

Division(s): N/A

CABINET – 16 NOVEMBER 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. This is the third report pertaining to the Business and Service & Resource Planning for 2011/12 – 2015/16 following on from reports to Cabinet in July and September 2010.
2. The Council has been planning for some time for significant reductions in government funding, on the basis that the current levels of public expenditure were not supportable. Planning assumptions of a 10% per annum reduction in grant were being used, on the basis that schools would be protected to some extent. Those reductions were spread evenly across the four year period.
3. On 20 October 2010, the Chancellor of the Exchequer published the Spending Review 2010. The review sets out how the Coalition Government will address the country's national structural budget deficit over the period of the government up to 2014/15 and provides more certainty on the reductions in funding over the medium term.
4. This reports sets out a synopsis of what is contained in the Spending Review along with subsequent announcements and the potential impact of the these on Oxfordshire, highlighting where there are uncertainties and the level of risk those uncertainties form.

The following annexes are attached:

Annex 1: Spending Review 2010 Summary

Annex 2: Specific Grants transferring into Formula Grant

Annex 3: Specific Grants schedule

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, there is a single focussed overview. The key elements of the Strategy are:
 - Changing the Way We Work
 - Reshaping Management

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- Future of Shared Services and creation of Customer Service Centre
 - A comprehensive Asset Management strategy
 - A new Strategy for dealing with our customers, including managing our reputation
 - Streamlined Service & Resource Planning processes and delivery of savings within Directorates
 - Engagement and Consultation (Including Oxfordshire's Big Debate and staff suggestions for change)
 - Community self-help
6. There has been progress in many of the areas of the Strategy. Following on from agreement of the Customer Service Strategy and Customer Service Standards by Cabinet, the Customer Standards have now been communicated to all staff, and will be supported by an ongoing communications programme to ensure we are putting our customers at the heart of what we do.
7. A business case for changing the Way We Work linking asset management to new ways of working to enable more flexible and efficient use of property is being developed. Discussions with partners and voluntary organisations are underway to determine how we can mitigate likely impacts of service changes on local communities and how to join up plans for changes to Voluntary Sector funding. Additionally, the next steps for receiving and responding to staff suggestions for savings are being also currently being considered.
8. Through the Oxfordshire Big Debate we have been asking people across Oxfordshire which services they value most, which ones they think we could save money on and how we could do things differently. Over a thousand people have taken part in the Oxfordshire Debate through:
- 5 Public meetings
 - Special events such as the Children and Young People's Debate
 - Stakeholders meetings
 - Completing the online form
 - Submitting letters and emails
 - Speaking with Council representatives
9. The report of all the feedback from the Big Debate is currently being finalised and will be shared with all councillors in due course.
10. The budget consultation exercise with the public this year has been through the citizens' panel, Oxfordshire Voice. During August a questionnaire was circulated to test 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 are now available and have been sent to all Councillors for their consideration.

Spending Review 2010

11. The key announcement since the last report has been the Spending Review (SR10), which was delivered by the Chancellor to the House of Commons on 20 October 2010. A report summarising the impacts of SR10 was made available to all Councillors on 25 October 2010, and is attached at Annex 1 along with Specific Grants transferring into Formula Grant at Annex 2 and Oxfordshire's Specific Grants schedule at Annex 3.
12. Initial analysis of the Spending Review suggests that there is a substantial reduction in Specific Grants in 2011/12 and a 7.25% per annum reduction in Formula Grant, a total of almost 30% by 2014/15, although this could be more due to the impact of the grant floor¹ (see paragraphs 19 and 20 for more details). This compares to a 10% reduction per year, or 40% by 2014/15, based on the planning assumption set prior to the Spending Review.
13. Schools have been protected with a 0.1% real terms increase over the review period, although funding for the Pupil Premium is included in their total. The grants system is being simplified, which is welcomed in general terms because the numbers and different natures of grants had made the position unnecessarily complex. However, we do have concerns about how that simplification will impact on Oxfordshire as a grant floor authority.
14. There are a number of key concerns for Oxfordshire from the initial analysis of the Spending Review which the Cabinet have already raised with the Oxfordshire Members of Parliament. These concerns are:
 - (a) urgent clarification is needed on Specific Grants which appear to cease in 2010/11 from analysis of the Spending Review 2010 documentation;
 - (b) the methodology to be used for the transfer of Specific Grants into Formula Grant; and
 - (c) the level and impact of the Formula Grant floor could have a significant effect on all floor authorities².

Specific Grants

15. The key issue is that there is a simplification in the number of grants, reducing from more than 90 to less than ten with £4bn transferring nationally from Specific Grant into Formula Grant. A subsequent letter from the Secretary of State for Local Government, Eric Pickles, provided a list of those grants which will be transferred into Formula Grant and the remaining Specific Grants (see Annex 1).

¹ The Formula Grant formula applies a system of 'floors' and 'ceilings'. This prevents 'losing' authorities falling below a floor or minimum level and is funded by a ceiling that prevents 'gaining' authorities receiving all of their grant entitlement.

² There are six Counties, including Oxfordshire on the 'floor'

16. For Oxfordshire, those grants transferring into Formula Grant total £30.8m, excluding concessionary fares for which the allocation methodology is still to be determined following the specific consultation which closed in October 2010. The concern for this group of grants, of which the largest is £16.1m for Supporting People, is that Oxfordshire would usually receive around 1.1% of the national total for specific grants but only 0.345% of the national total for Formula Grant and there is no reference in the documentation on how those grants will be allocated. If the transfer is not made at the existing levels then the level of Supporting People grant, for example, could fall to £5.5m which would require swingeing cuts in an area the Government has said would be protected.
17. We would wish to see specific grants transferred into the Formula at their existing levels and for this funding to clearly continue in the future years.

Unidentified Grants

18. Taking into account those grants transferring into Formula Grant and those nine remaining Specific Grants, there remains some uncertainty over a number of other Specific Grants and Area Based Grants, which for Oxfordshire total £20.4m. Whilst this overall level of grant reduction had been anticipated the impact of their coming out in 2011/12 means that it will be difficult to put in place the necessary service adjustments as speedily as April 2011.
19. The Local Government Association is pressing the government for clarification on the grants position. It would be helpful to have the position explained to ensure that planning assumptions are on the correct basis. Even if the position is clarified, the impact for individual authorities will still not be known until the Provisional Local Government Finance Settlement in early December. This will not give much time for planning and consultation ahead of setting the budget on 15 February 2011.

Revenue Support Grant and Impact of 'Grant Floor'

20. In addition to the question of which grants continue and the distribution of those grants transferring into Formula Grant, there are further uncertainties on what impact the 'Grant Floor' will have on Oxfordshire's grant settlement. Oxfordshire is currently below the grant floor, which means we receive a 'Damping Grant' to bring us up to the minimum level of grant as determined by Government. It is assumed that the current system of Grants Floors and Ceilings will remain to manage against significant grant variations. However, it is unlikely that this will be known until the Provisional Local Government Finance Settlement is issued in early December.
21. If the floor remains unchanged, then Oxfordshire will not see the benefit from any of the additional grant the Government has put in to support Social Care – or the extra funding may be added, but then undermined by the reductions in formula grant generally. We may also lose some of the transferring Specific Grant. If the floor is carefully calculated to allow for these changes we would

be protected against some of those losses. However if the floor is decreased, we would lose out even further. Again, it would be helpful to have some indication of the level at which the grant floor is likely to be set before the settlement and reassurance that the floors will allow for, and sustain, the new and transferred funding streams.

Council Tax Freeze

22. Following the Spending Review, the Secretary of State has confirmed that the Government will help local authorities to deliver a council tax freeze in 2011/12 by providing a specific grant equivalent to a 2.5% increase. The grant will be based on the 2010/11 council tax multiplied by the taxbase for 2011/12. The Spending Review concluded that funding can only be provided to support a freeze for one year. However, the Government intends to provide supplementary funding to local authorities in subsequent years of the Spending Review period to compensate them for the council tax income foregone during the period of the freeze.
23. The assumption built into the current Medium Term Financial Plan (MTFP) was that there would be a grant provided to deliver a two year freeze in council tax in 2011/12 and 2012/13 following which the grant would fall out in 2013/14. To reflect this, a pressure of £14.8m was built into the MTFP in 2013/14 replacing the lost grant. As set out above, on-going funding (for the Spending Review period at least) has been confirmed. This means that the funding built into the MTFP is no longer required.

Estimated Impact of Spending Review on Savings Target

24. The initial analysis indicates that we are able to lower the previous estimate as to how much the authority will have to cut from the budget up to 2014/15 although a far greater proportion of the cuts than originally anticipated will have to be made in 2011/12. It should be reiterated that this is an estimate and is still a significant sum. The actual grant position for 2011/12 for both Formula Grant and Specific Grants will not be known until the Draft Local Government Finance Settlement is announced in early December 2010.
25. For planning purposes, a series of scenarios have been modelled which provide a range of possible grant reductions based on information in the Spending Review which range from £56m to £85m. These would replace the £100m new target that was added to the previous £102m target already built into the Medium Term financial Plan (MTFP).
26. It is proposed that a central case is taken for planning purposes of £67.2m, which is calculated on the basis that the changes in grants will be overridden by the Formula Grant Floor. The grant floor, or minimum decrease is assumed at 8.5%, as on average traditionally the floor has been set at 1.25% below the average grant level.

27. As set out in paragraph 22 above, in addition to the reduced additional savings target, the funding in the MTFP for fallout of the Council Tax freeze grant is no longer required.
28. The table below sets out the changes to the savings targets for the period 2010/11 to 2014/15 based on the estimated impact of the Spending Review; overall this shows a £47.6m reduction in the target to £154.8m.

	£m
Original Target 2010/11 – 2014/15 (Current MTFP & Additional)	202.4
2010/11 Savings planned to be achieved	-35.5
Original Target 2011/12 – 2014/15	166.9
Reduce Additional Target of £100m to £67.2m	-32.8
	128.8
Council Tax grant doesn't drop out	-14.8
Revised Target 2011/12 – 2014/15	119.3

Revised Target 2010/11 – 2014/15	154.8
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29. The timing of the estimated reductions needs to be considered. The new target of £100m which was added in June was assumed to be evenly spread across the four years. However, if the £20.4m grants are being reduced immediately this will mean that the savings will need to be front loaded, with around an additional £9m savings being required in the first year. The table below sets out the latest assumption in the phasing and the change in targets in each of the years.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m
Original Target (Current MTFP & Additional)	-49.86	-47.45	-42.51	-27.08	-166.91
Revised Target	-58.65	-34.82	-13.92	-11.86	-119.25
Change in target	-8.79	12.64	28.60	15.22	47.67

Government Consultations

30. On 28 October 2010, the Government issued a white paper, 'Local growth: realising every place's potential'. This sets out the Government's plans to create the conditions that will help business and get the economy growing. They wish to foster prosperity in all parts of the country. Key elements announced include:
- Creating Local Enterprise Partnerships (LEP) - 24 were announced and one is for the Oxfordshire City Region;
 - Creating more directly elected mayors;
 - Investing in a £1.4 billion Regional Growth fund;

- Reducing national insurance contributions for new businesses in areas outside the South East (as announced in the June budget);
 - Changing arrangements for spatial planning; and
 - Introducing a series of incentives and funding changes for local authorities involving council tax (the New Homes Bonus) and business rates.
31. The New Homes Bonus (NHB) will start in 2011/12. It will provide a grant that matches the additional council tax raised from each new home (or property brought back into use), for each of the six years after that home becomes available. The government will help to establish the scheme with £196m in 2011/12, rising to £250m in each of the following three years. The MTFP currently assumes a 0.25% increase in Taxbase (a proxy for new properties) in 2011/12. It is estimated that, on this assumption, the NHB will be around £0.9m for the whole County, rising to £2.6m when house building rates increase back to trend levels. It is not yet clear how the resulting NHB grant would be divided between districts and counties although the expectation is that it could be 80% to districts and 20% to counties. Thus we might get around £0.180m in a year when growth is slow, or around £0.520m when growth reverts to more usual rates. Also, as the government funding plateaus at £250m, it is not clear how additional growth from 2013/14 would be funded.
32. There are a range of different proposals for business rates, all of which may have effects on Oxfordshire County Council, as follows:
- The Business Increase Bonus (BIB);
 - The possibility that business rates may be retained locally;
 - Tax Increment Financing (TIF);
 - A mini consultation on these issues;
 - Incentives for renewable energy projects; and
 - A Local Government Resources Review.
33. The Business Increase Bonus (BIB) would reward authorities where the growth in business rates yield exceeded a threshold level. Authorities would be allowed to keep the increase, up to a certain level, for a period of six years. Where there is additional growth in future years, the authority would also retain that growth. This would be a clear incentive to seek long term sustainable growth in the business rate base. It is difficult to estimate the benefits without more knowledge of the 'threshold' and of the 'certain level'. In the past though, the Local Authority Business Growth Incentive scheme has provided Oxfordshire with grants of between £0.3m and £0.9m.
34. The White Paper also considers the more radical option of allowing authorities to retain locally raised business rates. It is currently estimated that in 2009/10, £273m of business rates were considered collectable in Oxfordshire. £159m is repaid via Formula Grant to the County Council, districts and our share of the Thames Valley Police Authority (TVPA) funding. Thus currently Oxfordshire pays £114m more into the national business rates pool than it gets back. Also, the County, districts and our share of the TVPA receive just

£23m of funding from Revenue Support Grant (RSG)³. Thus if Oxfordshire could retain all the business rates collected locally, we would get £91m more funding. We would not need to rely on RSG. Whilst Oxfordshire would gain, this would also mean that other authorities would lose. Some sort of negative grant would be needed to remove our surplus business rates to support other areas. Issues raised by this would be considered by the forthcoming 'Review of Local Government Resources'.

35. Tax Increment Financing (TIF) would introduce new borrowing powers for councils that would be funded by anticipated increases in business rates. Legislation is needed to introduce this scheme, so it will take some time to arrive. At least initially, TIF would be introduced through a bid-based process. Lessons from the first schemes would then inform the future use of this power.
36. Incentives to support renewable energy schemes will also be provided, by allowing communities that hosted renewable energy projects to keep the business rates that these schemes generate. Again, it is not clear how this source of income would be divided between county, district, town or parish councils.
37. A Review of Local Government Resources will start in January 2011, after a period of consultation on the proposals in the White Paper. It will consider the issues raised by the proposed BIB, local retention of business rates and the incentives to support renewable energy schemes. It is not clear if this is the 'Review of Local Government Finance' promised by the Coalition's programme for government.

Capital Programme Planning

38. Ahead of the Spending Review, there had been a widespread expectation that capital expenditure would fall by 50% and this has been built into the council's planning process. The Spending Review set out that capital funding from all departments will fall by around 45% over the review period, although reductions vary across government departments. Whilst the longer term infrastructure in roads, rail and transport have been prioritised at a national level, capital funding for some departments appears to have been cut by 100%.
39. Along with revenue, the actual levels of capital expenditure will not be known until the Draft Local Government Finance Settlement in early December. The assumptions on what the latest information may mean for the capital programme have been revised; the result of this analysis is presented in the table below.

³ Revenue Support grant (RSG) is part of Formula Grant and it is funded by the government from VAT, Income tax and so forth.

	£m	£m
Current Programme		126.1
Original Assumption: 50% cuts	-64.1	
Add two more years at reduced levels	47.1	-17.0
Programme Planning Assumption		109.1
<u>Changes in assumptions following Spending Review</u>		
Supported Borrowing	14.2	
Formulaic Grants	-4.1	10.1
Revised Programme Assumption		119.2

40. Whilst the Spending Review has provided some more information, there are still a number of unknowns, which include:
- the impact of the Local Transport funding consultation on the level of allocation for each local authority (in particular the proposals to merge the Primary Route Network and Capital Detrunking Grants into the Highways Maintenance Block and possible formula change in distributing transport capital resources across local authorities etc.)
 - the split between grant and supported borrowing;
 - the revenue implications of taking up the full formulaic capital allocation (which is explained in detail below).
41. Whilst there may be a smaller reduction in resources than currently planned, this does not necessarily imply a corresponding increase in funding available for additional schemes. The amount available will depend on, for example, the amount of funding in the settlement that relates to schools and changes in the cost of schemes already in the programme.
42. Should the final supported borrowing allocations differ from the original planning assumptions; a decision will need to be made on whether or not to take up the additional capital allocations with a cost to revenue. Based on the latest assumption an additional £14.2m in supported borrowing would cost an additional £1.1m in revenue by 2014/15 if fully utilised.
43. Irrespective of any changes to the planning assumptions, as part of the Spending Review, the PWLB⁴ have been instructed to increase the average interest rate on all new loans to an average of 1.00% above the Government's cost of borrowing. This is an increase of 0.87% from existing loans and will increase the cost of all new borrowing. It is estimated that this will cost an additional £0.5m per year by 2014/15 based on the original capital programme planning assumptions of a 50% cut.

⁴ The Public Works Loan Board (PWLB) is a Government agency responsible for lending money to Local Authorities.

44. Following the Spending Review, on 27 October the Department for Transport (DfT) announced that they will no longer be funding the Access to Oxford project (£62m) from their Major Scheme funding pot. Although the full scheme was not included in the Capital Programme, £6.2m for project development has been. However, the DfT have created a Local Sustainable Transport Fund for smaller scale schemes that support economic growth, reduce carbon as well as improve safety. Details about the new Fund, including the resources available and how it will operate, are expected to be announced later in the year.

Service & Resource Planning Process

45. The next stage of the process will be to bring forward the Directorate Business Strategies, including savings proposals to Scrutiny Committees. It was agreed at the September meeting that this year all Scrutiny Committees would 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.
46. The Cabinet will also consider the Business Strategies at their meeting on 21 December 2010. Budget proposals will then be presented to the meeting on 25 January 2011 with the Council budget setting meeting on 15 February 2011.

Equality and Inclusion Implications

47. Equality and Inclusion implications along with the likely impacts of service changes on the community are being considered as part of the Council's Business Strategy. Services are assessing the impact of all their proposals and any requirements to consult on them. Service based assessments will be analysed to produce an overarching assessment of how all communities in the county will be affected and the need for mitigating action considered. Initial assessments are expected during November 2010 to develop the overarching assessment for the Scrutiny Committee meetings on 20 December 2010.

Financial and Legal Implications

48. 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

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

- (a) note the outcome of the Spending Review, and the potential impacts on both revenue and capital;**
- (b) note that clarity has been sought from Members of Parliament on the uncertainties which remain as a result of the Spending Review;**
- (c) agree the proposed revision to the total savings targets in paragraph 27.**

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Background papers: Service & Resource Planning 2011/12 to 2015/16 and the Council's Business Strategy – Cabinet 20 July 2010; and 21 September 2010.

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November 2010