

Division(s):N/A

CABINET – 25 JANUARY 2011

BUSINESS STRATEGY AND SERVICE & RESOURCE PLANNING 2011/12 – 2015/16

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report is the final report to Cabinet in the series on the Business Strategy and Service & Resource Planning process for 2011/12 to 2015/16, providing councillors with information on budget issues for 2011/12 and the medium term. If any information is outstanding at the time of the Cabinet meeting, it will be reported to Council when it considers the budget on 15 February 2011.
2. The report sets out the latest information on the Council's financial position, includes the Treasury Management Strategy for 2011/12 and considers the capital funding, including an updated Capital Programme.
3. The Cabinet Member for Finance has prepared a separate report, circulated alongside this report, which sets out the basis for the Cabinet's proposals to Council for the 2011/12 budget and Medium Term Financial Plan (MTFP) to 2015/16. This takes into consideration comments on the draft budget proposals from the individual Scrutiny Committees in December 2010 as well as the latest information on the Council's financial position as outlined in this report. It also takes account of the public consultation on the budget which was undertaken in both August 2010 through Oxfordshire Voice and a further consultation during December, the outcomes of which are set out in an annex to that report.
4. The following annexes are attached:

Annex 1:	Draft Medium Term Financial Plan (MTFP) 2011/12 – 2015/16
Annex 2:	Specific Grants
Annex 3:	Detailed Savings Proposals 2011/12 – 2014/15
Annex 4:	Council Tax (draft)
Annex 5:	Treasury Management Strategy Statement and Annual Investment Strategy for 2011/12
Annex 6:	Minimum Revenue Provision Policy Statement for 2011/12
Annex 7:	Prudential Code for Capital Guidelines
Annex 8:	Draft Revenue Budget Booklet 2011/12
Annex 9:	Virement Rules
Annex 10a:	Corporate Asset Management Plan
Annex 10b:	Transport Asset Management Plan
Annex 11:	Capital Strategy
Annex 12:	Updated Capital Programme 2010/11 – 2015/16

Draft Budget and Medium Term Financial Plan 2011/12 to 2015/16

5. The MTFP covers a five-year period. The plan is rolled forward one year each year. This year, there is an additional year added to include 2015/16. As set out in the previous report to Cabinet, to align with the period of this Government it is proposed that the final year of the plan reflects the position for 2014/15. Given the changes that are expected in 2013/14 due to the national review of Local Government Formula and the abolition of the Primary Care Trusts it is proposed that an indicative Medium Term Financial Plan is proposed and agreed for the years after 2012/13. A draft MTFP for 2011/12 to 2015/16 is set out in Annex 1. This includes the latest information on financing available to the Council plus the proposed savings contained in the Directorate Business Strategies (and set out in Annex 3) and as reflected in the report.

Draft Budget 2011/12

6. The table on the next page sets out the draft budget requirement for 2011/12 as per the MTFP 2010/11 to 2014/15 and shows the latest position for both financing and expenditure. Changes from the MTFP for both 2011/12 and over the medium term are explained in the ensuing paragraphs.

Draft Budget 2011/12	MTFP £m	Latest £m	Change £m
Formula Grant	106.7	121.8	15.1
Council Tax Precept ¹	281.9	282.7	0.8
Council Tax surpluses/deficits	0.8	3.0	2.2
Funding – Budget Requirement	389.4	407.5	18.1
Base (2010/11 budget)	389.9	389.9	0
Inflation ²	9.4	4.2	-5.2
Function Changes	0	7.5	7.5
Previously Agreed Budget Changes ³	-9.9	14.5	24.4
Reductions in specific grants	0	49.6	49.6
Council Tax Freeze grant	0	-7.1	-7.1
Savings Required ⁴	0	-51.1	-51.1
Net Expenditure - Budget Requirement	389.4	407.5	18.1

7. Some of the items in the table are those which contribute towards the savings target, which for 2011/12 as was £58.6m. In total the savings set out are £0.6m more than the target. The reason for the need to make more savings is explained by further reductions in specific grant funding, explained further in paragraph 16.

¹ Based on a zero % increase from 2010/11

² Latest position for 2011/12 includes £0.1m insurance variation

³ From MTFPs agreed in prior years

⁴ Net of new pressures of £4.2m

Draft Budget 2011/12	Total Savings £m
Council Tax Precept – additional income	-0.8
Council Tax surpluses – additional income	-2.2
Inflation Savings	-5.2
Proposed Savings	-51.1
Total Savings Proposed	-59.2
Latest Savings Target	-58.6
Difference to target/additional savings required	-0.6

8. The table below shows how the gross expenditure has reduced even though the budget requirement has increased due to changes in funding, with some specific grants having transferred to formula grant.

	2010/11 Budget £m	2011/12 Draft Budget £m
Gross Expenditure	973.1	936.0
Specific Grants	-525.8	-464.9
Other income	-57.4	-63.5
Budget Requirement	389.9	407.5
Formula Grant	106.3	121.8
Council Tax Precept	281.2	282.7
Council Tax Surplus	2.4	3.0
Budget Requirement	389.9	407.5

Formula Grant

9. Draft formula grant figures for 2011/12 and 2012/13 were set out in the addenda to the Cabinet report in December 2010. The final Local Government Finance Settlement will be announced after the consultation closes on 17 January 2011. No further information, subsequent to that in the Spending Review 2010, on the level of grant for the final two years of this term of government has been announced.

10. The final settlement is unlikely to be confirmed before the Cabinet meeting, and the 2011/12 budget can not be finalised until this is received. It is proposed that authority is delegated to the Leader of the Council, following consultation with the Chief Finance Officer, to make appropriate changes to the proposed budget. All Councillors will be notified of the final settlement once it is received.
11. For future years beyond 2012/13, it has been assumed that there will be a continuing reduction in Formula Grant in line with the planning assumptions set out in June 2010, although it is recognised that there is due to be a fundamental review of the Grant system and this may change these assumptions.

Supporting People

12. The funding for the Support People programme was provided through Area Based Grant of £16.2m in 2010/11. This has now been incorporated, along with other Communities and Local Government (CLG) specific grants into Formula Grant. The national total for this new Supporting People grant is then subject to both the Grant Floor adjustment and then the Tailored Grant Adjustment, which reduces the amount of grant which will actually be received to £9.5m.
13. There is, however, no longer a direct linkage being applied between the level of grant received and the budget being set for the Supporting People Programme. The MTFP had included assumptions that the budget would reduce to £15.4m in 2011/12 as agreed by the Supporting People Commissioning Body, and the proposed budget still assumes that level of funding, even though it is greater than the element of formula grant.

Academies

14. A transfer has been made, as part of the Formula Grant calculation, in relation to the Local Authority Central Spend Equivalent Grant (LACSEG). This is paid to academies in recognition of the fact that, as publicly-funded independent schools, they no longer receive a number of services from local authorities and must make appropriate provision for themselves. The local authority budget element for the number of academies expected to convert in 2011/12 and 2012/13 has been top-sliced from Formula Grant. The adjustments are not related to actual numbers of academies, now or in future years. For Oxfordshire, this adjustment is £1.5m in 2011/12 and £2.5m in 2012/13.

Specific Grants

15. Up to 2010/11 local authorities received revenue and capital funding through numerous grant funding streams, including Area based Grants (ABG) and specific grants. The Coalition Government has reduced the number of funding streams significantly with many grants being rolled into Formula Grant, into other existing grants and some ending entirely.
16. Annex 1 of the Addenda to the Service & Resource Planning Report to Cabinet in December 2010 set out the position relating to specific grants known at that time.

This set out a total of specific grants (excluding the Dedicated Schools Grant and new Council Tax Freeze grant) for 2011/12 of £44.5m, compared to £59.3m in 2010/11, a £14.8m reduction. The latest position on specific grants, as set out in Annex 2, shows that although specific grants confirmed to date for 2011/12 remain unchanged from £44.5m, the reduction from 2010/11 is now £15.7m rather than £14.8m. The explanation for this is set out in the table below.

	£m
Reduction in specific grants from 2010/11 reported in December	-14.8
Current reduction in specific grants from 2010/11	-15.7
Change	-0.9
Explained by:	
Three specific grants reclassified as contributions	-0.3
Changes to grant allocations in year ⁶	-0.6
Change	-0.9

17. The changes to grant allocations in year reflect some grants where the allocations were amended during 2010/11 and the expectation, at that time, was that the changes would continue in 2011/12. Now that the grant allocations have been notified for 2011/12 and it is known that these £0.6m of grants are not continuing, they are therefore included in the grant reduction figure.
18. There are still a number of grants for which their status is still to be confirmed, those for which Oxfordshire received an allocation in 2010/11 are:
 - Stronger Safer Communities (Home Office) £0.6m
 - Young People Substance Misuse (Home Office) £0.1m
 - Extended Rights to Free Transport (Department for Education) £0.5m
 - Music Grant (Department for Education) £0.7m
 - Asylum Seekers (Home Office) £1.6m
 - Youth Justice Board £1.1m
19. If all of these were received at the 2010/11 level then additional funding of £4.6m would be available in 2011/12. If notification of any funding for 2011/12 is received then it will be considered at that point.
20. The years beyond 2012/13 have been assumed to continue with small reductions in Specific Grants in line with the original planning assumptions.

⁵ Comparable figure after taking into account £34.4m of grants transferring into Formula Grant

⁶ Excluding in-year grant reductions announced as part of the Emergency Budget in June 2010

Dedicated Schools Grant

21. Dedicated Schools Grant (DSG) allocations for each authority were published on 13 December 2010 by the Department for Education (DfE). As expected following the recent consultation, the funding system for schools has been simplified by mainstreaming relevant grants into the DSG on the same per-pupil distribution as 2010/11. A number of these grants previously contained under the 'Standards Fund' grants were already planned to cease under the previous government from April 2011. Guaranteed Units of Funding (GUFs) are therefore the sum of 2010/11 GUFs and the per-pupil grant allocations. This means that allocations for each pupil will remain the same in 2011/12 as they were in 2010/11. Current indications from DfE are that school funding will be maintained at a flat cash per-pupil allocation plus the pupil premium until 2014/15. The consequence of the budget allocations shows that taking into account the mainstreaming of standards and specific grants, the total DSG in 2011/12 will be £386.8m compared to £335.8m⁷ with per pupil allocations of £4,757 in 2011/12 compared to £4,182 in 2010/11.

22. The Spending Review 2010 indicated that the addition of the pupil premium was intended to increase the overall schools budget by 0.1% in real terms in 2011/12, however in the light of updated inflation estimates it is now thought there will be no real terms growth. Details of the pupil premium for 2011/12 were also announced on 13 December 2010. Funding for the pupil premium in 2011/12 will be £430 per pupil and will increase each year to 2014/15. The pupil premium will be allocated to those pupils eligible for Free School Meals according to January 2011 pupil census and to looked after children. Children of parents serving in the armed forces will also be eligible for a premium of £200 in 2011/12, provided they are registered by schools as part of the school census. From 2012/13 it is the Government's intention to extend eligibility for the pupil premium to those children who have previously been on Free School Meals. As the pupil premium is allocated according to pupils with specific characteristics there will be some schools for which inflationary pressures are not met, and others for which resources increase by more than inflation. Local authorities are required to pass on, in full, the pupil premium allocation based on school census returns.

23. The schools funding formula is seeking to equalise the formula relating to Academies, those who obtained Academy status under the last government and those who have obtained Academy status since May 2010. A deduction will also be made from the DSG in respect of Local Authority Central Spend Equivalent Grant (LACSEG) for academies which will no longer receive services funded from the central Schools Budget of the authority. This deduction cannot be finally confirmed until the January pupil count and record of pupil characteristics has been validated by DfE in late May or early June 2011. Changes to the government's funding arrangements for existing academies are expected to give rise to larger deductions from the DSG than in the past, and also to lower than previous funding levels for the North Oxfordshire Academy.

⁷ Annex 2 shows the provisional allocation of £333.4m not the final allocation

24. The Schools Forum will meet on 2 February 2011 to propose use of the DSG allocation for 2011/12. This will form part of the Cabinet's proposed budget to Council on 15 February 2011.

Public Health

25. Under new public health plans, local government will be responsible for improving people's health and tackling health inequalities in communities. Local authorities will be given resources, powers and new functions to increase local accountability and support integration and partnership. The duty is expected to begin in April 2013 and will be laid out in the forthcoming Health and Social Care Bill.
26. It will be a requirement for upper tier authorities (county councils) to employ a Director of Public Health by joint appointment with Public Health England. Oxfordshire already has a Director of Public Health which is a joint appointment with the PCT.
27. A ring-fenced specific grant will be provided for new public health functions. A baseline allocation will be awarded to improve population health and wellbeing. Allocations will be made by Public Health England and weighted towards areas with the worst health outcomes. Shadow allocations will be made to local authorities in 2012/13 and it is anticipated that grant allocations will be introduced in 2013/14. The MTFP has therefore included, as specific grant and expenditure an amount of £10m for Public Health as a high level estimate from 2013/14.

Learning Disabilities and Health Reform Grant

28. From April 2011 the council will receive a Learning Disabilities and Health Reform grant. Under the Valuing People Now strategy published in 2009, responsibility for funding and commissioning social care for adults with learning disabilities transferred from the NHS to local government, taking effect from April 2009. For 2009/10 and 2010/11 transfers of funding to local authorities took place locally. In Oxfordshire, this was transacted through the Learning Disabilities Pooled budget.
29. The Health Reform aspect of the grant includes £0.065m in 2011/12 and £0.067m in 2012/13 for the Blue Badge scheme which will transfer from Primary Care Trusts (PCTs) to upper tier councils. Excluding the amount for the Blue Badge scheme, the grant for Learning Disabilities and Health Reform will be £19.2m in 2011/12 and £19.6m in 2012/13.

New Homes Bonus

30. Consultation on the New Homes Bonus (NHB) closed on 24 December 2010. The scheme, which will start in 2011/12, will provide a grant that matches the additional council tax raised from each new home (or property brought back into use), for each of the six years after that home becomes available. The consultation proposed to split the payment of the NHB between local authority tiers: 80% to the lower tier and 20% to the upper tier.

31. Consistent with the coalition Government's commitment to 'localism', this council believes the allocation of the NHB should be determined by local authorities working collaboratively to support delivery of the infrastructure and services that arise as a consequence of new development.
32. It is estimated that based on the latest information for taxbase growth from 2010/11 that NHB will be around £1.8m for Oxfordshire in 2011/12, of which £0.4m would come to the county council. This is expected to increase in future years as house building rates increase up to an estimated £0.5m.
33. The government will help to establish the scheme with £196m in 2011/12, rising to £250m in each of the following three years. As the government funding plateaus at £250m, it is still not clear how additional growth from 2013/14 would be funded.

Other Income

34. This includes not only the fees and charges which were agreed by Cabinet in December 2010, but will also include income from the PCT which they are receiving from the NHS to support social care and benefit health. The allocation for Oxfordshire is £6.1m of which £5.8m is from the Oxfordshire PCT and the remaining element is split between Buckinghamshire and Swindon PCTs. The figure notified for 2012/13 is slightly lower at £5.9m.
35. The NHS Operating Framework states that "PCTs will need to transfer this funding to local authorities to invest in social care services to benefit health, and to improve overall health gain. Transfers will need to be made via an agreement under Section 256 of the 2006 NHS Act."
36. "PCTs will need to work together with local authorities to agree jointly on appropriate areas for social care investment, and the outcomes expected from this investment. This could include current services such as telecare, community directed prevention (including falls prevention), community equipment and adaptations, and crisis response services. The Department would expect these decisions to take into account the Joint Strategic Needs Assessment for their local population, and the existing commissioning plans for both health and social care. PCTs should work with local authorities to achieve these outcomes in a transparent and efficient manner, with local authorities keeping PCTs informed of progress using appropriate local mechanisms."
37. This income is only built into the MFTP for two years, after which there is expected to be a major change in the way in which Adult Social Care will be funded. This will tie into the timeframe for the change to formula grant funding as well.

Council Tax Precept

38. The report to Cabinet in December set out the provisional Taxbase⁸ figures from the five District Councils, with final figures to be confirmed once their Councils have agreed them. Although final figures are still not confirmed from all districts, several have been. Based on the latest information, Oxfordshire's Taxbase for 2011/12 is now expected to be 243,326, an increase of 0.53% from 2010/11. Compared with the December report, the effect of the Taxbase increase is to increase the amount of funding available by a further £0.1m. Final figures will be reported to members as soon as they are available, and will be updated at the meeting if possible.
39. The MTFP includes growth in the Taxbase beyond 2011/12 of 0.75% per year. These increases are still considered reasonable on the basis that house building is beginning to recover but there is a risk that this may cause a pressure, particularly in 2012/13.
40. Annex 4 provides a draft of the council tax and precept calculations on the basis of the current MTFP proposed 0% increase in council tax for 2011/12.

Council Tax surpluses/deficits

41. Latest information from the District Councils indicates that the County Council's share of income from collection fund surpluses and shortfalls could be around £3.0m. The MTFP included an assumption of a £0.8m surplus. The amount of surplus or deficit can vary considerably and is affected by assumptions on the percentage of Council Tax which will be collected and also by assumptions on the Taxbase (such as the number of exemptions). Each District Council must formally notify the County Council of its share of any surpluses or shortfalls on the council tax collection funds within seven days of 15 January 2011. An update will be provided at the meeting.
42. The current MTFP includes surpluses of £0.8m for each year beyond 2011/12. The future surpluses were revised down in previous MTFP's to reflect an expected increase in the amount of bad debts. Given the actual sum for 2010/11 was £2.4m and the latest position for 2011/12 is currently £3.0m, it is considered reasonable to increase the assumption in the MTFP for the amount of surpluses which could be received for 2012/13 to £1.6m. Beyond that year, given how far ahead it is, it is prudent to leave the sum of £0.8m as it stands.

Total Funding

Government's 'Spending Power'

43. The 'Spending power' figures produced by the government are used to identify those authorities who are put under most pressure by the grant and funding

⁸ The taxbase is the number of banded properties that the council uses to set the council tax. It is the total number of properties in the county weighted by reference to the council tax bands, which range from A to H.

changes. Whilst this approach is consistent between authorities, we don't think that the results are fully representative of the position. The figures used by Communities and Local Government (CLG) show that the Council's 'Spending power' has reduced from £465.5m to £456.7m, by £8.7m or 1.87%. However, based on a like for like comparison basis, the 'Spending power' has reduced from £510.1m in 2010/11 to £453.6m in 2011/12. A reduction of £56.5m or 11.1%.

44. The two main reasons for the difference in interpretation of 'Spending power' are the treatment of specific grants and of new functions.
- Specific Grants - Not all of the specific grants were incorporated into the CLG analysis. Excluding the Dedicated Schools Grant (DSG), specific grants were actually £93.7m in 2010/11⁹. Our estimate is that Oxfordshire has lost £34.6m more grant than the CLG analysis;
 - New functions – Counties have been given two new roles and appropriate adjustments are needed to allow for this. We have been given more money to spend but we have to spend it on these new roles. As a result it does not increase 'spending power'.
 - i. NHS funding for social care - This is new funding for 2011/12 and 2012/13. The funding is to allow the council to work with the NHS to reduce the number of people going into hospital. CLG include £6.1m for this in 2011/12, but this assumes that any spend will offset existing expenditure whereas the assumptions from health are that this should be on new activities which benefit health too.
 - ii. Concessionary fares - This is a new duty for the council in 2011/12 transferring from the district councils. Concessionary fares provide free bus travel to disabled and older people. Funding for this is included in the £121.8m of Formula grant in 2011/12. CLG have only included in their baseline the funding we are due to receive before the damping grant (£4.9m), whereas the comparable figure should be the grants received by the district councils' for this service in the 2010/11 figure, which was £7.7m.
45. The loss in specific grants and cost of new functions set out above give a further reduction in 'Spending power' of £48.4m. When this is added to the reduction of £8.7m which the CLG calculate (along with some other minor changes) a total reduction of £56.5m, or 11.1% is obtained.

Budget requirement, council tax and precept

46. The budget requirement represents the amount of expenditure the Council needs to finance through council tax (including collection fund surpluses/deficits) and Formula Grant having taken into account any funding from Specific Grants plus fees and charges. Changes in the funding mechanism for a significant number of specific grants, along with the transfer of responsibility for several new functions in 2011/12 have the effect of increasing the budget requirement. This does not mean

⁹ Before in-year grant reductions which were announced following the Coalition Government's Emergency Budget in June 2010

that the council has additional funding for existing services as the transfers require additional expenditure which match, or exceed, the additional income. The budget requirement for 2010/11 was £389.9m whilst the anticipated budget requirement for 2011/12 will be £407.5m an increase of 4.5%, even though the gross expenditure has decreased by £36.8m or 3.8%. The table at paragraph 8 reflects this.

Inflation

47. The report to Cabinet in December 2010 set out revised allowances for inflation in 2011/12 along with an adjustment in 2013/14 and 2014/15 reflecting a lower inflation requirement as a result of a lower level of expenditure. As a result of changing the allowance for inflation savings of £5.1m will be generated in 2011/12. Annex 3 sets out the savings in 2011/12 and across the medium term.
48. Although projections on inflation from the Bank of England are that it is likely to rise in the short term in response to continue increases in commodity prices and the increase in VAT to 20% from January 2011, the expectation is that in the longer term, CPI is likely to return to below the 2% target. The November 2010 CPI figure was 3.3%, up from 3.2% in October 2010.
49. The table below sets out the latest assumptions for inflation which are reflected in the proposed MTFP.

Year	Pay	Non Pay	Contracts
2011/12	0%	0%	2.5%
2012/13	0%	2.0%	3.0%
2013/14	2.5%	2.0%	3.0%
2014/15	2.5%	2.0%	3.0%

Function Changes

Concessionary Fares

50. In April 2011, the responsibility for providing free bus travel for disabled and older people will transfer from district councils in Oxfordshire to the County Council. Currently, this service is funded by Formula grant and a Special grant. Communities and Local Government (CLG) estimate that the spending and funding is £7.7m in 2010/11 (excluding spend on concessionary tokens), however the district spend is estimated at £8.7m including concessionary tokens. It is estimated that the cost in 2011/12 will be £8.2m. Initial work has been completed using the new Department for Transport (DfT) calculator which is different to the current reimbursement method used by districts and could see a reduced cost to the council, although further work is being undertaken to verify this. Further information is set out in the report at CA12 on the agenda.
51. Funding for Concessionary Fares (both the Special grant and Formula grant elements previously received by district councils), has been included in the council's Formula Grant sum. The Formula Grant adjustments show that equivalent funding for 2010/11 of £4.974m has been added to the formula. This

has then been reduced to £4.264m as part of the 14.3% grant reduction which applies to Oxfordshire.

52. Oxfordshire will receive 48% less than the total amount of funding constituent Districts estimated they would spend on concessionary travel in 2010/11, this is the greatest loss for any upper tier authority.

Previously Agreed Budget Changes

53. The current MTFP includes funding of £40.3m over the period 2011/12 to 2014/15 for pressures and priorities. The majority of this funding relates to Demography for Adult Services, Landfill Tax and the Landfill Allowance Trading scheme. In setting the savings target back in July 2010, it was agreed that this funding would remain, but that previously identified savings (which had been agreed to meet these) would be stripped out and alternative proposals made.
54. The table below sets out the allocations by Directorate.

Year on Year	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m
Cross Directorate	1.4	-	-	-	1.4
Children, Education and Families	1.1	0.1	-0.5	0.2	0.9
Social & Community Services	6.9	5.5	3.5	5.0	20.9
Community Safety	0.1	0.2	0.3	-	0.6
Environment & Economy	7.3	5.7	4.9	2.0	19.9
Oxfordshire Customer Services	-3.6	0.1	-	0.2	-3.3
Chief Executive's Office	-0.1	-	-	-	-0.1
Total Funding per MTFP¹⁰	13.1	11.6	8.2	7.4	40.3
Total Funding	13.1	24.7	32.9	40.3	

Savings Proposals

55. The Directorate Business Strategies which formed part of the Service & Resource Planning report to Cabinet in December set out new pressures and proposed savings for each Directorate. These set out, over the medium term, up to 2014/15, net savings of £116.5m. Overall this produced a shortfall in funding over the medium term of £2.7m.
56. Information contained in the Addenda to the December report plus other changes set out in this report have resulted in amendments to the identified pressures and

¹⁰ In addition for 2011/12 total should include £1.4m for Strategic Measures. Total funding therefore is £14.5m as per table at paragraph 6.

proposed savings. An updated summary is set out in the table below. Details of all savings proposed are set out in Annex 3.

Year on Year	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Cross Directorate	-12.6	-9.7	-1.5	-0.6
Children, Education & Families	-10.3	-5.5	-1.3	-1.2
Social & Community Services	-18.6	-11.7	-4.6	-6.2
Community Safety	-0.5	-0.4	-0.5	-0.1
Environment & Economy	-10.8	-7.2	-5.9	-3.2
Oxfordshire Customer Services	-1.8	-1.5	-0.6	-0.5
Chief Executive's Office	-1.5	-0.3	-0.3	-
TOTAL SAVINGS PROPOSALS	-56.2	-36.3	-14.7	-11.8
Changes to Funding	-3.0	1.4	0.8	
TOTAL PROPOSALS	-59.2	-34.9	-13.9	-11.8
Target Savings – November 2010	-58.6	-34.9	-13.9	-11.8
(Surplus)/Shortfall against target	-0.6	0	0	0

57. The table shows that savings equal to the target are now proposed. The shortfall that was identified in the December report has been met, over the medium term, through changes in funding required for Strategic Measures as a result of capital funding being provided as grant rather than borrowing consent; plus through using reserves. This means that no further directorate savings are required, other than those set out in December.

One-off Funding

Balances

58. The Financial Monitoring report (CA6 on the agenda), shows the position on balances at the end of November as £13.1m. The forecast for year-end balance is £12.5m based on the assumption that calls on balances would be £2.0m in 2010/11. Although the calls on balances to date in 2010/11 have been £1.5m, this includes a known sum of £1.4m for the Landsbanki impairment. Further calls are possible if the extreme weather conditions continue in the next few months although this is not expected to take the calls on balances above the £2m level. Furthermore, there are expected additions to balances of around £0.5m which includes an underspend on the external audit fee. Based on these assumption

there could be £0.5m more in balances at the end of 2010/11 than required. It is proposed that this sum is used in 2011/12 for one-off funding in revenue.

59. The financial strategy states that balances should be maintained at a level commensurate with risk. Forecast balances over the medium term in the current MTFP were set out in the report to Cabinet in December 2010. An updated risk assessment has still to be completed which will take into account 2010/11 financial projections and the risks in the 2011/12 budget. This will identify the level of planned balances commensurate with risk and will be finalised for the report to Council.

Reserves

60. All the Council's reserves which are maintained for specific purposes have been reviewed as part of the Service and Resource planning process. Where some services such as libraries, youth and fire control are subject to change, given the uncertain requirements for 2011/12 it was still felt appropriate to maintain reserve at present. In December 2010, Cabinet agreed to use £2.4m of the Insurance Reserve which, from the review, had been identified as being available for alternative purposes.

Pensions Budget Reserve

61. This was created in 2009/10 with the expectation that the 2010 revaluation would require additional ongoing funding from 2011/12. £6m was built in an ongoing basis from 2011/12; however, the actuaries have now indicated that the pension contribution rate will remain unchanged at 19.3%. Given the significant changes in staffing in the coming years there are factors which need to be considered before this sum can be returned to general use.
62. The contribution rate is made up of two elements, the ongoing service element and the past service deficit. This later element is planned to be repaid over 25 years on the basis of the number of staff in post when the revaluation was carried out as at 31 March 2010. If the staff reduce from that period by the time we reach the next revaluation there will not have been sufficient contributions from the ongoing staff to keep up with the expected payments, and this would lead to an increase in the rate in 2014. In order to avoid this, it has been calculated that if £1.5m per annum of the sum set aside is applied to the pension fund for the past service deficit this will make good the reducing level coming from the workforce over the next three years.
63. It is then proposed to use £1.4m in 2011/12 on ongoing basis in order to support the budget, which will enable the remaining £3.1m to be used on a one-off basis through the Efficiency Reserve in 2011/12, and then subsequently applied on an ongoing basis to balance 2012/13.

Efficiency Savings Reserve

64. The Efficiency Reserve was created in 2009/10 to allow for investment to deliver efficiencies and ensure that sufficient resources were available for redundancy

costs. The current balance on the reserve (as set out in the Financial Monitoring Report CA6 on the agenda) is £7.7m.

65. The current MTFP includes a contribution to the reserve in 2011/12 of £3.4m. In addition, the un-utilised balance of the funding in 2011/12 for the pension fund revaluation of £3.1m will be added to the Efficiency Savings Reserve. If no further calls on the reserve are made in 2010/11 £14.2m will be available for use in 2011/12.

Big Society Fund

66. A Big Society strategy is being developed that will set out how the council will support the voluntary and community sector, including steps to encourage broader 'self help' and volunteering, and how bureaucracy can be reduced. As part of this, it is proposed that funding is available to provide one-off pump priming type support for community led initiatives. The funding of just over £0.6m will come from existing resources which will be pooled and managed on a corporate basis.

Treasury Management Strategy and Strategic Measures

67. The Treasury Management Strategy Statement and the Annual Investment Strategy for 2011/12 are set out in Annex 5.
68. This document complies with the technical requirement of the CIPFA Treasury Management Code of Practice. It sets out, amongst other things the investment strategy for the Council's temporary cashflow surpluses. The strategy continues the previous policy of maintaining security of capital, along with the liquidity of its investments, whilst achieving the optimum return on its investments commensurate with risk. Potential maximum exposure to credit risk is reflected in the Statement of Accounts and is taken into account in the assessment of the level of balances required.
69. The Strategy for 2011/12 continues with the principle of using internal funds instead of external borrowing where it is in the Council's interest to do so, as well as continued investment with the two external fund managers dependant on suitable economic conditions. In addition, it is again proposed that any changes applied to the 2011/12 Treasury Management Strategy can be delegated to the Chief Finance Officer in consultation with the Leader and Cabinet Member for Finance. This is included in the recommendations below.
70. Following the review of the Treasury Management Strategy, changes are proposed to the Strategic Measures budget. Areas for the Strategy which impact on the Strategic Measures budget include revised forecasts on the Base Rate and expected returns from deposits, updated cash flow forecasts and long term borrowing requirements. The September report reflected assumptions that there would be reduced long term borrowing to fund capital expenditure due to the expected reduction in funding. The net variation from the MTFP is reflected in the Cross Directorate section of Annex 3.

Minimum Revenue Provision

71. The Minimum Revenue Provision policy statement for 2011/12 is included at Annex 6. Legislation requires Council to approve a statement of their policy annually before the commencement of the financial year.

Prudential Indicators

72. As part of the Service & Resource Planning process for 2011/12 Council will have to approve a set of Prudential Indicators which show that the Council's prudential borrowing is prudent, affordable and in line with the Council's Treasury Management Strategy. These indicators will be taken to Council for approval in February 2011. Some of these indicators are about the Treasury Management Strategy itself. The remaining indicators are dependant upon the final agreed budget position and cannot be calculated at this time. Annex 7 shows an overview of the Prudential Code and an explanation of the Prudential Indicators.

Draft Budget 2011/12

73. Annex 8 sets out the draft detailed revenue budget for 2011/12 for directorates. The annex shows the movement in gross expenditure and income from 2010/11, showing inflation, function and funding changes, previously agreed funding and proposed virements. For illustrative purposes, the annex also includes the effects of the identified pressures and proposed savings as set out in Annex 3. This is not an agreed plan but shows the impact on services if all the proposals are agreed. This will be updated for the Council meeting in February to reflect each proposal made. The proposed budgets also reflect the changes required to implement the Council's Business Strategy.

Virement Scheme

74. The Council is required when approving the budget each year to agree the virement rules. The existing arrangements have been reviewed and are set out for approval at Annex 9.

Capital Programme and Asset Management Plan

Asset Management Plans and the Capital Strategy: 2011/12 to 2015/16

75. The Corporate Asset Management Plan (AMP) has been updated and revised and is attached at Annex 10a. The purpose of the AMP is to:
- Give an overview of the Council's strategic direction and objectives and the implications this has for its property and how property needs to change and can be used to help achieve those objectives
 - Describe the objectives for property that arise from this and the strategy for each category of its assets (the asset strategy)
 - Set out the action to be taken, at a high level
 - Provide a clear statement of the Council's approach to its property
76. The Asset Strategy is part of the AMP. It is a high level corporate strategy which establishes the role of the Council's assets in meeting strategic objectives and the business efficiency strategy. The strategy is driven by corporate and service objectives, rather than a bottom up approach.
77. The Council's property will need to change significantly in terms of its size, composition, use and cost if it is to positively contribute to meeting the Business Strategy objectives at a time of significant change. The AMP includes an aim to reduce the size of the property portfolio by 25%, contributing to MTFP savings targets.
78. Asset Management is a contributor to business resource planning and seeks to ensure that the property asset base is optimally structured in the best corporate interest of the organisation. The Asset Strategy drives the asset management process.
79. The Transport Asset Management Plan (TAMP) has been substantially revised, and is also now attached at Annex 10b.
80. The Transport Asset Management Plan (TAMP) is a 'live' document and is continually evolving. The document was approved in its original form by Cabinet in March 2008. The TAMP is central to the identification of highway maintenance strategies, and the development of the new Transport Services contract. The TAMP contains both asset and financial data that enables more advanced forward planning, improved budget management and improved working practices. Crucially, in an era of severe budget cuts it provides a means of identifying where limited funding may be targeted to best effect.
81. The TAMP spans all highway maintenance activities and all types of highway infrastructure including roads, footways, bridges, street lighting, traffic signals and so forth, Although, the document focuses on the asset groups where the majority of the maintenance budget is spent, information on other asset groups is increasingly being collected and will be incorporated into the document as it develops.

82. The Capital Strategy (at Annex 11) sets out the County Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It shows how the Council prioritises, targets and measures the performance of its limited capital resources. It also shows how the Council intends to maximise the value of its investment to support the achievement of its vision and priorities. It provides the framework for determining capital spending plans and the effective use of capital resources.
83. This Capital Strategy, despite the challenging economic and financial environment, emphasises the significant contribution that the capital programme can make in delivering corporate priorities and in bringing benefits for wider communities. It seeks to ensure that resources are used in the most efficient way and they support the Council's objectives most effectively. It sets out a robust, relevant and sustainable financial policy and strategy that aim to get most out of the scarce capital resources over the next five to ten years.

The Capital Programme: 2011/12 to 2015/16

Changes to the Capital Programme & Resource Profile since December 2010

84. The Capital Investment Board (CIB) reviewed the existing capital programme and considered how the reductions expected in capital funding would impact the capital programme. This was reported to Cabinet on 20 December 2010 and the series of Scrutiny Committees on 20 December 2010. The proposals to Cabinet reflected the position before the Provisional Local Government Finance settlement and showed that there were resources of £130.9m available to allocate to the programme, with a shortfall of £16.3m which could still not be funded. This position was however after significant reductions in both the schools and highways programmes had been made.
85. The provisional settlement actually provided lower levels of reductions than expected and also provided all resources as capital grants rather than borrowing consent, thus making savings available in the revenue budget. In total an additional £67.8m is available over the five year period, although this is based on estimates for the future years of the programme and will be subject to review.
86. In addition to changes in the funding position, there have also been some changes to other resources which fund the programme along with changes to pressures which all need to be taken into account. These are all set out in the table in paragraph 92 below.
87. Whilst the Capital Maintenance Grant (CMG) is an unringfenced grant from the Department for Education (DfE), we are awaiting detailed guidance on how the grant should be allocated. The CMG is not solely intended for schools, it also includes funding for other education services including Children's Centres. Linked to this grant is the reduction of the Devolved Schools Capital grant, previously built into the programme at £9.6m per year, and now reduced by £7.7m to £1.9m. It is expected that the Council will now deliver the substantial part of that capital maintenance programme, although schools will still maintain both some funding and responsibilities. The DfE has outlined that 'taxpayer funded' schools will

continue to receive a direct capital allocation (this includes Voluntary Aided schools and Academies). In order to ensure that the funding for schools' maintenance is kept at the same level, it is proposed that £7.7m per annum is provisionally included in the capital programme as an earmarked allocation for schools capital maintenance programme. In total this inclusion uses £38.3m over the five year period, and leaves £15.0m available from the capital maintenance grant to fund other pressures.

88. It is proposed that the current reported funding pressure of £2.5m for schools' maintenance is removed following the earmarking of £7.6m per annum for this purpose. It is also proposed that the programme of £9.5m to deliver Health and Safety; Schools Access and a sum for schools contributions at risk is also funded from the Capital Maintenance Grant. This leaves £5.4m of the Capital Maintenance Grant unallocated. Given the uncertainties over the funding, plus the level of uncertainties in the basic needs and maintenance programmes it is proposed to leave this sum unallocated for priority 3 schemes¹¹ and review the position next year.
89. Given the additional funding, the scale of reductions made against transport infrastructure schemes has been reconsidered as this is a priority area. In addition consideration was given to whether the pressure on the revenue budget can be reduced by using grant rather than prudential borrowing or investing in the other projects on hold.
90. There is scope within the programme to replace £6.1m of prudential borrowing¹²; to provide £3.6m of pump priming for the asset strategy (which would then be repaid and be available in the next plan period); and finally to invest £7.0m in additional transport infrastructure schemes.
91. There has been a net reduction in the estimated value of capital receipts of £3m; an expected reduction in the contributions from schools due to the reduction of 80% in schools devolved formula grant of £1.7m; an increase of £0.6m in other minor amendments; and the release of flexible resources including contingency of £9.5m. In total these increase the available resources by £5.4m.
92. This would leave a shortfall on the programme of £10.6m. This enables all the projects in priorities 1 – 4 to be funded but leaves the £11.3m of projects in priorities 5 and 6 unfunded, with a small contingency to allocate of £0.7m.

¹¹ Priority 3: projects that generate revenue savings through the delivery of the new business strategy or service transformation proposals

¹² which delivers a revenue budget saving of £1.4m over four years (see paragraph 93)

Adjustment to the Capital Programme and Resources Profile		Revised Capital Programme Position
	£m	£m
December 2010 Programme Shortfall		-16.3
Add: Additional funding allocation		
Transport	6.4	
Education	5.7	
Health	2.4	
Capital Maintenance	53.3	67.8
Use: Maintenance on Schools	7.7 per annum	-38.3
Use Capital maintenance grant to fund pressures for existing programmes for schools:		
Health & Safety	1.5	
Schools Access	2.3	
School contributions at risk	0.3	
Additional pressures for H&S and Access programmes for schools	5.4	-9.5
Remaining Capital Maintenance Grant unallocated at Priority 3		-5.4
Reduce pressure on schools maintenance in programme		2.5
Use: Reduce use of Prudential borrowing		
Deferred Interest Loans	1.8	
Solar Panels	0.4	
ECH/HOPS	1.0	
Corporate funding	3.0	-6.2
Use: Pump priming funding for Asset Strategy		-3.6
Use: Additional Highways Structural Maintenance		-7.0
Use: Released Flexible Funding		
Short fall in Capital receipts	-3.0	
Reduction in other contributions from schools	-1.7	
Other Minor Changes	0.6	
Released Flexible Resources (including contingencies)	9.5	5.4
Revised Programme Deficit		-10.6
Don't deliver Projects in category 5&6		11.3
Available resource		0.7

Prudential Borrowing

93. The removal of £6.1m prudential borrowing results in savings in revenue. These are reflected in Annex 3. In total this produces savings of £0.2m in 2011/12 rising to £0.4m by 2014/15. The corporate element of the savings (reflected in the strategic measures budget) has been used to fund essential Tree Maintenance work with the balance being used for general property maintenance.

Overview of the proposed Capital Programme, risks and uncertainties

94. The proposed capital programme, Annex 12 of this report, includes the recommended prioritised list of schemes following this consideration as well as the outcomes from the latest capital monitoring process. The proposed programme also includes schemes that are already included in the MTFP and that are supported by the Directorates' Business Improvement & Efficiency Strategies.
95. The proposed capital programme is a 5-year programme and totals £477.3m¹³ capital investment across the county and covers a wide range of projects. It represents approximately £259.1m¹⁴ capital investment in Children, Education & Families, £115.6m capital investment in Transport, £30.5m capital investment in Social & Community Services, £20.2m capital investment in the council's properties (including Waste Recycling Centres), £4.7m capital investment in Community Safety and £1.6m capital investment in Oxfordshire Customer Services and £0.1m capital investment for Voluntary and Community groups through the Chief Executive's Office.
96. Overall, the proposed programme represents a position where the Council is able to meet its statutory requirements, to provide match funding for substantially externally funded projects, to support the delivery of the Corporate Business Strategy, the Corporate Asset Management Plan, the Transport Asset Management Plan and the facilitation of economic development and housing growth. This means a substantial investment in schools property portfolio both through provision of additional pupil places given the demographic changes and projected housing growth and through maintenance of the existing schools' buildings subject to confirmation of future years' funding from the Department for Education. It also means a reduced level of cuts than it was originally projected for transport infrastructure schemes.
97. There has been a degree of prudence applied when forecasting all resources that support the capital programme that have yet to be confirmed or achieved. However, it is clear that the future years' funding from the central government is provisional, fluctuations in the property market continue and the housing market is

¹³ The capital programme report timeframe is 7 years (current year + 2 years firm programme + 4 provisional years) as part of the February 2011 programme to Council. This total excludes the earmarked reserve total (£14.4m)

¹⁴ This figure includes £47.3m capital resources devolved to schools and other partners for them to manage directly. Projects solely funded and delivered by Schools & Partners are to be represented and reported under the Schools Capital Table in the Capital Programme separately in order to ensure that the performance of the OCC funded & delivered portfolio is monitored more effectively. This will be adjusted where required given the changes to the use of the new capital maintenance allocation.

still vulnerable which all lead to viability issues and deferrals in timetable for delivery. Given the challenging financial environment, this position increases the risks associated with the delivery of the capital programme. Therefore close monitoring of the capital programme and related resource profiles are required to make adjustments if necessary.

98. To manage these issues and associated risks, the proposed capital programme includes an allocation of £37m for a growth portfolio and £13.6m¹⁵ contingency under earmarked reserves. There is also a small surplus of £0.672m at the end of 2015/16.

Information Outstanding

99. There are several areas where information is still provisional and on which assumptions are included in the budget for 2011/12. Once this information is finalised, any changes could have an impact on the budget. The most significant issue is the announcement of the final Local Government Finance settlement which is not expected to be confirmed until around 31 January 2011.

Overview and advice from the Chief Finance Officer

100. Under Section 25 of the Local Government Act 2003, the Chief Finance Officer is required to report on the robustness of the estimates made in determining the budget requirement and on the adequacy of the proposed financial reserves. This assessment will be included in the report to Council for the Cabinet and the Opposition and other groups' budget proposals in February 2011.

Financial and Legal Implications

101. 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 Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of council tax. This report provides information on the financial position for the authority forming a basis for those requirements.

Equality and Inclusion Implications

102. Initial assessments of the impact of proposed budget changes on Oxfordshire's communities and those groups protected by equalities legislation will be available on the council's website before the Cabinet meeting on 25 January 2011. Assessments will be amended as proposals are further developed and feedback is received from formal consultation on the proposed changes. Final versions will be prepared during 2011 and will be used by Cabinet to assist them in taking final decisions about the future provision of services, within the budget agreed by Council in February 2011.

¹⁵ This total includes capital programme contingencies (3%) in line with the Technical Audit recommendations.

103. An overarching Equality Impact Assessment setting out how all communities in the county will be affected by the proposals reflected in the Business strategies along with the need for mitigating action was set out in the report to Cabinet in December 2010. This provides further context and identifies possible cumulative impacts of the budget proposals and the mitigation that is planned.

RECOMMENDATION

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

a. (in respect of revenue) **RECOMMEND** Council to approve:

- (1) a budget for 2011/12 and a medium term plan to 2015/16, based on the proposals set out by the Leader and Cabinet Member for Finance;
- (2) a budget requirement for 2011/12;
- (3) a precept for 2011/12;
- (4) a council tax for band D equivalent properties;
- (5) virement arrangements to operate within the approved budget;

b. (in respect of treasury management) **RECOMMEND** Council to approve:

- (1) the Treasury Management Strategy Statement ;
- (2) Prudential Indicators from April 2011;
- (3) that in relation to the 2011/12 strategy any further changes required be delegated to the Chief Finance Officer in consultation with the Leader and Cabinet Member for Finance.

c. **RECOMMEND** Council to approve the Minimum Revenue Provision Methodology Statement as set out in paragraphs 10 to 13 of Annex 7.

d. (in respect of capital) **RECOMMEND** Council to approve:

- (1) the updated Capital Strategy, Corporate Asset Management Plan and Transport Asset Management Plan;
- (2) a Capital Programme for 2010/11 to 2015/16;
- (3) Prudential Indicators from April 2011.

e. to delegate authority to the Leader of the Council, following consultation with the Chief Finance Officer, to make appropriate changes to the proposed budget.

SUE SCANE
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

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11 January 2010