

## **CABINET – 22 JANUARY 2019**

### **SERVICE & RESOURCE PLANNING 2019/20 – 2022/23**

**Report by the Director of Finance**

#### **Recommendations**

1. **Cabinet is RECOMMENDED to approve:**
  - **The Review of Charges for 2019/20**
  - **The Financial Strategy for 2019/20**
  - **The Earmarked Reserves and General Balances Policy Statement 2019/20.**
  
2. **Cabinet is RECOMMENDED to RECOMMEND Council to approve:**
  - **in respect of revenue:**
    - **a budget for 2019/20 and a medium term plan to 2022/23, based on the proposals set out in Section 4.2;**
    - **a council tax requirement (precept) for 2019/20;**
    - **a 2019/20 council tax for band D equivalent properties;**
    - **virement arrangements to operate within the approved budget;**
  
  - **in respect of capital:**
    - **the Capital & Investment Strategy for 2019/20 - 2028/29 including the Prudential Indicators and Minimum Revenue Provision Methodology Statement;**
    - **a Capital Programme for 2018/19 to 2028/29 as set out in Section 4.9.1 including:**
      - (i) **the new capital proposals as set out in Section 4.9.2;**
      - (ii) **the Highways Structural Maintenance Programme 2019/20 and 2020/21 as set out in Section 4.9.3;**
  
  - **in respect of treasury management:**
    - **the Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20 incorporated in the Capital & Investment Strategy in Section 4.9;**
      - **to continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the Treasury Management Strategy Team;**
      - **that any further changes required to the 2019/20 strategy be delegated to the Director of Finance in consultation with the Leader of the Council and the Cabinet Member for Finance;**
      - **the Treasury Management Prudential Indicators;**

- **The Specified Investment and Non Specified Investment instruments as set out in Appendix A and B of Section 4.9;**
- **to delegate authority to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the proposed budget.**

## **Executive Summary**

3. This report is the final report to Cabinet in the series on the service & resource planning process for 2019/20 to 2022/23, providing councillors with information on budget issues for 2019/20 and the medium term. The report sets out the draft council tax precept for 2019/20, the revenue budget for 2019/20, the Medium Term Financial Plan (MTFP) to 2022/23, the Capital Programme to 2028/29 as well as supporting strategies. Information outstanding at the time of the Cabinet meeting will be reported to Council when it considers the budget on 12 February 2019.
4. Cabinet's budget proposals take into consideration the latest information on the council's financial position outlined in this report; comments from the Performance Scrutiny Committee meeting on 13 December 2018 as well as 10 January 2019; and comments from the public consultation on the budget. As final notification of some funding streams is awaited, some further changes may be made to the budget proposals ahead of full Council on 12 February 2019.
5. The report sets out a revised profile of savings expected from the Transformation Programme at paragraphs 55 to 58.
6. Charges levied by the council have been reviewed in line with the Corporate Charging Policy (set out in Annex 1a) and are set out in detail at Annex 1b. As a result of this review and an increase to statutory charges additional income is expected for 2019/20.
7. The Prudential Code for Capital Finance in Local Authorities requires that for each financial year, a local authority should prepare at least one Investment Strategy which should contain the disclosures and reporting requirements specified in the guidance. The Capital & Investment Strategy which incorporates the Treasury Management Strategy Statement 2019/20 and meets these requirements is set out at Section 4.9.
8. The Strategic Measures budget incorporates the principal and interest charges on debt as well as the interest earned on cash balances. A review of all these areas has been undertaken and will generate additional income of £2.3m in 2019/20<sup>1</sup> and a further £1.4m over the medium term.
9. Additional estimated resources of £182.9m have been identified for the Capital Programme over the period 2019/20 to 2028/29. The allocations to the capital portfolio areas have been reassessed in line with emerging pressures and

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<sup>1</sup> Replaces the £1.0m target set out in the Cabinet report in December 2018

approved programmes. Based on current projections, there is an overall shortfall of funding for the Capital Programme of £6.4m. However, as the capital proposals will increase the capital programme to over £1bn, the shortfall can be managed as funding levels are confirmed over the 10-year period.

10. The effect the proposals in this report have on the overall revenue financial position is to reduce budget shortfall from £6.6m in 2019/20 to a balanced budget position. The shortfall in future years has reduced from £32.7m to £17.3m.

## Introduction

11. The service & resource planning report to Council in February will be set out in four sections:

Section 1 – Leader of the Council’s overview

Section 2 – Corporate Plan

Section 3 – Chief Finance Officer’s statement on the budget

Section 4 – Budget Strategy and Capital Programme

12. This report forms the basis of Section 4 to that report and the annexes are numbered on that basis. In addition, the report also sets out for approval the review of charges (Annex 1).

<b>Section 4</b>	<b>Budget Strategy and Capital Programme</b>
4.1	Draft medium term financial plan (MTFP) 2019/20 – 2022/23
4.2	Pressures & savings proposals
4.2.1	Changes since December 2018 Cabinet report
4.2.2	Previously agreed and new pressures and savings
4.3	Draft Council Tax 2019/20
4.4	Draft detailed revenue budget 2019/20
4.5	Virement Rules for 2019/20
4.6	Financial Strategy 2019/20
4.7	Earmarked Reserves and General Balances Policy Statement 2019/20
4.7.1	Earmarked Reserves 2018/19 – 2022/23
4.8	Dedicated Schools Grant provisional allocation 2019/20
4.9	Capital & Investment Strategy incorporating the Treasury Management Strategy (including prudential indicators and minimum revenue provision policy statement)
4.9.1	Draft Capital Programme 2018/19 – 2028/29
4.9.2	Capital Portfolio Allocations 2019/20 – 2028/29
4.9.3	Highways Structural Maintenance Programme 2019/20 – 2020/21
4.10	Comments from Performance Scrutiny Committee
4.11	Budget consultation report

## **Corporate Plan**

13. An updated Corporate Plan 2019/2022 will be presented to Council for approval in February 2019 as Section 2, alongside the budget and Medium Term Financial Plan.
14. The plan reflects the Council's vision of Thriving Communities for everyone in Oxfordshire, and sets out our key priorities and how these will be achieved over the coming years.
15. Given the significant work in developing the existing Corporate Plan, which was signed off in July 2018, the draft plan has undergone a relatively light touch review and update. This has ensured that facts and figures are accurate, and that actions to achieve our priorities reflect any progress or changes since the previous plan was agreed.
16. The key outcomes and indicators that will be used to monitor and report on progress in implementing the plan have also been reviewed, though are considered to still be relevant and remain broadly the same. Further work is ongoing to review the more detailed performance measures and targets that support these outcomes and indicators, and will be reported to Performance Scrutiny and Cabinet in March 2019.

## **Overview and advice from the Chief Finance Officer**

17. Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (Director of Finance) is required to report on the robustness of the estimates made in determining the council tax requirement and on the adequacy of the proposed financial reserves. This assessment will be included in Section 3 of the report to Council in February 2019.

## **Draft Budget 2019/20 and Medium Term Financial Plan to 2022/23**

18. In September 2018, Cabinet agreed that the Medium Term Financial Plan (MTFP) to be agreed by Council on 12 February 2019 would cover the four years 2019/20 to 2022/23. A draft MTFP for 2019/20 to 2022/23 is set out in Section 4.1, this is based on the latest information on financing available to the Council following the Provisional Local Government Finance Settlement plus the new pressures and savings proposals as set out in Section 4.2 to this report.
19. Section 4.3 provides a draft of the council tax calculation including the council tax requirement for 2019/20 and the Band D council tax equivalent. The draft detailed budget for 2019/20 is set out at Section 4.4.

## **Provisional Local Government Finance Settlement**

20. On 13 December 2018, the Provisional Local Government Finance Settlement was announced by the Secretary of State for Housing, Communities and Local Government, James Brokenshire MP. The announcement set out provisional

allocations for 2019/20. The publication of the Draft 2019/20 Local Government Finance Report was the start of a consultation period that ended on 10 January 2019. The final settlement is therefore not expected until the end of January 2019.

21. This year's settlement is the fourth year of the current four-year Spending Review period and the four-year funding offer for local authorities (2016/17 to 2019/20). Following submission of an Efficiency Plan to the Department for Communities and Local Government (DCLG)<sup>2</sup>, the Council had notification that it is formally on a four-year settlement on 17 November 2016.
22. The key aspects of the Provisional Local Government Finance Settlement were set out in the Addenda to the Service & Resource Planning Report to Cabinet in December 2018. Those that have financial implications for the 2019/20 budget are set out below.

#### *Business Rate Top-Up and Negative Revenue Support Grant (RSG)*

23. The Government has confirmed the outcome of the consultation published in July 2018 to remove negative RSG. There will be no adjustment, therefore the additional £6.2m funding is confirmed. This had already been assumed in the overall financial position for 2019/20.

#### *Additional Social Care Funding (Announced Budget 2018)*

24. As announced in the Autumn Budget, the additional £650m for Adult's and Children's Social Care in 2019/20 was confirmed. The winter pressures element is £2.3m and the un-ringfenced Social Care Support Grant is £3.9m.

#### *New Homes Bonus*

25. The Government announced funding to maintain the New Homes Bonus baseline at 0.4%. Oxfordshire's provisional allocation for 2019/20 is £3.6m, £0.4m higher than the existing MTFP assumption.

#### *Levy Account Surplus*

26. The government will distribute the £180m surplus in the business rates levy account to all councils based on need. Oxfordshire's share of this one-off funding is £1.1m in 2019/20.

#### *75% Business Rate Retention Pilots*

27. 15 local authorities were named as pilots for the 75% business rate retention scheme in 2019/20. Oxfordshire's bid to be a pilot authority was not successful.
28. The 15 authorities are Berkshire; Buckinghamshire; East Sussex; Hertfordshire; Lancashire; Leicestershire; Norfolk; Northamptonshire; North and West Yorkshire; North of Tyne; Solent Authorities; Somerset; Staffordshire and Stoke; West Sussex; and Worcestershire.

#### *Council Tax Referendum Principles*

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<sup>2</sup> Renamed Ministry for Housing, Communities & Local Government on 9 January 2018. New name will be reflected in all reports going forward.

29. There is no change to the 3% Council Tax referendum limit in 2019/20. The Adult Social Care precept increase will also remain at 6% for the period 2017/18 to 2019/20.

### Outstanding Information

30. There are several areas where information is still provisional and on which assumptions are included in the budget and capital programme for 2019/20:
- Final local government finance settlement
  - Local business rates forecasts
  - Surpluses/shortfalls on council tax and business rates collection funds
  - Several grant notifications including Extended Rights to Free Travel, Fire Revenue Grant, Local Reform and Community Voices grant and the School Condition Capital Grant.
31. Any changes once this information is finalised could have an impact on the budget or capital programme. Any changes to the provisional assumptions will be reported to Council in February 2019 by the Director of Finance. All Councillors will be notified of any updated information once it is received.
32. In light of the information outstanding, it is proposed that authority is delegated to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the Cabinet's proposed budget ahead of the Council meeting on 12 February 2019.

### Draft Budget 2019/20

33. The table below sets out the funding available for 2019/20 and the net operating budget for 2019/20. The net operating budget represents the gross expenditure on council services less specific government grants (such as the Dedicated Schools Grant). Changes from the MTFP for both 2019/20 and over the medium term are explained in the ensuing paragraphs.

	£m
Revenue Support Grant	0.0
Business Rates Top Up	39.9
Non-Domestic Rating Income	34.6
Council Tax Precept	369.1
Council Tax Collection Fund Adjustments	4.6
Business Rates Collection Fund Adjustments	0.0
<b>NET OPERATING BUDGET</b>	<b>448.2</b>

### *Revenue Support Grant, Business Rates Top-up and Local Business Rates*

34. 2019/20 is the first year that the Council does not receive any Revenue Support Grant (RSG). As mentioned in paragraph 23 above, the Government has

removed the negative RSG amount that was proposed in the original four-year offer, confirming £6.2m of funding for 2019/20.

35. The district councils are required to provide final estimates of the council's share of the locally retained element of business rates for 2019/20 by 31 January 2019, together with the council's share of any surplus/deficit estimated from 2018/19. There is no movement from the existing MTFP to report at this stage as the information remains outstanding.
36. The business rate pool established between Cherwell District Council, West Oxfordshire District Council and the County Council in 2014/15 will continue into 2019/20. The pooling arrangement is expected to bring benefits to the area as a whole through reduced levies on business rates growth. This means that Oxfordshire gets to keep more business rate income than it otherwise would have done. For 2019/20 the County Council will receive a 10% share of any growth, in return for taking on a 2.5% share of any losses. The financial benefit for the County Council is expected to be £0.5m.

### *Council Tax requirement*

37. A total council tax increase of 2.99% is proposed in 2019/20 just below the council tax referendum threshold of 3.0%.
38. A council tax increase of 1.99% is proposed for 2020/21 and beyond.
39. This proposal raises additional council tax income (excluding estimated taxbase increases) of £10.5m in 2019/20, £7.2m in 2020/21, £7.4m in 2021/22 and £7.5m in 2022/23.
40. The existing MTFP includes a taxbase<sup>3</sup> of 251,778 for 2019/20, based on assumed growth of 2.00% in line with increases in the previous two years and the rate of housing growth in Oxfordshire. The report to Cabinet in December 2018 set out that the provisional the taxbase increase was only 1.78%. The final taxbase for 2019/20 has now been confirmed by all district councils at 251,264 an increase of 1.79% from 2018/19. Compared with the December 2018 report this increases the amount of funding available by £0.1m in 2019/20 but is £0.8m less than assumed in the MTFP.
41. The draft council tax calculation including the council tax requirement for 2019/20 and the Band D council tax equivalent is set out in Section 4.3.

### *Council Tax Surpluses/Deficits*

42. The latest estimate for the council's share of income from collection fund surpluses and shortfalls for 2019/20 is £4.7m, £0.2m higher than the MTFP assumption. Each district council must formally notify the County Council of its

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<sup>3</sup> The taxbase is the number of banded properties that the council uses to set the council tax. It is the total number of properties in the county weighted by reference to council tax bands A to H and takes into account discounts and exemptions.

share of any surpluses or shortfalls on the council tax collection funds within seven working days of 15 January 2019. The final and confirmed position will be notified in due course.

### *Inflation*

43. Pay inflation has been applied at 2% in line with the 2018 to 2020 pay offer for local government officers. The 2018 to 2020 pay offer also includes the introduction of a new pay spine structure from 1 April 2019 to incorporate the impact of the national living wage on lower pay scales. The financial implications of the new pay spine for the Council has also been met within the inflation provision in the MTFP. There continues to be no provision for non-pay inflation. Inflation of up to 3% has been applied to contracts based on the relevant price indices for each contract. The total amount of inflation applied to budgets is £5.5m for 2019/20, £0.2m less than the budget of £5.7m.

### *Function and Funding Changes*

44. Function and funding changes relate to changes to local government functions and changes to specific grant allocations. Some allocations for 2019/20 are yet to be confirmed (see paragraph 26) and are based on provisional estimates. The existing MTFP includes funding changes of £1.3m in 2019/20 relating most significantly to reductions in;
- Social Care Grant £1.4m,
  - Special Educational Needs & Disabilities Grant £0.4m
  - New Homes Bonus £0.1m,
  - Independent Living Fund £0.1m, and
  - Offset by an increase of £0.7m in Section 31 grant for Business Rate Reliefs.
45. Following the Autumn 2018 Budget and provisional settlement, function and funding changes total -£4.1m. The changes arise from:
- The New Homes Bonus allocation is £0.4m higher than the assumed amount in the existing MTFP;
  - The new £3.9m un-ringfenced Social Care Support Grant for Adult and Children's Social Care; and
  - £1.1m from the Levy Account Surplus (paragraph 26 above).
46. Indicative Public Health grant allocations for 2019/20 were announced in December 2017. These were confirmed in December 2018. Oxfordshire will receive £29.7m, which is £0.8m less than 2018/19 and in line with the national reduction of 2.6% from the Spending Review totals in 2015.

### *Pressures & Savings proposals*

47. The report to Cabinet in December 2018 set out the details of identified pressures and proposed savings. The position included the removal of the savings profile relating to the Transformation programme in the existing MTFP. There was a remaining net pressure of £6.6m in 2019/20, £22.2m in 2020/21, £8.5m in 2021/22 and £2.0m in 2022/23. The following table sets out the changes to the



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new pressures and savings proposals since the December report. Those that are not explained elsewhere in the report are set out in the following paragraphs.

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total All £m
<b>Overall Position per December report (shortfall +/surplus -)</b>	<b>8.122</b>	<b>21.134</b>	<b>8.456</b>	<b>2.019</b>	<b>39.731</b>
<b>Addenda to December 2018 Cabinet Report:</b>					
Additional Funding as a result of Provisional Local Government Finance Settlement	-1.509	1.086			<b>-0.423</b>
<b>Revised Position as set out in Addenda to December 2018 Cabinet Report</b>	<b>6.613</b>	<b>22.220</b>	<b>8.456</b>	<b>2.019</b>	<b>39.308</b>
<b>Changes set out in January 2019 Cabinet Report:</b>					
Income - Increased fees in Registration Service	-0.250				<b>-0.250</b>
Income - Increased & new charges in Communities	-0.400				<b>-0.400</b>
Income - Additional parking income	-0.300	-0.300			<b>-0.600</b>
Release of Highways Maintenance budget	-1.500		1.500		<b>0.000</b>
Additional Strategic Measures income	-1.294	-0.524	-0.474	-0.440	<b>-2.732</b>
Increase in Firefighters Pension grant (reduces pressure)	-0.246	0.016			<b>-0.230</b>
Final Taxbase (reduces pressure)	-0.059	-0.003	-0.002	-0.002	<b>-0.066</b>
Inflation budget not required	-0.199				<b>-0.199</b>
Contribution from Insurance Reserve	-1.000	1.000			<b>0.000</b>
Transformation additional savings - service redesign	-1.000	-6.000	-8.500		<b>-15.500</b>
Transformation additional savings - third party spend		-1.000	-1.000		<b>-2.000</b>
Transformation additional savings - income generation		-0.500			<b>-0.500</b>
Transformation additional savings - other efficiency savings	-0.500				<b>-0.500</b>
Re-profile Mental Health Saving - Staffing	0.300	0.300			<b>0.600</b>
Re-profile Mental Health Saving - Staffing		-0.300	-0.300		<b>-0.600</b>
Remove Mental Health Saving		0.500	0.500		<b>1.000</b>
Remove planned contribution to balances. This will be added to corporate contingency	-1.000	1.000			<b>0.000</b>
Contribution to Contingency from Balances	1.000	-1.000			<b>0.000</b>
Increased Collection Fund Surplus	-0.165	0.165			<b>0.000</b>
<b>Revised Overall Position as per January Report (shortfall +/surplus -)</b>	<b>0.000</b>	<b>15.574</b>	<b>0.180</b>	<b>1.577</b>	<b>17.331</b>

### *New savings and income generation proposals*

48. As a result of the review of charges and an increase to statutory charges in the Registration Service, the following additional income is expected for 2019/20:
- Registration Services - £0.250m
  - Communities new and increased charges - £0.400m
49. In addition, a change to the charging structure for on-street parking in Oxford City, resulting from the work to jointly manage parking and align charges in the city, is expected to generate additional income of £0.3m in 2019/20<sup>4</sup> and a further £0.3m in 2020/21. This will help to fund the cost of maintaining, signing and lining car parking and associated infrastructure.
50. A review has been undertaken of the income received and expected from developers towards the cost of future infrastructure maintenance (commuted

<sup>4</sup> This is a change in profile from the proposal set out in the report to Performance Scrutiny on 10 January 2019.

sums). It is proposed that £1.5m each year for 2019/20 and 2020/21<sup>5</sup> from commuted sums will be used to support the funding for highways maintenance (including streetlighting, bridges, drainage and roads), allowing for an equivalent sum to be released from the highways maintenance revenue budget.

### *Changes to existing savings proposals*

51. In response to feedback from Performance Scrutiny Committee and through the public consultation, a revised proposal regarding mental health is set out as part of the proposed budget.
52. The proposal is to remove entirely the £1.0m saving against the Outcomes Based Contract (OBC) for Mental Health (Reference 20AD15) and to slip the £0.6m saving against mental health social workers (Reference 20AD19) by a year. This means that there will be no reduction in 2019/20 and the first reduction will be £0.3m in 2020/21.
53. In the course of the budget consultation members of the public have highlighted the value of the work of the voluntary sector and voluntary sector organisations have expressed concerns about the impact of the Outcomes Based Contract on their staff and on their financial viability. In light of this, and alongside the removal of the savings proposal (Reference 20AD15), the Council will work with Oxfordshire Clinical Commissioning Group on a full and transparent review of resource allocation within the OBC, with a view to ensuring that voluntary groups are fairly treated.
54. Proposals around reductions in spend on mental health social work (Reference 20AD19) have been slipped by a year to 2020/21. These proposals are expected to be worked up in detail with Oxford Health NHS Foundation Trust and their impact and potential mitigations for this impact reviewed.

### **Transformation Programme**

55. The existing MTFP includes savings being delivered through transformation. £4.9m of savings are being delivered in 2018/19 and a further £11.7m are in the MTFP to be delivered between 2019/20 and 2021/22. Additional savings as part of this proposed budget include £14.7m of savings derived from designing and delivering services differently, more effective appraisal and renegotiation of contracts, and generating increased or new sources of income. In addition to these, it is expected that a further £18.5m of savings can be achieved through other transformation projects over the medium term, taking the total savings from transformation activity to £49.7m compared to estimated savings of £34m-£58m set out in the Business Case approved by Cabinet in September 2018.
56. Including savings in the MTFP, savings expected to be delivered in 2019/20 comprise £2.3m from service redesign, £10.0m from reductions in third party

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<sup>5</sup> This is a reduction of one year compared to the proposal set out in the report to Performance Scrutiny Committee on 10 January 2019

spend, £1.9m from income generation and £0.5m from other transformation efficiencies.

57. The savings proposals at Section 4.2.2 set out those which arise from transformation activity.
58. As set out in Paragraph 70, it is proposed that £6.0m is transferred into the Transformation Reserve to help pay for implementation costs in 2019/20. The balance in the reserve is expected to be £2.5m at 31 March 2019. In addition, as set out in Paragraph 96, an allocation of £5.0m has been made as part of the proposed Capital Programme towards the costs of transformation. In total therefore, funding of £13.5m has been made available to support the costs associated with delivering transformation savings.

### **2020/21 Position**

59. The current assumption in the proposed MTFP is that all of the one-off funding received in 2019/20 does not continue and all of the growth in business rates since 2013/14 is lost. This funding totals £17.3m. Given the national recognition of pressures in adult social care, and more recently children's social care, 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.
60. Forecasts from the Institute for Fiscal Studies using information from the Budget 2018 indicate a flat cash position for un-protected services, which includes local government, over the period 2018/19 to 2023/24. Based on this forecast therefore, it is expected that at least some of the temporary funding in 2019/20 will continue as part of the spending review and new formula. However, as it is not possible to predict what the funding level will be, the proposed MTFP does not assume any of this funding for 2020/21. As a consequence of this assumptions, the proposed MTFP has a budget shortfall of £15.6m in 2020/21. Work will need to commence early in the 2019/20 financial year to plan for how a shortfall will be addressed as it will not become clear until the autumn this year, how much funding the council will receive in 2020/21. Updates will be provided to Cabinet as information on the Spending Review and new funding formula become available.

### **Draft Detailed Revenue Budget 2019/20**

61. Section 4.4 sets out the draft detailed revenue budget for 2019/20. The annex shows the movement in gross expenditure and income from 2018/19, comprising inflation, function and funding changes, previously agreed funding and proposed virements. For illustrative purposes, the annex includes the effects of the pressures and savings proposals as set out in Section 4.2.

### **Virement Rules**

62. When approving the budget each year the council is required to agree the virement rules. The existing arrangements have been reviewed and are set out

for approval in Section 4.5. No changes to the rules are proposed from 2018/19 but the format has been changed to make them easier to understand.

## Financial Strategy

63. The Financial Strategy set out in Section 4.6 states that to succeed in long term sustainability and financial resilience requires successful delivery of two 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 demand management approaches, more effective pathways and commercial improvements.
  - Delivering the savings currently in the medium term financial plan (MTFP), and identifying upwards of £17m of savings included in the MTFP from transforming how we work
64. The strategy sets out the funding context, the medium and long-term forecasts plus financial health performance measures for 2019/20.

## Corporate Contingency

65. In forming the proposed budget, there is inevitably some risk that estimates are not entirely accurate and that account should be made for this uncertainty. For this reason, the corporate contingency budget is held to cover;
- the risk that demographic pressures are at the higher end of forecasts, rather than the mid-range forecast assumed in the service budgets;
  - any unfunded elements of government grant, particularly Unaccompanied Asylum Seeking Children (UASC); and
  - the risk that proposed savings are not achieved in full, based on the performance targets set out in the Financial Strategy.
66. The proposed level of corporate contingency for 2019/20 is £5.5m and reflects the following:

Contingency risks:	£m
Children's Social Care - high end increase in numbers	2.3
Adult Social Care - high end increase in numbers	0.5
UASC grant funding shortfall	1.0
Non-achievement of savings - 10% of amber savings	0.8
Non-achievement of savings - 30% of red savings	0.9
<b>TOTAL</b>	<b>5.5</b>

67. In addition to the corporate contingency, general balances are held to in order to provide a contingency against unplanned or unexpected events. Further details are set out in the paragraph below.

## **Earmarked Reserves and General Balances**

68. The earmarked reserves and general balances policy statement is set out in Section 4.7.
69. The risk assessment for the level of general balances to be held for 2019/20 has determined that it is appropriate to hold £19.3m. The projected level of balances at 31 March 2019 is £28.2m, £8.9m above the risk assessed level.
70. It is proposed that £6.0m is transferred into the Transformation Reserve to help pay for implementation costs in 2019/20. This would leave the projected level of general balances as £22.2m at 1 April 2019.
71. The existing MTFP includes an annual £1.0m contribution to balances to replenish any use from the previous year and ensure that the risk assessed level is maintained. Based on the expected outturn position for 2018/19, the contribution in 2019/20 will not be required. Therefore, it is proposed that the £1.0m contribution for 2019/20 is transferred to the corporate contingency budget, increasing it to £5.5m.
72. In light of the significant pressures relating to High Needs and other budgets with demographic volatility, the proposed budget includes £3.0m of on-going funding in 2019/20 (and rising in future years) to help manage demographic risk. It is proposed that a new reserve is created and the funding held in the reserve until its need is determined.
73. The expected balance of the Insurance Reserve at 31 March 2019 is greater than the actuarial assessment, therefore it is proposed that £1.0m is taken from the reserve and is used towards helping achieve a balanced budget in 2019/20.
74. Details of earmarked reserves and their planned usage over the medium term are set out in Section 4.7.1. Excluding schools, earmarked reserves are forecast to be £53.7m at 1 April 2019, reducing to £34.5m by 31 March 2023.

## **Schools Funding**

75. Dedicated Schools Grant (DSG) allocations for 2019/20 were announced on 17 December 2018. Oxfordshire's provisional allocation for 2019/20 is £468.3m and is set out in Section 4.8.
76. The Government has reiterated its long-term intention that schools' budgets should be set on the basis of a single, National Funding Formula (NFF). To avoid instability in funding, the approach continues to build in further protection in 2019/20 of:
  - A minimum gain of 0.5% per pupil
  - A minimum per pupil level of funding of £4,800 per secondary pupil and £3,500 per primary pupil
  - A cap (ceiling) on any gains of 3% per pupil at individual school level compared to 2018/19

77. During October/November 2018, schools were again consulted on whether to continue with the implementation, as far as is practicable, of the National Funding Formula in 2019/20. The majority of responses were in favour of a continuation of the NFF in the next financial year 2019/20. Schools Forum subsequently agreed and recommended this continuation of funding methodology.
78. Schools Forum did not support the transfer from the Schools block to High Needs block and given the forecast £7m to £8m overspend within the High Needs block in the current financial year, Oxfordshire have appealed the decision with the Secretary of State for Education. A disapplication request was submitted to transfer 0.5% or £1.8m from the Schools Block by the DfE deadline of 30 November 2018.
79. On 16 December 2018, the Secretary of State for Education announced an additional £125m for High Needs in both 2018/19 and 2019/20. Oxfordshire's share of this funding is £1.5m.
80. Given this additional funding, the Education & Skills Funding Agency (ESFA) have asked local authorities whether they wish to reconsider disapplication requests. Oxfordshire must inform the ESFA by 15 January 2019 of its intentions and if the disapplication request remains, reasons why the transfer at the original level is still required must be provided.
81. The increasing spend on the High Needs block means that the Local Authority will continue with the disapplication request. The timescale for the Secretary of State to respond to the disapplication request is unknown.

## **Capital & Investment Strategy, Capital Programme, Treasury Management Strategy & Strategic Measures**

### *Capital & Investment Strategy*

82. The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The code requires that for each financial year, a local authority should prepare at least one Investment Strategy which should contain the disclosures and reporting requirements specified in the guidance. The Strategy set at Annex 2 meets these requirements.
83. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority. The objectives are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

84. As part of the service & resource planning process for 2019/20 the council is required to approve a set of prudential indicators which show that the council's prudential borrowing is prudent, affordable and sustainable, the Capital & Investment Strategy sets out the draft prudential indicators.
85. Section 4.9 also incorporates the minimum revenue provision (MRP) policy statement for 2019/20. Legislation requires Council to approve a statement of its policy annually before the commencement of the financial year.

### *Capital Programme 2018/19 – 2028/29*

86. The following table summarises the estimated funding available for the Capital Programme over the period 2019/20 to 2028/29 having included an extra year to the current programme. The table also sets out the proposed allocations against the portfolio areas which are set out in the Capital & Investment Strategy.

	£m
Estimated Funding Available:	
Additional estimated funding up to and for 2028/29	23.4
Prudential Borrowing Investment	120.0
Current Portfolio Blocks released for reallocation	39.5
<b>Total Estimated Funding Available</b>	<b>182.9</b>
Proposed Allocations:	
<b>Grant Funded Streams</b>	
Schools Basic Need	-2.5
Schools Maintenance (Annual Programme)	-1.5
Highways Maintenance (Annual Programme)	-16.1
<b>Portfolio Areas</b>	
Schools Estate	-19.5
Non-Schools Estate	-51.7
Operational Assets	-12.0
Highways and associated Infrastructure	-80.0
Operational Redesign	-6.0
<b>Total Funding Requirement</b>	<b>-189.3</b>
<b>Total Surplus(+)/Shortfall(-)</b>	<b>-6.4</b>

87. The funding assumptions for grants have been estimated for 2028/29. This includes a forecast of £2.5m of basic need funding, £1.5m of school's maintenance funding and £19.4m of highways funding. These forecasts will be revised each year as further funding announcements are made.
88. Following the decision by Cabinet in September 2018 to include significant investment in the Council's assets in the proposed capital programme, £120m of prudential borrowing has been included.
89. The capital portfolio allocations agreed in last year's process have been reassessed in line with the emerging pressures for this year and will be reallocated as explained in the following paragraphs.
90. The proposed portfolio area allocations are based on a combination of identified schemes with known budget requirements, identified schemes with estimated budget requirements and general allocations where services can bring forward business cases to bid for the funding. For the portfolio areas, detailed business

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cases will go to the Community Infrastructure Programme Board (CIPB) who will approve them or make recommendations to Cabinet for inclusion in the capital programme, where they are above an agreed threshold.

91. Large investment proposals for the Schools Estate, Non-Schools Estate and Highways and associated Infrastructure portfolio areas are set out in the Capital & Investment Strategy.
92. The Schools Basic Need allocation includes funding for known schemes to 2022/23 and an allocation to match additional funding for the period to 2028/29.
93. The Schools Maintenance and Highways Maintenance allocations are based on the annual allocations in the current capital programme continuing each year to 2028/29.
94. The non-schools block also includes the provision for the purchase of additional land at Tank Farm, Chipping Norton. This places a cashflow requirement on the capital programme as capital is payable upfront, with the return of capital plus an additional uplift, all within the 10-year window of the capital programme.
95. The Operational Assets allocation includes estimated funding for replacement ICT equipment including the data centre, further investment in the Children's Services new ICT system and protective equipment for firefighters.
96. Within the Organisational Redesign portfolio there is a proposed allocation of £6.0m. It is expected that this will be used for Crisis provision within Children's Services and for the transformation programme.
97. Details of the individual proposals are set out in Section 4.9.2 to this report.
98. It is proposed to leave the capital programme with an overall shortfall of £6.4m at this time. The capital proposals will increase the capital programme to over £1bn, therefore a shortfall of £6.4m can be managed as funding levels are confirmed over the 10-year period. The capital programme also has an overall contingency to manage the position if required.
99. The table below shows the change in the overall capital programme from the last programme approved by Cabinet in December 2018.

	<b>Dec 2018 Programme £m</b>	<b>Jan 2019 Programme £m</b>	<b>Change £m</b>
People: Children's Services	164.3	201.9	+37.6
People: Adults & Public Health	26.5	26.5	0.0
Communities: Highways & Transport	452.3	538.4	+86.1
Communities: Other	36.4	100.2	+63.8
Resources	99.2	94.4	-4.8
<b>Total</b>	<b>778.7</b>	<b>961.4</b>	<b>+182.7</b>
Schools Local Capital	6.3	6.3	0.0
Earmarked Reserves	106.2	92.6	-13.6



<b>Total Capital Programme</b>	<b>891.2</b>	<b>1,060.3</b>	<b>+169.1</b>
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### *Highways Structural Maintenance Programme*

100. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure. The two-year rolling programme for all planned highway maintenance activities is set out in Section 4.9.3, along with specific schemes currently planned for the more major activities that require longer term programming. The specific schemes for all activities will continue to be developed to reflect current asset and local community needs, and ensure the greatest value from investment.

### *Treasury Management Strategy*

101. Treasury management is the management of the council's cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
102. The treasury management strategy statement and the annual investment strategy for 2019/20 are set out in Section 4.9 as part of the Capital & Investment Strategy. This document complies with the requirements of legislation, codes and government guidance, including the technical requirement of the CIPFA treasury management code of practice. It sets out, amongst other things the investment strategy for the Council's temporary cash flow surpluses.
103. The prime objective of the council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business and only once these have been satisfied should the return on the investment be considered. The annual investment strategy for 2019/20 continues with this premise. The strategy for financing prudential borrowing during 2019/20 maintains the option of using temporary internal balances.
104. In line with the current and proposed Treasury Management Strategy limits relating to the percentage of funds held with External Fund Managers, in December 2018 the Treasury Management Strategy Team agreed to increase the exposure to external funds to £100m from £58m, representing an increase of 13% to 29% of the Council's total investment portfolio. All of the funds are income producing funds, as opposed to accumulating value funds. These funds have a variable net asset value which means that the value of the funds can decrease as well as increase depending on the performance of the instruments in the fund.
105. It is proposed that any changes required to the 2019/20 treasury management and investment strategies are delegated to the Director of Finance in consultation with the Leader of the Council and the Cabinet Member for Finance. This is included in the recommendations at the beginning of the report.

### *Strategic Measures*

106. The Strategic Measures budget incorporates the principal and interest charges on debt as well as the interest earned on cash balances. A review of these areas has been undertaken, and incorporating the changes set out in paragraph 104, is expected to generate additional income of £2.3m in 2019/20 and a further £1.4m over the medium term. This replaces the target saving of £1.0m set out in the December 2018 Cabinet report. Furthermore, the transfer of external investments from an accumulating fund to an income producing fund has realised a one-off gain of £2.9m which will be taken to the general fund in 2018/19.
107. The average cash balance for 2019/20 is forecast to be £350.6m. This is higher than the average cash balance forecast in the current MTFP, contributes to the additional expected interest in 2019/20 and the medium term, and allows for a more diverse approach to the Treasury Management Strategy.
108. As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the council will be required to prudentially borrow £40m on behalf of OxLEP to fund the City Deal infrastructure schemes. The existing MTFP assumed that the majority of this borrowing would fall in 2018/19 and 2019/20. Based on current project spend forecasts, the majority of the borrowing requirement will fall in 2020/21.

### **Comments from Performance Scrutiny Committee**

109. The Performance Scrutiny Committee considered the revenue improvements and investments plus pressures and savings proposals at its meeting on 13 December 2018. Capital and Review of Charges its meeting on 10 January 2019. A summary of the comments from the meetings is attached in Section 4.10.

### **Consultation**

110. Between 6 December 2018 and 6 January 2019 members of the public and stakeholders were invited to comment through the council's website on the budget proposals and Council Tax increases. 662 responses were received and a summary of these responses is included in Section 4.11.

### **Review of Charges**

111. As part of the Service & Resource Planning process, managers have reviewed their charges for 2019/20. The expectation was that charges would increase by a minimum of the October CPI rate of 2.4%, however the proposed increase should be higher where the market allows or where costs are not being fully recovered (except where legislation dictates a maximum charge).
112. The proposed charges are set out in Annex 1b. Cabinet is recommended to agree these charges in the context of the proposed budget.

## **Equality and Inclusion Implications**

113. The Equality Act 2010 imposes a duty on local authorities that, when making decisions of a strategic nature, decision makers must exercise 'due regard to the need to eliminate unlawful discrimination... advance equality of opportunity... and foster good relations.'
114. The December 2018 Cabinet report included the potential impacts of the budget proposals as set out in the Service & Community Impact Statements.

## **Financial and Legal Implications**

115. 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 will lead to the council tax requirement being agreed in February 2019.

**LORNA BAXTER**  
Director of Finance

Contact Officers: Katy Jurczynszyn – Strategic Finance Manager (Financial Strategy & Monitoring)  
Tel: 07584 909518

Section 2.1: Ben Threadgold – Policy & Performance Service Manager  
Tel: 07867 467838

Section 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.9: Katy Jurczynszyn – Strategic Finance Manager (Financial Strategy & Monitoring)  
Tel: 07584 909518

Section 4.8: Sarah Fogden – Finance Business Partner (CEF)  
Tel: 07557 082613

Treasury Management Strategy within Section 4.9: Tim Chapple – Financial Manager (Treasury Management)  
Tel: 07586 478653

Section 4.9.3: Tim Shickle – Team Leader, Asset Renewals  
Tel: 07920 591545

Section 4.11: Carole Stow – Marketing and Consultation Manager  
Tel: 07867 467803