

Division(s): N/A

CABINET – 21 SEPTEMBER 2010

BUSINESS STRATEGY AND SERVICE & RESOURCE PLANNING 2011/12 TO 2015/16

**Report by the Chief Executive, Assistant Chief Executive & Chief Finance
Officer and Assistant Chief Executive (Strategy)**

Introduction

1. Following the National Budget on 22 June 2010, there were clear indications that significant reductions in funding in future years would require major changes to the way the Council does business. In the light of this, it was considered necessary to report to Cabinet at the earliest opportunity. The first Service & Resource Planning report for the forthcoming year was therefore presented to Cabinet in July 2010 and included details of the Council's Business Strategy. The Cabinet agreed that additional savings of £100m should be used as a planning assumption for spending and grant reductions, to be achieved over the period 2011/12 – 2014/15. This is in addition to the £103m annual savings by 2014/15 in the 2010/11 – 2014/15 Medium Term Financial Plan (MTFP). They also agreed to a full review of the Capital Programme in the light of national budget assumptions and the pressures currently being identified.
2. This second report provides an update on information available pertaining to the Business Strategy; the budget for 2011/12 and the medium term; and proposes a process for Service & Resource Planning for 2011/12 including a timetable of events.
3. The service and resource planning process and the MTFP cover a five-year period. It is rolled forward one year each year. This year, there is an additional year added to include 2015/16. This planning period is consistent with all other relevant plans, including the Corporate Plan and the Capital Programme.
4. The referencing system used to assist Cabinet and other members in ensuring that they have all relevant papers relating to the process, has been retained. The referencing system is attached for information at Annex 1.

The following annexes are attached:

Annex 1: Referencing system for Service & Resource Planning papers

Annex 2: Government Consultations and Function changes

Annex 3: Service & Resource Planning timetable for 2011/12

The Council's Business Strategy

5. The Business Strategy is the programme that will enable the Council to deliver its required savings and will facilitate the cultural shift to a more dynamic and empowered organisation. The Strategy pulls together a series of strands of work, and ensures that with such high levels of change being managed that there is a single focussed overview. The key elements of the Strategy are:
 - (a) Changing the way we work
 - (b) Reshaping Management
 - (c) Future of Shared Services and creation of Customer Service Centre
 - (d) A comprehensive Asset Management strategy
 - (e) A new Strategy for dealing with our customers, including managing our reputation
 - (f) Streamlined Service & Resource Planning processes and delivery of savings within Directorates
 - (g) Engagement and Consultation (Including Oxfordshire's Big Debate and staff suggestions for change)
 - (h) Community self-help

6. There has been progress in many of the areas of the Strategy. The key areas of change relate to the implementation of revised Directorate Structures, progress towards the reduction in management, and the engagement of the public and staff in the Oxfordshire Big Debate.

7. The strategy proposed significant reductions in management, and the 1st and 2nd tier changes have already been implemented, with full year savings of at least £0.96m expected. Further work is now being undertaken to review the spans of control and layers of managers at the next levels, and this will be linked into the changes arising from the Service & Resource Planning process. This will ensure that there is a flatter management structure; a more flexible approach to services and projects; devolved responsibility to the lowest levels of the council and cutting of bureaucracy through simplified arrangements.

8. The Council's consultation process with both the public and staff is also well underway. By the time of the meeting two of the five public debates will have taken place (Oxford on 7 September; South Oxfordshire (Didcot) on 16 September), with one scheduled for 21 September (West Oxfordshire in Witney) and two the following week (Cherwell in Banbury on 28 September and Vale in Abingdon on 29 September). Internally, staff are being consulted on proposed changes, with many suggestions coming through that are being taken forward wherever possible.

9. In addition, Oxfordshire Voice has been used to further test public views on service provision, and what areas the public most value and which they would be prepared to see reductions in services. The results of this survey will be reported later in the year when they become available.

Setting the Medium Term Framework

10. The Council is legally required to set a budget for 2011/12 in February 2011. However, whilst it is good practice to set a MTFP, there is no legal requirement to do so. In a speech to the Local Government Association on 29 July, Communities Secretary Eric Pickles said that ministers were contemplating handing councils two consecutive two-year settlements to cover the next four-year spending review period. This would mean that the draft Local Government Finance Settlement announcement in December would only give detailed grant figures for 2011/12 and 2012/13.
11. This would allow time for the planned reform of the local government finance system to be considered in 2011/12 and then implemented in 2013/14. This would also tie in with proposals to radically change the Adult Social Care system which is currently being reviewed, and is likely to lead to changes in the way the service is funded.
12. Thus detailed grant figures for 2013/14 and 2014/15 would not be available until late in 2012. This makes planning for these years rather more difficult. In light of these uncertainties, it is proposed that the MTFP beyond the two year settlement to 2012/13 will need to be more indicative than previous plans and set at a high level.
13. There will also be major function changes occurring over the plan period, which will change the funding available to the Council. This will make explaining the changes in total funding, and the demonstrating the achievement of savings more complex. More detail of the changes, and the year when the change will apply, where it is known, are set out in Annex 2.

Government Consultations and other announcements

14. Since the coalition government was formed a number announcements and consultations have been issued which have financial consequences for the Council. Some of these are not yet quantifiable, and they have time scales, ranging from immediate effect to changes in 2013/14 and beyond. The list of consultations is set out in Annex 2.
15. The Secretary of State, Michael Gove announced on 19 July 2010 changes to the processes relating to 16-19 funding which would become effective from 1 August 2010. Local authorities will retain a strategic commissioning and influencing role by maintaining the strategic overview of provision and needs in their area but will lose the responsibility of passporting money from the Young People's Learning Agency (YPLA) to the post 16 providers. Responsibility for passporting the funding began in April 2010 following the abolition of the Learning & Skills Council. Approximately £40m of funding would be passported to the post 16 providers in Oxfordshire in a year.
16. In the Financial Monitoring report presented to Cabinet in July, subsequently agreed by Council on 27 July 2010, changes were made to the 2010/11 budgets following in-year reductions of Grants. Whilst these reductions have

been made in 2010/11 if they are ongoing service changes then they will be able to contribute to the directorate targets for 2011/12.

17. Other announcements which impact on items already in the MTFP are referred to in the section Review of Assumption in the Existing MTFP below.

Review of Assumptions in the Existing MTFP

18. The table below sets out the inflation assumptions built into the current MTFP. These will need to be reviewed in agreeing the MTFP for 2011/12 to 2015/16. Changes are already known relating to pay inflation. As part of the budget in June 2010, the Chancellor announced a two year freeze¹ on all public sector pay for 2011/12 and 2012/13. If no pay inflation is required for these two years, savings of £1.0m 2011/12 rising to £2.0m in 2012/13 will be possible.

Year	Pay	Non Pay	Contracts	In MTFP
2011/12	1.0%	1.5%	2.5%	£6.5m
2012/13	1.0%	2.0%	3.0%	£7.3m
2013/14	2.5%	2.0%	3.0%	£12.7m
2014/15	2.5%	2.0%	3.0%	£11.5m

19. The expectations of a 50% reduction in borrowing allocations from Government to support capital expenditure over the period 2011/12 to 2014/15 will give rise to changes in borrowing costs in the Strategic Measures budget. This will need to be reviewed along with any changes to the strategy for long term borrowing.
20. A review of the interest earned on cash balances will also be required to take account of the forecast bank rate; the most recent being in the Bank of England's Inflation Report issued in August 2010. This suggests that the expected path of the Bank Rate implied by market yields (on which the inflation forecasts are based) indicates that the current rate of 0.5% will remain for longer than predicted earlier in the year. In addition, changes to our spending over the medium term will have an impact on cash flow and interest earned.
21. The existing MTFP includes £6m for increased pension costs from 2011/12 following the 2010 triennial valuation. A report from the Pension Fund actuary, Barnett Waddingham, on the Pension Fund valuation (based on 31 March 2010) is expected in the late autumn. This is however dependant on any proposed changes to the Fund regulations which are due to be announced by the government alongside the Spending Review. Other changes announced by the government which will impact on the employer contribution rate include the change in indexation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI) and the increase in state pension age to 66.

¹ with the exception of those who earn less than £21,000 who will receive a flat increase of £250 p.a.

22. The ending of the Building Schools for the Future programme was announced by the Secretary of State for Education on 5 July 2010. The MTFP has, over the period 2011/12 to 2014/15 planned investment of £3.2m which will no longer be required for this purpose. Linked to this, work is expected to continue within Children, Education & Families Directorate on the Strategy for Change and the Government's review of capital investment in education will report to ministers in mid-September 2010. A forward plan for capital investment over the next spending review period is expected to be produced by the end of the calendar year.
23. The Personal Care Bill which was approved by Parliament on 8 April 2010 but implementation of the provisions of the Act was subject to approval by both Houses of Parliament. However, the new government announced that it would not be commencing the provisions of the act, though it would consider what more can be done on re-ablement and carers' breaks in the light of available resources². In addition to the grant funding that was expected of almost £5m in a full year, there is also £2.8m budget allocation in 2011/12 and beyond, agreed by Council in February 2010, which will not be required. The part year funding in 2010/11 of £1.4m has been transferred into the Efficiencies Reserve.

Indicative Savings Target

24. The report to July Cabinet set out the rationale for the new savings targets. This target of £100m for the period 2011/12 to 2014/15 is in addition to the savings already included in the MTFP for 2010/11 to 2014/15 of £103m. By 2014/15 annual savings of £202.4m will be required. Of that figure £35.5m is set to be achieved in the current financial year. Therefore in total the savings required for the period 2011/12 to 2014/15 are £166.9m.
25. The savings target has been allocated over the years of the life of the Government to 2014/15. A further year, 2015/16 will be added to the MTFP, although no further savings target will be added to that year at present.
26. Aligning with the new Directorate structure in the Business Strategy, the County Council Management Team (CCMT) has agreed that indicative targets would be set for the three new Directorates plus one for the support services (Chief Executive's Office, Customer Services & Property Services). It is currently planned to allocate the additional £100m target evenly across the years 2011/12 to 2014/15.
27. CCMT considered and agreed that the savings which are already in the MTFP should be stripped out, given the changes in service delivery which are likely, in order to deliver the total savings in a new way. The total of the savings in the MTFP still need to be achieved however, so they have been added to the new target of £100m. Where the savings are still relevant and achievable, they will still be able to contribute towards the overall savings target. The total target has been allocated at Directorate level only.

² Also see Annex 2 paragraph j

28. The savings target by Directorate is set out in the table below.

Total Savings	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m	Total excl 2010/11 £m
Children, Education & Families (CEF)	6.5	10.4	10.2	8.2	7.4	42.7	36.2
Grants in CEF passported to Schools ³	0	4.2	4.3	4.3	4.3	17.1	17.1
Total CEF	6.5	14.6	14.5	12.5	11.7	59.8	53.3
Social & Community Services ⁴	11.5	19.2	18.7	17.3	8.9	75.6	64.1
Environment & Economy (excl Property)	6.7	7.2	6.6	9.5	3.8	33.8	27.1
Support Services ⁵	4.6	6.0	5.2	3.2	2.7	21.7	17.1
	29.3	47.0	45.0	42.5	27.1	190.9	161.6
Inflation savings	6.2	2.9	2.4	0.0	0.0	11.5	5.3
TOTAL	35.5	49.9	47.4	42.5	27.1	202.4	166.9

29. In addition to the savings built into the existing MTFP, £65m of pressures are also built in. These mostly relate to adults' demography and waste landfill tax/landfill allowance trading costs. The need for the additional funding will require to be justified as part of the overall Service & Resource Planning process.

30. In the light of the grant reductions indicated above, a fresh approach to the Service & Resource Planning Process is required, it will not be feasible to achieve these savings by just focusing on improving value for money and cost effectiveness alone. A fundamental look at services is needed with the view to concentrating on essential services and reframing the nature of provision.

Service & Resource Planning Process

31. The first stage of the process this year has been a series of officer Peer Challenge sessions in August for the three new Directorates. These have reviewed the need for the pressures built into the MTFP; checked progress against the savings that are already required for 2010/11 and discussed the potential major changes in service delivery and the impact these would have on service standards.

³ Relates to grants held by Children, Education & Families Directorate but passported directly to schools

⁴ Includes Community Safety and Fire & Rescue Service

⁵ Comprises Chief Executives Office, Customer Services and Property Services

32. Directorates are concurrently engaged in a review of their management structure which will not only help address the savings required but will also provide the council with greater flexibility and a more cross-directorate approach.
33. The Oxfordshire “Big Debate” programme was formally launched by Cabinet in July 2010 and will close on 4 October 2010. The programme is aimed at ensuring that everyone in the county has a chance to have their say about which services they value, where they think there is red tape we could remove and what their priorities are for Oxfordshire. A series of staff engagement activities are planned to find constructive ideas for savings and new ways of working. In addition, five public events are scheduled for September providing opportunities for residents, stakeholders and employees to give their ideas about how our required programme of savings will be implemented.
34. This year, the budget consultation exercise with the public has been through the citizens’ panel, Oxfordshire Voice. During August a questionnaire on spending priorities was circulated to the 2,500 people who volunteered to be a part of the panel and who complete surveys on a quarterly basis. Responses to the questionnaire will be collated by Ipsos Mori during September.
35. The Peer Challenge sessions in August will help inform Star Chambers which are planned for September and October. Future service options will be required for Star Chambers with estimates of savings anticipated along with the cost of implementation over the period 2011/12 to 2014/15. Capital proposals will form an integral part of these options and therefore integral to the planning process. Directorates will be required to set out :
- A Directorate vision articulating what the business will look like in five years time;
 - Options for future service provision including any potential_community involvement;
 - How the changes to services will be achieved (e.g. externalisation, partnership, cessation)
 - What reduction these changes will mean in terms of resources (e.g. staff, running costs, property/capital assets)
 - What the potential barriers to delivery are (e.g. legislative, public, partners, other services)
36. In the light of the significant changes in funding and the need to focus on priorities, business plans are not required to be produced this year. Directorate leadership teams will consider what information they require for management purposes beyond the corporate requirements. This applies to Service Units (level as previously defined by business plans) managed by a Deputy Director/Head of Service.
37. The Spending Review (SR) is due to be announced by Government on 20 October 2010. This should give a clearer indication of the level of savings needed over the period 2011/12 to 2014/15. The implications of the SR will be reported to Cabinet in November.

38. The detailed figures for Oxfordshire will still not be known until the draft Local Government Finance Settlement is announced at the end of November or the beginning of December. As there will be uncertainty in the actual savings required until this announcement, and the need to deliver services fundamentally differently will take time to develop, the previous process whereby Scrutiny Committees consider their portfolio savings proposals in detail will not be possible.
39. This year all Scrutiny Committees will meet to consider detailed budget proposals on a single day; 20 December 2010. Each committee will meet in turn, although all Members will be able to observe. Briefing sessions will be held prior to this date in December to provide Members with an overview of the latest financial position and the progress to date in relation to the Service & Resource Planning process. To supplement this, the September round of Scrutiny Committees will be presented with a high level overview of the services provided by the Directorate and the challenges which will need to be addressed to meet the target.
40. The consultation period for the Local Government Finance Settlement is six weeks. Confirmation of the grant figures for Oxfordshire could therefore be as late as mid January if the draft settlement is announced in early December. To allow sufficient time for the information to be analysed and budget proposals agreed, the Leader of the Council has moved the date of Cabinet from 18 January 2011 to 25 January 2011. On 14 September 2010 Council will be asked to agree to move the February 2011 Council, the budget setting meeting, from 8 February 2011 to 15 February 2011. This still allows sufficient time to hold, if required, a reserve Council meeting on 28 February, the legal deadline for setting the budget.
41. A timetable for Service & Resource Planning is attached at Annex 3.

Capital Programme Planning

The New Asset Strategy and the Capital Strategy

42. In previous years the Council has had a corporate asset management plan which, to some extent, was a compilation of Directorate identified needs for assets. There is now an intention to move to an asset strategy which will be an important component of the Council's business strategy.
43. The asset strategy should ensure that the Council's property assets are effectively planned, used and managed so that they make the maximum contribution to the achievement of the Council's corporate objectives. It should lead to a reduction in the overall size of the portfolio consistent with changes to the scale and nature of provision of services by the Council. Wherever possible the strategy will be linked to asset or service strategies for partners and should help to achieve increased co-location and sharing.
44. A draft asset strategy will reported to the Cabinet in December 2010 and subsequently to the Strategy and Partnerships Scrutiny Committee in January

2011. At the same time, the Capital Strategy will be reviewed and updated in light of the changing financial and business strategy environments.

45. These, along with any comments from the Scrutiny Committee, will be reported back to Cabinet in January 2011 and form part of the budget proposals for onward recommendation to Council in February 2011.

Capital Programme Review

46. Changes to the Capital Programme will be needed arising from pressures being identified in the current year as well as the expectations from the March 2010 (Labour) National Budget which included assumptions of a 50% reduction in Capital Borrowing allocations. The Coalition Budget announced that no further reductions would be made in Capital borrowing allocations, although there were changes to Capital grants.
47. Therefore, on 20 July 2010, the Cabinet agreed to review and prioritise the capital programme in response to forthcoming cuts in government funding. This is to ensure that priorities for the capital programme are re-evaluated to reflect the Business Strategy. The Cabinet also placed a moratorium on any capital scheme not currently contractually committed pending further work on the future programme over the summer and autumn and the Spending Review.
48. This is a wide-ranging review in order to enable the Council to take a fresh look at the current projects within the programme, debate the relative importance of each scheme and make decisions about the priorities in this new environment. It includes capital investment in schools, transportation, physical assets needed to deliver public services, carbon and waste management, cultural facilities and the development of public spaces. A number of schemes are not part of the review as they were either physically completed or contractually committed before the review started or are fully funded from specific / ring-fenced funding (e.g. grant and S106 resources).
49. It is also important to note that the government is currently reviewing the Prudential Guidelines in order to limit/ reduce government borrowing levels. If there are any changes to these guidelines which affect the level of prudential borrowing that can be taken up by local authorities, prudentially funded schemes will be subject to a further review.

An Integrated Planning Approach

50. Best practice requires that capital investment and programming should be an integral part of the Council's Service & Resource Planning process. This is because the creation of a new asset or investment in the existing assets and infrastructure network can only be justified when detailed business strategies and delivery models for the service are determined.

51. In order to achieve this, capital impacts of service strategies will be also be reviewed in Star Chambers before decisions are made on either revenue or capital.
52. As part of the Capital Planning process the following action are planned:
 - (a) Initiate the capital investment planning process early in 2010/11 considering that there may be some policy implications arising from the challenging capital funding environment;
 - (b) Use the 50% cut scenario as the starting point for evaluating likely policy implications in each programme area;
 - (c) Review the Children, Education & Families and Transport Capital Programmes as well as the other corporately funded programmes as part of this year's capital planning process ;
 - (d) Not to have a capital bidding process for 2011/12 and ask Directorates to consider their existing and emerging capital priorities in light of the business strategy and emerging service strategies;
 - (e) Consider savings that can be generated through better use of the property portfolio as part of the overall Service & Resource Planning process;
 - (f) Give priority to statutory requirements and capital programmes/ projects linked to delivering directorate efficiency strategies/ programmes when reviewing individual programmes;
 - (g) Promote the flexible use of resources as far as possible to maintain the investment level in essential areas and align the capital strategy accordingly.
53. It is expected that this new approach will ensure that capital prioritisation decisions are considered as part of the changes to the shape and size of current service provision or in light of the new service delivery models.
54. Councillors will also have further opportunities to contribute to capital prioritisation decisions through the Scrutiny Meetings which will be held on 20 December as part of the Service & Resource Planning process.
55. Some decisions on the 2010/11 capital programme will need to be made before February 2011, due to time constraints applied to some of the funding streams or other urgent matters that may affect some projects. All these decisions will be made in accordance with the capital moratorium procedure and will be reported to councillors on a monthly basis as part of the Financial Monitoring Report.

Equality and Inclusion Implications

56. The Equality Act 2010 imposes a duty on local authorities that when making decisions of a strategic nature about how to exercise their functions they must have "due regard to the desirability of exercising them in a way that is designed to reduce the inequalities of outcome which result from socio economic disadvantage".

57. In planning the detailed savings proposals as part of the Service & Resource Planning process, equality issues will need to be considered from the outset. Services will need to undertake Equality Impact Assessments in consideration of their proposals along with the impact on the community.

Financial and Legal Implications

58. This report sets out the Service and Resource Planning process for 2011/12, although it is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of Council Tax. This report provides information which when taken together with the future reports up to January 2011 will lead to the budget requirement and Council Tax being agreed in February 2011.

RECOMMENDATION

59. **The Cabinet is RECOMMENDED to:**
- (a) approve the Service and Resource Planning process for 2011/12, noting the integration of Capital and the Asset Strategy;**
 - (b) endorse the distribution and phasing of the total savings targets between Directorates and support services in paragraph 28;**
 - (c) note the decision of Council on 14 September 2010 on the date for the budget setting meeting of Council.**

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Background papers: Service & Resource Planning 2011/12 to 2015/16 and the Council's Business Strategy – Cabinet 20 July 2010

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