Division(s): N/A

CABINET – 15 DECEMBER 2009

SERVICE AND RESOURCE PLANNING 2010/11 – 2014/15

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

Introduction

1. This is one in a series of reports on the Service and Resource Planning process for 2010/11 to 2014/15, providing councillors with information on budget issues for 2010/11 and the medium term. It follows on from reports to Cabinet on 16 September and to Strategy & Partnerships Scrutiny Committee on 25 November 2009. The report sets out the review of charges, provides an update on the Service and Resource Planning process and includes the Directorate Business Improvement & Efficiency Strategies.

2. The following annexes are attached:

Annex 1:	Financial Strategy
Annex 2:	Summary of Identified Pressures and Proposed Savings
Annex 3a:	Children, Young People & Families Business Improvement & Efficiency Strategy
Annex 3b:	Social & Community Services Business Improvement & Efficiency Strategy
Annex 3c:	Environment & Economy Business Improvement & Efficiency Strategy
Annex 3d:	Community Safety Business Improvement & Efficiency Strategy
Annex 3e:	Corporate Core & Shared Services Business Improvement & Efficiency Strategy
Annex 4a:	Review of Charges
Annex 4b & c:	Current and proposed charges
Annex 5:	Specific Grants 2010/11
Annex 6:	Creating a Healthy Oxfordshire Programme
Annex 7 :	Draft Asset Management Plan (to follow)
Annex 8 :	Draft Capital Strategy (to follow)
Annex 9 :	Capital Project Proposals

Service and Resource Planning process 2010/11 – 2014/15

3. The report to Cabinet in September set out that since the budget was agreed in February 2009, the financial position has been under continuous review. Pressures relating to the medium term were identified which required changes to the planning assumptions. These reflected the scale of the national and global recession, changes in legislation and pressures in the cost of services. The impact of these was spread across the timeframe of the business plans, but with a significant impact in 2011/12.

4. In total pressures of £60.0m were identified, £21.0m relating to reduced funding, £34.0m relating to pressures and £5.0m relating to previously agreed budget changes in the Medium Term Financial Plan (MTFP). The level of reduced funding being a real reduction in the level of expenditure, however, the remaining savings identified being recycled to fund continuing or new pressures.

5. In July 2009, savings targets rising to £60m over the medium term were issued to Directorates to ensure that the identified pressures could be managed across the medium term and allow adequate time for options and plans to be worked up before the budget is agreed in February 2010.

6. In addition to the £60.0m savings target, the existing MTFP already includes £30.0m of planned savings over the period 2009/10 – 2013/14.

Identified Pressures and Proposed Savings

7. Directorate Business Improvement & Efficiency Strategies alongside draft business plans were completed in September in order that financial pressures and savings over the medium term could be considered by the relevant Star Chamber as part of the Service & Resource Planning process.

8. Through this process pressures totalling £83.5m have been identified, an increase of £23.5m from the estimate in July. The total of savings proposed is £81.1m, after deducting £5.0m already required in the existing MTFP, is £16.1m more than planned. The pressures and savings include £7.5m which have already been agreed as part of the existing MTFP (and form part of the £30m referred to in paragraph 6), but for which specific savings had not previously been identified. The new pressures and savings should therefore exclude these figures and become £76.0m and -£68.6m respectively. The table below sets out the position, with a summary by Directorate set out in Annex 2.

9. When taking the £30.0m in the existing MTFP, set out in paragraph 6, the total pressures become £106m. Of this, £75m will be reinvested in services; the remainder is a reduction in funding.

Year on Year	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m
Total Pressures Identified	19.4	20.0	10.8	21.4	11.9	83.5
Less : Previously agreed but unidentified savings now shown as a pressure		-1.1	-3.1	-3.3		-7.5
NEW PRESSURES	**19.4**	**18.9**	**7.7**	**18.1**	**11.9**	**76.0**
Total Savings Proposed	-30.1	-17.6	-15.8	-15.4	-2.2	-81.1
Less: Savings required in existing MTFP	2.5	2.5				5.0
Less : Previously agreed but unidentified savings now shown as a pressure		1.1	3.1	3.3		7.5
NEW SAVINGS	**-27.6**	**-14.0**	**-12.7**	**-12.1**	**-2.2**	**-68.6**
NET POSITION	**-8.2**	**4.9**	**-5.0**	**6.0**	**9.7**	**7.4**

10. The table shows that over the medium term there is still a shortfall of £7.4m. This assumes that in 2010/11 and 2012/13 the surpluses are carried forward to future years to cover or contribute towards the deficits.

11. The individual Directorate Business Improvement & Efficiency Strategies which include identified pressures and proposed savings are set out in Annexes 3a to 3e.

12. The financial risk of not achieving the savings is set out in proposed savings tables of the Business Improvement & Efficiency Strategies categorised into high, medium or low. This does not refer to the service risk. The types of savings proposed are also set out in the strategies. These are categorised into: efficiency savings (which count as Government Value for Money savings), income generation and service reduction. In addition a category of ‘other’ has been used where the proposed saving is delivered by different funding stream (e.g. use of reserves or grants, alternative use of previously agreed funding etc). An efficiency saving means that the budget of the service is reduced but the same amount and quality of service is provided. Income generation is receiving a higher level of income whilst containing expenditure. A service reduction means that a lower level of service will be provided and/or a lower level of quality for the less money.

13. Based on the current savings proposals summarised in Annex 2, £23.1m of the £81.1m savings in Annex 3's are classified as efficiency savings for Value for Money purposes. In addition there is £29.6m of savings classified as a combination of efficiency savings and another savings category, this is where there will be an element of efficiency, but either some service reduction or income generation associated. This does not include efficiencies already built in to future years of the current medium term plan (as part of the £30m referred to in paragraph 6 above). The Government target of 3% annual efficiency or value for money savings equates to £11.3m for the Council in 2010/11 or £32.7m over the three year Comprehensive Spending Review period, 2008/09 to 2010/11. The 2009 government Budget added savings of another 1% of the base figure in the third and final year 2010/11, £3.5m for Oxfordshire, taking the total target to £14.8m.

Scrutiny Committees

14. Strategy & Partnerships Scrutiny Committee met on 25 November 2009 to comment on the overall Council position and the balance of pressures and savings across the directorates. The Committee was also asked to consider whether the Council tax increase in the existing MTFP of 3.75% is still appropriate, given the current low level of inflation, recognising that any reduction would require further savings to be identified.

15. Each Scrutiny Committee will then consider the strategies for their programme areas with comments from each being passed back to Strategy & Partnerships Scrutiny Committee in January 2010, in order that the committee can then feed back to Cabinet in time for consideration as part of their budget proposals.

Review of Charges

16. As part of the work in completing the business plans, service managers have reviewed their charges. Annex 4a sets out the Councils charging policy and an analysis of the changes in income. The proposed charges are set out in detail in Annex 4b & 4c.

17. Where new charges are proposed or the proposed increase in charges is more than 0.5%[1], these will contribute towards the savings set out in the Business Improvement & Efficiency Strategies.

18. The information in the review of charges reflects, where appropriate, the increase in VAT back to 17.5% from April 2010. Whilst the reduction in VAT was effective for 13 months to 31 December 2009, it was agreed by Cabinet in November 2008 that the increase in relevant fees from the VAT rate reverting back to 17.5% from 1 January 2010 would be absorbed in order to keep charges constant for whole of 2009/10.

[1] Inflation included on income budgets for 2010/11

Provisional Local Government Finance Settlement and Pre Budget Report

19. The provisional 2010/11 Local Government Finance Settlement was announced on 26 November. The consultation announcement confirms the Formula grant figure for 2010/11 of £106.3m. This is a 1.5% increase from our adjusted 2009/10 figure (of £104.8m). Oxfordshire receive the minimum increase of 1.5% as a result of having been given £6.7m of Damping Grant. As expected, this confirmed the provisional 2010/11 settlement as originally announced on 6 December 2007 as part of the first three-year settlement for 2008/09 to 2010/11.

20. The provisional Local Government Finance Settlement also provided information on specific grants. Many of the grants were announced for three years to 2010/11 in December 2007 aligned to the three year settlement. Attached at Annex 5 is the estimated revenue grant income for 2010/11. The Dedicated Schools Grant (DSG) is based on the pupil number count in January 2010 and the final grant is expected to be lower than the estimate of £333.4m.

21. Funding of £210m nationally has been added to Area Based Grant (ABG) for 2010/11 to fund personal care at home. Whilst allocations by authority are not yet available, the consultation paper sets out three options for distribution. These options produce between £2.2m and £2.4m for Oxfordshire and represent grant for half a year. The Personal Care Grant will fund the impacts of the Personal Care Bill which guarantees free personal care for the people with the highest needs, such as those with serious dementia or Parkinson's disease and protects the savings of the people who currently get free care, saving them from having to pay future charges. It is anticipated that, subject to the passage of the Bill and the introduction of regulations, it could be introduced from 1 October 2010. The consultation document sets out that in addition to the £210m funding provided through ABG for half a year, the remainder of the funding required, £125m, will be found from local government efficiency savings. The cost is estimated to be £670m in the first full year of operation, made up of £420m central funding and £250m in local government efficiency savings. This is the first occasion on which local government efficiency savings have been used to explicitly fund a new government initiative. Oxfordshire’s share of the efficiencies required to meet part of the cost are estimated to be £1.4m in a part year, rising to £2.8m in a full year.

22. The Chancellor, Alistair Darling, will deliver his pre-budget report on 9 December 2009. This is expected to include more details of the Fiscal Responsibility Bill, set out in the Queen’s speech on 18 November 2009, which provides a "firm and binding statutory basis" for the government's promise to halve its budget deficit within four years. The report will also set out the Treasury's latest predictions for the UK economy's recovery after the recession. An addendum to this report setting out the key issues will be published following the announcement.

Further areas under review

Strategic Measures

23. The report to Cabinet in September set out the changes in assumptions for interest earned on cash balances due to the impact of the recession. Interest rates received on deposits set out in the Treasury Management Strategy and upon which the MTFP was based, were estimated to be 1.8% in 2010/11, up from 1.3% in 2009/10. The forecast for 2010/11 was revised down to 1.3% in September on the assumption that the rate of deposit remained more in line with the base rate. A reduction in income of £0.5m was estimated linked to this. The average rate of deposits made in the first seven months of the financial year was 0.80% compared to a bank rate of 0.5%. It is still anticipated that the average rate of return for 2009/10 will be achieved. However this is due to some longer term deposits being made when rates were higher, ameliorating the effect of the lower rates currently being offered.

24. Latest economic forecasts predict that base rate will remain at 0.5% until the end of 2010, rising thereafter and reaching 2% by the end of 2011. These predictions of a lower bank rate for longer mean that further revisions to the forecast are necessary to take account of the reduction on interest earned on cash flows. More work is needed on this budget particularly in respect of borrowing costs and the strategy to be adopted over the medium term. This, plus estimates of interest rates for cash deposits will be set out in the Treasury Management Strategy which will form part of the Service & Resource Planning Report to Cabinet on 19 January 2010.

Function Changes

25. Concessionary Fares: The report in September set details of a consultation on administering the national scheme under which people who are elderly or disabled are given free travel on local bus services. It set out that the potential transfer of responsibility from District Councils to County Councils could result in additional costs. Currently around £3.0m of the cost of concessionary fares is funded by council tax in Oxfordshire due to insufficient funding through specific grants and revenue support grant. A recent consultation document issued by the Department for Transport proposed changes to the distribution of the specific grant paid to District Councils for Concessionary Fares based on actual spend rather than by formula. The result of this would be an additional £2.1m of grant funding, which would reduce the amount funded through Council tax and the related pressure, should the transfer to County Councils take place, to around £1m.

26. Learning and Skills Council (LSC): The Apprenticeships, Skills, Children and Learning Bill received Royal Assent on 12 November 2009. This bill dissolves the Learning and Skills Council on 31 March 2010, transfers the responsibility for funding education and training for 16-18-year-olds[2] to local authorities and creates, from 1 April 2010, the Young Person's Learning Agency (YPLA). A number of new duties and powers for local authorities will also be created. On

[2] and up to 25 with learning difficulties, and for those young people in youth custody aged 10 to 18.

the same date, the Skills Funding Agency (SFA) will be created to take on the post-19 functions of the LSC. The role of the YPLA is to provide funding to local authorities for the education and training of young people and to support local authorities in its' new commissioning role. The overall 14-19 reform programme includes a number of other requirements including; the raising of the age of participation in education, training or work with training to 17 by 2013 and 18 by 2015, through the Education and Skills Act 2008; the transfer of staff and assets of the LSC to the successor agencies, including local authorities; and the creation of a new and distinct legal identity for sixth form colleges who will remain as independent institutions, but with closer links to their local authority. The full implications of the bill are still being assessed and will only become transparent once detailed guidance has been issued.

Taxbase and Collection Fund

27. Some preliminary figures have been received from several of the district councils on the Taxbase for 2010/11. The Taxbase represents the number of properties Council Tax can be collected from. The figures indicate that there might be a very small increase from 2009/10. The existing MTFP includes an increase of 0.5% for 2010/11 but this was revised to a zero increase in the report to Cabinet in September 2009 reflecting the continued lack of new house build due to the recession. Final figures from the district councils will not be confirmed until January 2010.

28. The county council receives annually a share of the district councils Council Tax Collection Fund surpluses or deficits. The amount can vary considerably and will not be confirmed until January 2010. Due to rising unemployment and the possibility that it may take some time to recover from the recession the forecast was reduced from a £0.8m surplus in the MTFP, to no surplus in September.

Partnership working with NHS – Creating a Healthy Oxfordshire Programme

29. The NHS in Oxfordshire faces very significant financial pressures. Details are set out in the attached report which went to the Primary Care Trust Board in November (see Annex 6). This report describes the work programme which is proposed under the general heading "Creating a Healthy Oxfordshire". The purpose of this work programme is to ensure services are efficient and getting best value for money whilst meeting the health and social care needs of local people. Six workstreams are proposed which are described in Annex 6. This work programme has been developed in conjunction with County Council officers. All of the workstreams will have some impact on the County Council (to a lesser or greater extent) and two of them are led jointly by County Council officers (Integrated Community Services Provision and Integrated Commissioning). It is likely that they will produce efficiency savings that will benefit the County Council (Adult Social Care in particular) as well as the NHS. This will help Social & Community Services to achieve their unidentified savings targets from 2011/12 onwards. Progress will be reported to the Cabinet at the appropriate time. Any significant changes will, of course, be subject to formal approval by either Cabinet or the Council.

Building Schools for the Future (BSF)

30. On 30 November 2009, the Secretary of State for Children, Schools and Families, Ed Balls and Schools Minister, Vernon Coaker, announced the next phase of the Building Schools for the Future (BSF) Programme; eleven more authorities are joining in this phase. Oxfordshire is not in this group but a resubmission will be made for a later entry to the programme. Ongoing funding of £0.16m (£0.8m over the five years of the MTFP) and £3.4m one-off funding was included in the MTFP agreed in February 2009 to enable the preparation work and the development of the Strategy for Change. The Children, Young People & Families Business Improvement & Efficiency Strategy (Annex 3a) includes a pressure of £2.1m in 2014/15 relating to the potential PFI affordability gap for those schools included in Oxfordshire's priority project.

31. An element of the one-off expenditure for the development of the Strategy for Change will still be required. However, the remainder is being re-assessed to take account of a later entry to the programme. This would also move the potential PFI affordability gap beyond the life of the proposed MTFP.

Capital Programme

The Current Position

32. The Council has a capital programme, set on a five year basis, which totals around £555m for the period from 2009/10 – 2014/15. The programme is made up of three elements, Transport, Schools and Other Services.

33. There are pressures on the current programme, arising from a combination of improved delivery, increasing costs and reducing funding. The latest estimates show that by 2015 the programme will be in deficit by £5.3m, but will have significant cash flow deficits in 2010/11 and 2011/12 rising to £16.1m. These cash flow difficulties will cause a loss of interest income to the revenue account.

34. This position assumes that no new capital schemes are added to the programme before 2015. However, there are a large number of new proposals coming forward each year. There is also an expectation that given the national financial position there are likely to be significant cuts in capital funding from next year. These cuts could lead to a 30% – 50% reduction in the size of the larger programmes.

35. Of the £555m total programme, the majority is within the Transport and Schools programmes. While in theory all of the Capital Programme operates through the Single Capital Pot and could be allocated at the Council's discretion, in practice the funding for Transport and Schools comes from the Departments of Transport and Children Schools & Families respectively. They would be unlikely to continue to provide the current levels of funding if it were not allocated to their areas.

36. During the last 18 months, the County Council Management Team took important steps to bring these programmes together and to ensure that they were owned corporately. Work is ongoing to ensure that the Cabinet can make proposals influence these programmes more fully and that the determination of priorities for these programmes is more transparent. Mechanisms are currently being developed to ensure broader member engagement in the next Local Transport Plan and the development of the Schools Asset Management Plan. This is particularly important given the fact that funding in both these areas is likely to be cut back significantly in the future.

The Capital Budget Setting Process 2010/11

37. The Capital Investment Board (CIB), acting as the Capital Star Chamber met on 24 November 2009 to understand and challenge the existing capital programme priorities and emerging capital investment proposals and bring the Capital Programme to a balanced position with sufficient level of contingency.

38. In order to facilitate this process, a review of all programme items currently not legally committed has been carried out. Given that it is harder to restrict or reallocate the funding for Transport and Schools programmes in the short term, in order to bring the Capital Programme back within its envelope, it was agreed to review, in detail, the uncommitted schemes under the Other Services Programme.

39. There are then further proposals which have been identified through the asset management planning and capital investment need identification process. Of these new proposals a number are proposed for revenue funding through the Business Improvement & Efficiency Strategies.

40. The Capital Investment Board (CIB) considered all of these schemes and agreed to bring a revised proposal for wider consultation to the Strategy and Partnership Scrutiny Committee on 17 December 2009, to which all chairmen of the Scrutiny Committees are invited. These will be considered along with drafts of the Capital Strategy (CS) and the Corporate Asset Management Plan (AMP).

41. The results of all these consultations will be reported back to the CIB on 5 January 2010 to formulate final recommendations on capital investment priorities to the Cabinet. In the same meeting, the CIB will consider the revised versions of the CS and the AMP. Final versions of the CS and the AMP will be considered by Cabinet as part of the Service & Resource Planning report in January 2010. This report will also include a fully updated Capital Programme which will capture any new inclusions and any changes to the programme.

42. When the final list of recommended priorities is agreed, a further assessment will be conducted regarding each scheme's deliverability by the Capital Programme Manager. This assessment will then determine in which year and with what profile agreed priorities will be included in the programme.

Prudential Indicators

43. As part of the Service & Resource Planning process for 2010/11, Council will have to approve a set of Prudential Indicators which show that the Council's use of borrowing is prudent, affordable and in line with the Council's Treasury Management Strategy. These indicators will be taken to Council for approval in February 2010. Some of these indicators are around the Treasury Management Strategy and will be included in the Service & Resource Planning report to Cabinet in January 2010.

44. The remaining indicators are dependant upon either the final agreed budget position or the notified supported borrowing allocations and cannot be calculated at this time.

Financial and Legal Implications

45. 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 Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of Council Tax. This report provides information on the financial position for the authority which forms a basis for those requirements, leading to the budget requirement and Council Tax being agreed in February 2010.

RECOMMENDATION

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

(a) note the report;

(b) note those charges prescribed by legislation;

(c) approve those charges where there is local discretion as set out in Annex 4; and

(d) approve those charges for which an increase will commence before April 2010.

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Background papers: Nil

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