Agenda Item No. 9

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE WEDNESDAY 28 NOVEMBER 2018

REVISED MEDIUM TERM FINANCIAL STRATEGY 2019-2028

REPORT OF JENNY POOLE, CHIEF FINANCE OFFICER

(Contact: Jenny Poole, Tel: (01285) 623313)

(The decision on this matter will be for Council following consideration by this Committee and Cabinet).

1. PURPOSE

To consider the annual refresh of the Council's 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 2018 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;
- Council Tax increase of 3% in 2018/19 followed by increases of 2% in subsequent years;
- Depletion of Capital reserves over the life of the strategy;
- Provision for pay awards of 2% per annum;
- Growth pressures from the waste contract, which came into operation from October 2017, and capital financial costs associated with investment in waste vehicles and equipment and investment in improved leisure facilities

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 of £1.27m by 2020;
- Including savings from the contract for leisure service provision worth £1.65 m over the life of the Strategy;
- Including a dividend from the Oxfordshire Business Rates pool of £500,000 in 2018/19 to fund implementation costs associated with the new waste service;

3.3. The Strategy forecast a requirement to use £205,000 of General Fund balances in 2019/20. In subsequent years the Council was forecast to be able to make contributions in to the General Fund.

4. CHANGES TO THE EXTERNAL ENVIRONMENT 2018

4.1. Over the last year, since the current strategy has been in force, there has not been significant progress on the impact of:

- Spending Review 2019 – allocating central government funding to departments;
- Local Government Fairer Funding Review – allocating funding to individual local authorities; and
- 75% Business Rate Retention.

4.2. The implementation of the Spending Review 2019, Fairer Funding Review and 75% Business Rates Retention will all take place in 2020/21. The Ministry for Housing, Communities and Local Government are expected to release consultation documents over the coming months. Officers have modelled various scenarios to help Members consider the potential impact of these changes.

4.3. The Provisional Local Government Settlement 2019/20, due to be announced on 6th December, is expected to confirm the allocation of Revenue Support Grant, and Rural Services Grant as per the Medium Term Financial Strategy. The "deadweight" threshold applied in the calculation of New Homes Bonus is expected to increase, reducing the value of New Homes Bonus to the Council. The MTFS will be updated as the impact upon the Bonus becomes clearer.

Revenue Support Grant

4.4. 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

4.5. The new business rates baseline introduced in April 2013 has been positive for this Council with increases in rates income outstripping falls in RSG when combined with New Homes Bonus.

4.6. 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.

4.7. 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.

4.8. 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.

Business Rates Revaluation

4.9. 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 were 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 was be faced with increases in excess of 10%.

4.10. 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.

4.11. 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 by increasing the Councils tariff payment to Central Government.

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. Officers have therefore assumed that the national average level of appeals will occur (4.8%) and have made provision for reductions of around £1.7m.

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. The table below sets out the gains from the Business Rate pool from 2014/15 to 2017/18 and the forecast gain for 2018/19:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Forecast 2018/19 £000
West Oxfordshire	568	453	642	846	656

4.16. For 2019/20, the Oxfordshire authorities have submitted a bid to become a 75% Business Rate Scheme Pool Pilot. It is anticipated that the successful pool pilots will be announced at the time of the Provisional Local Government Finance Settlement 2019/20

New Homes Bonus

4.17. 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.

4.18. 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 2017/18 the Department for Communities and Local Government introduced the following changes to the scheme.

- Reduction in funding on a rolling basis from 6 year to 4 years;

- Baseline growth of 0.4% to be deducted;

4.19. The Ministry for Housing, Communities and Local Government is considering increasing the level of baseline growth for 2019/20 but has not announced the value of the increase. In addition, the Ministry is considering further changes to the New Homes Bonus scheme from 2020/21. However, no details of the potential changes have been announced at this point in time. The Council's existing Medium Term Financial Strategy includes New Homes Bonus of £1.6 million per annum. As part of scenario planning, referred to at 4.2, it has been assumed that the New Homes Bonus either remains unchanged (best case scenario) or is reduced to £1.3 million (medium case) or £1.0 million (worst case).

Inflation and Taxbase

4.20. Taxbase growth of 2% has been included within the MTFS. The Council Tax base (measured in October 2018) has not grown as fast as expected at 0.8% for 2019/20. The MTFS has been updated to reflect actual growth.

Other Changes

4.21. Other budget growth includes the following provisions:-

4.22. Negatively impacting on financial strategy:

£783,300	impact of operational costs of waste contract
£35,000	bank charges
£32,800	Oxfordshire County Council waste incentive scheme cuts
£10,000	members allowances
£39,000	capital financing costs

4.23. Positively impacting on financial strategy

£85,000	additional service income (largely demand for green waste collection service)
£360,000	savings from transformation programme (Publica)
£600,000	savings from leisure contract
£72,000	increase in income Council investments
£157,000	dividend from the Oxfordshire Business Rates pool to offset some additional costs in the Ubico contract while efficiency measures are put in place
£281,000	from a proposed increase in council tax in 2019/20 by the maximum referendum limit of £5 per Band D equivalent property

2020 Vision

4.24. 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

4.25. Capital balances are fully depleted with the majority of the underlying capital expenditure such as Disabled Facilities Grants, Community Projects Fund and investment in IT systems and equipment 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.

4.26. 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.

4.27. Under the new Prudential Code, the Council is required to prepare a Capital Strategy before the start of each financial year. In order to comply with the Chartered Institute of Public Finance Accountants (CIPFA) guidance on the Capital Strategy, the Capital Programme has been extended from five years to ten years. The Capital Programme now includes illustrative figures for the following significant capital items:

- £10 million for a loan to Cottsway Housing (as agreed by Council in October 2018);
- £9 million for investment in car park capacity;
- £8.3 million for investment in Carterton leisure centre (as agreed by Council in August 2018);
- £3 million for the acquisition of a depot site;
- £2 million for the cyclical replacement of street sweepers;
- £6.5 million to replace the waste and recycling fleet at the end of vehicle life;
- £2 million to provide for additional waste and recycling fleet to mitigate the use of hire vehicles and reduce operating costs;
- £0.9 million to replace waste and recycling containers (should there be a service change over the next 10 years);
- £1.5 million for expansion of electric vehicle charging points across the District.

4.28. The Council will consider business cases for the items listed above, except those items where Council approval has already been determined.

4.29. The revenue forecasts include the cost of Minimum Revenue Provision (for repayment of borrowing) and interest costs for the above items.

5. FINANCIAL IMPLICATIONS

5.1. The financial outlook has declined over the last year, this is driven largely by the costs of the Ubico contract.

5.2. The implementation of the Spending Review 2019, Fairer Funding Review and 75% Business Rates Retention will all take place in 2020/21. The Ministry for Housing, Communities and Local Government are expected to release consultation documents over the coming months. Officers have modelled various scenarios to help Members consider the potential impact of these changes. The three scenarios modelled are as follows:

- No funding from Revenue Support Grant (all scenarios);
- The Business Rate Baseline Funding level to fall by 5%, 10% or 15%;
- A proportion of business rate funding above baseline to be retained, after application of a levy, the degree of retained growth estimated at £765,000, £900,000 and £1,000,000 in the three scenarios;
- New Homes Bonus to be scrapped and replaced by an alternative reward grant;
- The level of the alternative award grant assumed to be at £1.6 million (as per existing baseline funding for New Homes Bonus), £1.3 million and £1.0 million.

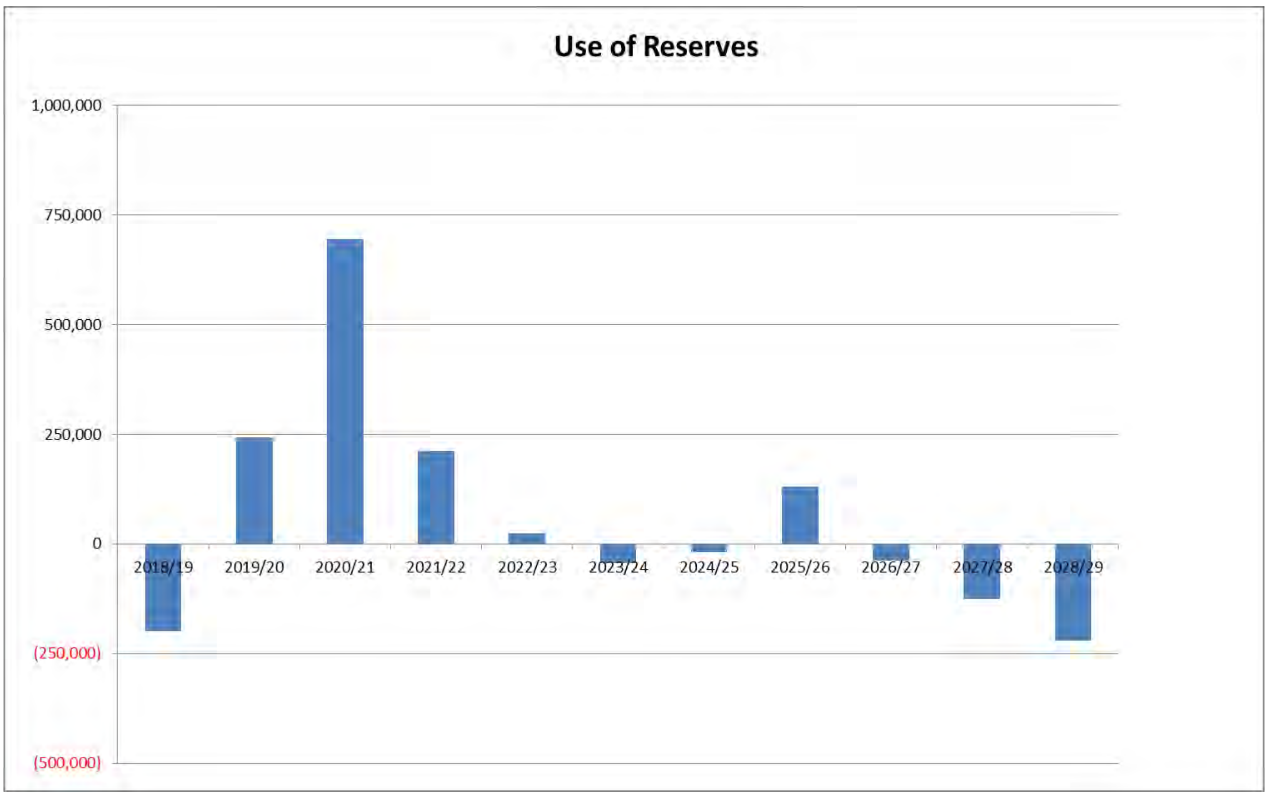
5.3. The impact of budget pressures set out in this report, together with the outcome of the scenario planning are compared to the approved Medium Term Financial Strategy in the table below:

	Approved Strategy	Worst Case Scenario	Medium Case Scenario	Best Case Scenario
Savings Target / Rev Improvement Target (2018/19 to 2026/27)	£2,345,000	£4,743,000	£4,243,000	£3,643,000
2026/27 Revenue Balances	£14,466,719	£10,366,544	£10,719,698	£11,253,260
2026/27 Use of / (Contribution to) Balances	(£772,110)	£40,102	(£66,264)	(£28,936)

5.4. In order to achieve a largely balanced budget, the savings target has increased. The scenario planning indicates that additional savings in the range of £1.3 million to £2.5 million may be required. Once the consultation documents on fairer funding and business rates retention are released by the Ministry for Housing Communities and Local Government, the scenarios can be updated accordingly.

5.5. The Council has sufficient General Fund Working Balance to smooth the budget gap in the short term and to provide the Council with time to develop plans to deliver savings in future years should this become necessary.

5.6. Using the medium scenario, the forecast use of reserves is shown graphically below:



5.7. The medium scenario includes an increased saving target of £1.9 million to delivered as follows:

- 2020/21 £500,000
- 2021/22 £500,000
- 2024/25 £500,000
- 2025/26 £100,000

5.8. Unless the Council is able to deliver the savings required earlier, the Council will still need to utilise significant levels of General Fund Balances in 2020/21 and 2021/22 to maintain a balanced budget.

5.9. The strategy requires £710,000 of savings to be made via Publica through the completion of the 2020 Vision Programme. While Publica anticipates being able to deliver this savings target, should the full savings target not be achieved, the alternate savings programme would also need to deliver those savings to the revenue budget.

5.10. 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 and budgets (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. The following items have previously been discussed by Councillors but the list is by no means exhaustive:-

- Discretionary Service Cuts or policy changes affecting service delivery
- Reduction in Cost of Democracy
- Further Council Tax rises to maximum referendum level
- Further efficiency savings via growth of partnership/ joint working

5.11. Another option open 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 reward, especially the impact of the decision to leave the European Union on the market. The impact of the new Prudential Code which would need to be taken into consideration.

5.12. Given that the Council has substantial revenue reserves the Council does not need to take immediate action in respect of the budget deficits in 2020/21 and 2021/22, however, some contingency planning should be undertaken during 2019/20 while the impact of the changes to central government funding become clearer.

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 which are directly related to the Spending Review Fairer Funding Review and Business Rate Retention Scheme changes. In addition, forecasts of these income stream also carry both estimation and delivery 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 came into force together with a new "Check, Challenge and Appeal" Process for managing appeals. 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.

6.3. 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. However, the leisure savings are built into the contractual arrangements with the supplier. Failure to meet these targets or delayed implementation may 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 is England.

Jenny Poole
Chief Finance Officer

(Author: Jenny Poole, Tel: (01285) 623313; EMail: jenny.poole@cotswold.gov.uk)

Date: 14 November 2018

Background Papers:
None

APPENDIX A

Approved Strategy (Feb 2018)

			Updated (February 2018)								**Appendix A**
	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	1.02	0.94	0.76	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	11,063,915	10,339,423	10,098,432	10,053,560	10,040,432	10,174,940	10,378,439	10,586,008	10,705,928
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	763,500	32,775		135,000						
Budget Rebasing Exercise		(198,400)									
One-Off Growth	255,700	(177,900)									
Adjustment to inflation budget to match actual i	165,000	(55,100)									
Target Budget (NOE)	**10,196,000**	**10,846,975**	**10,136,690**	**9,900,423**	**9,856,432**	**9,843,560**	**9,975,432**	**10,174,940**	**10,378,439**	**10,496,008**	**10,705,928**
Financed by:											
Revenue Support Grant	636,596	372,528	77,568	0	0	0	0	0	0	0	0
Business Rates Share	3,240,682	3,578,243	3,649,808	2,822,804	2,879,260	2,936,845	2,995,582	3,055,494	3,116,604	3,178,936	3,242,515
Business Rates Pool Share/NHB in excess of £1.6m in base		500,000									
Renewables	174,866	226,159	230,682	235,296	240,002	244,802	249,698	254,692	259,786	264,981	270,281
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	1,599,061	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	126,956	101,878								
Investment Income	607,300	607,300	562,082	622,540	668,019	720,335	725,085	734,522	745,434	757,968	774,982
Collection Fund	18,397	62,640	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	3,901,670	4,050,857	4,255,830	4,427,765	4,606,647	4,769,262	4,937,617	5,111,915	5,292,365	5,479,186	5,672,601
Use of GF reserves	2,611	(199,159)	(325,154)	204,971	(124,544)	(414,730)	(519,597)	(568,730)	(622,797)	(772,110)	(841,497)
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	94.38	97.21	99.16	101.14	103.16	105.22	107.33	109.48	111.67	113.90
Tax increase	5.77%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
		2.75									
Total Revenue Balances	11,124,869	11,324,028	11,649,181	11,444,210	11,568,754	11,983,484	12,503,081	13,071,811	13,694,608	14,466,719	15,308,216

		Updated (November 2018)								**Appendix B - Medium Case**	
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Assumptions											
Inflation	1.02	1.020	1.02	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	1.020	1.020	1.020	1.020	1.020	1.020	1.020
External Support	1.02	0.94	0.00	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Interest Rates - Cash Deposits	2.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Interest Rates - Pooled Funds		3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Tax Increase	1.02	1.03	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Base	10,399,920	11,063,915	12,037,105	10,492,536	10,235,940	10,294,493	10,502,117	10,918,403	11,368,515	11,504,086	11,734,167
Savings Target (Publica)	(39,000)	(360,000)	(164,000)	(147,000)							
Savings Target (Ubico)			(198,075)								
Revenue Improvement Target	(165,000)	(600,000)	(275,000)	(230,000)	(210,000)	(65,000)			(90,000)		
Capital Financing Requirement	318,955	18,594									
Impact of capital investment from capital programme			269,070	419,700	66,700	66,700	702,200	327,200	0	0	0
Unavoidable Growth	763,500	796,274									
Budget Rebasing Exercise	(198,400)										
One-Off Growth	(177,900)	882,300	(882,300)								
Adjustment to inflation budget to match actual inflation	(55,100)										
Savings target to reflect Changes to CG Funding and cost pressure			(500,000)	(500,000)			(500,000)	(100,000)			
Target Budget (NOE)	**10,846,975**	**11,801,083**	**10,286,800**	**10,035,236**	**10,092,640**	**10,296,193**	**10,704,317**	**11,145,603**	**11,278,515**	**11,504,086**	**11,734,167**
Financed by:											
Revenue Support Grant	372,528	77,568	0	0	0	0	0	0	0	0	0
Business Rates Share	3,578,243	3,649,808	0	0	0	0	0	0	0	0	0
Baseline Funding Level post 2020			1,950,000	1,989,000	2,028,780	2,069,356	2,110,743	2,152,958	2,196,017	2,239,937	2,284,736
Business Rate s Growth above baseline retained			975,000	994,500	1,014,390	1,034,678	1,055,371	1,076,479	1,098,008	1,119,969	1,142,368
Business Rates Pool Share	500,000	157,485									
Renewables	226,159	230,682	235,296	240,002	244,802	249,698	254,692	259,785	264,981	270,281	275,686
less CTS Grant to Parishes	(77,610)	(66,005)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)
New Homes Bonus to Revenue	1,599,061	1,600,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Rural grant	126,956	101,878									
Investment Income	607,300	635,820	725,185	715,996	712,903	727,813	743,651	757,987	770,508	785,171	800,975
Use of earmarked reserves to fund one-off costs		882,300	0								
Collection Fund	62,640	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Council Tax	4,050,857	4,332,328	4,507,354	4,689,451	4,878,905	5,076,013	5,281,084	5,494,439	5,716,415	5,947,358	6,187,631
Use of GF reserves	(199,159)	149,219	595,114	107,436	(85,990)	(160,215)	(40,074)	105,104	(66,264)	(157,481)	(256,080)
TaxBase	42,921	43,594	44,465	45,355	46,262	47,187	48,131	49,093	50,075	51,077	52,098
Band D	94.38	99.38	101.37	103.39	105.46	107.57	109.72	111.92	114.16	116.44	118.77
Tax increase	3.00%	5.30%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Revenue Balances	11,324,028	11,174,809	10,579,695	10,472,259	10,558,249	10,718,464	10,758,538	10,653,434	10,719,698	10,877,179	11,133,258