Financial Strategy 2018/19 – 2027/28

Introduction

The existing Financial Strategy sets out how the Council intends to finance its services and priorities and the principles upon which the medium term financial plan and capital programme are based.

This new financial strategy will set out a vision for how we will become self-sustaining and financially resilient in delivering the Council's vision for **thriving communities for everyone in Oxfordshire**. The strategy therefore reflects a sound understanding of the balance between what is possible and what is prudent and explicitly provides capacity to deal with the unexpected. Fundamentally, the financial strategy will align capital and revenue resources with objectives. The new financial strategy comprises short, medium and long term planning horizons but focuses on the medium and longer term because, the challenges we face are with us for the long term and this this time horizon which should be the focus if the Council is to thrive in an uncertain future.

Context for the Financial Strategy

Since 2010, the Council along with the rest of local government has seen significant reductions in government grant at the same time as rising demand particularly in adult and children's social care. By 2019/20, the Council will no longer receive any revenue support grant and will also see a reduction of £6.2m in what was a fixed 'top-up' share of business rates the authority receives. As a result of this, the focus of financial planning over the last six years has been on the short and medium term to ensure the Council remained financially viable.

In 2016/17, the government changed the methodology for distributing funding and introduced the term core spending power which took into account the wider resources available to councils including council tax, locally retained business rates as well as revenue support grant. The new distribution methodology was designed to ensure that 'local councils delivering similar services received similar percentage reductions in the 'settlement core funding for those services'. Authorities with a greater proportion of their core funding coming from council tax receiving less revenue support grant (and ultimately less business rates that they are able to retain). Including a measure of council tax into the calculation results in Oxfordshire being adversely affected.

Since then, there has been recognition that funding for adult social care is inadequate and as a temporary measure the government introduced firstly the adult social care precept and then the additional grant funding in 2017/18 as well as the improved Better Care Fund announced in the 2017 Budget.

Since the introduction of the 50% Business Rates retention scheme in 2013/14, growth across Oxfordshire has been consistent and by the time we get to the next reset of the baseline in 2020/21, Oxfordshire County Council will be receiving approximately £3m annually. Whilst this will reduce to zero at the reset in 2020/21, it is expected to grow at a similar rate again.

Work on the Fair Funding review, a review of the existing needs and distribution formula has been progressing slowly. Consultation on the call for evidence stage closed in September 2016 and the next consultation is expected imminently. The needs formula has not been reviewed since the implementation of the 50% business Rates retention scheme in 2013/14 and there is recognition that it is out of date and does not reflect need. The review will be split into three areas; relative needs, relative resources and transition arrangements. The new formula will determine how much funding each council receives and is expected to be implemented in 2020/21.

In respect of the Capital Programme, changes in capital financing from supported borrowing to government grant in 2011/12 alongside the creation of LEPs and major transport funding being routed via them as well as the introduction of academies and free school programmes have had a major impact on the council. Annual funding by grant is now limited to school's basic need and structural maintenance plus highways maintenance. This means the ability for the council to fund local property or infrastructure schemes is limited to use of capital receipts, Section 106 income, prudential borrowing (giving rise to revenue costs); or specific grants which often require a bidding process. This has resulted in an increase in backlog maintenance of existing assets reduced ability to deliver local schemes.

Financial Planning Horizons

The different planning horizons have different characteristics in terms of responding to risk and uncertainty, use of financial techniques and their contribution to planning approaches. The financial strategy therefore covers:
The Budget – for the forthcoming year (2018/19) with an emphasis on control, probity, meeting regulatory requirements and accountability
The Medium Term Financial Plan – for the three years following the budget year (2019/20 – 2021/22) with an emphasis on a commitment to improving performance, responsiveness to customers needs plus improving efficiency and effectiveness
The Strategic Financial Plan – for the six years beyond the medium-term plan (2022/23 – 2027/28) with a focus on long term planning that enables futures needs and outcomes to be met, is strategic and customer led, proactive in managing change and risk and receptive to new ideas

The Budget & Medium Term Financial Plan

Setting the (revenue) budget for the forthcoming year is the only legal requirement and is the cornerstone of securing stewardship. The annual budget process requires detailed plans of both expenditure and income, linked to expected service requirements and changes and uses contingencies and reserves to mitigate the impact of risk and uncertainty. As well as being the financial representation of the council's activities and plans, the budget is the primary instrument of financial control as spending plans and operational objectives are specified in sufficient detail to be allocated to mangers. Setting activity targets or having a target unit cost for operational objectives will then provide a link to what the budget is expected to deliver. Through routine and regular monitoring of forecast spend, unit costs and activity, managers can report on their success in delivering planned objectives. At least in the first instance, for the 'high risk' budget areas, unit costs and planned

activity should become part of the both the budget setting process but also routine monitoring.
The budget is the bedrock on which both medium term planning and longer term financial strategies are based and the budget, Medium Term Financial Plan and Capital Programme are intrinsically linked. Issues which need to be taken into consideration in setting the budget are also relevant for Medium Term Financial Plan and the Capital Programme.

The Medium Term Financial Plan ensures that future needs and outcomes can be met and is based on forecasting projections of both income and expenditure using available information and using sensitivity analysis to understand the implications of both upside and downside risks. Furthermore, the identification of risks requires mitigation plans or strategies to be developed which aim to reduce the likelihood of the risk materialising.

By April 2020, we will have delivered the savings required to reduce spending in line with the government's grant reductions. Beyond this we will aim to achieve long term sustainability and financial resilience and provide the resources to deliver the Council's vision and priorities.

Beyond 2019/20 the current working assumption is that the level of government support will remain stable. The Fair Funding Review is expected to be implemented in 2020/21 and will deliver a formula which reflects both need and resources. Given the recognition that authorities that deliver adult social care and more recently children's social care are not sufficiently funded it is currently assumed the council's assessed need will increase. However, the council also has relatively high resources – i.e. the tax base which reduces the reliance on government grant. The assumption is that these two factors cancel each other out and the level of funding received under the new formula will be the same as the funding in 2019/20.

Tax base growth is expected to be 2% from 2019/20 and beyond. After taking into account an allowance for inflation and demographic costs, the tax base increase required to give a breakeven position is 1.41%. The existing MTFP includes growth of 1.63% (around 4,000 homes at Band D), but given the known housebuilding need across Oxfordshire and the recent government announcement of a Housing and Growth deal for Oxfordshire, this increase is expected to be surpassed.

To succeed in reaching long term sustainability and financial resilience requires successful delivery of three critical elements which reflect the financial planning principles for the budget and medium term plan:
- Managing the impact of rising need, caused by population growth and increased complexity, for adult and children's social care through effective demand management approaches and cost control
- Taking a holistic approach to use of reserves and other corporate measures as well as income generation, to ensure the council has the financial breathing space during 2018/19 and 2019/20 to drive forward actions which will reduce demand
- Delivering the savings currently in the medium term financial plan (MTFP), and identifying upwards of £15m of savings included in the MTFP from transforming how we work

A comprehensive and robust budget and Medium Term Financial Plan should understand, consider and take a view on a broad range of issues. The following have been considered in the proposed budget and Medium Term Financial Plan:

- That funding is linked to the priorities in the Corporate Plan
- Understands how performance/outcomes drives both expenditure and income
- Understands and reflects the current and forecast economic position (local, UK, abroad)
- Considers demographics and population change
- Understands and reflects forthcoming new or changes to government policy
- Takes into consideration how services will be delivered over the medium term
- Reflects an understanding of the market (where services delivered externally) and how our actions and decisions influence that now and in the future
- Considers and understands priorities of partners and neighbours (where this might impact on the Council) and risks associated with this in terms of interdependencies and the availability of future funding
- Has well planned and robust savings proposals that do not have an optimism bias
- Ensures there are adequate balances to meet risk over the medium term
- Ensures there are sufficient earmarked reserves to meet the priorities over the medium term
- Has an understood and agreed risk appetite in relation to:
    - Treasury Management Strategy
    - Investment Strategy
    - Bad Debt collection
    - Rate of collection of Council Tax and Business Rates
    - Use of earmarked reserves
- Includes a sensitivity analysis (upside and downside risk) for expenditure and income
- Understands and maximises the income streams available
- Considers the replacement of assets
- Takes account of the revenue consequences of capital decisions

Measuring the Council's financial health through a set of targeted measures is a key way of measuring our financial health and resilience in supporting the Council's plans and priorities. The key indicators upon which we will measure ourselves are set out in Appendix 1. Financial indicators alone will not give a complete picture of financial health and sustainability; strengths of financial management and governance, which should be reviewed on a regular basis, are also important factors to be taken into consideration as well as external auditor's opinion on arrangements to secure value for money and financial resilience. These are reported to the Audit & Governance Committee as part of the Annual Governance Statement and Annual Audit letter respectively.

The Strategic Financial Plan

In developing the strategic financial plan, it is important to understand both the context of Oxfordshire as well as the main drivers of change. The plan should also reflect the view of the council in terms of its longer term strategic positioning. In this context, we then need to ensure that the most fundamental issues facing the organisation which have been identified are responded to. It also needs to be recognised that longer term planning will need to account for alternative possible future economic and political environments. There will be uncertainty, unquantifiable factors and little or no reliable data.

The first steps in moving towards a longer-term approach to financial planning is the decision to extend the capital programme period from four years, in line with the Medium Term Financial Plan, to a ten-year programme. This will enable our approach to setting the Strategic Financial Plan moves This longer-term approach will offer strategic choice and options around developing our community assets and respond to the fundamental issues of rising demand in adults and children’s services and allow for a for planned approach to replacement of assets including street lighting.

The new requirement for a Capital Strategy which sets out the long-term context in which capital expenditure and investment decisions is a welcome move to help focus on strategic financial planning term. This longer-term approach will offer strategic choice and options around developing our community assets and respond to issues such as rising demand in adults and children’s services and allow for a for planned approach to replacement of assets including street lighting. The strategy needs to demonstrate how investment decisions are taken in line with service objectives and this is key to the longer-term planning approach.

Appendix 1

Measuring performance

The budget is monitored and reported to Cabinet on a regular basis. The savings required to be delivered as part of the Medium Term Financial Plan are also monitored and reported on regularly. However, in addition to this a key theme of the Medium Term Financial Plan should be a set of key performance indicators that measure the Council's financial health.

Measurement of funding available:
Change in core spending power
Trend of changes in council tax base

Progress in savings required over the medium term:
Savings achieved over last 4 years and those still to be achieved

In year achievement of savings and delivering to budget:
Under/overspend at year end
In year achievement of planned savings in % terms

Level of and use of earmarked reserves:
Un-ringfenced reserves as % of net revenue expenditure
Change in un-ringfenced reserves over last 4 years as % of net revenue expenditure
Number of maintained schools with deficit balances

Ability to manage unplanned/unforeseen events:
Balances as % of net revenue expenditure
Trend in use of/additions to balances over last 4 years

Capital assets:
Highways backlog maintenance as % of asset value
Property backlog maintenance as % of asset value
Street furniture backlog maintenance as % of asset value
% of developer contributions meeting cost of new build schools

Settlement funding assessment exposure:
Settlement funding assessment as % of revenue spending power

Pension Fund liability:
Pension fund liability as % of net revenue budget

Debt:
Total debt as % of net revenue budget
Debt more than one-year-old as % of total debt
Change in impairment provision over last 4 years
Debt write off as % of total debt

Nb. Key Treasury Management indicators are reported as part of the Treasury Management Strategy reports to Audit & Governance Committee and Cabinet three times a year.