

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**29 NOVEMBER 2017**  
**REVISED MEDIUM TERM FINANCIAL STRATEGY 2017-2027**  
**REPORT OF JENNY POOLE, GROUP MANAGER GO SHARED SERVICES**  
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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. RECOMMENDATION**

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 2017 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 until 2018/19 when provision was made for pay award increased from 1% to 2% per annum;
- Growth pressure from the new waste contract to come into operation from October 2017;
- 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:-

- Recognising the full business case savings in respect of the 2020 efficiency programme remaining in the strategy of £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;
- Identifying a further requirement to make savings of £300,000 by 2020/21.

3.3. By 2020/21 the Council was facing a cliff edge in funding brought about the business rates reset. A further £300,000 or so of savings needed to be found to enable the Council to set a balanced budget from 2022/23 onwards.

#### **4. CHANGES TO THE EXTERNAL ENVIRONMENT 2017**

4.1. Over the last year since the current strategy has been in force there has been significantly less certainty moving forward than officers would have hoped as government departments focus upon the UK's exit from the European Union. Some risks around the future of New Homes Bonus were resolved as the government announced its plans as part of the 2017/18 finance settlement. However, further changes related to bonus available on homes built as a result of planning appeals are now the subject of consultation and will impact the 2018/19 settlement. The MTFs will be updated as the impact upon NHB becomes clearer.

##### **Revenue Support Grant**

4.2. 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**

- 4.3. The new business rates baseline introduced in April 2013 has been positive for this Council with increases in rates income initially outstripping falls in RSG when combined with New Homes Bonus.
- 4.4. The Council formed a business rates pool with Cherwell District Council and Oxfordshire County Council in 2014/15, the additional benefits of which are discussed below.
- 4.5. 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 (WODC share). This was due to backdated appeals being paid and an increase in provisions for further backdated appeals.
- 4.6. 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.
- 4.7. 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**

- 4.8. From 1 April 2017 all businesses had 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%.
- 4.9. Changes to Small Business Rate Relief due at the same time will lift a number of our smallest businesses out of rating but many businesses will see significant increases. The government has made grant available to fund additional discretionary rate relief for small businesses. The Council is proactively promoting the rate relief scheme to small businesses to encourage take up.
- 4.10. 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 by increasing the Councils tariff payment to Central Government.
- 4.11. 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. Officers have therefore assumed that the national average level of appeals will occur (4.8%) and have made provision for reductions of around £1.8m.

## **Business Rates Pooling**

- 4.12. 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.
- 4.13. 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.
- 4.14. In 15/16 the pool remained in its 14/15 form and a further dividend of £453,000 was received. For 16/17 a dividend of £642,000 was received from the pool.

For 2018/19, the Oxfordshire authorities have submitted a bid to become a 100% Business Rate Retention Scheme Pool Pilot. The Committee will be updated on progress with the bid at the meeting (if applicable).

Given the history of returns from the Oxfordshire Pool and the Council's budget deficit for 2017/18 of around £725,000, it is prudent to include a target of income of £500,000 either from the pool or New Homes Bonus in excess of the £1.6 million in the MTFS. This target has been included in 2018/19 only to fund the budget gap while savings come through in 2019/20. Given the cliff edge in 2020/21, it would not be prudent to include the £500,000 target over the medium term.

## **New Homes Bonus**

- 4.15. 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.

- 4.16. Over the period since New Homes Bonus was introduced the Council has seen this funding stream increase as RSG has fallen. As part of the Local Government Finance Settlement in 2015/16 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.
- 4.17. As part of the settlement issued on 15 December 2016 the government set out its proposals which have the following components:-
- Reduction in funding on a rolling basis from 6 year to 4 years;
  - Baseline growth of 0.4% to be deducted;
  - Potential for growth based on planning appeal approvals to be deducted.
- 4.18. The Councils actual and estimated future funding trajectory of New Homes Bonus is shown below based upon the old regime and the new regime (no deduction for homes approved under appeal is included at this stage):-

Year	Old Scheme	New Scheme Estimate	Housing Completion Rate
2011/12	£350,000	£350,000	300
2012/13	£670,000	£670,000	270
2013/14	£1,123,000	£1,123,000	385
2014/15	£1,510,000	£1,510,000	330
2015/16	£1,831,000	£1,831,000	270
2016/17	£2,240,000	£2,240,000	328
2017/18	£2,397,000	£1,872,000	442
2018/19 (estimate)	£2,872,000	£1,582,000	650
2019/20 (estimate)	£3,135,000	£1,742,000	600

- 4.19. The figures for 2018/19 onwards represent a significant increase in build rate and assumes that new sites will be generating significant housing completions by that stage.
- 4.20. The risks around permissions granted under appeal remains to be resolved and represents a risk for these figures moving forward. The government has consulted upon the technical application of

penalties. Once the detail of how this will be implemented in practice has been announced, the estimated New Homes Bonuses will be reviewed.

### **Inflation and Taxbase**

- 4.21. Taxbase growth of 2% has been included within the MTF5. The Council Tax base (measured in October 2017) has not grown as fast as expected at 1.25% for 2018/19. The MTF5 has been updated to reflect actual growth.

### **Other Changes**

- 4.22. Other budget growth includes the following provisions:-

#### Negatively impacting on financial strategy

- £649,200 impact of new waste contract;
- £32,000 reduction in funding from Department of Work and Pensions for housing benefit administration;
- £318,955 financing costs for waste service;
- £10,000 domestic abuse support;
- £40,000 adjust budget to reflect actual costs of ICT licenses;
- £13,000 ERS service request for additional funding for managing abandoned vehicles;

#### Positively impacting on financial strategy

- £18,000 electricity procurement saving;
- £32,900 property saving (Greystone site);
- £8,000 external audit procurement savings;
- £115,500 increased investment income Des Roches property;
- £165,000 leisure contract savings;
- £24,000 saving on CAB grant related to Housing and Debt advice;
- £39,000 Publica/2020 Vision Programme savings;

### **2020 Vision**

- 4.23. The savings from the 2020 Vision Programme have been incorporated in line with the approved business case. Publica Group (Support) Ltd will be responsible for delivering the savings. Action to deliver the savings will be part of the Publica Business Plan. Costs related to the change programme have been funded from earmarked reserves

### **Capital**

- 4.24. 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.

4.25. 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.

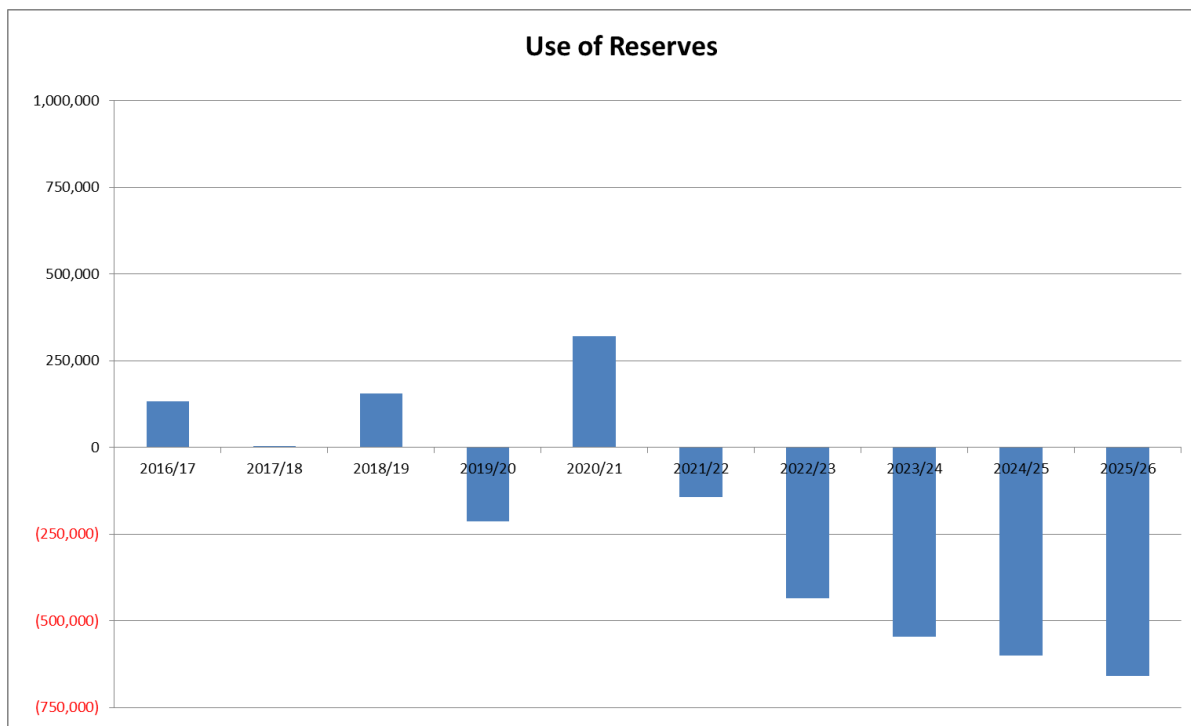
## 5. FINANCIAL IMPLICATIONS

5.1. A summary of the updated current estimated position is shown below compared to the current approved strategy (Feb 2017).

	<b>Approved Strategy</b>	<b>Current Est Position</b>
Savings Target / Rev Improvement Target	£2,715,000	£4,324,000
2025/26 Revenue Balances	£10,828,005	£13,247,140
2025/26 Use of / (Contribution to) Balances	(£82,301)	(£659,268)

5.2. Clearly the financial outlook has improved over the last year, this is driven largely by the savings over the life of the leisure contract. A balanced budget looks achievable in the longer term without action to deliver further savings but the actual quantum of savings will depend upon the business rates reset approach taken by government.

5.3. The current estimated use of reserves is shown graphically below:





## **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.

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### Background Papers:

None



## Approved Strategy (Feb 2017)

## Estimated Strategy Position with additional £300,000 savings in 2020

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Assumptions</b>										
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	1.00	0.95	0.94	0.74	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
<b>Base Budget</b>	<b>10,594,300</b>	<b>10,328,563</b>	<b>10,399,920</b>	<b>10,601,798</b>	<b>10,480,065</b>	<b>10,216,386</b>	<b>10,270,774</b>	<b>10,476,189</b>	<b>10,685,713</b>	<b>10,899,427</b>
Savings Target	(419,000)	(186,800)	(39,000)	(360,000)	(164,000)	(147,000)				
Additional Savings Reqd					(300,000)					
Revenue Imp Target		(645,000)								
Budget Rebasing Exercise	(454,800)									
Capital Financing Reqt		(117,000)								
Unavoidable Growth	505,800	560,537	333,100	32,775						
One-Off Growth		255,700	(300,100)							
<b>Target Budget (NOE)</b>	<b>10,226,300</b>	<b>10,196,000</b>	<b>10,393,920</b>	<b>10,274,573</b>	<b>10,016,065</b>	<b>10,069,386</b>	<b>10,270,774</b>	<b>10,476,189</b>	<b>10,685,713</b>	<b>10,899,427</b>
<b>Financed by:</b>										
Revenue Support Grant	1,057,446	636,596	372,528	77,568	0	0	0	0	0	0
Business Rates Share	2,814,027	3,240,682	3,305,496	3,371,606	2,539,038	2,589,818	2,641,615	2,694,447	2,748,336	2,803,303
Renewables	251,358	174,866	178,363	181,931	185,569	189,281	193,066	196,928	200,866	204,883
less CTS Grant to Parishes	(128,765)	(88,000)	(77,610)	(66,005)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)
New Homes Bonus to Rev	1,831,431	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Rural grant	126,172	101,878	78,367	101,878	100,000	100,000	100,000	100,000	100,000	100,000
Investment Income	657,500	607,300	509,745	556,540	614,109	659,622	705,332	697,693	692,248	687,621
Collection Fund	(110,587)	18,397	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	3,596,187	3,901,670	4,196,865	4,502,308	4,684,201	4,873,443	5,045,475	5,223,580	5,407,973	5,598,874
<b>Use of Reserves</b>	<b>131,531</b>	<b>2,611</b>	<b>180,165</b>	<b>(101,251)</b>	<b>306,101</b>	<b>70,175</b>	<b>(1,762)</b>	<b>(23,506)</b>	<b>(50,757)</b>	<b>(82,301)</b>
<b>TaxBase</b>	<b>41,512</b>	<b>42,581</b>	<b>43,432</b>	<b>44,301</b>	<b>45,187</b>	<b>46,091</b>	<b>46,782</b>	<b>47,484</b>	<b>48,196</b>	<b>48,919</b>
<b>Band D</b>	<b>86.63</b>	<b>91.63</b>	<b>96.63</b>	<b>101.63</b>	<b>103.66</b>	<b>105.74</b>	<b>107.85</b>	<b>110.01</b>	<b>112.21</b>	<b>114.45</b>
<b>Tax increase</b>	<b>6.13%</b>	<b>5.77%</b>	<b>5.46%</b>	<b>5.17%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>
<b>Total Revenue Balances</b>	<b>11,127,480</b>	<b>11,124,869</b>	<b>10,944,703</b>	<b>11,045,955</b>	<b>10,739,854</b>	<b>10,669,678</b>	<b>10,671,440</b>	<b>10,694,946</b>	<b>10,745,703</b>	<b>10,828,005</b>

**APPENDIX B**

	Updated (November 2017)										Appendix B
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Assumptions											
Inflation	1.01	1.02	1.020	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Taxbase	1.020	1.020	1.020	1.020	1.015	1.015	1.015	1.015	1.015	1.015	1.015
External Support	1.00	0.95	0.94	0.74	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Interest Rates	2.00	2.00	2.25	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00
Tax Increase	1.06	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Base	10,328,563	10,399,920	11,035,049	10,309,980	10,068,400	9,885,228	9,868,732	9,999,807	10,199,803	10,403,799	10,520,075
Savings Target (Publica)	(186,800)	(39,000)	(360,000)	(164,000)	(147,000)						
Revenue Improvement Target	(810,000)	(165,000)	(600,000)	(275,000)	(230,000)	(210,000)	(65,000)			(90,000)	
Capital Financing Requirement	(117,000)	318,955									
Unavoidable Growth	560,537	744,200	32,775								
Budget Rebasng Exercise		(198,400)									
One-Off Growth	255,700	(177,900)									
Adjustment to inflation budget to match actual i	165,000	(64,100)									
Target Budget (NOE)	10,196,000	10,818,675	10,107,824	9,870,980	9,691,400	9,675,228	9,803,732	9,999,807	10,199,803	10,313,799	10,520,075
<b>Financed by:</b>											
Revenue Support Grant	636,596	372,528	77,568	0	0	0	0	0	0	0	0
Business Rates Share	3,240,682	3,305,496	3,371,606	2,539,038	2,589,818	2,641,615	2,694,447	2,748,336	2,803,303	2,859,369	2,916,556
Business Rates Pool Share/NHB in excess of £1.6m in base		500,000									
Renewables	174,866	178,363	181,931	185,569	189,281	193,066	196,928	200,866	204,883	208,981	213,161
less CTS Grant to Parishes	(88,000)	(77,610)	(66,005)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)	(62,953)
New Homes Bonus to Revenue	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Rural grant	101,878	78,367	101,878								
Investment Income	607,300	509,745	554,128	610,887	652,054	703,467	708,855	719,073	730,916	744,544	762,825
Collection Fund	18,397	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	3,901,670	4,147,428	4,449,272	4,629,023	4,816,036	4,986,042	5,162,049	5,344,269	5,532,922	5,728,234	5,930,441
Use of GF reserves	2,611	154,358	(212,554)	319,416	(142,836)	(436,009)	(545,593)	(599,784)	(659,268)	(814,376)	(889,955)
TaxBase	42,581	42,921	43,779	44,655	45,548	46,231	46,924	47,628	48,343	49,068	49,804
Band D	91.63	96.63	101.63	103.66	105.74	107.85	110.01	112.21	114.45	116.74	119.08
Tax increase	5.77%	5.46%	5.17%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Revenue Balances	11,124,869	10,970,511	11,183,066	10,863,649	11,006,485	11,442,494	11,988,088	12,587,872	13,247,140	14,061,517	14,951,472