

Division(s): N/A

CABINET – 15 September 2015

Service & Resource Planning 2016/17

Report by the Chief Finance Officer

Introduction

1. This report is the first in the series on the Service & Resource Planning process for 2016/17 which will culminate in Council setting a budget for 2016/17 in February 2016. This initial report sets the context and the starting point for the process. It sets out:
 - the assumptions on which the existing Medium Term Financial Plan (MTFP) is based,
 - known and potential financial issues for 2016/17 and beyond which impact on the existing MTFP, and
 - a proposed process for Service & Resource Planning for 2016/17 including a timetable of events.
2. The report follows on from and builds on the report presented to Cabinet in May 2015, 'Addressing the Council's Future Challenges'.
3. The following annexes are attached to this report:

Annex 1a: Previously agreed budget changes 2016/17 – 2017/18

Annex 1b: Review of assumptions in the existing MTFP

Annex 2: Service & Resource Planning timetable for 2016/17

Assumptions in the existing Medium Term Financial Plan

4. The 2015/16 – 2017/18 Medium Term Financial Plan (MTFP) agreed by Council in February 2015 was set on the basis of limited adjustments from the previous year, incorporating only changes to spending. It was also not extended beyond the three year period. This reflected uncertainties over future levels of government funding due to the then forthcoming General Election, with no government departmental expenditure limits set beyond 2015/16 and a date for the next spending review unknown.
5. Sustained reductions in Government funding combined with pressure to restrict Council Tax increases have resulted in a significant squeeze on Council resources over recent years, at a time when demand for services has been increasing. Significant savings have therefore been required to offset funding reductions and to meet additional expenditure pressures. Over the period 2010/11 to 2017/18 the Council has plans to save £292m. Of this

total, savings of £204m have already been delivered over the period 2010/11 to 2014/15.

6. Of the £88m savings still to be achieved in the existing MTFP to 2017/18, £46m needs to be delivered in 2016/17 and 2017/18. Savings of £42m are built into the budget for 2015/16 and progress against this is being monitored through the Business Strategy Delivery and Financial Monitoring Reports to Cabinet throughout the financial year.
7. The MTFP also includes an additional £9m of on-going funding for demographic and other directorate expenditure pressures added over the period 2016/17 – 2017/18 and provides for 2.5% pay inflation, up to 3% contract inflation, 2% income inflation. No inflation is provided for general prices¹.
8. Details of the savings and additional funding in the existing MTFP for 2016/17 and 2017/18 are set out in Annex 1a.
9. The MTFP assumes £17.5m general balances and £50m earmarked reserves at the start of 2016/17. The Business Strategy Delivery & Financial Monitoring report presented to Cabinet in July 2015 forecast £17m² general balances and £100m earmarked reserves at the end of 2015/16. The Budget Reserve is being used to manage the cash flow implications of the MTFP. It is forecast to go £5m in deficit in 2016/17, before returning to a £2m surplus position in 2017/18. Any temporary use of other reserves or other balances to manage the position would need to be replaced in a subsequent year. The level of earmarked reserves and general balances are reviewed each year as part of the Service & Resource Planning process.
10. General funding (excluding council tax) is estimated to reduce by £18m between 2016/17 and 2017/18 to £111m a year by 2017/18, a reduction of 14% compared to 2015/16. Council tax increases of 3% in 2016/17 and 2017/18 are assumed in the MTFP. Total income from Council Tax (including collection surpluses) is estimated to be £315m a year by 2017/18.
11. Further details on the assumptions in the existing MTFP are provided in Annex 1b.

Relevant Policies and Strategies

12. In setting the budget each year along with the MTFP, the Council considers the following strategies, policies and plans:
 - Corporate Plan - outlines the strategic direction and principles of the Council and sets out the key objectives and priorities for action.

¹ Applied to costs of premises, transport and supplies and services.

² After taking into account the contingency of £3.5m being held in 2015/16.

- Financial Strategy – sets out how the Council intends to finance its services and priorities and the principles upon which the medium term financial plan and the capital programme are based.
- Treasury Management Strategy – the Local Government Act 2003 requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- Corporate Charging Policy – ensures that charges are levied on a fair and consistent basis across the Council's services.

National Budgets and other Government announcements

Budget March 2015

13. The Budget announced by the Chancellor in March 2015 indicated that there would be further severe reductions in local government funding in 2016/17 and 2017/18. National savings totalling £30bn were expected to be required before 2018/19, with £12bn savings from welfare changes and £5bn from changes to the tax system to address imbalances and tackle avoidance and evasion. The remaining £13bn was expected to come from Departmental Expenditure Limits. This produced a 'roller coaster' effect of deep cuts in 2016/17 and 2017/18 followed by a surplus in 2018/19. It was also announced that the NHS, Education and International Development budgets would be protected which would increase the amount of savings needed from local government and other departments.

2015/16 In-year Budget Reductions

14. On 4 June 2015, the Chancellor announced a £3bn cut from government spending this year. Included in this was a proposal to reduce the public health grant to local authorities by £200m for 2015/16. The consultation on how this might be achieved closed on 28 August 2015. It is expected that the specific grant for Oxfordshire will be reduced by £1.9m.

Summer Budget July 2015

15. Following the General Election in May 2015, when the Conservative Party gained an overall majority in the House of Commons, the Chancellor of Exchequer announced a Summer Budget on 8 July 2015.
16. Compared to the Budget in March 2015, the plan to achieve a surplus was extended by one year from 2018/19 to 2019/20. The national savings required increased to £37bn with the amount expected to come from Departmental Expenditure Limits raised to £20bn. The increase of £7bn in Departmental savings is thought to be linked to the additional real terms funding increase of £10bn per year by 2020 agreed for Health, thereby increasing the savings required for non ringfenced departments.

17. The Office for Budget Responsibility (OBR) stated that “on the basis of these latest plans, the forthcoming Spending Review looks a lot less challenging. The squeeze pencilled in for the first year of the next Spending Review period, 2016/17, has been eased very significantly’. Over the Parliamentary period overall departmental spending will fall by an average of 1.5% per year in real terms. No year will see cuts as severe as in 2011/12 and 2012/13. However, as part of the July 2015 budget, the Chancellor also announced the raising of the Defence budget by 0.5% per year in real terms in addition to the already protected departments of Education, Health and International Development. This will mean higher reductions for other departments. The table below shows the projections of the two Budgets.

Chart 1.4: Year-on-year real growth in resource DEL



18. Public sector pay awards will be limited to 1% a year for the four years from 2016/17 onwards in order to protect jobs³.
19. A new ‘national living wage’ for all workers aged over 25 was announced, to be introduced from April 2016. The wage will start at £7.20 and will rise to 60% of median earnings by 2020, which would be £9, according to OBR forecasts. The Local Government Association has estimated this could cost local government £1bn a year by 2020/21. There is also a risk that the national living wage will put pressure on wages just above the minimum to rise concurrently to maintain pay differentials, escalating costs further.
20. The cost pressures are predominantly associated with implementing the national living wage for providers delivering Council contracts. The largest pressures will be on social care contracts for home support and residential care as well as other services such as reablement and direct payments.
21. Other announcements of interest to local government in the budget included:

³ Oxfordshire has a local agreement on staff pay awards, see Annex 1b for details

- Local Government Pension Scheme (LGPS) - The Government will work with LGPS administering authorities to ensure that they pool investments to significantly reduce costs, whilst maintaining overall investment performance. Authorities will be invited to bring forward their own proposals to meet common criteria for delivering savings. The Government will consult later this year on the detailed criteria, as well as legislation to require those authorities which do not have sufficiently ambitious proposals to pool investments.
- Business Rates - The Government has published a progress update on action on improvements to the administration of business rates, including the appeals system, and on tackling business rates avoidance. It has also launched a consultation on the introduction of a business rates relief for local newspapers.
- Local Authority Assets – The Government will make available a further £6m to expand the ‘One Public Estate’ programme to local authorities in England with a significant asset base.
- Childcare – From September 2017, the Government will extend the free childcare entitlement to 30 hours a week for working parents of 3 and 4 year olds. The Department for Education has published a call for evidence on the costs for early year providers in providing childcare.
- Devolution – The government set out an invitation to towns and counties to come forward with devolution deals building on those agreed for Greater Manchester in order to boost growth. A bidding process for new Enterprise Zones was also announced.

Care Act

22. Following the Summer Budget, on 17 July 2015, the Government announced a delay to implementing phase two of the Care Act that was due to come into force from April 2016. The introduction of a cap on care costs, the full introduction of the duty on local authorities to meet the eligible needs of self-funders in care homes and the introduction of the proposed appeals system for care and support have all been delayed until April 2020. This falls beyond the next Spending Review period.
23. The proposals to cap care costs and create a supporting private insurance market were expected to add £6 billion to public sector spending over the next 5 years. The Government said it “will continue with other efforts to support social care, in particular through the Better Care Fund, which will drive the integration of social care and NHS going forward”.

Spending Review 2015

24. On 22 July 2015, the Government published a document setting out its approach to the spending review; 'A country that lives within its means: Spending Review 2015'. The document sets out the parameters of the review, the outcome of which will be published on 25 November 2015.
25. HM Treasury has invited departments to set out plans for reductions to their budgets. In line with the approach taken in 2010, HM Treasury is asking departments to model two scenarios, of 25% and 40% savings in real terms, by 2019/20. The total departmental budget excluding welfare and the protected departments is £142bn. Therefore 40% savings would give £57bn and 25% would give £36bn. Both considerably higher than the £20bn required.
26. Whilst the spending review will provide a much clearer indication on the funding position for local government for the four years up to 2019/20, it will not set out the impact on different types of authorities or individual allocations. Individual allocations will not be confirmed until the Provisional Local Government Finance Settlement is announced which is expected to be either week commencing 14 or 21 December 2015.

Likely future financial context for Oxfordshire

27. The report to Cabinet in May 2015, 'Addressing the Council's Future Challenges' set out the implications of the General Election and the likely future financial context for Oxfordshire based on the Budget in March 2015, the known pressures in the existing MTFP and the rising demand for services. These issues suggested that the Council will need to make further savings over the next five years of between £50m to £60m. This is in addition to the £46m already in the MTFP that needs to be delivered in 2016/17 and 2017/18.
28. This figure was on the basis of :
 - Expected need to reduce the Council Tax increase from 3.0% to 2.0% (and possibly further reductions) for both 2016/17 and 2017/18, giving rise to a pressure of £2.9m in 2016/17 and a further £3.1m in 2017/18, £6m in total.
 - Adding future years to the medium term plan. It is estimated that each year added to the plan gives rise to a pressure of approximately £9.5m. Extending the MTFP to 2020/21 adds a pressure of £28m.
 - A potential for reductions in specific grants from 2015/16 (based on the experience of the national emergency in 2010). A reduction in grants could be in the range of £2m to £6m.
 - The likelihood of a faster cut in Revenue Support Grant than seen over the last five years. It is estimated that a quicker reduction in grant could give rise to a pressure of £16 million over the period 2016/17 to 2020/21.

29. Although the Summer Budget suggests that the Spending Review may not be as challenging as expected in March, as set out above, the reductions in funding will not be known until the period of late November to late December 2015. Given the significant uncertainty until then, it would not be prudent to assume that additional savings required have changed from the figure reported in May.
30. It is proposed that given the spending review will cover the four years to 2019/20, that the MTFP to be agreed by Council in February 2016 will cover the period 2016/17 to 2019/20. As the report to Cabinet in May 2015 assumed a five year MTFP to 2020/21 and that each year added to the plans costs an additional £9.5m, the level of savings required for the four years to 2019/20 is expected to be in the region of £50m.

Service & Resource Planning Process and Timetable

31. The report to Cabinet in May 2015 also set out how the Council was planning to respond to the future challenges and set out the work already undertaken to prepare for this. Delivering further savings requires a paradigm shift in the way the Council works and its role. To drive this change, the traditional approach to the Service & Resource Planning process will not suffice.
32. Furthermore, given the extreme uncertainty about the level of additional savings required until the end of 2015, it is appropriate to consult the public, at an early stage, all savings options being put forward for consideration.
33. Savings options will be made available to the public in the week commencing 28 September 2015, following which there will be public meetings in October 2015 to generate feedback on the options. A specific event for parish and town councils will also be held. The options will be published on the Council's website for feedback and comment. The consultation will close in mid-November 2015 when the response will be collated and presented to Performance Scrutiny Committee in December 2015, which will enable a cross-party group of councillors to consider and challenge the options.
34. The draft Local Government Finance Settlement isn't due until late in December. Rather than reviewing the Cabinet's budget proposals as before, this year the Performance Scrutiny Committee will be asked at its December meeting to consider all of the detailed savings options and will be asked to identify the least desirable saving options. Capital proposals will be considered by Performance Scrutiny in early January 2016.
35. 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 26 January 2016.

36. As a range of savings options are being put forward for consideration that will only be determined once Cabinet proposes its budget, it will not be possible for five year Business Strategies to be revised. Once Council sets the budget in February 2016, Directorates will then be able to update their Business Strategies for the 2017/18 planning cycle to reflect the changes agreed from 2016/17.
37. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by 31 January 2016. Provisional figures are expected in mid-December 2015.
38. The final settlement is not expected until early February 2016. This will confirm the general funding available to the Council for 2016/17 and the Council Tax referendum limit to be applied.
39. The Council meeting to agree the 2016/17 revenue budget, medium term financial plan and capital programme will take place on 16 February 2016.
40. A timetable for the Service & Resource Planning process is attached at Annex 2.

Capital Programme Planning

41. The Capital Strategy section of the Financial Strategy provides the framework for determining capital spending plans and the effective use of the Council's limited capital resources.
42. The Property Asset Management Plan and Highways Asset Management Plan underpin the Capital Strategy. The Property Asset Management Plan sets out the role of the Council's property assets in meeting strategic objectives and the directorate business strategies. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure.
43. The Council considers the capital investment and programming activity as an integral part of the Council's Service & Resource Planning process. This ensures that the creation of a new asset or investment in the existing assets and infrastructure network is justified through detailed business strategies and delivery models for the service, and implications for the medium term financial plan are clearly identified.
44. In view of the delivery period for significant programmes, such as those relating to the Local Growth Deal, it is proposed to extend the capital planning period a further year to cover the period 2015/16 to 2019/20. This will provide an additional year of funding in the capital programme.
45. New capital investment pressures are currently emerging. Proposals will be brought forward in September/October 2015 to inform the capital planning process.

Councillors will have an opportunity to contribute to capital prioritisation decisions through the January 2016 Performance Scrutiny Committee meeting.

Equality and Inclusion Implications

46. 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.'
47. 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 late September 2015. 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

48. This report is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2016, will lead to the council tax requirement being agreed in February 2016, together with a budget for 2016/17, updated medium term financial plan and capital programme.

RECOMMENDATION

49. **The Cabinet is RECOMMENDED to:**
 - (a) **Note the report;**
 - (b) **Approve the Service and Resource Planning process for 2016/17;**
and
 - (c) **Approve a four year period for the Medium Term Financial Plan and Capital Programme to 2019/20.**

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September 2015