

Division(s): N/A

**ITEM CAX**

**CABINET – 19 September 2017**

**Service & Resource Planning  
2018/19 – 2021/22**

**Report by the Director of Finance**

**Introduction**

1. This report is the first in the series on the Service & Resource Planning process for the forthcoming year which will culminate in Council setting a budget for 2018/19 and a medium term plan and capital programme to 2021/22 in February 2018. This initial report sets the context and the starting point for the process. It sets out:
  - the assumptions on which the existing Medium Term Financial Plan (MTFP) agreed in February 2017 is based,
  - information arising from government and other announcements
  - known and potential financial issues for 2018/19 and beyond which impact on the existing MTFP, and
  - a proposed process for Service & Resource Planning for 2018/19 including a timetable of events.
  
2. The following annexes are attached to this report:
  - Annex 1a: Previously agreed budget changes 2018/19 – 2020/21
  - Annex 1b: Review of assumptions in the existing MTFP
  - Annex 2: Further detail of government announcements
  - Annex 3: Service & Resource Planning timetable for 2018/19
  
3. It is proposed that the Medium Term Financial Plan (MTFP) and Capital Programme continue to cover a four-year time frame and are therefore extended by one year to cover 2021/22. There is uncertainty in government funding beyond 2019/20 due to the possible introduction of 100% Business Rates Retention<sup>1</sup>, the introduction of a new Fair Funding Formula and the absence of a Spending Review. However, this uncertainty is by no means unusual and now that general government funding only accounts for 6% of total income, it is less of a risk than in the past. In forming the MTFP prudent assumptions will be made based on the latest information available and using sensitivity analysis to form a view.

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<sup>1</sup> Further details are set out later in the report

## Assumptions in the existing Medium Term Financial Plan

4. The 2017/18 – 2020/21 MTFP agreed by Council in February 2017 included the requirement for an additional £16m of savings to be made over the period of the plan. This brought the total level of savings required to offset funding reductions and to meet additional expenditure pressures to £77m over the period 2017/18 to 2020/21. Of this, savings of £47m are built into the budget for 2017/18 and progress against this is being monitored through the Financial Monitoring Reports to Cabinet throughout this financial year.
5. Savings in the existing MTFP required to be delivered in future years are £26m in 2018/19 and £4m in 2019/20. The 2018/19 figure includes £15m of savings to be achieved from the Fit for the Future transformation programme.
6. The MTFP also includes an additional £14m of on-going funding for demographic and other directorate expenditure pressures added over the period 2018/19 – 2020/21 and provides for 1% pay inflation, up to 3% contract inflation, 2% income inflation. No inflation is provided for general prices<sup>2</sup>.
7. Details of the savings and additional funding in the existing MTFP for 2018/19 to 2020/21 are set out in Annex 1a.
8. The MTFP assumed general balances would be £17.8m at the start of 2018/19. The Financial Monitoring report presented to Cabinet in July 2017 forecasts general balances<sup>3</sup> will be £21m at the end of 2017/18. Therefore, balances would be £3.2m greater than anticipated in 2018/19.
9. Earmarked reserves (reserves held for a specific purpose) were forecast to be £73m for 2018/19 in the MTFP. The latest forecast reported to Cabinet in July 2017 shows earmarked reserves totalling £100m at the end of 2017/18. The level of earmarked reserves and general balances are reviewed each year as part of the Service & Resource Planning process.
10. The Budget Reserve is being used to manage the cash flow implications of the MTFP. It is forecast to have a balance of £1.3m at the end of 2017/18 and a planned contribution to the reserve of £5.4m in 2018/19. This gives a balance of £6.7m that could be used as one-off funding in 2018/19 or the medium term.
11. General funding (excluding council tax) is estimated to reduce by £9m between 2018/19 and 2020/21 to £68m a year by 2020/21, a reduction of 10% compared to 2017/18. Revenue Support Grant and Business Rate Top Up estimates for 2018/19 and 2019/20 are based on the figures published in Oxfordshire's four-year funding deal for the years 2016/17 to 2019/20.

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<sup>2</sup> Applied to costs of premises, transport and supplies and services.

<sup>3</sup> After taking into account Directorate projected overspends (after the use of Corporate Contingency)

12. Council tax increases of 4.99% in 2018/19 and 1.99% in 2019/20 and 2020/21 are assumed in the MTFP, this includes a 3% increase for the Adult Social Care precept in 2018/19. Total income from Council Tax (including collection surpluses) is estimated to be £381m a year by 2020/21.
13. Further details on the assumptions in the existing MTFP are provided in Annex 1b.

## **Government and Other Announcements**

14. Since Council approved the 2017/18 budget, MTFP and Capital Programme, several announcements have been made which have, or may have, financial implications. They are set out below.

### Spring Budget March 2017

15. On 8 March 2017, the Chancellor of the Exchequer, Philip Hammond made his 2017 Budget announcement. Details are set out in Annex 2 but the main implications for Oxfordshire are set out in the following paragraphs.
16. Included in the National Productivity Investment Fund (NPIF) is £690m of local transport funding which will be competitively allocated to local authorities, with £490m made available by early autumn 2017. The Council submitted two bids for this funding by the deadline of 30 June 2017.
17. An additional £2bn of grant funding was announced for Adult Social Care. The funding will be made available to local authorities over the next three years with £1bn in 2017/18, £674m in 2018/19 and £337m in 2019/20. The funding will be pooled in the Better Care Fund (BCF) but will be for councils to spend on unmet pressures on older people and stabilising the care market.
18. The Council received an allocation of £6.3m for 2017/18 and the use of this additional funding was approved through the Financial Monitoring Report to Cabinet on 18 July 2017.
19. The Budget statement detailed that the Health and Communities Secretaries will announce measures to identify and support authorities struggling with delayed discharges and to ensure more joined up working with the NHS. In the longer term, the government will set out options for the future financing of Social Care in a Green Paper later this year.

### General Election and Queen's Speech

20. In April 2017 the Prime Minister, Theresa May, announced that a general election would be held on the 8 June 2017. The Conservative party failed to win a majority in the election and Theresa May formed a minority government with the support of the Democratic Unionist Party.

21. A cabinet reshuffle occurred after the election however changes were minimal. Philip Hammond and Sajid Javid remained in their roles of Chancellor of the Exchequer and Secretary of State for Communities & Local Government.
22. On 21 June 2017 the Queen announced the Government's legislative programme for the 2017-19 parliamentary session in the Queen's Speech.
23. The Government will be bringing forward proposals for consultation to build widespread support for any changes to the social care system. The Government will work with partners of all levels, including those who use services and who provide care and will then bring forward proposals for a public consultation. The consultation will set out options to improve the social care system and put it on a more secure financial footing as well as improve the quality of care and the variation of practice.
24. The Queen's Speech made no mention of Grammar Schools however it did cover the National Funding Formula consultations and the Government's continued commitment to making the distribution of schools funding fairer. The Government will continue to enforce the conversion of failing maintained schools into academies.
25. The Queen's Speech failed to cover the Local Government Finance Bill (100% Business Rates Retention). Prior to the election the Bill had been introduced to parliament however, the Bill had not progressed sufficiently to receive royal ascent before the general election.
26. However, this does not mean that the move towards 100% Business Rates Retention needs to stop. A communication to local authorities from the Department for Communities and Local Government (DCLG) stated that "Ministers remain committed to local government taking greater control of their income, as outlined in the Manifesto". Many of the changes can take place under the current legislation, for example the Small Business Rate Multiplier can be capped at CPI, the levy can be set to 0% and the local share can be set at any value, including 0%.

#### Department for Communities and Local Government announcements

27. On 1 September 2017, DCLG published an invitation for local authorities to pilot 100% business rates retention in 2018/19 and to pioneer new pooling and tier split models. Applications need to be submitted by 27 October 2017. Due to affordability constraints, the government will assess applications against the following selection criteria:
  - Proposed pooling arrangements operate across a functional economic area (i.e. the county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries);
  - Because they were not included in the 2017/18 pilot scheme, the Government is particularly interested in piloting in two-tier areas;

- The proposals would promote the financial sustainability of the authorities involved; and,
  - There is evidence of how pooled income from growth will be used across the pilot area.
28. Work is also progressing on the Fair Funding formula<sup>4</sup> and a consultation is expected in the Autumn with the introduction expected in either 2019/20 or 2020/21. The review is focusing on a cost drivers approach and split into three areas; relative needs, relative resources and transitional arrangements.
29. Further detail on both the Spring Budget and Queen's Speech is set out in Annex 2.

### **Potential Pressures**

30. As reported in the Financial Monitoring Report to Cabinet in July 2017, demand in Children's services is continuing to increase, with a forecast overspend of £6.7m in the current financial year. A Children's Services Programme has been established with a focus on addressing demand management; strengthening early help and prevention including closer partnership working; strengthening staffing resources and building community resilience. Whilst the programme will take time to deliver, it is anticipated that the benefits will begin to materialise by the end of the financial year.
31. The 2018/19 savings figure includes a saving of £1m to be made in Public Health, assuming that the ringfence on the grant was to be removed in 2018/19. It was announced on the 9 March 2017 that the ringfence would continue until 2019/20 when it is expected the funding becomes part of business rates funding.
32. A review of the local government pay spine structure following the introduction of the national living wage and pressure to lift the public sector pay cap of 1% may result in a pressure on the pay inflation allowed for in the MTFP. A 1% increase in pay would cost an additional £1.4m.
33. In addition to the review of local government pay the current pay negotiations within the Fire and Rescue Sector have identified a potential increase across the medium term financial plan of 14.6%, which would be 10% above that allowed for in the MTFP and would cost an additional £1.5m.
34. Following the tragic incident in Kensington at Grenfell Tower there are a number of reviews being undertaken which will increase the pressure on Fire Protection teams. There will need to be a full review of staffing resources available to meet the implications of any outcomes. The service is currently

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<sup>4</sup> To replace the existing four block model as a way of determining funding 'need' for each council

unable to meet the risk based inspection programme due to focus on reactive work which does bring a degree of risk to the authority in the event of a failure or serious incident. To meet the current level of demand would require an increase in staffing cost of an additional £0.3m.

35. The use of the additional £6.3m adult social care grant funding approved by Cabinet in July 2017 included £2.9m of ongoing expenditure for investment in hospital social work team capacity and an increase in home care and care home fee levels. Oxfordshire will receive £6.4m in 2018/19 and £3.2m in 2019/20 that will fund this ongoing investment, however if further funding is not received for adult social care in 2020/21, a pressure of £2.9m will fall to the council.

### **Service & Resource Planning Process and Timetable**

36. The focus for the 2018/19 Service & Resource Planning process will be the identification of the £15m of savings from the Fit for the Future transformation programme. These are currently included in the existing MTFP to be delivered in full in 2018/19 but this will be reviewed as part of the Service & Resource Planning process.
37. The Fit for the Future programme is now well established with the three enabling workstreams of Digital First, Business Efficiencies and Place, each with clear projects, outcomes and timescales. As set out in the report to Cabinet in April 2017, the enabling work streams will provide the functionality and change required to improve frontline services as well as back office functions through service redesign. It is through the service redesign that the savings are expected to be released therefore service redesign has been designated as phase 2 of the programme with separate governance arrangements. The proposals for redesign will be brought forward as part of the Service & Resource Planning process with details as part of the report to Cabinet in December 2017.
38. Detailed budget proposals will be presented to Performance Scrutiny Committee in December 2017, which will enable a cross-party group of councillors to consider and challenge the proposals. Capital proposals will be considered in early January 2018. An online public consultation on the budget proposals will take place during December 2017.
39. Cabinet will take into consideration the comments from Performance Scrutiny Committee and the public alongside the funding available announced as part of the provisional settlement, in setting out its proposed budget to Cabinet on 23 January 2018.
40. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by 31 January 2018. Provisional figures are expected in mid-December 2017.

41. The final settlement is not expected until early February 2018. This will confirm the general funding available to the Council for 2018/19 and the Council Tax referendum limit to be applied.
42. The Council meeting to agree the 2018/19 revenue budget, medium term financial plan and capital programme will take place on 13 February 2018.
43. A timetable for the Service & Resource Planning process is attached at Annex 3.

## **Capital Programme Planning**

44. The Council considers the capital investment and programming activity as an integral part of the Service & Resource Planning process. This ensures that the creation of a new asset or investment in the existing asset and infrastructure network is justified through detailed business strategies and delivery models for the service, and implications for the medium term financial plan are clearly identified. CIPFA<sup>5</sup> is currently consulting on proposed changes to the Prudential Code. The proposed changes include a requirement to report on the overall capital strategy to full council in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
45. In view of the delivery period for significant programmes, such as those relating to the Local Growth Deal, it is proposed to extend the capital planning period a further year to cover the period 2017/18 to 2021/22. This will provide an additional year of funding in the capital programme and align to the period of the MTFP.
46. New capital investment pressures are currently emerging. Proposals will be brought forward in September/October 2017 to inform the capital planning process.
47. Councillors will have an opportunity to contribute to capital prioritisation decisions through the January 2018 Performance Scrutiny Committee meeting.

## **Equality and Inclusion Implications**

48. The Public Sector Equality Duty, under section 149 of the Equality Act 2010, places a responsibility on local authorities to exercise 'due regard to the need to eliminate unlawful discrimination... advance equality of opportunity... and foster good relations.'
49. There are no equality and inclusion implications arising directly from this report. A high level assessment of the broad impact of new savings options

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<sup>5</sup> The Chartered Institute of Public Finance & Accountancy

will be included as part of the published information in December 2016. More detailed impact assessments, which will take account of feedback from the public consultation and from Scrutiny, will accompany Cabinet's proposed budget in January.

## **Financial and Legal Implications**

50. This report is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2018, will lead to the council tax requirement being agreed in February 2018, together with a budget for 2018/19, updated medium term financial plan and capital programme.

## **RECOMMENDATION**

51. **The Cabinet is RECOMMENDED to:**

- a) Note the report;**
- b) Approve the Service and Resource Planning process for 2018/19;  
and**
- c) Approve a four year period for the Medium Term Financial Plan and Capital Programme to 2021/22.**

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