

CABINET – 26 MAY2015

Addressing the Council's Future Challenges

Joint Report by the Head of Policy and the Chief Finance Officer

Introduction

1. It is timely, following the General Election, to take stock of both the council's financial position and its policy priorities, reflecting both local drivers and what we now know of the national context.
2. In particular it is clear that local government will face further reductions in funding over the course of this parliament to deliver the savings required by the UK government to reduce the deficit. At the same time we face rising demand for adult and children's social care, in part as a result of our growing population.
3. We need to consider what will be required for the council to respond to these challenges, building on the approach that has been taken over the past five years.

Background

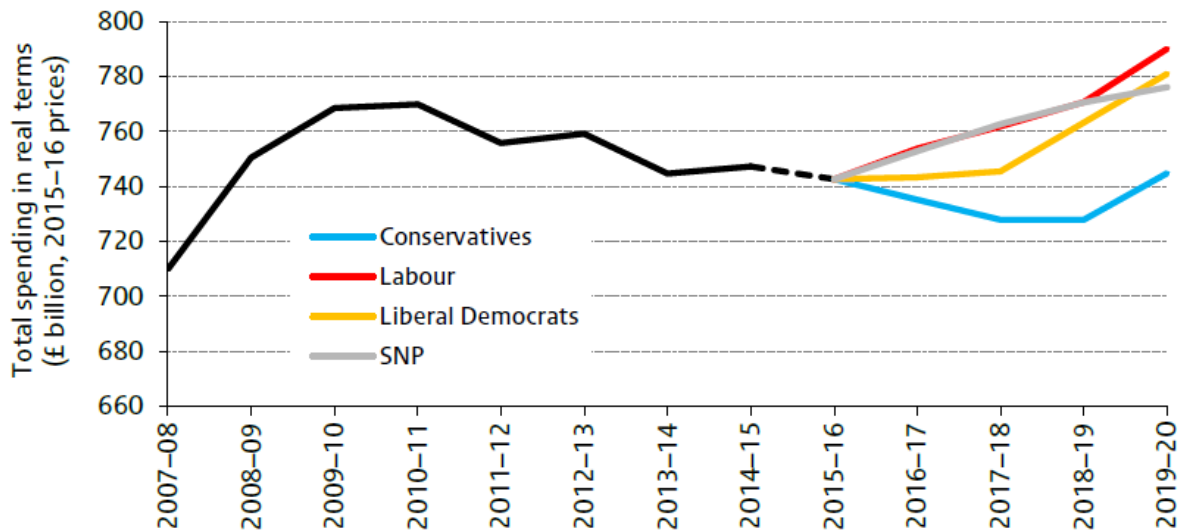
The Council's Current Financial Position

4. Since 2010 the Council has had to address large reductions in funding. This has stemmed from two main factors:
 - A 40% reduction in our main government grant (Revenue Support Grant) between 2010 and 2018.
 - Our ability to raise funding locally has been severely constrained by limitations in increasing council tax above 1.99% per year. This means that, factoring in inflation, we will receive less money from Council Tax in 2017 than we did in 2009.
5. These issues have been made more difficult because we are already one of the lowest funded local authorities: average government funding for county and unitary councils per head every year is £571 but in Oxfordshire it is only £286.
6. Since 2010 the council has changed significantly. We remain an organisation that seeks to be a 'leader of place', with big ambitions for our economy and shaping the Oxfordshire we want for our residents, whilst also delivering essential public services, particularly to the most vulnerable. Yet financial pressures have meant we have also had to take steps to withdraw from certain areas, and deliver services in different ways.

7. Since 2010/11 the council has made £204million of savings. These savings have been driven by directorate and corporate business strategies that were first launched in 2010 and articulated our approach, seeking to protect front line services as far as possible, and minimise disruption and loss of quality or customer satisfaction. Details of our approach in the period 2010-15 are set out in Annex 1.
8. Delivering savings of such magnitude has been a significant challenge, but the council's solid approach to financial management puts it in a relatively strong position going forward. We have been prudent in our approach to addressing pressures and despite concerns about overspending earlier in the year have ended the current financial year in a balanced position.
9. Despite the significant savings that have been achieved, the Council remains a substantial organisation, with a revenue budget in 2015/16 of £575m and capital programme in 2015/16 of £127m.

Impact of the General Election

10. On the 7th May 2015, the Conservatives won a majority in the House of Commons, and although the majority is small this does mean that we should have a clear idea of the direction of travel over the next five years.
11. We know that the Conservatives' plans imply a reduction in borrowing over the next parliament of 5.2% of national income, which would result in a surplus of 0.2% of national income by 2018/19. As they have pledged not to increase taxes, this means substantial spending reductions.



Profiles for total spending compared (real terms, 2015/16 prices) [taken from IFS Briefing Note BN170]

12. We will not know the details of these savings until a potential emergency Budget, and/or the next spending review (which is expected in the autumn) ahead of the Local Government Settlement in December 2015. However, according to the Institute for Fiscal Studies, assuming that the Conservative

government finds the social security savings and revenues from tax avoidance that they have targeted, total departmental spending would need to be cut by 7.1% between 2014/15 and 2018/19. Departmental spending would fall to its lowest level in real terms since 2003/04.¹

13. Significantly for local government, however, the NHS, foreign aid and schools budgets are to be protected (and in some cases, increased). The Institute for Fiscal Studies predict that 'other' departmental spending looks to be facing cuts of 17.9% between 2014/15 and 2018/19.²
14. We have already built significant grant reductions into the Medium Term Financial Plan aligned with the last spending review, and have assumed that Revenue Support grant will reduce to zero by 2022/23. However, there was a clear indication in the Chancellor's most recent Budget in March 2015 that the Revenue Support Grant will be reduced to zero sooner. The outcome of the election points to greater devolution of powers and responsibility, with far less money from central government to fund services.
15. We know that there will continue to be limitations on the ability to raise Council Tax beyond a particular level but we do not know at what rate. Assuming the referendum level remains at 2% (as it has been for the past few years), would introduce a further £6 million pressure into our Medium Term Financial Plan.
16. In 2018/19 Conservative plans are for total government spending to increase in line with inflation. From 2019/20, assuming a surplus has been achieved, spending will then grow in line with GDP.

Likely future financial context for Oxfordshire

17. In an Oxfordshire context we know that we need to consider some significant financial challenges:
18. Firstly we have a further £88 million savings to deliver that are identified in the council's Medium Term Financial Plan from 2015/16 to 2017/18. We have already built significant grant reductions into the Medium Term Financial Plan aligned with the previous spending review, with revenue support grant reducing to zero by 2022/23.
19. Secondly, going into the 2016/17 planning round, we know therefore that there are a few financial issues we already need to address. Significantly these are:
 - Expected need to reduce the Council Tax increase from 3.0% to 2.0% (and possibly further reductions) for both 2016/17 and 2017/18, giving rise to a pressure of £2.9m in 2016/17 and a further £3.1m in 2017/18
 - Adding future years to the medium term plan. It is estimated that each year added to the plan gives rise to a pressure of approximately £9.5m

¹ Post-election Austerity: Parties' Plans Compared, IFS Briefing Note BN170

² Post-election Austerity: Parties' Plans Compared, IFS Briefing Note BN170
<http://www.ifs.org.uk/uploads/publications/bns/BN170.pdf>

20. It is clear from the national approach laid out above that we are likely to face very significant further cuts, and it is quite likely that the scale of these will exceed what we have addressed to date.
21. Meanwhile we can take stock of some more general possibilities:
- Following the 2010 general election, an emergency budget was announced within a month which led to in year specific grant reductions of £11m across both revenue and capital as well as the termination of the Building Schools for the Future Programme. Clearly elements of our current capital programme could be similarly at risk this time.
 - Reviewing the specific grants expected for 2015/16, there is a potential for some general grant funding (business rates top up for example) that could be cut without any direct link to service delivery. A reduction in these could be in the range of £2m to £6m.
 - As set out in paragraph 13 above, there is a likelihood of a faster cut in Revenue Support Grant than seen over the last five years. It is estimated that a quicker reduction in grant could give rise to a pressure of £16 million over the period 2016/17 to 2020/21.
22. The total of these potential additional pressures on the revenue budget alone over the period 2016/17 to 2020/21 is in the order of £50m to £60m. When added to the savings in the existing Medium Term Financial Plan the savings required will be around £140m.

Managing the rising demand for services

23. As well as tackling a tough financial climate we also need to be aware of and respond to the changing needs of our local population including significant increases in demand for many services, which will put further pressure on shrinking budgets. For example:
- Oxfordshire's total population is forecast to grow by 93,000 (14%) in the next 15 years, from 655,000 residents in 2011, to 748,000 in 2026 (based on pre-Strategic Housing Market Assessment figures). In particular we face increasing costs from the growing number of older people - the numbers of residents aged 85 or above is forecast to increase by 61% between 2011 and 2026;
 - We need to address the pressures resulting from a growing number of vulnerable children needing support from the state.

The Council's Ambitions

24. For the past few years Oxfordshire County Council has had a clear ambition for a 'Thriving Oxfordshire'. This is where local residents and businesses in the county can flourish and means having:
- A Thriving Economy – with small businesses starting, existing small businesses growing, and large businesses choosing to locate here, creating good jobs for local people. A strong economy makes everything else possible.

- Thriving People and Communities – where residents are empowered to help themselves and can contribute to what happens locally, and where everyone can make informed decisions about their health and wellbeing.
 - A Safety Net – where we support and safeguard some of the county’s most vulnerable residents, focusing on those we have a duty to consider, such as older people, disabled adults, and children. We must ensure these residents are aware of, and are easily able to access, the services and care to which they are entitled.
25. The council has already articulated in the Corporate Plan the need to make the transition to being an organisation that:
- Prioritises work we are required to do by legislation, regulation or government policy
 - Has a concentrated focus on prevention and early intervention
 - Ultimately provides a vital safety net for the most vulnerable people in our communities who we have a duty to support.
26. Whilst much of the future is undoubtedly challenging there are clearly also opportunities, for example we are at a pivotal point in developing a new relationship between citizens and the state. We therefore have an opportunity to explore citizen's rights and responsibilities in the context of a smaller state, with the foundations of increased digital connectivity. We will continue to help people to help themselves, whether directly or with the support of others such as the voluntary and community sector.
27. The Cabinet is asked to consider whether they continue to support the council's current ambition and overarching strategic approach to achieve a Thriving Oxfordshire or whether a different approach is needed.

Key policy issues

28. In terms of policy, the Conservative Manifesto outlined a number of commitments. On a national scale these include:
- Increasing NHS budgets by £8 billion
 - Delivering 30 hours a week free childcare
 - £6.9 billion on research infrastructure
 - Funding 3 million new apprenticeships
 - Extending ‘right to buy’ to housing associations
29. The Queen's Speech, which is expected on 27th May, is likely to make the direction of travel clearer in terms of the government's short term legislative programme, and the council will need to carefully consider the content when it becomes available.
30. At the county council level, relevant policies that may have an impact in Oxfordshire could include:
- Continued ‘deal-based’ devolution Full implementation of the Care Act reforms

- More house-building and potentially more local control over planning and green belt protection.
- Continued growth in free schools and academies
- Ensuring “a good primary place” for every child
- The creation of regional adoption agencies
- A continuation of the work to overhaul how police, social services and other agencies work together to protect vulnerable children.

How the county council plans to respond to the future challenges

31. Oxfordshire County Council is determined to get onto the front foot in preparing for the significant challenges we will face over the next parliament, and has been working on this agenda for sometime. We are already redefining our role and, working with our partners and communities, we know that a further significant step change in how services are delivered will be essential if the council is to be relevant to residents and fit for purpose in 2020.
32. It is important to state clearly that the county council must continue to meet its legal obligations, for example, in providing services for vulnerable people to meet their eligible care needs. However in the future it is likely that we may be unable to afford to maintain all of our current services, and there may be the need to reduce or stop some provision altogether, or deliver these in different ways.
33. We are committed to an ambitious growth agenda for the county, and know that Oxfordshire has a key role to play in helping drive the national recovery. Working with partners, this now has real momentum and we must maintain our prominent role in putting Oxfordshire on the map as a thriving and innovative place. In order to do this we must be a modern and efficient council, and build new partnerships such as the alliance with Buckinghamshire and Northamptonshire, called the Economic Heart of England.
34. Over the summer we will publish a new overarching Business Strategy which will articulate to our staff and to our residents the approach we plan to take. This will include a clear message that the organisation needs to be as flexible and adaptable as possible to respond to the demands put on us by national government, the changing needs of our communities and what this means in terms of our changing role.
35. The theme of adaptation will also be applied methodically and strategically to all decisions the council makes about the work we do. In particular we will focus on those areas that cut across all departments of the council and can drive the business to deliver change. Examples of the work under discussion include:
 - a. A move to a fully ‘going digital’ approach to how we do business

- b. Tackling demand management in a systematic way so that prevention and early intervention continue to reduce take up of more expensive intensive services
 - c. Close scrutiny and reassessment of how we commission services across the county, embedding commercial awareness into our practices, and fast-tracking market development in the county
 - d. An on-going review of the use of our assets, including our properties, to enable the council to fully move to an agile model of working
 - e. Prioritising those major projects where the greatest levels of savings are required and ensuring the resources are available to support their delivery
36. Over the summer we will meet with staff to discuss what this means for them, how they can support the council in achieving its refocused goals, and how they can be empowered to adapt and contribute to the changing shape of the council.
37. The county council delivers essential services to communities across the county and will continue to do so. By taking this proactive approach we can future-proof these services as far as possible and continue to work towards a Thriving Oxfordshire.

Financial and Staff Implications

38. There are no direct implications identified as a result of this report, however, as the report makes clear in paragraph 17, we are likely to face very significant reduced budgets from central government and these will have implications for the Cabinet to consider going forward.

Equalities Implications

39. There are no direct implications identified as a result of this report, however, any implications that result in the future will be fully considered as part of our duties under the Equalities Act 2010.

RECOMMENDATION

40. **The Cabinet is RECOMMENDED to consider the issues set out in this paper and consider any changes to our financial and corporate strategy that are required at this time**

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Annex 1 Approach to delivery of savings 2010-15

1. Some examples of the changes that have occurred since 2010 include:
 - Streamlining services and processes across the board to make them as efficient as possible, for example creating a customer service centre, and more recently working in partnership with Hampshire county council on a new approach to delivery of back office HR and finance processes;
 - A 40% reduction in management posts and 25% reduction in overall staff numbers;
 - A new model for the library service, with over 20 libraries now run in partnership with local communities;
 - A new model of provision for home support services;
 - A reduction in the number of county councillors and associated support costs;
 - Reducing our role in direct provision of universal youth services, and through our Big Society fund, working with local communities to develop different locally owned approaches;
 - Re-let large contracts, with appropriate and innovative partnership style models, for large areas of our work, including Carillion for property services; Skanska for transport services and Viridor for waste services;
 - Supported schools in the transition to academy status, 25 out of 34 Oxfordshire secondary schools now have academy status, with a further four in the process of converting.
 - We have welcomed public health services return to local government, and these services are now being delivered through a new locally commissioned approach, delivering better value for money and better able to respond to local need.
 - Responded to a new policy approach to growth by focusing relentlessly, with partners, on driving the local economy as a key plank in the national recovery as well as being very much in the interests of local people. Through the Local Enterprise Partnership we have been successful in accessing significant resourcing to support infrastructure development despite the funding constraints that we have faced locally.
 - More broadly we have also re-scoped our relationships with key local partners including the local health services, local universities, Thames Valley Police, district councils, the voluntary sector and others, to ensure that we work together as effectively as possible to deliver for local residents.