

Division(s):N/A
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## CABINET – 26 JANUARY 2016

### SERVICE & RESOURCE PLANNING 2016/17 – 2019/20

#### Report by the Chief Finance Officer

#### Introduction

1. This report is the final report to Cabinet in the series on the service & resource planning process for 2016/17 to 2019/20, providing councillors with information on budget issues for 2016/17 and the medium term. It sets out the proposed 2016/17 Corporate Plan, budget, the draft 2016/17 – 2019/20 Medium Term Financial Plan (MTFP) and 2015/16 – 2019/20 Capital Programme. Information outstanding at the time of the Cabinet meeting will be reported to Council when it considers the budget on 16 February 2016.
2. The budget and draft 2016/17 – 2019/20 MTFP include the Cabinet's budget proposals which take into consideration the latest information on the Council's financial position outlined in this report plus comments from the Performance Scrutiny Committee meetings on 17 December 2015 and 7 January 2016, and comments from the public consultation on the budget. As final notification of some funding streams is awaited, some further changes may be made to the budget proposals ahead of Council on 16 February 2016.
3. The service & resource planning report to Council in February will be set out in four sections:

Section 1 – Leader of the Council's overview

Section 2 – Corporate Plan

Section 3 – Chief Finance Officer's statement on the budget

Section 4 – Budget Strategy and Capital Programme

This report forms the basis of Sections 2 and 4 to that report and also sets out the review of charges for Cabinet approval at Annex 1.

4. The following annexes are attached:

<b>Section 2</b>	<b>Corporate Plan</b>
2.1	Corporate Plan 2016 – 2020
<b>Section 4</b>	<b>Budget Strategy and Capital Programme</b>
4.1	Draft medium term financial plan (MTFP) 2016/17 – 2019/20
4.2	Revenue budget pressures and savings proposals
4.3	Council tax 2016/17 (draft)
4.4	Draft detailed revenue budget 2016/17
4.5	Treasury management strategy statement and annual investment strategy for 2016/17 (including prudential indicators and minimum

	revenue provision policy statement)
4.6	2016/17 risk assessment for level of balances
4.6.1	Summary of balances and reserves
4.7	Dedicated Schools Grant provisional allocation 2016/17
4.8	Virement rules for 2016/17
4.9	Updated capital programme 2015/16 – 2019/20
4.9.1	Capital proposals for 2016/17 – 2019/20
4.9.2	Highways Structural Maintenance Programme 2016/17 – 2017/18
4.10	Comments from Performance Scrutiny Committee
4.11	Budget consultation report
4.12	Overarching Service and Community Impact Assessment
<b>Annex 1</b>	<b>Review of Charges</b>
Annex 1a	Overview and Summary
Annex 1b	Proposed Charges

## Corporate Plan

5. As part of a range of documents which set out objectives and activities ahead, the Council produces a Corporate Plan that is refreshed on an annual basis. The update for 2016/17 has a fundamental review of priorities, with the intention that it should be a significantly shorter strategic-level document. The three key areas of focus in the Council's strategy are:
  - A thriving economy
  - Efficient services
  - Protecting vulnerable people
6. The plan also sets out how the Council is run, the values according to which it operates, the key thematic partnerships in which the Council is involved, some recent successes, and how the Council involves the public in planning for the future.
7. The draft was considered by Performance Scrutiny at their meeting on 7 January 2016 where a range of comments were made. These have been discussed with the Leader and the draft appended to this report at Section 2.1 and represents a further iteration with a number of amendments made since that meeting.

## Overview and advice from the Chief Finance Officer

8. 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 council tax requirement and on the adequacy of the proposed financial reserves. This assessment will be included in Section 3 of the report to Council in February 2016.

## Information Outstanding

9. There are several areas where information is still provisional and on which assumptions are included in the budget and capital programme for 2016/17:
  - Final local government finance settlement, including the revenue support grant and the business rates top-up
  - Local business rates forecasts
  - Surpluses/shortfalls on council tax and business rates collection funds
  - Several specific grant notifications including the Independent Living Fund, Public Health, Special Educational Needs and Disabilities (SEND), Extended Rights to Free Travel and Local Reform and Community Voices.
  - Education capital maintenance grant
10. Any changes once this information is finalised could have an impact on the budget or capital programme. Any changes to the provisional assumptions will be reported to Council in February 2016 by the Chief Finance Officer. All Councillors will be notified of any updated information once it is received.
11. In light of the information outstanding, 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 Cabinet's proposed budget ahead of the Council meeting on 16 February 2016.

## Draft Budget 2016/17 and Medium Term Financial Plan to 2019/20

12. In September 2015, Cabinet agreed that the Medium Term Financial Plan (MTFP) to be agreed by Council on 16 February 2016 would cover the four years 2016/17 to 2019/20 to match the spending review period. A draft Medium Term Financial Plan for 2016/17 to 2019/20 is set out in Section 4.1. This is based on the latest information on financing available to the Council following the Provisional Local Government Finance Settlement plus the new pressures and proposed savings as set out in Section 4.2 to this report.

## Provisional Local Government Finance Settlement

13. On 17 December 2015, the Provisional Local Government Finance Settlement was announced by the Secretary of State for Communities and Local Government. The announcement set out provisional allocations for 2016/17 as well as 2017/18 through to 2019/20. The publication of the Draft 2016/17 Local Government Finance Report was the start of a consultation period that ended on 15 January 2016. The final settlement is therefore not expected until the first week of February 2016 at the earliest.
14. This year's settlement is the fourth under the business rates retention scheme and the first of the current four year Spending Review period (2016/17 to 2019/20). The provisional settlement consultation set out a number of technical changes the Government intends to make, which could not be consulted on over the summer due to the autumn Spending Review.

### *Core Spending Power*

15. There has been a definitional change to revenue spending power compared with previous years. From 2016/17 onwards it will be known as “Core Spending Power” and is defined as the sum of:
- Settlement Funding Assessment (comprising Business Rates Baseline Funding Level and Revenue Support Grant)
  - Estimated Council Tax income
  - Potential additional Council Tax income from Adult Social Care flexibility
  - Proposed Improved Better Care Fund (from 2017/18 onwards)
  - New Homes Bonus
  - Rural Services Delivery Grant
16. The council tax assumptions include both an increase in the charge each year based on CPI inflation forecasts and an estimate for an increase in the taxbase based on the average increase for each authority in 2014/15 and 2015/16.
17. As is often the case, when the Government includes a measure of Council Tax in its grant calculation, the result is that shire areas are adversely affected.
18. Core funding for Oxfordshire is set out in the table below. This shows a total change in core spending power of 1.4% over the four year period to 2019/20. This does not however match the increase in demand and costs associated particularly with adult social care. It is estimated to meet the increase in demand and costs, core funding would need to increase by 19.4%.
19. The government’s assumptions on taxbase increases for Oxfordshire across the medium term reflect the higher growth seen particularly in the last two years, partly linked with the ambition in the City Deal to accelerate the delivery of 7,500 homes across the county by 2018. The general rate of house growth has gone up from around 1,700 in 2011/12 to 3,100 in 2015/16.

<b>Oxfordshire</b>	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Settlement Funding Assessment	130.8	105.2	85.8	75.0	65.1
Council Tax	288.2	296.7	306.9	317.7	329.2
Council Tax additional 2% for social care		5.8	12.2	19.1	26.6
New Homes Bonus	3.4	4.3	4.3	2.7	2.6
Better Care Fund				1.1	4.9
<b>TOTAL CORE SPENDING</b>	<b>422.4</b>	<b>412.0</b>	<b>409.2</b>	<b>415.6</b>	<b>428.4</b>
Annual change in core spending		-10.4	-2.8	6.4	12.8
Total change in core spending					6.0
Total change in core spending as %					1.4%

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Council Tax increase assumption	£m	8.4	10.2	10.8	11.5
	%	2.92%	3.43%	3.53%	3.63%
Rate increase		1.00%	1.80%	1.90%	2.00%
Taxbase increase		1.92%	1.63%	1.63%	1.63%

### *Revenue Support Grant*

20. At the national level, Revenue Support Grant (RSG) for 2016/17 has been cut by 24% compared to 2015/16. However, the reduction for Oxfordshire is 37% or 40% adjusting for specific grants transferring into RSG.
21. In previous years, changes to RSG have been carried out by comparing the current year's RSG allocation to the previous year. However, for 2016/17 there is a new funding distribution methodology for RSG. This is based on the core spending power referred to above, taking into account the wider resources available to councils including Council tax, locally retained business rates and RSG. The new distribution methodology is designed to ensure that "local councils delivering similar services receive a similar percentage change in 'settlement core funding' for those services". Authorities with a greater proportion of their core funding coming from Council Tax receive less RSG. There is no proposed damping or scaling with the changes in distribution.
22. Furthermore, a number of specific grants received in 2015/16 have been 'rolled' into RSG from 2016/17. This means the allocation for RSG in 2016/17 includes funding for these grants. The grants 'rolled' in and their allocations are:

	2015/16	2016/17
	£m	£m
Care Act	3.042	3.092
Lead Local Flood Authority Grant	0.112	0.113
Sustainable Drainage Systems	0.018	0.019
	3.172	3.224

23. The County Council's RSG for 2015/16, adjusted for the specific grants transferring was £65.5m. In 2016/17 it will be £39.3m, a reduction of £26.1m or 40%.
24. The Council will not receive any RSG funding by 2019/20 and in 2019/20 there is also a reduction in the share of business rates the authority is able to retain of £6.2m. Overall grant funding to the council reduces by £71.7m over the next four years to 2019/20.
25. The current MTFP had built in RSG reductions of £22.4m from 2015/16 up to 2017/18 and this was revised to £52.4m following the March and July 2015 budgets including year's up to 2019/20. The further reductions formed part of the additional £50m pressures, the savings options to meet this figure having just been consulted on.

## Spending Review

26. A number of announcements made as part of the Spending Review announced on 25 November 2015 have implications for the Council. These were set out in the report to Cabinet in December. They include proposed changes to the Better Care Fund; a reduction in the Education Services Grant; confirmation of the Apprenticeship Levy; a consultation on reforms to the New Homes Bonus and the ability for upper-tier authorities to increase council tax by 2% to support councils in the increased costs of social care including the National Living Wage. Whilst some of these are the subject of consultations which are either ongoing or yet to commence, an estimate of the impact on the Council has been made and is set out in the table below.

### Implications of the Spending Review and the Draft Local Government Finance Settlement on the Council's Budget for 2016/17 and Medium Term Plan to 2019/20

27. The implications of the announcements set out in the paragraphs above are that savings of £74.8m will now need to be achieved over the medium term to 2019/20 instead of £51.6m as set out in the report to Cabinet in December. The additional £23.2m includes a £1.1m shortfall reported to Cabinet in December. The table below sets out the total pressures for the Council.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	TOTAL £m
Total Pressures – December Cabinet Report	24.0	1.8	11.5	9.7	<b>47.0</b>
Changes:					
Additional Government Grant Cuts	7.5	7.6	2.1	2.2	<b>19.4</b>
Reduction in Business Rates funding from lower inflation rates (match Government forecasts)		0.5	0.2		<b>0.7</b>
Additional Better Care Fund - reduces pressures			-1.1	-3.8	<b>-4.9</b>
Apprenticeship Levy		1.4			<b>1.4</b>
Reduction in ESG and impact on central support services	1.0	3.0	1.0	0.5	<b>5.5</b>
Cost of National Living Wage for the Council		0.1	0.1	0.2	<b>0.4</b>
Changes to pressures set out in December report	-0.8	0.1	0.2		<b>-0.5</b>
Cost of National Living Wage for Social Care	5.8	6.4	6.9	7.5	<b>26.6</b>
Income from 2% Social Care Precept	-5.8	-6.4	-6.9	-7.5	<b>-26.6</b>
<b>Revised Total Pressures</b>	<b>31.7</b>	<b>14.5</b>	<b>14.0</b>	<b>8.8</b>	<b>69.0</b>

28. As set out in the Cabinet report in December, within the existing MTFP there are £5.8m of unidentified or unachievable savings. When these are taken into account, the net new savings figure is £69.0m. Taking into account these additional savings now required, the total savings the Council will have achieved and has planned to achieve by 2019/20 is £361.0m.
29. Due to the late announcement of the Provisional Local Government Finance Settlement and the impact of the distributional changes in government funding,

the budget for 2016/17 has been balanced mostly by the use of one-off funding (including reserves) and bringing forward savings or delaying pressures.

30. The draft MTFP in Section 4.1 requires further savings of £11.2m to be identified in 2017/18 and beyond to present a balanced position over the medium term. As it would not be prudent to propose further significant savings without proper financial planning and consultation, it is proposed that the MTFP shows £11.2m of savings still to be identified for the years 2017/18 and beyond. Recommendations for meeting the £11.2m will be brought forward to Cabinet in late spring and amendments to the MTFP will then be proposed to Council in the early summer.

### Draft Budget 2016/17

31. The table below sets out the funding available for 2016/17 and the net operating budget for 2016/17. The net operating budget represents the gross expenditure on council services less specific government grants (such as the Dedicated Schools Grant). Changes from the previous report and from the MTFP for both 2016/17 and over the medium term are explained in the ensuing paragraphs.

	(a)	(b)	(c)	(d)	(b) - (a)	(d) - (a)
	MTFP £m	December Report £m	Provisional Settlement £m	Proposed Budget £m	Dec Report vs MTFP £m	Proposed Budget vs MTFP £m
<b>Funding</b>						
<u>Government Grant:</u>						
Revenue Support Grant	-49.8	-43.6	-39.3	-39.3	6.2	10.5
Business Rates top-up	-37.9	-37.4	-37.4	-37.4	0.5	0.5
<u>Business Rates:</u>						
Local share of business rates	-31.0	-29.6	-29.6	-29.7	1.4	1.3
Business rates surplus/deficit	0.0	1.8	1.8	1.8	1.8	1.8
<u>Council Tax:</u>						
Council Tax requirement	-299.9	-298.9	-304.8	-305.9	1.0	-6.0
Council tax surplus/deficit	-3.0	-3.0	-3.0	-6.9	0.0	-3.9
<b>Total Funding</b>	<b>-421.6</b>	<b>-410.7</b>	<b>-412.3</b>	<b>-417.4</b>	<b>10.9</b>	<b>4.2</b>
<b>Expenditure</b>						
Base budget (2015/16 net budget)	424.6	424.6	424.6	424.6	0.0	0.0
Inflation	7.3	4.2	4.2	1.8	-3.1	-5.5
Function & funding changes	0.0	0.0	4.2	4.2	0.0	4.2
Previously agreed budget changes in existing MTFP*	-10.3	-10.3	-10.3	-10.3	0.0	0.0
Variations to the existing MTFP:						
New Pressures	0.0	13.3	19.2	20.3	13.3	20.3
New Savings	0.0	-11.8	-11.8	-19.8	-11.8	-19.8
Use of reserves	0.0	-0.5	-0.5	-3.4	-0.5	-3.4
<b>Total Expenditure</b>	<b>421.6</b>	<b>419.5</b>	<b>429.6</b>	<b>417.4</b>	<b>-2.1</b>	<b>-4.2</b>
<b>Budget Shortfall</b>	<b>0.0</b>	<b>8.8</b>	<b>17.3</b>	<b>0.0</b>	<b>8.8</b>	<b>0.0</b>

\* reported to Cabinet in September

## Revenue Support Grant and Business Rates Top-up

32. As set out in paragraphs 20 - 25 above, the Provisional Local Government Finance Settlement announced on 17 December 2015 resulted in considerable changes to the RSG allocation for 2016/17 and the medium term compared to the position reported in December 2015. RSG for 2016/17 is £10.5m less than in the existing MTFP (£4.3m less than included in the December forecast) and the business rates top-up allocation is £0.5m less than the current MTFP (no change to the compared to the December forecast).
33. Reductions to RSG and Business Rates top-up over the medium term are set out in paragraphs 24 - 25 above.

## Business Rates

34. The District Councils are required to provide final estimates of the Council's share of the locally retained element of business rates for 2016/17 by 31 January 2016, together with the Council's share of any surplus/deficit estimated from 2015/16. There is no movement in the change from the existing MTFP reported in December which included a reduction in income of £1.4m due to the business rates valuation for the Energy Recovery Facility at Ardley being less than estimated in the 2015/16 budget. This also contributes to the estimated deficit of £1.8m on the business rates collection fund.
35. The business rate pool established between Cherwell District Council, West Oxfordshire District Council and the County Council in 2014/15 will continue into 2016/17. The pooling arrangement is expected to bring benefits to the area as a whole through reduced levies on business rates growth. For 2016/17 the County Council will receive a 10% share of any growth, in return for taking on a 2.5% share of any losses. The financial benefit for the County Council is expected to be small (less than £0.2m).
36. The Spending Review saw the forecast for inflation rates significantly reduced over the medium term. This impacts on the increase in business rate income and Section 4.2 sets out the effect of this.

## Council Tax

### *Council Tax requirement*

37. A council tax increase of 3.99% in 2016/17 is proposed, just below the council tax referendum threshold of 4%. Council tax increases of 3.99% are also proposed for the each year of the MTFP. This reflects the announcement in the Spending Review that all authorities with adult social care responsibilities are able to increase council tax by up to 2% more than the general referendum limit (i.e. councils will trigger a referendum if council tax is raised by 4% or above).
38. If the proposed council tax increase of 3.99% is approved by Council, the Chief Finance Officer is required, within 7 days of the authority setting the budget and



council tax, to provide information to the Department for Communities and Local Government demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. In section 4.2, £5.9m, the amount equivalent to the additional 2% council tax, has been allocated to adult social care in 2016/17 to meet to increasing cost of care including the estimated cost of the National Living Wage incurred directly by care providers and passed onto the Council through increased fees.

39. The existing MTFP includes a taxbase<sup>1</sup> of 236,223 for 2016/17, based on assumed growth of 1.0%. As set out in the report to Cabinet in December 2015, the assumed growth was increased to 1.75% in line with the increase in 2015/16 and District Council House Building figures. The final taxbase for 2016/17 has now been confirmed by all district councils at 238,676 an increase of 2.05% from 2015/16. Compared with the December report this increases the amount of funding available by £1.1m in 2016/17.
40. The existing MTFP included growth in the taxbase beyond 2016/17 of 1.0% per year. The report to Cabinet in December proposed to increase the taxbase by 1.25% per year. As set out in the table at paragraph 19, in the calculation of Core Spending Power, the Government has assumed the taxbase will increase each year from 2017/18 to 2019/20 by 1.63%. It is proposed to include this forecast increase in each year of the MTFP for 2017/18 and beyond to generate additional funding of £4.0m.
41. Section 4.3 provides a draft of the council tax calculation including the council tax requirement for 2016/17 and the Band D council tax equivalent.

### *Council Tax Surpluses/Deficits*

42. The latest estimate for the Council's share of income from collection fund surpluses and shortfalls is £6.9m, an increase of £3.9m from the report in December. 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 working days of 15 January 2016. The final and confirmed position will be notified in due course/ahead of the Cabinet meeting.
43. As the council tax surpluses since 2012/13 have been no lower than £4.0m, it is proposed to increase the assumed income from £3.0m to £4.0m in each year of the MTFP from 2017/18 onwards.

### **Inflation**

44. Pay inflation for 2016/17 has been applied to budgets in-line with the local pay agreement which reflects the national pay offer for Local Government of 1% uplift for salaries starting at £17,714 per annum and those below receiving higher increases to take account of the new National Living Wage. This confirms the

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<sup>1</sup> 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 council tax bands A to H and takes into account discounts and exemptions.

£2.1m saving set out in the December 2015 Cabinet report. There is no provision for non-pay inflation. The report presented to Cabinet in December 2015 included savings of £1.0m relating to contract inflation. Now that the actual amount of inflation has been calculated for each contract, the saving on contract inflation has increased by £2.4m. Total inflation savings for 2016/17 are therefore £5.5m.

45. The Chancellor confirmed in the Spending Review that the average public sector pay increases up to 2019/20 would be 1.0%. In December 2015 the Remuneration Committee agreed to support the move back to national pay arrangements from 2017/18. The estimated saving for contract inflation for 2017/18 has also been revised and a further £1.5m saving is now expected. On the basis of the current low inflation rates and expected pay inflation over the medium term, inflation increases for 2017/18 and over the medium term have been revised (set out in Section 4.2).

## **Function and Funding Changes**

46. The function and funding changes relate to changes to un-ringfenced specific grant allocations. Some allocations for 2016/17 are yet to be confirmed (see paragraph 9) and are based on provisional estimates. The report to Cabinet in December did not include any assumptions regarding changes to grant allocations. However, following the spending review and provisional settlement announcements, the funding changes now total £4.2m.
47. The Care Act grant, Lead Local Flood Authority grant and Sustainable Drainage Systems grant being 'rolled' into the Revenue Support Grant allocation in 2016/17 as explained in paragraph 22 above results in a pressure of £3.5m in 2016/17. The actual amounts the Council received for these grants in 2015/16 was slightly higher than the amounts that are being rolled into RSG.
48. The overall Education Services Grant (ESG) will be cut by 7.5% from £815m in 2015/16 to £750m in 2016/17. This is "a first step towards achieving the savings announced in the spending review" of £600m. The amount paid directly to local authorities will fall by 8.8% from £564m in 2015/16 to £514m in 2016/17. The remainder is paid directly to academies, which will continue to receive protection against large falls in ESG.
49. Taking into account the schools known to be converting into academies during 2016/17, the ESG for Oxfordshire is expected to reduce by £1.0m in 2016/17 and by a total of £5.5m over the medium term.
50. This is offset by a slight increase of £0.3m in the New Homes Bonus grant over the increase already assumed in the MTFP. A consultation on reforms to the New Homes Bonus was published alongside the Provisional Local Government Finance settlement which does not close until March 2016. The reforms, which include only making payments above a baseline; reducing the incentive period; and not making payments if there is no local plan in place could change the amount of grant the Council receives. This will need to be reviewed as part of the Service & Resource Planning process next year.

## Variations to the existing MTFP

### *New pressures and savings*

51. The savings options which had been subject to public consultation during October and November 2015 were included in the report to Cabinet in December 2015. Assuming all of the proposed savings options were accepted, there was still a budget shortfall in 2016/17 of £8.8m and £1.1m by 2019/20. As the financial position has changed significantly following the Spending Review and Provisional Local Government Finance Settlement, resulting in the Council needing to make an additional £23.2m of savings (including the £1.1m shortfall reported to Cabinet in December) over and above the £51.6m that was estimated, the savings options presented in December 2015 remain unchanged in the Cabinet's proposed budget for 2016/17 and MTFP to 2019/20. In balancing the position for 2016/17, Directorates have reviewed the profile of the original savings options and pressures and have brought savings forward and deferred pressures where possible. Section 4.2 sets out the variations to those proposals. Directorates have identified further savings or reduced anticipated pressures by an additional £4.2m in 2016/17 and £1.4m over the medium term.
52. Further corporate savings of £10m in 2016/17 and £11m over the MTFP period have been identified since the position reported in December 2015. Mostly these arise from the taxbase and collection fund increase (paragraphs 39 & 42), further savings in contract inflation (paragraph 44) and use of corporate reserves. They are set out in Section 4.2 and explained in the ensuing paragraphs.

### *Use of Reserves*

53. In total, £3.5m of reserves are proposed to be used to help balance the budget for 2016/17. This includes a contribution from the Budget Reserve of £0.7m plus £1.5m from other corporate reserves and £1.2m from directorate reserves. Further details on the reserves are set out in paragraphs 69-72. A summary of the planned use of the reserves over the medium term is given in Section 4.6.1

## **Draft Detailed Revenue Budget 2016/17**

54. Section 4.4 sets out the draft detailed revenue budget for 2016/17. The annex shows the movement in gross expenditure and income from 2015/16, comprising inflation, function and funding changes, previously agreed funding and proposed virements. For illustrative purposes, the annex includes the effects of the new funding for pressures and proposed savings as set out in Section 4.2.

## **Review of Charges**

55. As part of the Service & Resource Planning process, managers have reviewed their charges for 2016/17. Changes in income arising from this review are summarised in Annex 1a and the proposed charges are set out in Annex 1b.

## Specific Grants and other funding

### *Schools Funding*

56. Dedicated Schools Grant (DSG) allocations for 2016/17 were also announced on 17 December 2015. The DSG continues to be allocated to local authorities in accordance with the three block methodology introduced in April 2013: early years block, schools block and high needs block. Total DSG will be £40.2bn in 2016/17, an increase of £0.1bn from 2015/16.
57. Per pupil units of funding will be the same as in 2015/16, with a slight adjustment for former non-recoupment academies. The minimum funding guarantee will continue to be set at -1.5% per pupil before the pupil premium is applied. The government will consult on proposals for a new national funding formula in the spring of 2016.
58. £92.5million of extra funding on top of the 2015/16 baseline has been provided for the high needs block, distributed using age 2-19 population projections for 2016. Early years per child rates are the same as in 2015/16. The amount per pupil for the early year's pupil premium will also remain the same. Schools receive extra funding through the pupil premium. The level of the premium per pupil remains at £1,320 in 2016/17 for primary-aged pupils and at £935 for secondary-aged pupils. For looked after children, adopted children and children with guardians the rate will remain at £1,900 in 2016/17.
59. Oxfordshire's provisional Dedicated Schools Grant for 2016/17 is £243.6m. Schools Forum is required to agree use of the Early Years block and the draft Schools Funding Formula for 2016/17. These were approved in December 2015 and January 2016 respectively. Schools Forum also agreed the movements between the blocks to address pressures in High Needs as set out in Section 4.7.

### *Better Care Fund*

60. The Spending Review confirmed that the Better Care Fund will continue into 2016/17. NHS England is required to ring-fence £3.5bn within its allocation to Clinical Commissioning Groups (CCGs) as the NHS contribution to the Better Care Fund to be deployed locally on health and social care through pooled budget arrangements between local authorities and CCGs. There will be no additional funding for the Better Care Fund in 2016/17 above 2015/16 levels.
61. The Spending Review also announced that £1.5bn would be added to the ringfenced Better Care Fund progressively from 2017/18 reaching £1.5bn in 2019/20. In 2017/18 an additional £105m will be made available to local authorities for the Better Care Fund, increasing to £825m in 2018/19 and £1.5bn in 2019/20. The £1.5bn consists of £700m new money (reflected in local authorities RSG allocations) and £800m from savings from the New Homes Bonus programme.

62. The additional allocations will be used as a mechanism for equalising the distribution of additional social care funding, addressing the varying ability of councils to raise the 2% through the precept. It does however mean that a number of councils, including Oxfordshire will now gain much less than expected. Under previous distribution methodologies, Oxfordshire would expect around £15m from the £1.5bn national total. Under the revised distribution methodology, Oxfordshire will receive £4.9m.
63. The process for the development and assurance/approval of local Better Care Fund plans in 2016/17 will be more streamlined and better integrated into the business-as-usual planning processes for Health and Wellbeing Boards, CCGs and local authorities. Planning guidance will be issued directly to Councils in early January 2016. The deadline for submitting the first draft of Better Care Fund local plans is 8 February 2016 with final submissions, signed off by Health & Wellbeing Boards in April 2016. It is expected that the first draft submission will be high-level, focused around the finances and core principles, while providing sufficient detail to support Councils' budget setting processes.

### *Public Health*

64. The Public Health Grant will continue as a separate ring-fenced grant in 2016/17 and 2017/18, after which the expectation is that it will be transferred into RSG and then be included within the new Business Rates Retention Scheme from 2019/20. However, this is not shown in the four-year allocations published as part of the provisional settlement.
65. The Department of Health has confirmed that grant allocations for 2016/17 will not be announced until the second half of January. A letter from Public Health England on 27 November 2015, indicated the overall amount for 2016/17 would be reduced by 2.2% from a 2015/16 baseline after taking into account the full year effect of the 0-5 funding (due to the transfer of responsibilities from October 2015) and the £200m in-year reduction during 2015/16.
66. Before applying a 2.2% reduction, Oxfordshire's expected 2016/17 allocation is in the region of £32.9m. A 2.2% reduction on this would be £0.7m.

### **Reserves**

#### *Un-earmarked Reserves (Balances)*

67. The financial strategy states that balances will be maintained at a level commensurate with identified risks based on an annual risk assessment and subject to a minimum of 2.5% of gross expenditure (excluding schools). A risk assessment for 2016/17 is attached in Section 4.6 which takes into account the current financial monitoring position and the risks in the 2016/17 budget and the economy generally. The risk assessment has concluded that balances should be held at £17.6m for 2016/17, compared to £17.4m for 2015/16.

68. The financial monitoring report to Cabinet on 15 December 2015 showed the 2015/16 forecast year-end position on balances as £14.6m, based on the assumption that much of the forecast overspend would be a call on balances. This is £3m below the risk assessed level set of £17.6m for 2016/17. It is proposed to make no adjustment for this variation at this stage as action is being taken to reduce the call on balances in 2015/16. In addition, there is a corporate contingency of £3.3m set aside in 2016/17 within the strategic measures budget to manage the risk that directorates are unable to deliver savings or see further increases in demand. Any shortfall against the risk assessed level would need to be addressed as part of the service & resource planning process next year. The projected level of balances over the medium term is set out in Section 4.6.1.

### *Earmarked Reserves*

69. All the Council's reserves which are maintained for specific purposes have been reviewed as part of the service and resource planning process. A summary of the planned use of the reserves over the medium term is given in Section 4.6.1. This shows that most of the revenue reserves will be used over this period, with the forecast falling to £35.6m by the end of 2019/20, of which £9.6m relates to schools. This is an improved position compared to December, which showed the forecast balance on reserves falling to £12.8m over the medium term as a result of the Budget Reserve being overdrawn by £11.4m. The latest forecast position for the Budget Reserve is set out below. The capital reserve forecast has also been updated since December to reflect the updated capital programme in Section 4.9.

### *Budget Reserve*

70. The Budget Reserve is being used to manage the cash flow implications arising from a different profile of pressures and savings in the MTFP. The existing MTFP includes a contribution from the reserve in 2016/17 of £7.1m and a contribution to the reserve of £7.1m in 2017/18. The December 2015 Financial Monitoring and Business Strategy Delivery report stated that any balance that remains from the contingency being held in 2015/16 will contribute to the budget reserve. It is currently estimated that this will be £3.8m. The budget proposals set out in section 4.2 require a contribution of £0.7m in 2016/17 to balance the revenue budget. This leaves an estimated balance in the budget reserve of £0.8m in 2016/17.
71. The overall impact on the Budget Reserve based on the previously agreed use and new pressures/savings proposals is set out below.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<b>Opening balance</b>	<b>8.8</b>	<b>4.8</b>	<b>0.8</b>	<b>7.9</b>	<b>7.9</b>
Previously agreed contribution	-4.7	-7.1	7.1		
Other contributions to reserve	0.7	3.8			
Contribution from reserve to balance 2016/17 budget		-0.7			
<b>Closing balance</b>	<b>4.8</b>	<b>0.8</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>

72. The table shows that the Budget Reserve will be in surplus over the medium term. This position is dependent on the Council identifying further savings of £10.7m in 2017/18 and £0.5m in 2018/19. The reserve will need to be reviewed again once the further savings proposals are brought forward.

## **Treasury Management Strategy & Strategic Measures**

### *Treasury Management Strategy*

73. Treasury management is the management of the Council's cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
74. The treasury management strategy statement and the annual investment strategy for 2016/17 are set out in Section 4.5. This document complies with the requirements of legislation, codes and government guidance, including 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 cash flow surpluses.
75. The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business and only once these have been satisfied should the return on the investment be considered. The annual investment strategy for 2016/17 continues with this premise. The strategy for financing prudential borrowing during 2016/17 continues with the policy of using temporary internal balances. External debt will remain to be repaid upon maturity and will not be refinanced unless the economic outlook or the capital programme forecasts change.
76. It is proposed that any changes required to the 2016/17 treasury management and investment strategies are delegated to the Chief Finance Officer in consultation with the Leader of the Council and the Cabinet Member for Finance. This is included in the recommendations at the end of the report.
77. As part of the service & resource planning process for 2016/17 the Council is required 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. Appendix A of Section 4.5 sets out the draft prudential indicators.
78. Section 4.5 also incorporates the minimum revenue provision policy statement for 2016/17 at Appendix B. Legislation requires Council to approve a statement of its policy annually before the commencement of the financial year.

### *Strategic Measures*

79. The report to Cabinet in December 2015 included a savings target for the strategic measures budget of £1.5m over the medium term, £0.5m per year from 2017/18

onwards. These savings were included in the savings options consulted on in the autumn. Following the review of the treasury management strategy set out in the paragraphs above, savings of £1.9m have been identified over the medium term, exceeding the savings target by £0.4m. In addition, £1.2m of the savings will be made in 2016/17 and have contributed to balancing the budget. These changes are shown in Section 4.2.

80. The current MTFP assumes an average bank rate of 1.125% for 2016/17 and 1.63% in 2017/18. The Council's treasury advisor Arlingclose now projects the first 0.25% increase in UK Bank Rate between September and December 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, low global and UK growth as well as potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside (i.e. being less, rather than more likely to happen). The Council has therefore revised its view on interest rates and now forecast the average bank rate for 2016/17 will be 0.55%, rising to 0.85% in 2017/18, 1.15% in 2018/19 and 1.55% in 2019/20.
81. Taking into account the Treasury Management Strategy principles that prioritise security and liquidity of principal over investment return, target rates to be achieved on deposits have been reviewed, these are forecast as: 0.3% above the bank rate in 2016/17, reducing to 0.2% above bank rate in 2017/18 and 0.1% above in both 2018/19 and 2019/20. The reduction in the size of the premium above base rate in later years reflects the forecast reduction in cash balances over the period. This will result in a reduction to the proportion of cash available for long term investment at higher rates, subsequently reducing the premium achievable. The revised rates have been incorporated into the strategic measures budget forecast.
82. The average cash balance for 2016/17 is forecast to be £297.6m. This is higher than the average cash balance forecast in the current MTFP and compensates for the reduction in average bank rate.
83. As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the Council will be required to prudentially borrow £36.5m on behalf of OxLEP for project funding. The MTFP had assumed that the majority of this borrowing requirement would fall in 2015/16 and 2016/17, however based on current project spend forecasts, the majority of the borrowing will now be required in 2017/18, resulting in savings in the first year of the proposed MTFP.

### **Virement Scheme**

84. When approving the budget each year the Council is required to agree the virement rules. The existing arrangements have been reviewed and are set out for approval in Section 4.8. There are no updates required to the current virement rules.

### **Capital Programme and Asset Management Plans**

*The Capital Programme: 2015/16 to 2019/20*



85. The updated capital programme in Section 4.9 includes the revised funding assumptions and the inclusion of an extra year for 2019/20 to give additional estimated funding of £51.1m as reported to Cabinet in December 2015 and Performance Scrutiny Committee on 7 January 2016 and as set out in Section 4.9.1. The additional funding includes an increase of £25.4m in the basic need grant after the Education Funding Agency announced in February 2015 that the Council's allocation for 2017/18 would be £19.4m. In light of this allocation, the assumed grant for 2018/19 has been increased to £4.5m from £1.5m and the additional year, 2019/20 has also been included at £4.5m.
86. An additional year of school maintenance funding has been estimated for 2019/20 at £3.0m, but this is only confirmed one year at a time and the 2016/17 allocation has still not been confirmed.
87. Including an additional year of highways maintenance funding and the estimated new funding from the self-assessed incentive fund in 2019/20 results in additional funding of £19.0m. An additional £3.7m is assumed in 2019/20 for the Integrated Transport Block.
88. The ring-fenced capital grant for Adult Social Care, received through the Better Care Fund, has been removed in 2016/17. The Council received £1.3m in 2015/16. The funding will be used to expand the Disabled Facilities Grant programme that is issued to the County Council but passed straight to the District Councils and is also part of the Better Care Fund. This grant had not been built into the capital programme so does not change the assumptions above.
89. The updated capital programme includes £48.2m of new funding, leaving £2.9m unallocated. £19.6m has been allocated to the Basic Need programme, £16.4m has been added as an additional year of annual programmes in 2019/20 (including £12.5m for Highways Maintenance) and an additional £6.4m for Highways Maintenance. The £5.8m funding gap that remained on the Basic Need programme from the drop in the grant allocation in 2015/16 and 2016/17 has also been met from the additional resources available.
90. Officers from the Council have been working with the Vale Academy Trust to assist them in implementing their strategy to reduce the King Alfred's Academy school from three sites to two sites and provide additional secondary school places in the Wantage and Grove area. The Vale Academy Trust has developed a phased site development strategy. With forward funding of £5.5m from the Council this will allow the construction of a new science and general teaching block on the Centre Site which, when completed, will allow the East site to be vacated and released for disposal. Once the capital receipt has been obtained from the disposal of the East Site the forward funding provided by the Council will be fully repaid and the balance used by the Trust to implement the remaining phases of the site development. King Alfred's was a Foundation school at the time of conversion to academy status in 2011 so it owns the freehold of its East and West sites; the Centre site is owned by a separate trust. This proposal is dependent on adequate legal and financial guarantees being in place before final agreement is given to making the loan. The Vale Academy Trust are also working

with the Education Funding Agency to ensure that there are no technical issues in respect of the trust utilising capital funding provided by the council on a loan basis.

91. In order to meet the Council's statutory obligations in salt storage, there is a need to build two new salt stores. The proposal is to construct one store at the Deddington Highways Depot and another at Drayton. Alongside this there are proposals to use these sites more effectively to facilitate the reduction in the number of highways depots from 5 to 3. Reducing the number of highway depots will provide a revenue saving that will be used to pay for the required capital investment of £3.5m over a 20 year period.
92. The table below shows the change in the overall capital programme from the last programme approved by Cabinet in October 2015.

	<b>Oct 2015 Programme £m</b>	<b>Jan 2016 Programme £m</b>	<b>Change £m</b>
Children, Education & Families	139.3	211.5	+72.2
CEF prog reductions to be identified	-5.8	0.0	+5.8
Social & Community Services	38.8	38.9	+0.1
Highways & Transport	167.3	197.3	+30.0
Environment & Economy – Other	35.5	39.3	+3.8
Corporate Services	5.3	27.3	+22.0
<b>Total</b>	<b>380.4</b>	<b>514.3</b>	<b>+133.9</b>
Schools Local Capital	4.3	6.1	+1.8
Earmarked Reserves	43.1	82.0	+38.9
<b>Total Capital Programme</b>	<b>427.8</b>	<b>602.4</b>	<b>+174.6</b>

93. The change in the Children, Education & Families programme relates to additional basic need funding, both from S106 and corporate resources. The Local Growth Fund of £80.8m has now been included in the programme. Any scheme with a funding agreement in place, where the County Council passes the funding onto another body to deliver, is included in the programme under Corporate Services. Transport schemes being delivered by the Council are included in Highways & Transport. The balance of the funding is being held in earmarked reserves.

### *Asset management plans*

94. The Property Asset Management Plan which sets out the role of the Council's property assets in meeting strategic objectives and the business strategies will not be updated until the budget is agreed and the service implications that arise can be incorporated into the plan. A refreshed plan will be considered as part of the service & resource planning process next year.
95. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure and was approved by Cabinet in September 2014. The two year rolling programme for all highways structural maintenance activities is set out in Section 4.9.2 and has been developed to reflect current needs and to ensure that prioritisation of schemes enables the Council to derive the greatest value from its investment.

## Comments from Performance Scrutiny Committee

96. The Performance Scrutiny Committee considered the revenue pressures and savings options that were subject to public consultation at its meeting on 17 December 2015 and the Corporate Plan, treasury management strategy statement and capital proposals on 7 January 2016. A summary of the comments from the meetings is attached in Section 4.10.

## Consultation

97. Between 20 October 2015 and 30 November 2015 the council ran a consultation exercise known as Talking Oxfordshire, providing members of the public and stakeholders with the opportunity to comment on options for budget reductions totalling £51.6m, in the expectation that no more than £50m of additional savings would be required over the period from 2016/17 to 2019/20.
98. Comments were invited through the Council's website and by attending one of three public events held in the county. There was also a stakeholder event organised by Community First Oxfordshire to focus on rural issues. The report on the results of these consultation exercises is attached in Section 4.11.
99. The consultation asked people to consider the impact of savings options rather than ranking options in order of preferences. The feedback on impact of savings will now be taken into account when mitigating the impact of any agreed service changes and has also been used to inform the development of the overarching service and community assessment that can be found at Section 4.12.
100. The majority of comments received expressed concerns about the impact of savings options put forward in the consultation, with more than 4000 responses received. The large number of responses received related to the following savings options:
- cultural services
  - adult day centres
  - housing related support
  - mobile libraries
  - planned support (known as warden control schemes)
101. The Talking Oxfordshire consultation closed at the end of November 2015. The Local Government Settlement was announced on 17 December 2015 at which point it became clear that the council would need to find an additional £23.2m of savings on top of the figure of £50m that had been referred to in the consultation exercise. As set out elsewhere in this report the additional savings (that have had to be identified very quickly) largely consist of proposals being brought forward for earlier implementation and one off measures. Further public consultation will be required in any areas where there will be significant service change.

## **Equality and Inclusion Implications**

102. In developing the proposals for areas of savings consideration has been given to both the council's legal duties regarding service provision and minimising, as far as possible, the impact that service reductions will have on communities and particular groups, including those defined in legislation such as the Equality Act, and those the Council itself has determined should be particularly considered. However given the scale of the savings that are required it is clear that individually and cumulatively these changes may have an impact on communities and particular groups defined in equalities legislation or the groups
103. Section 149 of the Equalities Act 2010 (“the 2010 Act”) imposes a duty on the Council to give due regard to three needs in exercising its functions. The three needs are:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic, and those who do not. The protected characteristics are:
    - age
    - disability
    - gender reassignment
    - pregnancy and maternity
    - race – this includes ethnic or national origins, colour or nationality
    - religion or belief – this includes lack of belief
    - sex
    - sexual orientation
    - marriage and civil partnership
104. In addition the council has determined that deprivation, and geography (rural or urban) should specifically be assessed and taken into account.
105. The overarching Service and Community Impact Assessment at Section 4.12 sets out the potential cumulative impact on protected groups and communities arising from the proposals for savings. It should be read alongside the individual service and community impact assessments that have been produced for individual proposals - assessing the potential impact on protected groups and communities from a particular saving. These are available on the council's website.

## **Financial and Legal Implications**

106. 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 will lead to the council tax requirement being agreed in February 2016.

107. A general assessment of the broad impact of the new budget proposals is set out in Section 4.12. This is supported by initial service-level assessments for the new proposals published on the Council's website.

## **RECOMMENDATIONS**

108. **The Cabinet is RECOMMENDED to approve:**
- (1) **the Review of Charges as set out in Annex 1.**
109. **The Cabinet is RECOMMENDED to RECOMMEND Council to approve:**
- a. **the Corporate Plan;**
  - b. **in respect of revenue:**
    - (1) **a budget for 2016/17 and a medium term plan to 2019/20, based on the proposals set out in Section 4.2;**
    - (2) **a council tax requirement (precept) for 2016/17;**
    - (3) **a council tax for band D equivalent properties;**
    - (4) **virement arrangements to operate within the approved budget;**
  - c. **in respect of treasury management:**
    - (1) **the Treasury Management Strategy Statement and Annual Investment Strategy;**
    - (2) **to continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the Treasury Management Strategy Team;**
    - (3) **that any further changes required to the 2016/17 strategy be delegated to the Chief Finance Officer in consultation with the Leader of the Council and the Cabinet Member for Finance;**
    - (4) **the Prudential Indicators as set out in Appendix A of Section 4.5;**
    - (5) **Minimum Revenue Provision Methodology Statement as set out in Appendix B of Section 4.5;**
    - (6) **The Specified Investment and Non Specified Investment instruments as set out in Appendix C and D of Section 4.5;**
    - (7) **The Treasury Management Policy Statement as set out in Appendix E of Section 4.5;**
  - d. **Approve a Capital Programme for 2015/16 to 2019/20 as set out in Section 4.9 including:**
    - (1) **the new capital proposals as set out in Section 4.9.1 (Appendix 3);**
    - (2) **the Highways Structural Maintenance Programme 2016/17 and 2017/18 as set out in Section 4.9.2;**
  - 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.**

**LORNA BAXTER**

Chief Finance Officer

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