



WEST OXFORDSHIRE  
DISTRICT COUNCIL

## WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	<b>FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE</b> <b>WEDNESDAY 27 NOVEMBER 2019</b>
Report Number	<b>AGENDA ITEM No. 10</b>
Subject	<b>MEDIUM TERM FINANCIAL STRATEGY</b>
Wards affected	ALL
Accountable member	Cllr Toby Morris, Deputy Leader and Cabinet Member for Resources Email: toby.morris@cloud.westoxon.gov.uk
Accountable officer	Mrs Jenny Poole, Chief Finance Officer Tel: 01285 623313 Email: Jenny.Poole@westoxon.gov.uk
Summary/Purpose	To consider the annual refresh of the Council's Medium Term Financial Strategy.
Annexes	Annex A – Medium Term Financial Strategy Approved by Council February 2019 Annex B – Draft Updated Medium Term Financial Strategy
Recommendation/s	<i>a) That the Committee considers the update to the Medium Term Financial Strategy (MTFS) and passes its comments to Cabinet on the MTFS, spending and savings targets and principles supporting it.</i>
Corporate priorities	The Council Plan is currently in preparation and is expected to be approved by Council in January 2020. The MTFS supports the emerging priority themes.
Key Decision	No
Exempt	No
Consultees/ Consultation	Consultation has taken place with management from Publica and Ubico.

## **1. BACKGROUND**

**1.1.** In February 2019 Council approved the Medium Term Financial Strategy. The key aspects of the strategy were:

- (i) Revenue Support Grant (RSG) phased out after 2019/20;
- (ii) Improved Business Rates income due to local growth but with a reset getting closer the potential for a cliff edge in funding to arise in 2020/21;
- (iii) Council Tax increase of 1.99% in 2019/20 followed by increases of 2% in subsequent years;
- (iv) Depletion of Capital reserves over the life of the strategy, a requirement for borrowing to fund the capital programme with an impact upon the revenue budget as the Council provides for repayment of debt in future years;
- (v) Provision for pay awards of 2% per annum;
- (vi) Growth pressures from the waste contract, and gate fees for the disposal of recycling materials.

**1.2.** The approved strategy sought to rebalance the budget over the short term by:

- (i) Recognising the full business case savings in respect of the 2020 efficiency programme of £1.27m by 2021/22;
- (ii) Including savings from the contract for leisure service provision worth £1.65 m over the life of the Strategy;
- (iii) Including a dividend from the Oxfordshire Business Rates pool of £157,485 in 2019/20 to fund costs associated with the Ubico contract while Ubico addresses service efficiency measures during 2019/20; and
- (iv) Including savings targets of £1.6 million to address the forecast loss of income from central government post April 2020.

**1.3.** The Strategy forecast a small contribution to General Fund balances of £3,789 in 2019/20. In subsequent years the Council was forecast to need to use General Fund balances due to the impact of the changes to central government funding and time lag for delivering savings of this magnitude.

## **2. MAIN POINTS**

### **Changes to the external environment 2019**

**2.1.** The previous MTFS discussed the fact that implementation of the Spending Review 2019, Fairer Funding Review and 75% Business Rates Retention were all due to take place in 2020/21. The Ministry for Housing, Communities and Local Government were expected to release consultation during 2019/20.

**2.2.** On 4<sup>th</sup> September, the Chancellor of the Exchequer announced the outcome of the Spending Review 2019. The key announcements, for district councils included:

- (i) Funding (known as the funding baseline) would be increased in line with inflation;
- (ii) New Homes Bonus funding will continue for 2020/21 but the grant will be for one-year only, as opposed to the current grant which is awarded for four years; and

(iii) The proposed changes to local government funding set out at 1.4 were delayed for a year to April 2021.

2.3. The MTFs has been updated to reflect the delay to the implementation of the changes to central government funding from 2020/21 to 2021/22, the change to the New Homes Bonus Scheme, and an inflationary increase to baseline funding. However, the date of the provisional Local Government Settlement for 2020/21 is uncertain due to the General Election taking place on 12<sup>th</sup> December. The announcement is still expected to be around Christmas time. The MTFs will be updated to reflect the outcome of the Provisional Local Government Settlement in due course.

#### **Revenue Support Grant**

2.4. An inflationary increase of 1.8% has been applied to Revenue Support Grant from 2019/20. The 2020/21 grant (£78,964) is expected to be the final year that the Council receives Revenue Support Grant.

#### **Business Rates**

2.5. 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.

2.6. 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.

#### **Business Rates Revaluation**

2.7. 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 have faced an average increase in rateable values of 16.2%. Whilst this has not resulted in a bill increase of 16.2% (as the multiplier will fall slightly) the average business was faced with increases in excess of 10%.

2.8. Changes to Small Business Rate Relief due at the same time lifted a number of our smallest businesses out of rating.

2.9. 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 has equalised the revaluation nationally by increasing the Council's tariff payment to Central Government.

2.10. Given these increases in RV's, the Council has anticipated a significant number of appeals against the new valuations. Officers have mitigated against this risk by assuming that the national average level of appeals will occur (4.8%) and have made provision for reductions accordingly.

#### **Business Rates Pooling**

2.11. As part of the 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.

- 2.12.** 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 2014/15 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 table below sets out the gains from the Business Rate pool from 2014/15 to 2018/19 and the forecast gain for 2019/20:

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Forecast 2019/20 £000
West Oxfordshire	568	453	642	846	581	400

### **New Homes Bonus**

- 2.13.** 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.
- 2.14.** Over the period since New Homes Bonus was introduced the Council has seen this funding stream increased 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.
- (i) Reduction in funding on a rolling basis from 6 year to 4 years;
  - (ii) Baseline growth of 0.4% to be deducted;
- 2.15.** For 2020/21, the New Homes Bonus is expected to be reduced from 4 years to one-year only. In addition legacy payments from previous years are expected to naturally fall away. The Ministry for Housing, Communities and Local Government is considering further changes to the New Homes Bonus scheme from 2021/22 . However, no details of the potential changes have been announced at this point in time. The Council's approved Medium Term Financial Strategy recognises the potential changes to New Homes Bonus and has reduced reliance on New Homes Bonus to £1.3 million per annum from 2020/21. The MTFs has been updated to reflect one-off grant award for 2020/21 and the fall away of funding over the following two years as New Homes Bonus legacy payments end.

## **Inflation and Taxbase**

- 2.16.** The taxbase, which is measured annually in October 2019, was expected to grow by 2% for 2020/21. Actual growth of 1.58% has been included within the MTFS.

## **Other Changes**

- 2.17.** Other budget growth includes the following provisions:-

£237,800	Increase in inflationary pressure from 2% to 2.5%;
£120,000	Increase to annual contribution to Local Government Pension Scheme, for each of the next five years;
£60,000	Appointment of Climate Change Manager;
£4,000,000	One-off contribution to the Local Government Pension Scheme;
£690,200	Other one-off cost pressures: Publica transformation programme £329,200; Recycling campaign £36,000; Healthy Place Shaping Agenda £125,000 over the next three years; Climate Change Action Plan £200,000.

- 2.18.** Positively impacting on financial strategy

£684,800	Council tax increases have been updated to reflect the maximum permitted for the next 3 years, assuming a referendum level at £5 per annum;
£485,000	New Homes Bonus over approved MTFS in 2020/21;
£3,900,000	Increase in savings target over life of MTFS reflecting the potential loss of New Homes Bonus and reset of Business Rates Baseline;

## **2020 Vision**

- 2.19.** 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**

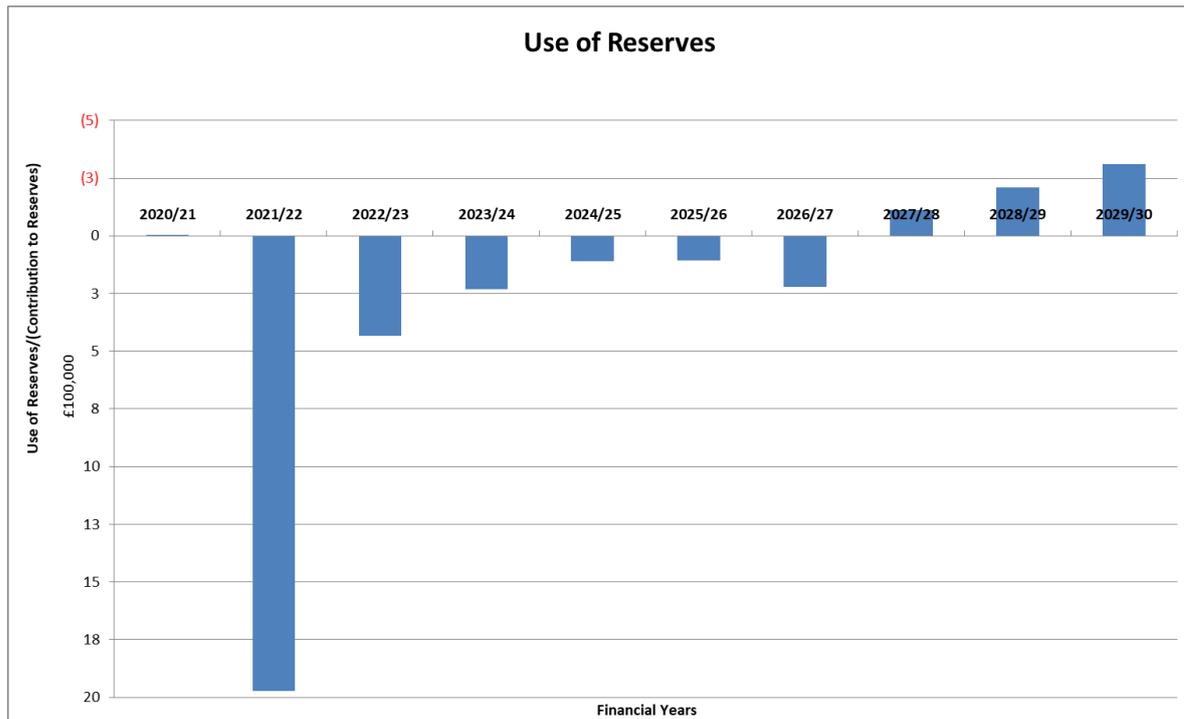
- 2.20.** Capital balances are fully depleted with the majority of the underlying capital expenditure such as Disabled Facilities Grants, Community Projects Fund and investment in IT systems and equipment being financed by revenue contributions. There are no major assets available for sale which could readily enhance the level of capital receipts without having a negative impact on the revenue account.
- 2.21.** 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.
- 2.22.** 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 covers a ten year timeframe. The Capital Programme now includes illustrative figures for the following significant capital items:
- (i) £10 million for a loan to Cottsway Housing (as agreed by Council in October 2018);
  - (ii) £9 million for investment in car park capacity;

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

- 2.23. The Council will consider business cases for the items listed above, except those items where Council approval has already been determined.
- 2.24. The revenue forecasts include the cost of Minimum Revenue Provision (for repayment of borrowing) and interest costs for the above items.

### **3. FINANCIAL IMPLICATIONS**

- 3.1. The financial outlook has declined over the last year, this is driven largely by the costs of the valuation of the Council's Local Government Pension Scheme liabilities and the announcement of changes to the New Homes Bonus and full business rates reset.
- 3.2. The implementation of the Spending Review 2020, Fairer Funding Review and 75% Business Rates Retention will now all take place in 2021/22. The Ministry for Housing, Communities and Local Government are expected to release consultation documents over the coming months.
- 3.3. In order to achieve a largely balanced budget, the savings target has increased. Planning for the full impact of loss of New Homes Bonus and Business Rates Reset, indicates that additional savings in the range of £3 million to £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 impact for this Council can be updated accordingly.
- 3.4. 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.
- 3.5. The forecast use of reserves is shown graphically below:



**3.6.** The MTFS includes saving target of £5.5 million to be delivered as follows:

- 2021/22 £1,000,000
- 2022/23 £2,000,000
- 2023/24 £1,000,000
- 2024/25 £750,000
- 2025/26 £250,000
- 2026/27 £250,000
- 2027/28 £250,000

**3.7.** Unless the Council is able to deliver the savings required earlier, the Council will still need to utilise significant levels of General Fund Balances over the period to 2026/27 to maintain a balanced budget.

**3.8.** The strategy requires £311,000 of savings to be made via Publica through the completion of the 2020 Vision Programme. Should the full savings target not be achieved, the alternate savings programme would also need to deliver those savings to the revenue budget.

**3.9.** 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:-

- (i) Discretionary Service Cuts or policy changes affecting service delivery
- (ii) Reduction in Cost of Democracy
- (iii) Further efficiency savings via growth of partnership/ joint working

- 3.10.** Another option open to the Council is to increase income via a commercialisation strategy. Publica will be supporting the Council in producing a commercial strategy over the coming months. The commercialisation strategy will require any capital investment to be funded by borrowing. As well as creating new debt it would also increase the Council's reliance on income to finance its base operating budget. This course of action would need careful consideration, balanced between risk and reward. The impact of the new Prudential Code which would need to be taken into consideration.
- 3.11.** Given that the Council has substantial revenue reserves the Council does not need to take immediate action in respect of the budget deficit in 2021/22, however, some contingency planning should be undertaken as a priority while the impact of the changes to central government funding become clearer.

#### **4. RISK ASSESSMENT**

- 4.1.** 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.
- 4.2.** 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.
- 4.3.** 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.

#### **5. ALTERNATIVE OPTIONS**

- 5.1.** The Committee is acting as a consultee on the draft Medium Term Financial Strategy and is encouraged to make recommendations to the Cabinet.

#### **6. BACKGROUND PAPERS**

- 6.1.** None

Updated (February 2019)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Assumptions								
Inflation	1.02	1.020	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
External Support	1.02	1.03	0.00	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
Interest Rates - Pooled Funds		3.00	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
Base	10,399,920	11,063,915	11,880,226	10,585,173	10,330,430	10,390,873	10,600,425	11,018,677
Savings Target (Publica)	(39,000)	(360,000)	(164,000)	(147,000)				
Savings Target (Ubico)			(198,075)					
Revenue Improvement Target	(165,000)	(645,800)	(275,000)	(230,000)	(210,000)	(65,000)		
Capital Financing Requirement	318,955	(220,000)						
Impact of capital investment from capital programme			269,070	419,700	66,700	66,700	702,200	327,200
Unavoidable Growth	763,500	1,082,565						
Budget Rebasings Exercise	(198,400)							
One-Off Growth	(177,900)	634,600	(634,600)					
Adjustment to inflation budget to match actual inflation	(55,100)							
Council Tax discount for care leavers		92,000						
Savings target to reflect Changes to CG Funding and cost pressure			(500,000)	(500,000)			(500,000)	(100,000)
<b>Target Budget (NOE)</b>	<b>10,846,975</b>	<b>11,647,280</b>	<b>10,377,621</b>	<b>10,127,873</b>	<b>10,187,130</b>	<b>10,392,573</b>	<b>10,802,625</b>	<b>11,245,877</b>
<b>Financed by:</b>								
Revenue Support Grant	372,528	77,568	0	0	0	0	0	0
Business Rates Share	3,578,243	3,984,715	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
Business Rates Growth above baseline retained			975,000	994,500	1,014,390	1,034,678	1,055,371	1,076,479
Business Rates Pool Share	500,000	157,485						
Renewables	226,159	219,573	223,964	228,444	233,013	237,673	242,426	247,275
less CTS Grant to Parishes	(77,610)	(66,005)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)	(51,149)
New Homes Bonus to Revenue	1,599,061	1,763,143	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Rural grant	126,956	126,956						
Investment Income	607,300	635,820	727,098	716,656	712,269	725,842	740,300	753,212
Use of earmarked reserves to fund one-off costs		364,600	0					
Collection Fund	62,640	54,886	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
<b>Use of GF reserves</b>	<b>(199,159)</b>	<b>(3,789)</b>	<b>695,354</b>	<b>210,972</b>	<b>20,923</b>	<b>(49,839)</b>	<b>73,850</b>	<b>222,664</b>
TaxBase	42,921	43,594	44,465	45,355	46,262	47,187	48,131	49,093
Band D	94.38	99.38	101.37	103.39	105.46	107.57	109.72	111.92
Tax increase	3.00%	5.30%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
<b>Total Revenue Balances</b>	<b>11,324,028</b>	<b>11,327,817</b>	<b>10,632,463</b>	<b>10,421,492</b>	<b>10,400,568</b>	<b>10,450,407</b>	<b>10,376,557</b>	<b>10,153,894</b>

Medium Term Financial Strategy Updated (November 2019)

Annex B

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Assumptions											
Inflation	1.020	2.5%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxbase	1.020	1.015	1.015	1.015	1.015	1.015	1.015	1.015	1.015	1.015	1.015
External Support	1.03	1.018	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Interest Rates - Cash Deposits	1.00	1.250	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Interest Rates - Pooled Funds	3.00	3.250	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Tax Increase	1.03	1.020	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Base	11,063,915	11,647,280	15,724,621	11,534,729	9,752,124	9,068,866	9,202,444	9,463,693	9,849,046	9,796,026	9,991,947
Inflation		470,746	232,008	230,695	195,042	181,377	184,049	189,274	196,981	195,921	199,839
Savings Target (Publica)	(360,000)	(164,000)	(147,000)								
Savings Target (Ubico)		(198,075)									
Revenue Improvement Target - Leisure Contract	(645,800)	(275,000)	(230,000)	(210,000)	(65,000)			(90,000)			
Capital Financing Requirement	(220,000)										
Impact of capital investment from capital programme		269,070	419,700	66,700	66,700	702,200	327,200	536,079	0	0	0
Unavoidable Growth - see tab for detail	1,082,565	180,000	90,000	90,000	120,000	0	0	0	0	0	0
Budget Rebasing Exercise											
One-Off Growth	634,600	3,794,600	(3,554,600)	40,000							
Publica asset contribution & depn.											
Adjustment to inflation budget to match actual inflation											
Council Tax discount for care leavers	92,000										
Savings target to reflect Changes to CG Funding and cost pressure			(1,000,000)	(2,000,000)	(1,000,000)	(750,000)	(250,000)	(250,000)	(250,000)		
<b>Target Budget (NOE)</b>	<b>11,647,280</b>	<b>15,724,621</b>	<b>11,534,729</b>	<b>9,752,124</b>	<b>9,068,866</b>	<b>9,202,444</b>	<b>9,463,693</b>	<b>9,849,046</b>	<b>9,796,026</b>	<b>9,991,947</b>	<b>10,191,786</b>
<b>Financed by:</b>											
Revenue Support Grant	77,568	78,964	0	0	0	0	0	0	0	0	0
Business Rates Share	3,984,715	4,056,440	0	0	0	0	0	0	0	0	0
Baseline Funding Level post 2020			2,344,662	2,391,555	2,439,386	2,488,174	2,537,937	2,588,696	2,640,470	2,693,279	2,747,145
Business Rate s Growth above baseline retained		0	0	0	0	0	0	0	0	0	0
Business Rates Pool Share	157,485	0	0	0	0	0	0	0	0	0	0
Renewables	219,573	223,525	227,996	232,556	237,207	241,951	246,790	251,726	256,760	261,896	267,133
less CTS Grant to Parishes	(66,005)	(66,005)									
New Homes Bonus to Revenue	1,763,143	1,785,038	1,056,746	485,716	0	0	0	0	0	0	0
Rural grant	126,956	126,956	0	0	0	0	0	0	0	0	0
Investment Income	635,820	727,098	725,399	698,982	707,381	718,313	730,765	743,258	754,341	769,581	786,026
Use of earmarked reserves to fund one-off costs	364,600	4,124,200	240,000	240,000	0	0	0	0	0	0	0
Collection Fund	54,886	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Pension Fund Adjustment											
Council Tax	4,332,328	4,622,491	4,916,576	5,218,443	5,402,655	5,593,368	5,790,814	5,995,230	6,206,861	6,425,964	6,652,800
<b>Use of GF reserves</b>	<b>(3,789)</b>	<b>(4,086)</b>	<b>1,973,351</b>	<b>434,872</b>	<b>232,238</b>	<b>110,638</b>	<b>107,386</b>	<b>220,136</b>	<b>(112,406)</b>	<b>(208,772)</b>	<b>(311,318)</b>
TaxBase	43,594	44,285	44,949	45,624	46,308	47,003	47,708	48,423	49,150	49,887	50,635
Band D	99.38	104.38	109.38	114.38	116.67	119.00	121.38	123.81	126.28	128.81	131.39
Tax increase	5.30%	5.03%	4.79%	4.57%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
<b>Total Revenue Balances</b>	<b>12,661,685</b>	<b>12,665,771</b>	<b>10,692,420</b>	<b>10,257,548</b>	<b>10,025,310</b>	<b>9,914,672</b>	<b>9,807,285</b>	<b>9,587,149</b>	<b>9,699,555</b>	<b>9,908,327</b>	<b>10,010,873</b>