Division(s): N/A

ITEM CA6

CABINET – 18 SEPTEMBER 2018

Service & Resource Planning 2019/20 – 2022/23

Report by the Director of Finance

Introduction

1. This report is the first in the series on the Service & Resource Planning process for the forthcoming year which will culminate in Council setting a budget for 2019/20; a medium term plan to 2022/23 and capital programme to 2028/29 and a Corporate Plan in February 2019. 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) agreed in February 2018 is based,
   - information arising from government and other announcements
   - known and potential financial issues for 2019/20 and beyond which impact on the existing MTFP, and
   - a proposed process for Service & Resource Planning for 2019/20 including a timetable of events.

2. The following annexes are attached to this report:

   Annex 1a: Previously agreed budget changes 2019/20 – 2022/23
   Annex 1b: Review of assumptions in the existing MTFP
   Annex 2: Service & Resource Planning timetable for 2019/20

3. It is proposed that the Medium Term Financial Plan (MTFP) continues to cover a four-year time frame and is therefore extended by one year to cover 2022/23. It is also proposed that the Capital Programme is extended by one year to cover the 10-year period to 2028/29. There is extreme uncertainty in government funding beyond 2019/20 due to the introduction of a new Fair Funding Formula alongside implementation of 75% Business Rates Retention, and a Spending Review in Spring/Summer 2019[1]. However, this uncertainty is by no means unusual and in forming the MTFP prudent assumptions will be made based on the latest information available and using scenarios and a sensitivity analysis to form a view.

[1] Further details of all funding reforms are set out later in the report

Assumptions in the existing Medium Term Financial Plan

4. The 2018/19 – 2021/22 MTFP agreed by Council in February 2018 included the requirement for £65.6m of savings to be made over the period of the plan to offset funding reductions and to meet additional expenditure pressures. Of this, savings of £46.2m are built into the budget for 2018/19 and progress against this is being monitored through the Financial Monitoring Reports to Cabinet throughout this financial year.

5. Of the £19.4m of savings to be delivered in 2019/20 and beyond, directorates are required to deliver savings of £26.2m, including £17.4m to be achieved from the Fit for the Future transformation programme[2]. The £26.2m directorate savings is offset by £6.8m of corporate savings falling out, mainly the one-off use of reserves.

6. The MTFP also includes an additional £18m of on-going funding for demographic and other directorate expenditure pressures added over the period 2018/19 – 2020/21 and provides for 2% rising to 2.5% pay inflation, up to 3% contract inflation and 2% income inflation. No inflation is provided for general prices[3].

7. Details of the savings and additional funding in the existing MTFP for 2019/20 to 2021/22 are set out in Annex 1a.

8. There is a sum available to allocate of £7.9m in 2020/21 of the current MTFP. This is being held until the outcome of the local government funding reform is known.

9. The MTFP assumed general balances would be £16.3m at the start of 2019/20. The Business Management & Monitoring report elsewhere on the agenda forecasts general balances[4] will be £25.0m at the end of 2018/19. Therefore, balances would be £8.7m greater than anticipated in 2019/20. However, it is expected that pressures will continue to increase and that there will be further calls on balances during this financial year, although at this stage it is not expected that balances will fall below the risk assessed level of £16.3m.

10. Earmarked reserves (reserves held for a specific purpose) were forecast to be £63.8m at the end of 2018/19 in the MTFP. The latest forecast reported to Cabinet in July 2018 shows earmarked reserves totalling £73.7m at the end of 2018/19. The level of earmarked reserves and general balances are reviewed each year as part of the Service & Resource Planning process.

11. The Budget Equalisation Reserve is used to manage the cash flow implications of the MTFP. It is forecast to have a balance of £0.3m at the

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[2] Further details set out in paragraphs 38 to 41

[3] Applied to costs of premises, transport and supplies and services.

[4] After taking into account the projected underspend of £0.3m (after the use of Corporate Contingency) and the potential use of £1.1m relating to school transfers to academy status.

end of 2018/19 and a planned contribution to the reserve of £5.6m in 2019/20. This gives a balance of £5.9m that could be used as one-off funding in 2019/20.

12. General funding (excluding council tax) is estimated to reduce by £12.3m between 2018/19 and 2021/22 to £65.8m a year in 2021/22, a reduction of 16% compared to 2018/19. Revenue Support Grant and Business Rate Top Up estimates for 2019/20 are based on the figures published in the four-year funding deal, which the Council signed up to in September 2016, for the years 2016/17 to 2019/20.

13. Council tax increases of 2.99% in 2019/20 and 1.99% in 2020/21 and 2021/22 are assumed in the MTFP. There will not be an additional increase for the Adult Social Care Precept in 2019/20 as the Council increased the precept by the maximum allowable of 6% across 2017/18 and 2018/19. Council taxbase increases of 2% are assumed for each year of the MTFP. Total income from Council Tax (including collection surpluses) is estimated to be £404.7m a year by 2021/22.

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

Government and Other Announcements

15. Since Council approved the 2018/19 budget, MTFP and Capital Programme, several announcements have been made which have, or may have, financial implications. They are set out below.

<u>Spring Statement March 2018</u>

16. On 13 March 2018, the Chancellor of the Exchequer, Philip Hammond made his 2018 Spring Statement announcement. The Spring Statement did not contain any spending or tax changes, it was a response to the to the latest forecast from the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook.

17. The OBR continues to highlight the growing pressures in Children's and Adults Social Care. The Economic and Fiscal Outlook shows that drawdowns from reserves have been far greater in authorities with social care responsibilities.

18. The Chancellor confirmed that the next Spending Review will take place in 2019. It is expected to take place in the spring/summer. It is not clear what time period this will cover.

19. The Chancellor announced that the next business rates revaluation will be in 2021 and that subsequent revaluations would take place every three years. The 2021 Revaluation is the year after the introduction of the new 75% business rates retention system.

Ministry of Housing, Communities and Local Government (MHCLG) announcements

20. On 24 July 2018, MHCLG published a technical consultation on the 2019/20 Local Government Finance Settlement. This sets out the Government's intended approach for the fourth and final year of the multi-year local government finance settlement. The outcome of the consultation will not be known until the Provisional Local Government Settlement is published in November/December. The main items of interest to the Council are set out in the following paragraphs.

Four-Year Deal

21. There will be no change to allocations for the councils that took up the 4-year deal. Councils that did not will be subject to the annual settlement process.

Negative Revenue Support Grant (RSG)

22. In 2019/20 Negative RSG (an adjustment to business rate top-up grant) totals £152.9m for all councils. The preferred option in the consultation is to remove negative RSG from the settlement via forgone business rate receipts. This would give Oxfordshire a one-off benefit in 2019/20 of £6.2m.

Council Tax Referendum Principles

23. The Government remains "minded to" set the basic precept threshold at 3% for 2019/20. The current proposed council tax increase of 2.99% for 2019/20 in the MTFP is within this threshold.

24. The Adult Social Care precept threshold will remain at 2%. This is subject to total increases for the Adult Social Care precept not exceeding 6% between 2017/18 and 2019/20. As explained in paragraph 12, the Council increased the Adult Social Care precept by 3% in both 2017/18 and 2018/19 so there will be no further increase in 2019/20.

New Homes Bonus

25. The Government expects to increase the baseline in 2019/20, from 0.4% in 2018/19 due to the continued upward trend for house building.

26. 2019/20 is the final year of funding agreed by the 2015 Spending Review. The Government therefore intends to explore how to incentivise housing growth e.g. using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Any changes will be consulted on.

Business Rate Pilots

27. Published alongside the technical consultation was the prospectus to pilot business rates retention in 2019/20. The 2019/20 pilots will relate to 75% of business rates growth rather than the current 100% growth.

28. The 2018/19 pilots were approved for one year only and are able to bid for 75% business rates retention in 2019/20. It is likely that fewer bids will be approved than in the current year as London is subject to separate arrangements/discussions due to devolution considerations.

29. Applications need to be submitted by 25 September 2018. Due to affordability constraints, the government will assess applications against the following selection criteria:

- Proposed pooling arrangements operate across a functional economic area (i.e. the county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries);
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these; and
- Proposal sets out robust governance arrangements for strategic decision-making around the management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements.

30. It is likely that the councils in Oxfordshire will again submit a joint bid to become a pilot in 2019/20. As in 2018/19, if successful, it is proposed that the majority of any benefit from the pooling will be used to support economic growth across the County as a whole. Any remaining benefit would be used to support sustainable finances, applying the funds to commonly agreed projects and shared priorities agreed through the Oxfordshire Growth Board. Demonstrating that economic growth delivers benefit not just for businesses, but for the people who live and work in Oxfordshire, for the infrastructure they use, and the services they access, is vital to ensuring continued local support for Oxfordshire's high-growth economy.

Department of Health and Social Care Announcement

31. On 18 June 2018, the Secretary of State for Health and Social Care, Jeremy Hunt, made an announcement on the long-term plan for the NHS. The statement announced the intention to publish the social care Green Paper in the autumn around the same time as the NHS plan to support the integration of NHS and social care services. The NHS plan will review the current function and structure of the Better Care Fund to support the integration of the services.

Potential Pressures

32. As reported in the Business Management & Monitoring report elsewhere on this agenda and in the Financial Monitoring Report to Cabinet in July 2018, there are areas of overspend and risk in the 2018/19 budget that could place pressure on the 2019/20 budget.

33. Within Children's Services, areas of risk in the budget include Children's Social Care and SEN Home to School Transport. The July 2018 Financial Monitoring Report did not include overspends in these areas, however, there has been a higher than anticipated increase in the number of mainstream looked after children in the first two months of the financial year, and together with £3m of savings that need to be achieved from the High Cost Placement Review and Reconnecting Families programme, there is a higher risk of overspend. Savings of £1.2m are included in the Home to School Transport budget for 2018/19 and £0.6m of those savings are at risk of not being achieved, increasing the risk on this budget area. £0.3m relates to savings in post 16 SEN transport which is dependent on a policy change. This was agreed by Cabinet on 19 June, however the decision was called in and at its meeting on 17 July 2018, Cabinet deferred the decision until the Autumn to allow for further discussion. The remaining £0.3m of the savings at risk relate to transport to Northfield School and Meadowbrook. The current circumstances at Northfield have made savings more difficult to achieve. There is also a risk savings relating to Meadowbrook won't be achieved in full.

34. In the current financial year, the high needs block (Special Educational Needs and Disabilities) within Dedicated Schools Grant (DSG) is forecasting to overspend by £5m. This is mainly due to increasing demand for special school places and the need to place children at independent non-maintained schools. In addition, a decision is yet to be made regarding the long-term future of Northfield School, which increases the risk on this budget and is likely to increase spend in the medium term. Whilst this is a grant funded service, the pressure is likely to continue and may require additional Council funding to address the shortfall.

35. Within Adult Services, the Learning Disabilities element of the Adults with Care and Support Needs Pool is forecast to overspend by £2.1m in 2018/19. While the number of service users is relatively stable the level of assessed need, and the size of care packages required to support people, is rising. Action is continuing to be taken to review activity and packages within the pool but the on-going full year effect of the net increase in 2018/19, plus potential changes to other packages during 2019/20 is estimated to be £3.7m above the budget available. If the average level of assessed need of service users continues to increase, or the number of young people transitioning from Children's Social Care increases, the pressure could rise beyond that level.

36. Within Communities, there is a forecast £0.7m pressure on Street Lighting in 2018/19 due to significant increases in energy prices. In July 2018, Cabinet approved a £40m investment to modernise the Street Lighting network with LED lighting which will reduce energy costs down to an affordable level. However, the benefits will take a number of years to be fully realised and a pressure will need to be managed across the medium term until the cost falls within budget.

37. The 2018 to 2020 pay offer for local government officers includes the introduction of a new pay spine structure from 1 April 2019 to incorporate the impact of the national living wage on lower pay scales. Early modelling indicates that this will result in a pressure over and above the inflation allowance in the existing MTFP. In addition, it is not known what the level of increase will be in the National Living Wage over the period of the MTFP. This could cause a pressure particularly in Adult Social Care where providers increase their rates to cover the additional cost. The Adult Social Care Precept has funded the increases to date but it is not known if the precept will continue beyond 2019/20.

Fit for the Future Programme

38. As set out in paragraph 5, the MTFP includes £17.4m of savings to be achieved from transformation though the Fit for the Future programme. The report, 'Implementing a New Operating Model for Oxfordshire County Council' at Item 9 on this agenda, sets out that savings arising from the Business Case range from £34m at the low end to £58m at the high end.

39. In addition to the £17.4m savings required from transformation, the existing MTFP includes £15.6m of savings to be delivered through service redesign, income generation measures and contract efficiencies. These cannot be achieved in addition to the Business Case. Therefore, subject to agreement of the recommendations, implementing the Operating Model will achieve at least the required level of savings in the MTFP, if savings at the low end are achieved and more if savings at the high end are achieved.

40. The Business Case sets out total implementation costs of up to £18m and further detail on the costs and phasing of implementation will be brought to Cabinet in October 2018. The Business Case also includes assumptions on the timing of savings. Savings are delivered in phases in line with implementation plan releases. The Business Case does not assume full in-year savings will be delivered in the year of each release, allowing realistic time for implementation to deliver savings and providing an element of budgetary tolerance for delay.

41. Dependent on the implementation method to be agreed by Cabinet in October, further consideration will need to be given to the phasing and value of the savings plus implementation costs and these will need to be included as part of the Service & Resource Planning process for decision by Council in February 2019.

2020/21 Local Government Finance Reform

42. The Government is implementing radical reform for local government funding from 2020/21, therefore a high level of risk is attached to the level of funding in the existing MTFP beyond 2019/20.

Spending Review 2019

43. As mentioned earlier in the report, a Spending Review is expected in Spring/Summer 2019 for 2020/21. It is not known what time frame the Spending Review will cover but a three-year period to 2022/23 would be logical as the next General Election is due in May 2022.

44. The Spending Review determines the overall amount of funding available for distribution to all local authorities through the funding formula.

45. The previous spending review in 2015 implemented reductions to the Local Government Departmental Expenditure Limit (DEL) of £6.1bn or 53% over four years. Over the same period, Oxfordshire's Settlement Funding Assessment (the assessment of need) reduced by £40.7m or 45%[5]. It is not known whether the 2019 spending review will require further reductions in the Local Government DEL, but with other government departments promised investment or protected, such as the National Health Service and Education, there is a risk that local government will face further cuts. If a funding reduction at the same level as those in the last spending review was applied, the Council could face further funding reductions of £10m a year. However, given the significant reductions which have already been made across local government and the well-recognised financial pressures predominantly in adults and children's social care, this may limit any reduction the government can make.

Fair Funding Review

46. Work is progressing on the Fair Funding formula[6] and is focusing on a cost drivers approach and split into three areas; relative needs, relative resources and transitional arrangements. Implementation is expected in 2020/21.

47. MHCLG issued a technical consultation paper in December 2017 on relative need. The paper initially suggested a simpler generic formula to distribute funding. However, the paper went on to introduce specialist blocks for Social Care and other services that will potentially leave very little in any general pot for distribution. Therefore, the actual "need" figure of an authority is still likely to be determined by a combination of generic and service specific cost drivers.

48. The main issue within the relative resources area is the treatment of Council Tax. The government has the option to use the actual rate of council tax for each local authority or a notional rate. A notional rate would allocate funding based on how much councils could raise if all councils used the same council tax rate. Councils that have a rate of council tax below the notional rate would lose resources. Oxfordshire would be likely to have a council tax rate that is higher than a notional amount and would gain resources, whereas using the actual rate would have the opposite impact.

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[5] This figure does not include reductions to specific Government Grants received. The total reduction to the Council's funding is £167m or 51% since 2010.

[6] To replace the existing four block model as a way of determining funding 'need' for each council

49. As the new formula will create winners and losers, the transitional arrangements and the pace of that transition will be important.

50. Given the government's clear acknowledgement of pressures relating to social care, particularly adult social care, it could be expected that the council would benefit from this element in a new formula. However, as Oxfordshire could be adversely affected by the treatment of Council Tax, the MTFP assumes that each cancels the other out and the council neither benefits or loses from the new formula.

75% Business Rate Retention

51. As part of the provisional Local Government Finance Settlement in December 2017, the Government announced that it would increase the level of business rates retained by local authorities from the current 50% to at least 75% in 2020/21 by rolling in grants. It is expected that nationally £6.5bn will transfer to local authorities and the grants this will fund are expected to include:
    - Revenue Support Grant
    - Rural Services Delivery Grant
    - Public Health grant
    - Transport for London Capital Grant

52. The business rates baseline will be reset as part of the Fair Funding Review which means that it is expected that the national increase in income from the point at which the baseline was set in 2013/14 will be redistributed though the new formula.

53. A technical consultation is expected at the end of 2018 which is expected to cover issues such as appeals, resets and the balance of incentive and reward, and the tier split under the new system for future growth.

54. The current MTFP assumes that; the Council's business rate growth under the current system is lost at the reset of the new system; and the Spending review and fair funding review will result in a neutral funding position. It is not proposed to change this view at this point in time but will be reviewed as further information is available.

Corporate Plan and Service & Resource Planning Process and Timetable

55. The Corporate Plan was agreed by Council on 10 July 2018. It sets out the County Council's overarching strategy for the period 2018-2021 and states our updated vision for 'thriving communities for everyone in Oxfordshire'. It also describes the council's main priorities and the specific actions that will be taken in the period to March 2019.

56. To ensure all council activity is aligned with these priorities, a new 'Strategic Framework' has been agreed as a way of integrating the council vision with its activity, partnerships and governance. As part of this, Priority Delivery

Plans will be produced to demonstrate how each council priority will be achieved from 2019/20. These will be cross-council plans showing the key outcomes, measures and actions for delivering each the Council’s priorities.

57. To inform the development of Priority Delivery Plans, Directors are preparing Service Delivery Plans which describe how each service contributes to the Corporate Plan, including the actions in their core activity, the programmes of change, finance, HR, performance and risks involved.

58. First drafts of the Service Delivery Plans are being prepared for early October and sitting alongside these will be Plans completed as part of the Service and Resource Planning process for managing identified budget pressures for 2019/20. Each area of pressure will be explained through this process, along with a plan for mitigation.

59. The Corporate Plan will be updated as required through the above process. The Corporate Plan, Priority Delivery Plans and detailed budget proposals will be presented to Performance Scrutiny Committee in December 2018, which will enable a cross-party group of councillors to consider and challenge the proposals.

60. Capital proposals will be considered in early January 2019 alongside the Treasury Management Strategy and Review of Charges.

61. An online public consultation on the budget proposals will commence when the information is public in early December 2018.

62. 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 22 January 2019.

63. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by 31 January 2019. Provisional figures are expected in mid-December 2018.

64. The final settlement is not expected until early February 2019. This will confirm the general funding available to the Council for 2019/20 and the Council Tax referendum limit to be applied.

65. The Council meeting to agree the 2019/20 revenue budget, medium term financial plan and capital programme will take place on 12 February 2019.

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

Capital Programme Planning

67. The Council considers 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 asset and infrastructure network is justified through detailed business cases and delivery models for the service, and implications for the medium term financial plan are clearly identified. In view of this, and the delivery period of significant investment programmes, the capital programme approved at Council in February 2018 was extended to cover a 10-year planning period to 2027/28. For this Service & Resource Planning process, it is proposed to extend this by a further year to cover the period 2018/19 to 2028/29. This will provide an additional year of funding in the programme.

68. Full Council is required to approve a Capital & Investment Strategy in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The overall Capital & Investment Strategy will be supported by the Asset Management Plan and Highways Asset Management Plan.

69. The Case for Investment to Support a Significant Increase in the Council's Key Assets report at Item 7 on the agenda, sets out the case to borrow against the future revenue that will be generated by planned growth to increase investment in the Council's Highway and Property assets. The implications of this on both the revenue budget and capital programme will be addressed through the Service & Resource Planning process.

70. Other capital investment pressures are also currently emerging. Proposals will be brought forward in September/October 2018 to inform the capital planning process.

71. Councillors will have an opportunity to contribute to capital prioritisation decisions through the January 2019 Performance Scrutiny Committee meeting.

Equality and Inclusion Implications

72. 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.'

73. 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 2018. 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

74. 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 2019, will lead to the council tax requirement being agreed in February 2019, together with a budget for 2019/20, updated medium term financial plan and capital programme.

RECOMMENDATION

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

a) **Note the report;**
b) **Approve the Service and Resource Planning process for 2019/20; and**
c) **Approve a four-year period for the Medium Term Financial Plan and ten-year Capital Programme to 2028/29.**

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