Division(s): N/A

CABINET – 20 SEPTEMBER 2016

Service & Resource Planning 2017/18

Report by the Chief Finance Officer

Introduction

1. This report is the first in the series on the Service & Resource Planning process for 2017/18 which will culminate in Council setting a budget for 2017/18 in February 2017. This initial report sets the context and the starting point for the process. It sets out:

   - the assumptions on which the existing Medium Term Financial Plan (MTFP) is based,
   - known and potential financial issues for 2017/18 and beyond which impact on the existing MTFP, and
   - a proposed process for Service & Resource Planning for 2017/18 including a timetable of events.

2. The report follows on from the report presented to Cabinet in July 2016, 'Revised Medium Term Financial Plan 2017/18 – 2019/20'.

3. The following annexes are attached to this report:

   Annex 1a: Previously agreed budget changes 2017/18 – 2019/20
   Annex 1b: Review of assumptions in the existing MTFP
   Annex 2: Service & Resource Planning timetable for 2017/18

Assumptions in the existing Medium Term Financial Plan

4. The 2016/17 – 2019/20 Medium Term Financial Plan (MTFP) agreed by Council in February 2016 included the requirement for an additional £69m of savings to be made over the period of the plan. This brings the total level of savings required to offset funding reductions and to meet additional expenditure pressures to £114m over the period 2016/17 to 2019/20.

5. Of the £114m savings still to be achieved in the existing MTFP, £38m needs to be delivered in 2017/18, £14m in 2018/19 and £9m in 2019/20. Savings of £53m are built into the budget for 2016/17 and progress against this is being monitored through the Business Strategy Delivery and Financial Monitoring Reports to Cabinet throughout the financial year.

6. At the time of setting the 2016/17 budget in February 2016, the MTFP included a requirement for savings for which proposals had not been

identified of £10.4m in 2017/18 and £6.2m in 2018/19. A surplus position of £1.3m was included for 2019/20. In total £15.3m of unidentified savings were required to 2019/20.

7. The need to make significant additional savings only became apparent following the publication of the Draft Local Government Finance Settlement in late December 2015 due to a change in the distribution of Revenue Support Grant. It would not have been prudent therefore to propose further significant savings without proper financial planning and consultation. The 'Revised Medium Term Financial Plan 2017/18 – 2019/20' report presented to Cabinet in July 2016 proposed that the £15.3m further savings would be achieved through a new council wide transformation programme. Cabinet recommended that Council approve the revised MTFP for 2017/18 to 2019/20 on 13 September 2016.

8. Last year, the MTFP was extended to 2019/20 to reflect the period of the spending review. As part of the Provisional Local Government Finance Settlement announced in December 2015, the Secretary of State for Local Government set out an offer to all councils of a four-year funding settlement from 2016/17 to 2019/20. In setting the 2016/17 budget and Medium Term Financial Plan to 2019/20, these published figures have been included as forecasts of income over the four year period. The offer of a four year settlement requires councils to publish an Efficiency Plan and notify the Department for Communities and Local Government (DCLG) of its availability by 14 October 2016. Council have been recommended to approve Oxfordshire's Efficiency Plan on 13 September 2016 ahead of submitting to DCLG.

9. The MTFP also includes an additional £12.2m of on-going funding for demographic and other directorate expenditure pressures added over the period 2017/18 – 2019/20 and provides for 1% pay inflation, up to 3% contract inflation, 2% income inflation. No inflation is provided for general prices[1].

10. Details of the savings and additional funding in the existing MTFP for 2017/18 to 2019/20 are set out in Annex 1a.

11. The MTFP assumes general balances of £17.5m and £65m in earmarked reserves (reserves held for a specific purpose) at the start of 2017/18. The Business Strategy Delivery & Financial Monitoring report presented to Cabinet in July 2016 forecast £15.6m general balances[2] and £97m earmarked reserves at the end of 2016/17.

12. The Budget Reserve is being used to manage the cash flow implications of the MTFP. It is forecast to have a balance of £8.4m at the end of 2016/17 that could be used to defer savings required from the transformation programme from 2017/18 to 2018/19. The level of earmarked reserves and

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[1] Applied to costs of premises, transport and supplies and services.
[2] After taking into account Directorate projected overspends

general balances are reviewed each year as part of the Service & Resource Planning process.

13. General funding (excluding council tax) is estimated to reduce by £20m between 2017/18 and 2019/20 to £67m a year by 2019/20, a reduction of 36% compared to 2016/17. Council tax increases of 3.99% for 2017/18 to 2019/20 are assumed in the MTFP, this includes a 2% increase for the Adult Social Care precept. Total income from Council Tax (including collection surpluses) is estimated to be £365m a year by 2019/20.

14. Further details on the assumptions in the existing MTFP are provided in Annex 1b.

Government and Other Announcements

Budget March 2016

15. On 16 March 2016, the previous Chancellor of the Exchequer, George Osbourne made his 2016 Budget announcement. Forecasts for economic growth were revised downwards due to global factors in particular slow growth in developing economies such as China. The forecasts were made on the basis of the UK remaining in the European Union. Forecast growth for 2017 was reduced from 2.4% to 2.2% and from 2.4% to 2.1% for 2018 and 2019.

16. In the summer 2015 Budget the Chancellor stated that he wanted to achieve a budget surplus by 2020 and detailed £37bn worth of cuts in order to do so. The March 2016 budget announced that government departments would be required to find an additional £3.5bn of savings by 2020 to achieve a surplus position under the revised economic forecasts.

17. In May 2016, the previous Secretary of State for Communities & Local Government, Greg Clark, confirmed that, subject to the submission of an Efficiency Plan, the four-year settlements for local government were still valid.

18. The Chancellor announced that from April 2017, businesses in properties with a rateable value of £12,000 or less will not pay business rates and properties with a rateable value between £12,000 and £15,000 will pay a tapered rate. The Government stated that Local Authorities will be compensated for this change.

19. From April 2020, the annual indexation of business rates will switch from the Retail Prices Index (RPI) to the Consumer Price Index (CPI), the main measure for inflation.

European Union Referendum and associated events

20. On 23 June 2016 the United Kingdom voted to leave the European Union. Shortly after the result of the European Union referendum was known, David

Cameron announced his resignation from the Office of Prime Minister. Following a short leadership contest, on 13 July 2016, Theresa May was appointed Prime Minister.

21. A significant cabinet reshuffle occurred immediately after Theresa May took office. Philip Hammond was appointed Chancellor of the Exchequer and Sajid Javid replaced Greg Clark as Secretary of State for Communities & Local Government.

22. Theresa May has stated that she will not trigger Article 50 of the Lisbon Treaty, which sets in place a process for withdrawal from the European Union, before the start of 2017 at the earliest. Formal negotiations on the UK's departure from, and its future relationship with, the Union cannot begin until the article is triggered. The process itself is expected to take two years.

23. Prior to the referendum, many economists had been predicting an immediate and significant negative impact on the UK economy should the country vote to leave the European Union. George Osbourne had stated that an Emergency Budget would need to take place. Following the vote, George Osbourne announced that there would be no immediate emergency budget but said there would need to be "corrective action" following major stock market losses and an expected reduction in investment. On 1 July 2016, George Osbourne abandoned his target of achieving a budget surplus by 2020; he said "we must provide fiscal credibility, continuing to be tough on the deficit while being realistic about achieving a surplus by the end of the decade".

24. On becoming Chancellor, Philip Hammond stated that he will use the Autumn Statement to 'reset' Britain's fiscal policy saying "our economy will change as we go forward to the future and will require a different set of parameters". The Autumn Statement will be announced on 23 November 2016.

Interest Rates

25. At its meeting in August, the Monetary Policy Committee (MPC) voted unanimously to cut Bank Rate to 0.25% from 0.5%. The Committee noted that following the United Kingdom's vote to leave the European Union, the exchange rate had fallen and the outlook for growth in the short to medium term had significantly weakened. The fall in sterling is likely to push up CPI inflation in the short term, hastening its return to the 2% target and probably causing it to rise above the target in 2018, before the exchange rate effect dissipates thereafter. CPI for July 2016 increased to 0.6% from 0.5% in June and RPI for July 2016 increased to 1.9% from 1.6% in June.

26. The cut in interest rate will impact on the assumptions in the Corporate Measures budget over the medium term. The impact of this and any other market changes will be set out in the next Service & Resource Planning report to Cabinet in December 2016.

100% Business Rates Retention

27. On 5 July 2016, the Department for Communities and Local Government (DCLG) released the consultation on the reform of business rates retention as announced in the Queen's Speech 2016. The consultation seeks views on the implementation of the Government's commitment to allow the local government as a whole to retain 100% of the business rates they raise. The consultation's introduction outlines the following timetable:

Summer 2016	Consultation on the approach to 100% retention
Autumn 2016	Further technical consultation on the specific workings of the reformed system
Early 2017	Legislation introduced
April 2017	Pilots of the new approach
Before May 2020	100% business rates implemented

28. The 36 question consultation covers a wide range of areas especially regarding the System Design of the new scheme. Included are questions regarding the devolution of further responsibilities (in order to maintain fiscal neutrality in the move from 50% to 100% rates retention), as well as questions on the balance between rewarding growth and redistributing to meet changing need, tier splits (in County areas), managing the risk of appeals and powers to introduce an infrastructure levy as well as reducing the multiplier.

29. Additionally, there are questions regarding whether devolution could be different for different authorities. Previous Secretary of State for Communities and Local Government, Greg Clarke, stated that he did not want to impose a "one-size-fits-all" solution across the country and encouraged local government to consider how the system can be tailored to local needs and opportunities.

30. The Council is intending to respond to the consultation which closes on 26 September and the response will be made available to all members ahead of submission.

Fair Funding Review – Call for Evidence

31. In May 2016 DCLG and the Local Government Association (LGA) set up a jointly-led Needs and Redistribution technical working group. Based on feedback from this group, DCLG have developed an initial call for evidence on needs and redistribution which is running alongside the 100% Business Rate Retention consultation, with the same end date.

32. In 2013/14 the relative needs formula, as part of the Four-Block Model, was used to calculate each Local Authority's Baseline Funding level. Tariffs and top-ups were then calculated by comparing each authority's Baseline Funding level with their Business Rate baseline. This measure of need has not been recalculated since and many feel that a fundamental review of the

needs assessment is required particularly due to the increasing demographic pressures on Adult Social Care services.

33. The Fair Funding Review will establish the funding baselines for the services currently supported by the local government finance system. The distribution of funding for new responsibilities will be considered on a case by case basis once these responsibilities are confirmed; they are likely to have bespoke distributions.

34. The final consultation on the needs formulae is expected in summer 2018 with implementation scheduled for the end of the current parliament.

New Funding Formula for Schools

35. The Secretary of State for Education, Justine Greening, announced that the implementation of a new national funding formula for schools will be delayed by a year from 2017/18. It will now apply from 2018/19.

36. The new formula is needed to tackle uneven levels of funding across England, with the best funded areas getting more than £6,300 per pupil per year, while the worst-funded averaging just £4,200. However, there are concerns that while some schools will benefit, a new formula could mean some schools in areas of need would face budget cuts. Justine Greening stated that she did not want to rush into changes without being sure of their ramifications.

Early Years Funding Consultation

37. The Department for Education launched a consultation on 11 August 2016 on proposals to change the way free childcare and early years education is funded. The consultation closes on 22 September 2016.

38. The proposals include the introducing a new early years national funding formula for 3 and 4 year olds; changing the way local authorities fund the early years providers in their area; and making sure that children with special educational needs or disabilities attract the extra funding they need.

Local Government Pension Fund Valuation

39. The Actuary is currently working on the Valuation of the Local Government Pension Scheme where the changes in financial markets and scheme membership etc. are assessed since the last Valuation in 2013. The provisional results will be available in early November 2016.

Service & Resource Planning Process and Timetable

40. The report to Cabinet in July 2016 set out the emerging themes of the new council wide transformation programme. As this work develops, the key work streams have been formed which will ensure the council is responsive, adaptable and continuously developing services in creative ways; a council

that listens to communities, helping to make Oxfordshire a place where local residents and businesses can flourish. The key work streams are:

- Digital First
- Driving Efficiencies
- Driving Growth
- Workforce for the Future
- Delivering Together
- Community Capacity Building
- Customer Focus/Front Door

41. The programme will be expanded to identify further savings to meet on-going expenditure pressures highlighted in the Financial Monitoring & Business Strategy Delivery report to Cabinet and any new expenditure pressures emerging during this planning round.

42. Detailed budget proposals will be presented to Performance Scrutiny Committee in December 2016, which will enable a cross-party group of councillors to consider and challenge the proposals. Capital proposals will be considered in early January 2017. An online public consultation on the budget proposals will take place during December 2016.

43. Cabinet will take into consideration the comments from Performance Scrutiny Committee and the public alongside the funding available announced as part of the provisional settlement, in setting out its proposed budget to Cabinet on 24 January 2017.

44. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by 31 January 2017. Provisional figures are expected in mid-December 2016.

45. The final settlement is not expected until early February 2017. This will confirm the general funding available to the Council for 2017/18 and the Council Tax referendum limit to be applied.

46. The Council meeting to agree the 2017/18 revenue budget, medium term financial plan and capital programme will take place on 14 February 2017.

47. A timetable for the Service & Resource Planning process is attached at Annex 2.

Capital Programme Planning

48. The Council considers the capital investment and programming activity as an integral part of the Service & Resource Planning process. This ensures that the creation of a new asset or investment in the existing assets and infrastructure network is justified through detailed business strategies and delivery models for the service, and implications for the medium term financial plan are clearly identified.

49. In view of the delivery period for significant programmes, such as those relating to the Local Growth Deal, it is proposed to extend the capital planning period a further year to cover the period 2016/17 to 2020/21. This will provide an additional year of funding in the capital programme and align to the period of the MTFP.

50. New capital investment pressures are currently emerging. Proposals will be brought forward in September/October 2016 to inform the capital planning process.

51. Councillors will have an opportunity to contribute to capital prioritisation decisions through the January 2017 Performance Scrutiny Committee meeting.

Equality and Inclusion Implications

52. The Public Sector Equality Duty, under section 149 of the Equality Act 2010, places a responsibility on local authorities to exercise 'due regard to the need to eliminate unlawful discrimination… advance equality of opportunity… and foster good relations.'

53. There are no equality and inclusion implications arising directly from this report. A high level assessment of the broad impact of new savings options will be included as part of the published information in December 2016. More detailed impact assessments, which will take account of feedback from the public consultation and from Scrutiny, will accompany Cabinet's proposed budget in January.

Financial and Legal Implications

54. 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 2017, will lead to the council tax requirement being agreed in February 2017, together with a budget for 2017/18, updated medium term financial plan and capital programme.

RECOMMENDATION

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

(a) note the report;
(b) approve the Service and Resource Planning process for 2017/18; and
(c) approve a four year period for the Medium Term Financial Plan and Capital Programme to 2020/21.

LORNA BAXTER
Chief Finance Officer

Annexes:

Annex 1a:	Previously agreed budget changes 2017/18 – 2019/20
Annex 1b:	Review of assumptions in the existing MTFP
Annex 2:	Service & Resource Planning timetable for 2017/18

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