663,353	10,876,620	11,094,152
Financed by:										
Revenue Support Grant	1,057,446	636,596	372,528	77,568	0	0	0	0	0	0
Business Rates Share	2,814,027	2,842,167	2,899,011	2,956,991	2,416,131	2,464,453	2,513,742	2,564,017	2,615,298	2,667,603
Renewables	251,358	195,840	184,756	188,451	192,221	196,065	199,986	203,986	208,066	212,227
less CTS Grant to Parishes	(128,765)	(88,000)	(76,962)	(63,865)	(60,421)	(60,421)	(60,421)	(60,421)	(60,421)	(60,421)
New Homes Bonus to Revenue	1,831,431	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770	1,360,770
Rural grant	126,172	101,878	78,367	101,878						
Investment Income	657,500	607,300	503,994	550,180	601,337	631,879	655,181	626,804	599,817	572,814
Collection Fund	(110,587)	107,692	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	3,596,187	3,901,697	4,196,894	4,502,338	4,684,233	4,873,476	5,045,509	5,223,616	5,408,010	5,598,912
Use of Reserves	131,531	290,161	175,263	126,977	804,045	733,059	689,499	694,580	695,081	692,245
TaxBase	41,512	42,581	43,433	44,301	45,187	46,091	46,782	47,484	48,196	48,919
Band D	86.63	91.63	96.63	101.63	103.66	105.74	107.85	110.01	112.21	114.45
Tax increase	6.13%	5.77%	5.46%	5.17%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Revenue Balances	11,127,480	10,837,319	10,662,056	10,535,078	9,731,034	8,997,975	8,308,476	7,613,896	6,918,816	6,226,571

