

Division(s): N/A

CABINET – 17 DECEMBER 2013

Service & Resource Planning 2014/15 to 2017/18

Report by the Chief Finance Officer

Introduction

1. This report is the second in a series on the Service & Resource Planning process for 2014/15 to 2017/18, providing councillors with information on budget issues for 2014/15 and the medium term. The report sets out draft budget proposals to address shortfalls in funding and other emerging pressures identified over the medium term and provides an update on the latest financial position. The report also provides an update on government consultations and sets out the review of charges.
2. The provisional local government finance settlement is not expected to be announced until on or around 19 December 2013 and therefore the impact of the settlement is not included in this report. An addenda setting out the implications of the Chancellor's Autumn Statement due on 5 December 2013 will be circulated prior to the meeting.
3. This report does not include any proposals relating to the capital programme as these are dependent on the capital settlement. Updated property asset management and transport asset management plans will be considered by the Performance Scrutiny Committee on 9 January 2014, prior to the Cabinet meeting on 28 January 2014, together with proposed use of any unallocated capital resources.
4. The following annexes are attached to this report:

Annex 1: New revenue budget pressures and savings 2014/15 – 2017/18
Annex 2: Review of charges 2014/15
Annex 3: Forecast earmarked reserves 2014/15 – 2017/18
Annex 4: Government consultations, announcements and other initiatives

Revenue budget pressures and savings

5. The Service & Resource Planning Report to Cabinet in September 2013 set out initial estimates of budgetary pressures over the period 2014/15 – 2017/18 and additional pressures the Council would face if council tax increases were below that in the current Medium Term Financial Plan (MTFP). At that time budgetary pressures totalled £39.9m, with a further

pressure of £20.8m if council tax increases were restricted to 2% in each year of the MTFP.

6. Directorates have been working on new business strategies to identify ways of addressing the budgetary pressures and funding gap. The table below compares the latest position for on-going new pressures and savings to that reported in September. This includes both new savings and directorate pressures not previously included in the £39.9m. Details of the changes are set out in the ensuing paragraphs.

	Latest Position £m	Sept Report £m	Change £m
Council tax	12.6	20.8	-8.2
Reductions in Revenue Support Grant	10.5	10.5	0.0
Specific grant reductions/top-slicing ¹	8.0	8.0	0.0
Other corporate pressures	11.7	11.4	0.3
Directorate pressures	21.3	10.0	11.3
Total pressures	64.1	60.7	3.4
Corporate savings	-14.2		-14.2
Directorate savings	-50.5		-50.5
Total savings	-64.7	0.0	-64.7
Net Total	-0.6	60.7	-61.3

Council tax

7. The pressure reported in the September report was based on a council tax increase of 2% for each year of the four-year period 2014/15 – 2017/18. The Government has set the council tax referendum limit at 2% for both 2014/15 and 2015/16 therefore an increase above this amount would require a local vote. However, the referendum limits for the final two years of the MTFP have not yet been announced. With signs that the economy is now recovering the restrictions on council tax increases may be relaxed in later years, and for this reason increases of 3% have been assumed in the final two years of the MTFP in the latest position. This position will be reviewed in each year of the MTFP. This change reduces the pressure by £5.9m over the medium term.
8. The current MTFP includes growth in the tax base of 0.6% in 2014/15 and 0.75% in later years. Provisional figures from the district councils indicate an increase of 1.37% for 2014/15 through a combination of increased house building and lower than expected costs of the Council Tax Support Scheme. This generates £2.3m additional funding over the medium term.
9. The current MTFP includes £2.0m a year for council tax surpluses. Early draft figures from the district councils suggest that surpluses for 2014/15 will be £6.0m. This gives £4.0m additional one-off funding in 2014/15.

¹ Assumes all of the New Homes Bonus is removed in 2015/16

Revenue Support Grant/Specific Grants

10. There have been no further updates to the information available on Revenue Support Grant or specific grant allocations for 2014/15 and later years. The provisional local government finance settlement is expected on or around 19 December 2013, with 2014/15 Revenue Support Grant allocations and illustrative figures for 2015/16 expected at that time. 2014/15 specific grant notifications are also expected around the time of the settlement.

Other Corporate Pressures

11. Other corporate pressures reported in September comprised pensions auto-enrolment (£0.6m), removal of the employer's national insurance rebate with the introduction of the single state pension (£3.5m) and short-term funding that needs replacing in the current MTFP (£7.3m).
12. Additional pressures of £0.3m include £0.2m for insurance premiums.
13. Given the impact of pensions auto-enrolment is spread widely across the Council, consideration is being given to whether directorates can absorb the pressure. Other pension matters are outlined in Annex 4.

Directorate Pressures

14. The September report included £10.0m for demographic pressures on adult social care. A further £11.3m of pressures have been identified during the development of the new directorate business strategies, details of which are provided in Annex 1.

Corporate Savings

15. The majority of corporate savings (£11.8m) relate to reducing the allowance for inflation within the MTFP. It is proposed to reduce the allowance for pay inflation by £1.0m in 2015/16 in line with the Spending Round announcement to limit public sector pay rises to an average of 1%. The remainder of the inflation savings (£10.8m) relate to a proposed reduction in the allowance for non-pay and contract inflation. The Consumer Price Index (CPI) was 2.2% in October 2013 down from 2.7% in the previous month. The Bank of England continues to predict that price inflation will fall back to 2% in the long run.
16. Other proposed corporate savings include additional business rate income from the Energy from Waste plant together with general growth in the forecast business rates (£1.3m), an income generation target (£0.5m) and a technical adjustment relating to grant reductions in the MTFP (£0.6m).

Directorate Savings

17. Through the development of new business strategies, directorates have identified £50.5m of new savings proposals, details of which are provided in Annex 1.
18. The table overleaf summarises the proposed new pressures and savings set out in Annex 1.

Budget proposals	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
New pressures					
Children, Education & Families	0.0	0.0	0.4	0.3	0.7
Adult Social Care	10.0	-2.4	3.9	3.4	14.9
Fire & Rescue and Community Safety	0.8	0.0	0.7	0.0	1.5
Environment & Economy	3.2	0.7	1.3	-1.1	4.1
Chief Executive's Office	0.1	0.0	0.0	0.0	0.1
Public Health	0.0	0.0	0.0	0.0	0.0
Corporate	4.9	15.5	7.1	15.3	42.8
Total new pressures	19.0	13.8	13.4	17.9	64.1
New savings					
Children, Education & Families	0.2	-1.0	-2.8	-3.4	-7.0
Adult Social Care	-2.5	-11.8	-2.7	-5.0	-22.0
Fire & Rescue and Community Safety	-0.7	-0.4	-0.5	-0.5	-2.1
Environment & Economy	-1.4	-5.3	-2.4	-6.2	-15.3
Chief Executive's Office	-1.0	-0.2	-0.3	-0.1	-1.6
Public Health	0.0	0.0	-1.3	-1.2	-2.5
Corporate	-5.2	-2.5	-3.3	-3.2	-14.2
Total new savings	-10.6	-21.2	-13.3	-19.6	-64.7
Net total	8.4	-7.4	0.1	-1.7	-0.6

Review of charges

19. The Income Generation Cabinet Advisory Group has been exploring ways of generating additional income to help address the budgetary pressures faced by the Council. The chairman of the Group has proposed an income generation target of £0.5m to be included in the 2014/15 – 2017/18 Medium Term Financial Plan, in addition to the proposals already put forward. The work of the Group is still on-going and further recommendations will be made to Cabinet in January 2014. As part of its remit the Group has also reviewed and updated the Council's Corporate Charging Policy which is set out at Annex 2a.
20. The work of the Cabinet Advisory Group has run in parallel to service managers reviewing their existing charges. Changes in income arising from this review are summarised in Annex 2b and the proposed charges are set out in Annex 2c.

Strategic Measures, reserves and balances

Strategic Measures

21. The draft Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15 will be reported to the Performance Scrutiny Committee

on 9 January 2014, ahead of consideration by Cabinet on 28 January 2014. These will set out the borrowing strategy for the Council, the forecast bank rate and the forecast of interest rates to be achieved on investments over the medium term.

Reserves

22. Revenue reserves are forecast to be £56.2m as at 31 March 2014 as set out in Annex 3, of which £24.7m relates to schools. In addition, other reserves, which include insurance, capital and cash flow reserves, are forecast to be £51.9m as at 31 March 2014.
23. Annex 3 sets out the forecast use of reserves over the medium term. This shows that most of the revenue reserves will be used over this period, with the forecast balance falling to £9.8m by the end of 2017/18, of which £5.7m relates to schools. Other reserves will go into £1.6m deficit by the end of 2017/18. The new savings do not match the new pressures in each year of the MTFP, giving rise to a cash flow problem over the medium term. Based on the latest estimates the Budget Reserve would be overdrawn by £4.0m by the end of 2015/16, rising to £13.1m in 2016/17, before falling back to £12.5m in 2017/18. The Council cannot hold deficit reserves so there may be a need for some temporary use of other revenue reserves in 2015/16 and 2016/17 to manage the cash flow position.

Balances

24. The County Council's policy is to maintain balances at a level commensurate with identified risks. The forecast balances over the medium term in the current MTFP are set out in the table below.

Balances forecast in MTFP	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Estimated balances at start of year	16.2	15.7	16.7	16.7
Budgeted changes in balances	1.5	3.0	2.0	2.0
Total balances at start of year	17.7	18.7	18.7	18.7
Estimated use of balances	-2.0	-2.0	-2.0	-2.0
Estimated balances at end of year	15.7	16.7	16.7	16.7

25. Balances at the end of 2012/13 were £18.7m, £2.5m higher than forecast in the MTFP due to additional investment income and very limited calls on balances during the latter part of the year. The forecast directorate overspend of £4.5m set out in the Financial Monitoring report elsewhere on this agenda would reduce balances to £15.6m by the end of 2013/14. This is in line with the MTFP however does not allow for any further calls on balances. Consideration will be given in the Service & Resource Planning report to Cabinet in January 2014 whether this level of balances is commensurate with risks.

Government consultations, announcements and other initiatives

26. A number of government consultations, announcements and other initiatives were set out in the report to Cabinet on 17 September 2013. These have implications for the Council in 2014/15 or later years. These included:
- Consultations on finance settlement technical issues, New Homes Bonus and the use of capital receipts for revenue purposes
 - Business rates pooling
 - Social care funding
 - Education and schools funding
 - Pensions
27. The updated position on these and subsequent announcements which have financial implications for the Council are set out in Annex 4.

Service & Resource Planning Process Update

28. A new over-arching business strategy to cover the four-year period 2014/15 to 2017/18 has been developed to align with the council tax and budget setting timeframe for the new administration. This is underpinned by new directorate business strategies for the same period, included at Annex 1 to the Service & Resource Planning report to Performance Scrutiny Committee on 16 December 2013. These strategies set out proposed changes to services to deliver the savings required to meet the identified funding gap and emerging expenditure pressures outlined earlier in this report.
29. The Performance Scrutiny Committee is due to consider the new directorate business strategies and budget proposals at its meeting on 16 December 2013 and offer an overall view to the Cabinet. This will be followed by consideration of capital proposals at the Committee's meeting on 9 January 2014. The Cabinet will finalise its budget proposals and propose the 2014/15 revenue budget, 2014/15 – 2017/18 Medium Term Financial Plan and Capital Programme on 28 January 2014.
30. The provisional local government finance settlement is expected to be on or around 19 December 2013 and the final settlement in late January/early February 2014. The Council will meet to set the council tax requirement on 18 February 2014.

Consultation

31. A series of 'Talking Oxfordshire' public meetings took place across the county in October and November, together with on-line consultation, to seek residents' views on the tough financial decisions that the Council faces. A summary of the results of Talking Oxfordshire are included at Annex 4 to the Service & Resource Planning report to Performance Scrutiny Committee on 16 December 2013.

32. Further engagement is being sought through a telephone survey to capture feedback on how people think the Council should save money, service priorities and views on the level of council tax increase. Members of the public will also be able to comment on the detailed budget proposals through the Council's website.

Equality and Inclusion Implications

33. 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.'
34. A general assessment of the broad impact of the new budget proposals is set out in the Service & Resource Planning report to Performance Scrutiny Committee on 16 December 2013. This is supported by initial service-level assessments for the new proposals, included at Annex 3 to that report.

Financial and Legal Implications

35. This report is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2014, will lead to the council tax requirement being agreed in February 2014.

RECOMMENDATION

36. **The Cabinet is RECOMMENDED to:**
- (a) note the report and that an addenda will be produced following the announcement of the Chancellor's Autumn Statement;**
 - (b) consider the pressures and savings set out in Annex 1 in forming its budget proposals in January 2014;**
 - (c) in relation to the review of charges:**
 - 1) approve the updated Corporate Charging Policy;**
 - 2) note those charges prescribed by legislation;**
 - 3) approve the charges where there is local discretion as set out in Annex 2, giving flexibility to the Outdoor Education Centres to reduce the charge from the maximum rate to take account of demand and seasonal factors, and to vary the charges at Hill End to reflect market demands and any increase in costs (up to a maximum increase of 10% above the proposed rate applicable from 1 April 2014).**

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December 2013