

Division(s): N/A

CABINET – 15 December 2015

Service & Resource Planning 2016/17 to 2019/20

Report by the Chief Finance Officer

Introduction

1. This report is the second in a series on the Service & Resource Planning process for 2016/17 which will culminate in Council setting a budget for 2016/17 and a medium term plan to 2019/20 in February 2016. The report sets out:
 - the savings options that have been subject to public consultation and an update on the pressures for 2016/17 and the medium term,
 - the implications of the Spending Review and Autumn Statement announced on 25 November 2015,
 - a forecast of reserves over the medium term, and
 - the capital programme proposals for 2016/17 to 2019/20.
2. The provisional local government finance settlement is expected to be announced in the week commencing 14 December 2015. Therefore the implications of the settlement will not be set out until the report to Cabinet on 26 January 2016.
3. This report includes proposals relating to the capital programme however they are subject to confirmation of capital funding. They will be considered by the Performance Scrutiny Committee on 8 January 2015.
4. The following annexes are attached to this report:

Annex 1: Revenue budget savings options and pressures 2016/17 – 2019/20

Annex 2: Forecast earmarked reserves 2016/17 – 2019/20

Annex 3: Capital proposals 2016/17 – 2019/20

Service and Resource Planning Process

5. In September 2015, Cabinet agreed that the Medium Term Financial Plan (MTFP) to be agreed by Council in February 2016 would cover the four years 2016/17 to 2019/20 to match the spending review period.
6. Given the uncertainty about the level of funding available over the medium term and consequently the level of savings required, the public were consulted on all of the savings options put forward for consideration at an early stage in the Service & Resource Planning process. Details of the savings options were

made available to the public on 20 October 2015. The consultation closed on 30 November 2015 and the responses will be considered by the Performance Scrutiny Committee on 17 December 2015.

7. The Performance Scrutiny Committee will consider and challenge all of the detailed savings options and will identify the least desirable of these. The Cabinet will take the Scrutiny Committee's comments into consideration in proposing its budget later in January. Performance Scrutiny Committee will consider the capital proposals at its meeting on 7 January 2016.
8. Following the Provisional Local Government Finance Settlement, expected in mid-December, the Cabinet will propose the 2016/17 revenue budget, 2016/17 – 2019/20 Medium Term Financial Plan and Capital Programme on 26 January 2016.
9. Council will meet on 16 February 2016, following the Final Local Government Finance Settlement and final information from District Councils, to agree the 2016/17 revenue budget, Medium Term Financial Plan for 2016/17 – 2019/20 and Capital Programme.

Pressures and Savings Options

10. The report to Cabinet in September set out that due to the expected reduction in funding and increases in demand for services, the Council was planning on the need to make savings in the region of £50m over the next 4 years. The paragraphs below set out an update on both the pressures and savings options, details of which are provided in Annex 1.

Pressures

11. Directorate and Corporate pressures total £47.0m as shown in the table below.

Directorate	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Children, Education & Families	4.2	-	-	-	4.2
Adult Social Care	3.0	-0.6	5.0	5.0	12.4
Environment & Economy	4.5	-1.9	0.5	0.5	3.6
Corporate	12.3	4.3	6.0	4.2	26.8
TOTAL	24.0	1.8	11.5	9.7	47.0

Revenue Support Grant, Business Rates and Inflation

12. For each additional year that is added to the MTFP, there is a net pressure from the estimated reduction to Revenue Support Grant (RSG) and an allowance for inflation being greater than the increase in income from council tax and business rates. This results in a pressure of £4.7m over the medium term.

13. In addition, following announcements in the National Budget in March and July 2015, there were indications that reductions to RSG could be faster and steeper than previously assumed, giving a further pressure of £14.1m over the period.
14. As RPI inflation for September 2015 was only 0.8%, the inflation rate applied to business rates will be much lower than currently assumed in the MTFP. Also, information received from district councils during 2015/16 indicates that the level of business rate income being collected during the year is lower than estimated when the budget was set in February 2015. This will give rise to a deficit on the business rate collection fund for 2016/17. Taken together, there is a pressure of £2.0m on business rate income for 2016/17.

Council tax

15. The MTFP includes an increase in council tax of 3% in 2016/17 and 2017/18. Prior to the Spending Review (see paragraph 33 for more details), it was expected that the referendum limit would remain at 2%, resulting in a pressure of £6.1m over the medium term.

Directorate Pressures

16. As reported in the Financial Monitoring & Business Strategy Delivery report elsewhere on the agenda, there are some significant pressures arising in 2015/16 that need addressing on an on-going basis through the Service & Resource Planning process.
17. In the Children, Education and Families directorate, there are pressures on staffing in Children's Social Care teams to address the increased numbers of children requiring intervention. Also, there is an increase in the number of children with Special Educational Needs requiring transport to school. These give rise to a total pressure of £3.4m from 2016/17.
18. In Adult Social Care, adding a further two years to the MTFP results in a pressure of £10m to address demographic increases. In addition with a number of other smaller pressures across the directorate, total pressures over the medium term amount to £12.4m.
19. In the Environment & Economy Directorate, there is a pressure of £2.5m over the medium term on the waste budget relating to increased volumes. This is also reflected in the current financial year where increases in costs and tonnages are giving rise to a forecast overspend in this area.

Savings Options

20. Directorate and corporate savings options of £51.6m¹ have been identified over the period 2016/17 to 2019/20. Within the existing MTFP there are £5.7m of unidentified savings and savings that will no longer be achieved, when these are taken into account the net savings figure is £45.9m. A summary by directorate is shown in the following table:

Directorate	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Children, Education & Families*	1.0	-5.2	-	-0.4	-4.6
Adult Social Care	-1.4	-0.2	-8.0	-6.0	-15.6
Fire & Rescue Service and Community Safety	-0.4		-0.1	-0.4	-0.9
Environment & Economy	-6.3	-0.8	-0.3	-1.5	-8.9
Cultural Services	-0.3	-0.4	-0.4	-	-1.1
Corporate Services	-0.8	-0.5	-0.1	-	-1.4
Corporate Measures	-6.9	-3.2	-2.0	-1.3	-13.4
TOTAL	-15.1	-10.3	-10.9	-9.6	-45.9

* includes re-phasing of £1.7m savings from 2016/17 to 2017/18

Corporate Measures Savings

21. The MTFP includes growth in the tax base of 1.0% in 2016/17 and later years. In line with the increase for 2015/16 and District Council house building forecasts, it is proposed to increase the assumed growth in the taxbase to 1.75% in 2016/17 and 1.25% thereafter. This generates £4.4m of additional funding over the medium term. Early figures from the district councils indicate that the increase 2016/17 will be very close to the 1.75% estimate.
22. Contract inflation was allowed for in the MTFP at 3%. The Environment & Economy directorate receive the majority of the contract inflation that is added to budgets. As the Retail Price Index (RPI) was only 0.8% in September 2015 and 0.7% in October 2015 it is proposed to reduce the amount of contract inflation by £1.5m.
23. The final year of the local pay agreement will be considered by the Remuneration Committee in December 2015. If it is agreed that the local award for 2016/17 will mirror the likely national award, this will yield a saving of £2.1m. Pay arrangements from 2017/18 and beyond will be subject to a separate agreement.
24. £3.5m of additional funding from 2016/17 was added to the budget as part of the 2014/15 budget process for the ending of the employers National

¹ The savings options which have been consulted on totalled £52.1m. A saving of £0.4m within Adult Social Care relating to the Money Management service has been removed as it is no longer deliverable and a change of £0.1m to the HWRC saving within Environment & Economy.

Insurance rebate on the second state pension. Modelling using current staffing numbers has shown that £1m of this funding is not required.

25. Additional funding of £1.5m from 2015/16 was agreed in February 2015 for the estimated increase in cost expected with the retendering of the insurance contract. To continue with the same level of insurance from July 2015, the estimated budgetary pressure was in the order of £1.0m to £1.5m. Through the procurement process, the increase in cost was only £0.7m releasing funding of £0.8m.
26. There is a saving of £1.5m proposed for the strategic measures budget over the medium term from maximising the income earned on balances and reducing the costs of borrowing.

Overall Position

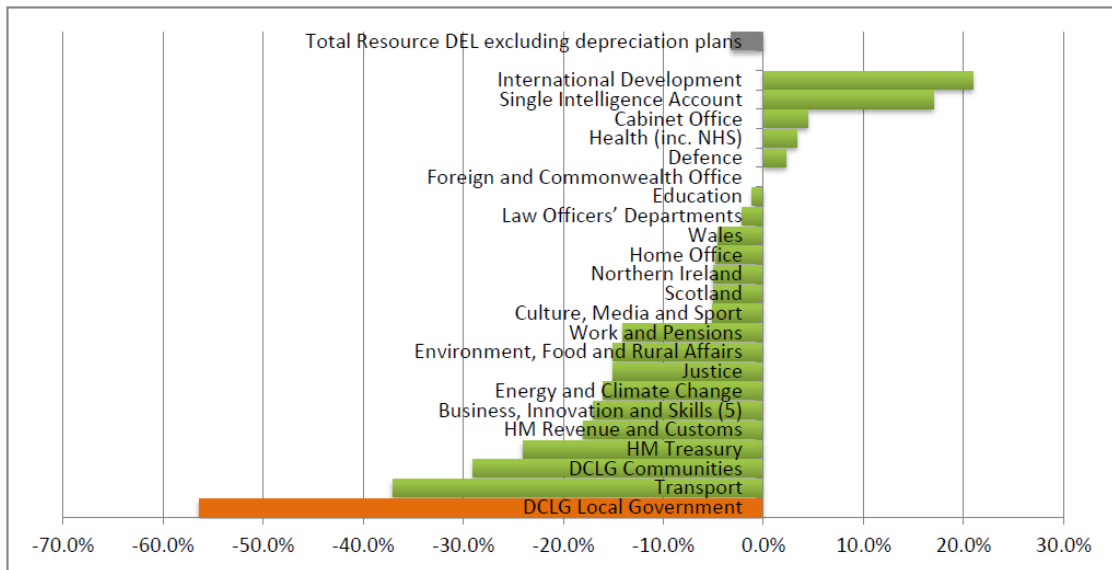
27. The following table shows that currently there is a net pressure of £1.1m over the medium term. However, there is currently a net pressure in 2016/17 of £8.8m. The Council is awaiting the outcome of the Provisional Local Government Finance Settlement before revisiting and if necessary addressing this position in order that a balanced budget can be set on 16 February 2016.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	TOTAL £m
Pressures	24.0	1.8	11.5	9.7	47.0
Savings	-15.2	-10.3	-10.8	-9.6	-45.9
Net Pressure (+)/Saving (-)	8.8	-8.5	0.7	0.1	1.1

Spending Review and Autumn Statement 2015

28. On 25 November 2015 the Chancellor of the Exchequer announced the outcome of the Spending Review 2015. The main announcements which have an impact on Local Government are summarised in the following paragraphs.
29. The impact on the Council of many of the announcements will not be known until the Provisional Local Government Finance Settlement is announced in mid-December or beyond. Some of the announcements require a period of consultation, changes in regulations or changes in legislation which will take time. It is therefore too early to know the impact the announcements will have on the level of savings required by the Council over the next four years.
30. Funding for health, schools, international development and defence has been protected as previously announced. In addition, the Cabinet Office has also been protected and its budget will increase in real terms. These protections magnify the level of cuts for the remaining departments. The chart overleaf shows that the Department for Communities and Local Government (DCLG)

will receive the largest percentage cut of all departments over the next four years.



31. The Local Government Departmental Expenditure Limit, which includes Revenue Support Grant will reduce from £11.5bn in 2015/16 to £5.4bn in 2019/20, a 56% real terms decrease. Revenue Support Grant (RSG) will be phased out entirely by 2019/20. The Department for Communities and Local Government (DCLG) will publish a consultation shortly on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities. This consultation will pave the way for the implementation of 100% business rate retention.
32. Details of reforms to the New Homes Bonus (NHB) will be set out as part of the provisional local government finance settlement consultation in December. The proposals for changes to the NHB will include a sharpening of the incentive to reward communities for new homes and reducing the length of payments from 6 years to 4 years. Proposals will include the introduction of a floor to ensure that no authority loses out disproportionately as a result of the changes. The Government's preferred option will lead to savings in the grant of £800m which is expected to form part of the increase in the Better Care Fund (see paragraph 35). The national funding for NHB is around £1.4bn currently so the proposals could lead to around a 60% reduction in the overall funding available for the scheme.
33. Upper-tier local authorities will be able to increase council tax levels by up to 2% each year to specifically fund adult social care. The social care precept will allow authorities a 2% increase in addition to the current referendum threshold, which is still to be confirmed, but is expected to remain at 2%. The additional funding will support councils to increase the prices they pay for care, including to cover the costs of the National Living Wage. An additional 2% increase in council tax in each year of the medium term plan would generate income of £26.6m for the Council.

34. There is no explicit funding in respect of the National Living Wage. This new burden is assumed to be met from the income raised through a higher council tax increase. The Council had not built in the anticipated pressure arising from the implementation of the National Living Wage because, as a new policy introduced by government, it was expected to fall under the new burden doctrine. This states that costs of all such new burdens should be fully funded and as such the Council would expect to receive additional funding to meet this. It is difficult to predict the impact on the Council of the National Living Wage as the costs will be incurred directly by providers and passed through to the Council as increased fees. Based on responses to recent procurements the potential cost could be in the region of £4m to £10m in 2016/17 alone. The National Living Wage then increases each year up to 2020/21 which based on the range for 2016/17 could mean a total cost of £16m to £40m over the medium term plan period to 2019/20.
35. Funding for the Better Care Fund will increase by £1.5bn by 2019/20. This additional funding will be made available to local government. £0.7bn of the increase is new funding and £0.8bn is from New Homes Bonus as referred to above. An increase in the Disabled Facilities Grant of £0.5bn was also announced. This is currently in the Better Care Fund so it is anticipated that it will form part of the additional £1.5bn.
36. The Spending Review sets out plans to create an integrated health and social care system by 2020, with every area to have a plan for integration agreed in 2017, for implementation by 2020. However, the government will not impose how the NHS and local government deliver this.
37. Public Health funding will reduce from £3.4bn in 2015/16 (this includes the in-year reduction of £0.2bn) to £3.1bn by 2020/21. The ringfence of the grant will continue for 2016/17 and 2017/18. The estimated reduction in grant for Oxfordshire by 2020/21 is approximately £2.8m. The Government will consult on options to fully fund public health spending from retained business rates receipts as part of the move to 100% business rate retention.
38. The per-pupil rate for the Dedicated Schools Grant will be protected in cash terms and the pupil premium will be maintained at current rates.
39. A new funding system for schools will be introduced from 2017/18. A detailed consultation on the specifics of the proposed new system will be published in early 2016. The new national funding formula will include elements for schools, high needs and early years, so that funding is transparently and fairly linked to children's needs.
40. The Education Services Grant will be reduced by around £600m from £815m in 2015/16, a 75% reduction. A 75% reduction on the Council's grant equates to £4m. The government is proposing to reduce the local authority role in running schools and a number of statutory duties on local authorities in relation to schools will be removed. A consultation on policy and funding proposals will be published in 2016 although changes in legislation may take two years to implement.

41. Free childcare for working parents of 3-4 year olds will be doubled from 15 to 30 hours per week from September 2017. An increase of £1bn in funding per year by 2019/20 to support the extension of free childcare places for 2, 3 and 4 year-olds will be made available. Capital funding of at least £50m will be allocated to create additional places in nurseries. Over £300m a year will be made available to increase the average hourly rate paid to childcare providers.
42. The government will introduce a new statutory duty for the emergency services to collaborate on areas such as procurement, new stations and vehicle maintenance from early 2017. The government will bring forward legislation to enable Police & Crime Commissioners to take on responsibility for fire & rescue services, subject to clear business cases and local support.
43. The Government will publish new guidance to local authorities to encourage them to rein in excessive salaries and do more to drive efficiencies for local taxpayers.
44. The spending review confirmed that there will be a continuation of average public sector pay awards of 1% over the next four years from 2016/17.
45. The new apprenticeship levy has been set at 0.5% of an employer's pay bill. This is expected to cost the Council £1.4m.
46. In October 2015, the Chancellor announced that Local Government Pension Scheme (LGPS) funds would be expected to pool assets to create up to six 'British Wealth Funds', each including at least £25bn of assets. Each LGPS fund is required to submit by 19 February 2016 their commitment to pool and a description of progress towards formalising their arrangements with other authorities.
47. The £12bn Local Growth Fund was confirmed in the spending review for the period 2015/16 to 2020/21. Allocations from the fund are agreed through Local Growth Deals with Local Enterprise Partnerships.
48. £23bn of capital funding was confirmed from 2016/17 to 2019/20 for basic need, the construction of 500 new free schools and refurbishment of 500 schools as well as addressing essential maintenance needs.
49. An additional £250m of revenue funding for potholes was announced for the 5 year period to 2020/21. This could equate to £2.5m for Oxfordshire over the five year period.

Reserves and Balances

Reserves

50. As set out in Annex 2, revenue reserves were £63.6m as at 1 April 2015 and are forecast to be £50.9m at 31 March 2016, of which £20.9m relates to schools. Other reserves, which include insurance, capital and cash flow

reserves, are forecast to be £44.5m at 31 March 2016, compared to £48.1m as at 1 April 2015.

51. Annex 2 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 £12.8m by the end of 2019/20, of which £9.4m relates to schools. Other reserves will fall to £15.2m by the end of 2019/20.
52. The budget reserve is currently forecast to be overdrawn by £11.4m in 2016/17 as the phasing of pressures does not match the profile of the savings, as set out in paragraph 27. The existing MTFP had assumed the reserve would be in deficit in 2016/17 and the current proposals increase the deficit. The reserve does currently return to a surplus position in 2017/18 and beyond. The Council cannot hold deficit reserves so there may be a need for some temporary use of other revenue reserves in 2016/17 to manage the deficit reserve.

Balances

53. The County Council's policy is to maintain balances at a level commensurate with identified risks. In setting the 2015/16 budget and MTFP to 2017/18 last year, the assessed level of balances required for each year was £17.4m.
54. Balances at the end of 2014/15 were £19.5m, £2.1m higher than forecast in the MTFP due to additional investment income and lower than forecast calls on balances during the year. As set out in the Financial Monitoring & Business Strategy Delivery report elsewhere on this agenda, due to the projected overspend in 2015/16, balances are currently forecast to reduce to £14.6m by the end of the financial year. This is £2.8m lower than the risk assessed level; however action is being taken in year to reduce projected overspend and therefore the call on balances. A reassessment of risks and the level of balances to be held will be included in the Service & Resource Planning report to Cabinet in January 2016. Consideration will also be given as to whether an additional contribution to balances will be required in 2016/17 to ensure the level is commensurate with risks.

Capital Programme

55. The Transport Asset Management Plan and capital spending proposals will be considered by Performance Scrutiny Committee on 7 January 2016.
56. There are further capital resources of £51.1m available from rolling the capital programme forward by another year to cover the period to 2019/20 and from adjusting the funding allocations assumed in the current capital programme.
57. This is offset by rolling forward the annual highways, schools and property maintenance programmes by a further year to 2019/20 which adds a pressure of £16.4m to the capital programme.

Basic Need

58. The grant funding allocations for basic need for 2015/16 and 2016/17 announced in December 2013 were substantially lower than expected and assumptions on funding levels for future years were revised downwards at this time. This led to a funding gap on the capital programme of £18.4m, which was reduced to £5.8m as part of last year's budget setting process. In February 2015, the grant allocation for 2017/18 was announced at £19.4m². The assumption for 2018/19 has been increased to £4.5m from £1.5m and the additional year, 2019/20 has also been included at £4.5m. This gives total additional funding of £25.4m.
59. Basic need pressures totalling £28.2m have been identified for the period 2016/17 to 2019/20 with an expected £8.6m of developer funding to contribute towards these. The remaining developer funding can be used to offset the £5.8m funding gap referred to in paragraph 58. The following table summarises the basic need position.

	£m
Total basic need grant funding	-25.4
Pressures Identified	28.2
Developer funding available	-8.6
Remove the basic need funding gap	5.8
Total shortfall (+)/ surplus (-) funding	0.0

Highways Maintenance

60. A further year of grant funding of £13.4m has been added for 2019/20 as well as estimated new funding of £5.5m from the self-assessed incentive fund over the period 2016/17 to 2019/20. Highways maintenance annual programmes have been rolled forward to 2019/20 with a provisional allocation of £12.5m.
61. There is a potential pressure of £15.2m over the period 2016/17 to 2019/20 linked to the budget savings options which include the proposed transfer of activities currently funded by revenue into the capital programme. If these savings are agreed, it is proposed to reduce the highways maintenance programme by £8.8m over this period, which will contain the pressure within the overall highways maintenance grant allocations as shown in the following table.

	£m
Total funding available	-18.9
Roll forward maintenance programmes to 2019/20	12.5
Capitalisation of revenue maintenance 2016/17-2019/20	15.2
Overall programme reductions 16/17-19/20	-8.8
Total shortfall (+)/ surplus (-) funding	0.0

62. Other grant allocations for Schools Maintenance and Integrated Transport Block total £6m and fund the other annual programmes. Overall, an estimated

² subject to confirmation following the Spending Review

residual balance of £2.9m of capital funding remains available. It is proposed not to allocate this funding at present. An overall summary is provided in Annex 3.

Consultation

63. Members of the public and stakeholders were able to comment on the detailed budget options through the Council's website and at three events held around the County. The consultation closed on 30 November 2015 and a summary of responses will be provided to the Performance Scrutiny Committee at its meeting on 17 December 2015. The Performance Scrutiny Committee will feedback to Cabinet to allow them to take the comments into consideration in agreeing their budget proposals.

Equality and Inclusion Implications

64. 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.'
65. Potential impacts of the budget options have been considered and are set out against each option in Annex 1. A general assessment of the broad impact of the new budget options that are proposed by Cabinet in January 2016 will be published alongside service-level assessments for all significant new proposals.

Financial and Legal Implications

66. 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 2016, will lead to the council tax requirement being agreed in February 2016, together with a budget for 2016/17, updated medium term financial plan and capital programme.

RECOMMENDATIONS

67. **Cabinet is RECOMMENDED to take the issues set out in the report into consideration in forming their proposed budget for 2016/17, Medium Term Financial Plan to 2019/20 and Capital Programme to 2019/20.**

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