

Division(s): N/A

CABINET – 16 DECEMBER 2014

Service & Resource Planning 2015/16 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 2015/16 to 2017/18, providing councillors with information on budget issues for 2015/16 and the medium term. The report sets out draft budget proposals to meet emerging pressures; provides an update on government consultations and sets out the review of charges.
2. The Chancellor announced his Autumn Statement on 3 December 2014, after this report was finalised. An addenda setting out the implications will be circulated prior to the Cabinet meeting. The provisional local government finance settlement is expected to be announced on or around 17 December 2014, therefore the impact of the settlement will be set out in the report to Cabinet on 27 January 2015.
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 8 January 2015, prior to the Cabinet meeting on 27 January 2015, 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 2015/16 – 2017/18

Annex 2: Review of charges 2015/16

Annex 3: Forecast earmarked reserves 2015/16 – 2017/18

Annex 4: Service & Community Impact Assessments (SCIAs) Overarching Assessment (SCIAs for individual proposals are available on the Council's website

<http://www.oxfordshire.gov.uk/cms/content/service-and-community-impact-assessments-scias-201415>.)

Service and Resource Planning Process

5. In September 2014, Cabinet agreed that given the uncertainties over future levels of government funding due to the forthcoming General Election that the medium term planning period would not be extended beyond 2017/18 with limited adjustments made to the existing Medium Term Financial Plan (MTFP) to reflect any changes to spending assumptions.
6. 2015/16 is the second year of the four-year directorate business strategies approved by Council in February 2014. Directorates have identified proposals to meet on-going expenditure pressures highlighted in the Financial Monitoring and Business Strategy Delivery reports to Cabinet and new expenditure pressures emerging during this planning round. Business Strategies will be refreshed accordingly and presented to Cabinet in January 2015.
7. The Performance Scrutiny Committee is due to consider the new budget proposals at its meeting on 18 December 2014 and offer an overall view to the Cabinet. This will be followed by consideration of capital proposals at the Committee's meeting on 8 January 2015. The Cabinet will finalise its budget proposals and propose the 2015/16 revenue budget, 2015/16 – 2017/18 Medium Term Financial Plan and Capital Programme on 27 January 2015.

Identified Pressures

Directorate Pressures

8. Directorate pressures of £18.7m have been identified over the 2015/16 to 2017/18 period, details of which are provided in Annex 1. This includes a pressure of £6.1m in the Learning Disabilities Service within adult social care primarily due to increasing demand. The Adult Social Care position assumes that there is £8.0m available from 2015/16 onwards from the Better Care Fund to protect adult social care services. A £7.4m pressure in the Children, Education & Families directorate as a result of a significant increase in the number of children looked after, will be partly offset by a £2.8m virement from corporate contingency (subject to approval by Council in February 2015).

Council tax

9. The MTFP includes an increase in council tax of 1.99% in 2015/16. As it is unlikely that the referendum limit will be announced before the Final Local Government Finance Settlement, expected in early February 2015, it is prudent to plan on the basis that the limit will be reduced to allow for only a 1% council tax increase. This results in a pressure of £3.2m over the medium term. Last year, local authorities that set a council tax increase of 1% qualified for the Council Tax Freeze grant and the Council is assuming a similar arrangement this year.

Revenue Support Grant, Business Rates and Specific Grants

10. There have been no further updates to the information available on Revenue Support Grant for 2015/16 and later years.

11. Early estimates received from district councils, show a lower business rate figure compared to what is forecast in the MTFP. This is mainly due to the City Council including the impact of the Westgate redevelopment in 2015/16 and the inflation rate applied to business rates being lower than forecast. The business rates will increase again when the Westgate redevelopment is complete, although it is anticipated that this will fall outside of the current MTFP period.
12. The September 2014 Service & Resource Planning report to Cabinet included an update on the final arrangements for making a 20% reduction to the Education Services Grant. The impact of this is included in the corporate pressures in Annex 1, along with some technical adjustments on contingency.

Other Corporate Pressures

13. The other corporate pressure, previously reported in September was £1.5m in 2015/16 to maintain the same level of self-insured cover for insurance and £0.1m in each subsequent year for increases to insurance premiums.

Proposed Savings

Directorate Savings

14. Directorates have identified £19.8m of new savings proposals to meet their pressures, details of which are provided in Annex 1.

Corporate Savings

15. It is proposed to save £2.5m from 2015/16 by reducing the expenditure on agency and contracted staff and introducing a vacancy factor across the Council.
16. 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 2.3% in October 2014 it is proposed to reduce the amount of contract inflation by £1m.
17. The MTFP includes growth in the tax base of 0.75% in 2015/16 and later years. Provisional figures from the district councils indicate an increase of 1.57% for 2015/16 arising through a combination of increased house building and lower than expected costs of the Council Tax Support Scheme. Reflecting the upturn in house building, District Councils are forecasting growth in the tax base of 1% over the medium term and it is proposed to reflect this in the MTFP. These changes generate £3.8m of additional funding over the medium term.
18. The current MTFP includes £2.0m a year for council tax surpluses. Draft figures from the district councils suggest that surpluses for 2015/16 could be £6.6m. This gives £4.6m additional one-off funding in 2015/16. As the council tax surpluses have been high in recent years, it is proposed to

increase the amount in the MTFP to £3.0m a year, giving £1.0m of additional on-going funding.

19. The following table summarises the proposed new pressures and savings set out in Annex 1.

Budget proposals	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
New pressures				
Children, Education & Families	6.3			6.3
Adult Social Care	5.4	-0.2	0.9	6.1
Fire & Rescue & Community Safety	0.1			0.1
Environment & Economy	6.2	-0.3	0.1	6.0
Chief Executive's Office	0.2			0.2
Corporate	6.7	1.1	-0.8	7.0
Total new pressures	24.9	0.6	0.2	25.7
Less previously identified savings not achievable	2.1		0.9	3.0
TOTAL PRESSURES	22.8	0.6	-0.7	22.7
New savings				
Children, Education & Families	-1.0	-2.0		-3.0
Adult Social Care	-1.9	-3.5	-3.7	-9.1
Fire & Rescue & Community Safety	-0.4	-0.6		-1.0
Environment & Economy	-5.4	-0.5	-0.1	-6.0
Chief Executive's Office	-0.9	0.3		-0.6
Corporate	-11.3	2.6	-1.8	-10.5
Total new savings	-20.9	-3.7	-5.6	-30.2
Less previously identified savings not achievable	2.1		0.9	3.0
TOTAL SAVINGS	-18.8	-3.7	-4.7	-27.2
Net total	4.0	-3.1	-5.4	-4.5

Review of Charges

20. As part of the work being undertaken to update business strategies, service managers have reviewed their charges. The County Council's charging policy was set out in Annex 3c of the report to Cabinet in September 2014. Changes in income arising from this review are summarised in Annex 2a and the proposed charges are set out in Annex 2b.

Strategic Measures, Reserves and Balances

Strategic Measures

21. The draft Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 will be reported to the Performance Scrutiny Committee on 8 January 2015 and Audit & Governance Committee on 14 January 2015, ahead of consideration by Cabinet on 27 January 2015. 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.

22. The report to Cabinet in September 2014 set out the forecast bank rate and the forecast of interest rates to be achieved on investments over the medium term. These rates have been used to inform the review of the strategic measures budget. Increased interest rates in the longer term, higher than forecast average cash balances and changes in service prudential borrowing profiles have given a saving on the strategic measures budget of £2.2m over the medium term.

Reserves

23. As set out in Annex 3, revenue reserves were £78.3m as at 1 April 2014 and are forecast to be £43.9m at 31 March 2015, of which £14.9m relates to schools. Other reserves, which include insurance, capital and cash flow reserves, are forecast to be £40.9m at 31 March 2015, compared to £51.9m as at 1 April 2014.
24. 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 £6.2m by the end of 2017/18, of which £2.2m relates to schools. Other reserves will fall to £13.1m by the end of 2017/18.
25. The forecast at 31 March 2016 includes the use of £5.2m of various earmarked reserves to help meet the shortfall on the budget reserve in 2015/16. Earmarked reserves are held for a specific purpose, however their intended use has been reviewed and prioritised against the pressures that exist within the budget and released where possible.
26. After taking into account the use of the reserves mentioned above, the budget reserve would still be overdrawn by £1.7m by the end of 2015/16, increasing to £11.9m in 2016/17, then £7.4m in 2017/18. This has arisen because the profile of previously agreed pressures did not match the profile of the savings in each year of the MTFP. This required the use of reserves to balance the budget. 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 deficit reserve.

Balances

27. The County Council's policy is to maintain balances at a level commensurate with identified risks. In setting the 2014/15 budget and MTFP to 2017/18 last year, the assessed level of balances required for each year was £18.4m.
28. Balances at the end of 2013/14 were £18.5m, £1.1m 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 2014/15, balances are currently forecast to reduce to £16.2m by the end of the financial year. This is £2.2m lower than the risk assessed level; however action is being taken in year to reduce the call on

balances. A reassessment of risks and therefore the level of balances to be held will be included in the Service & Resource Planning report to Cabinet in January 2015. Consideration will also be given as to whether an additional contribution to balances will be required in 2015/16 to ensure the level is commensurate with risks.

Capital Programme

29. The Transport Asset Management Plan, Asset Management Plan and capital spending proposals, will be considered by Performance Scrutiny Committee on 8 January 2015. The only funding allocations announced to date for 2015/16 are Basic Need and the Integrated Transport Block, a total of £5.1m.
30. The Department for Transport have recently consulted on how highways maintenance funding should be distributed to local highway authorities in England for the period 2015/16 to 2020/21. The proposed funding model is based on the following objectives:
 - To provide funding that encourages efficient practices and value for money.
 - To encourage local innovation in highway maintenance.
 - To ensure funding is distributed fairly.
 - To support local highway authorities investing in their highway infrastructure.
 - To raise the importance of maintaining highways for modes other than motor vehicles.
31. There are three elements to the proposed funding model:
 - The majority of funding will continue to be allocated on a needs basis, by a formula, as at present. However, the consultation also included proposals to update the formula so it is not possible to calculate the impact for the Council at this stage.
 - An element of the funding is proposed to be distributed on an incentive basis to ensure authorities make their activities more efficient.
 - The final proposed element is a Challenge Fund to enable local authorities to bid for major maintenance projects. Local funding contributions would be expected as part of any bid.
32. The consultation closed on 21 November 2014 and the Department for Transport hope to publish funding allocations by the end of this year. The current capital programme assumes that the Council will receive £12.0m of highways maintenance funding each year in the period 2015/16 to 2017/18. Any allocation less than £36m for the three year period will cause a pressure on the capital programme.

Government consultations, announcements and other initiatives

33. A number of government consultations, announcements and other initiatives were set out in the report to Cabinet on 16 September 2014 which have potential implications for the Council in 2015/16 or later years. These included; Adult Social Care funding, Public Health plus Education and schools funding. There are currently no updates to report on these announcements.

Consultation

34. Members of the public and stakeholders will be able to comment on the detailed budget proposals through the Council's website. The consultation closes on 9 January 2015 and a summary of responses will be provided as part of the Service & Report Planning report in January 2015, to allow Cabinet to take the comments into consideration in agreeing their budget proposals.

Equality and Inclusion Implications

35. 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.'
36. A general assessment of the broad impact of the new budget proposals is set out at Annex 4. This is supported by initial service-level assessments for all significant new proposals, which are available on the Council's website (<http://www.oxfordshire.gov.uk/cms/content/service-and-community-impact-assessments-scias-201415>). Where proposals require further development, policy decisions or consultation to enable the budget decision to be implemented the impact assessment will be developed further and made available to decision makers.

Financial and Legal Implications

37. 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 2015, will lead to the council tax requirement being agreed in February 2015, together with a budget for 2015/16, updated medium term financial plan and capital programme.

RECOMMENDATION

38. The Cabinet is RECOMMENDED to:

- (a) note the report and addenda (that 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 2015;**
- (c) in relation to the review of charges:**
 - (1) note those charges prescribed by legislation;**
 - (2) approve the charges where there is local discretion as set out in Annex 2.**

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