

CABINET – 23 JANUARY 2018

SERVICE & RESOURCE PLANNING 2018/19 – 2021/22

Report by the Director of Finance

Introduction

1. This report is the final report to Cabinet in the series on the service & resource planning process for 2018/19 to 2021/22, providing councillors with information on budget issues for 2018/19 and the medium term. The report sets out the draft council tax precept for 2018/19, the revenue budget for 2018/19, the Medium Term Financial Plan (MTFP) to 2021/22, the Capital Programme to 2027/28 as well as supporting strategies. Information outstanding at the time of the Cabinet meeting will be reported to Council when it considers the budget on 13 February 2018.
2. Cabinet's budget proposals take into consideration the latest information on the council's financial position outlined in this report; comments from the Performance Scrutiny Committee meeting on 14 December 2017 as well as 4 January 2018; 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 full Council on 13 February 2018.
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
4. This report forms the basis of Section 4 to that report and the annexes are numbered on that basis. In addition, the report also sets out for approval the review of charges which were included in the report to Cabinet in December 2017.

Section 4	Budget Strategy and Capital Programme
4.1	Draft medium term financial plan (MTFP) 2018/19 – 2021/22
4.2	Improvement & Investment proposals and Pressures & Savings proposals
4.2.1	Changes since December 2017 Cabinet Report
4.3	Draft Council Tax 2018/19
4.4	Draft detailed revenue budget 2018/19
4.5	Virement Rules for 2018/19
4.6	Financial Strategy
4.7	Earmarked Reserves and General Balances Policy Statement 2018/19

4.7.1	Earmarked Reserves 2017/18 – 2021/22
4.8	Treasury management strategy statement and annual investment strategy for 2018/19 (including prudential indicators and minimum revenue provision policy statement)
4.9	Dedicated Schools Grant provisional allocation 2018/19
4.10	Capital Strategy
4.10.1	Draft Capital Programme 2018/19 – 2027/28
4.10.2	Capital Portfolio Allocations 2018/19 – 2027/28
4.10.3	Highways Structural Maintenance Programme 2018/19 – 2019/20
4.11	Comments from Performance Scrutiny Committee
4.12	Budget consultation report

Corporate Plan

5. A new Corporate Plan will be presented to Council for approval in February 2018 as Section 2, alongside the budget and Medium Term Financial Plan. The plan will reflect the Council's strategy and priorities as articulated in the new vision and recently published prospectus, and set out how these will be achieved over the coming years.
6. The Corporate Plan will be based on the Council's vision: **Thriving communities for everyone in Oxfordshire.**
7. This reflects the outcomes from resident focus groups over the summer, and a strong desire to recognise the importance of communities that people identify with as fundamental to people's lives. The theme of Thriving Communities will be the basis for further engagement activity over the coming year in helping to refine and define what this means to people, and how the council can enable and support them.

Overview and advice from the Chief Finance Officer

8. Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (Director of Finance) 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 2018.

Draft Budget 2018/19 and Medium Term Financial Plan to 2021/22

9. In September 2017, Cabinet agreed that the Medium Term Financial Plan (MTFP) to be agreed by Council on 13 February 2018 would cover the four years 2018/19 to 2021/22. A draft MTFP for 2018/19 to 2021/22 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 improvement and investment proposals and pressures and savings proposals as set out in Section 4.2 to this report.

10. Section 4.3 provides a draft of the council tax calculation including the council tax requirement for 2018/19 and the Band D council tax equivalent. The draft detailed budget for 2018/19 is set out at Section 4.4.

Provisional Local Government Finance Settlement

11. On 19 December 2017, the Provisional Local Government Finance Settlement was announced by the Secretary of State for Communities and Local Government, Sajid Javid MP. The announcement set out provisional allocations for 2018/19 as well as 2019/20. The publication of the Draft 2018/19 Local Government Finance Report was the start of a consultation period that ended on 16 January 2018. The final settlement is therefore not expected until the first week of February 2018.
12. This year's settlement is the third year of the current four-year Spending Review period and the four-year funding offer for local authorities (2016/17 to 2019/20). Following submission of an Efficiency Plan to the Department for Communities and Local Government (DCLG)¹, the Council had notification that it is formally on a four-year settlement on 17 November 2016.
13. The key aspects of the Provisional Local Government Finance Settlement are:

Referendum limit and Adult Social Care Precept

14. Councils will be able to raise general council tax by a further 1% in 2018/19 and 2019/20 in line with current levels of inflation without the need for a referendum. The referendum limit is therefore increased from 2% to 3%.
15. The continuation of the Adult Social Care precept has been confirmed including the additional flexibility to raise the precept to 3% in 2018/19 but by no more than 6% over the three years 2017/18 to 2019/20.

New Funding Formula

16. Alongside the settlement, a consultation has been published on the future distribution of funding in local government and introduction of a new methodology in April 2020. This consultation on relative need will be the first in a series ahead of its implementation. Further consultations are expected on relative resources and transition arrangements.
17. At the same time as the implementation of a new funding methodology, local government will also retain 75% of business rates. This will be achieved solely by using the business rates to fund existing grants received by councils, such as public health and revenue support grant. It will not include the devolution of additional responsibilities as originally planned.
18. As part of the four-year funding settlement to 2019/20 and the change in methodology of distributing Revenue Support Grant and Business Rates to 'core

¹ Renamed Ministry for Housing, Communities & Local Government on 9 January 2018. New name will be reflected in all reports going forward.

funding² some authorities, including Oxfordshire, have a 'negative Revenue Support Grant'. For Oxfordshire, this is £6.2m in 2019/20. Following significant lobbying, the Secretary of State for Communities and Local Government announced that there will be a consultation in the Spring 2018 on "fair and affordable options" to address this.

100% Business Rates Retention Pilots 2018/19

19. Ten areas have been accepted as 100% business rates retention pilots in 2018/19. These are Berkshire, Derbyshire, Devon, Gloucestershire, Kent and Medway, Leeds, Lincolnshire, Solent, Suffolk and Surrey. Oxfordshire's proposal was not successful.

New Homes Bonus

20. There are no new changes to the new homes bonus arrangements to ensure continuity. The baseline of housing growth councils must achieve in order to receive payment has been maintained at 0.4%. This follows consultation on withholding or reducing the payments from councils that were 'not planning effectively for new homes' or that lost planning appeals.
21. Savings from the New Homes Bonus in 2017/18 were allocated to local authorities as the £241m Adult Social Care Support Grant. Nothing has been announced for the 2018/19 savings.
22. The Council's New Homes Bonus provisional allocation for 2018/19 is £3.4m, £0.3m higher than the amount assumed in the current MTFP.

Other announcements as part of the settlement

23. The Council's Improved Better Care Fund allocation has been confirmed as £7.5m for 2018/19. This comprises £6.4m improved Better Care Fund grant as announced in the Budget Statement in March 2017, plus £1.1m funding announced in 2016/17 and already built into the Medium Term Financial Plan. The use of this funding will need to be agreed with Health Partners.
24. The Rural Services Delivery Grant for 2018/19 has been increased to £65m in line with 2017/18. Oxfordshire does not receive any Rural Services Grant.
25. As part of the spending Review in 2015, the government announced a temporary three-year capital receipts flexibility giving local authorities the ability to use capital receipts on the revenue costs of transformation projects, subject to a Flexible Use of Capital Receipts Strategy being agreed by Council prior to the year of use. The ability to Continuation of capital receipts flexibilities for a further 3 years to 1 April 2021.

² Core funding includes an authority's ability to raise council tax. This resulted in a much lower funding allocation for many shire areas.

Outstanding Information

26. There are several areas where information is still provisional and on which assumptions are included in the budget and capital programme for 2018/19:
- 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 grant notifications including Extended Rights to Free Travel, Fire Revenue Grant, Local Reform and Community Voices grant and the School Condition Capital Grant.
27. 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 2018 by the Director of Finance. All Councillors will be notified of any updated information once it is received.
28. In light of the information outstanding, it is proposed that authority is delegated to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the Cabinet's proposed budget ahead of the Council meeting on 13 February 2018.

Draft Budget 2018/19

29. The table below sets out the funding available for 2018/19 and the net operating budget for 2018/19. The net operating budget represents the gross expenditure on council services less specific government grants (such as the Dedicated Schools Grant). Changes from the MTFP for both 2018/19 and over the medium term are explained in the ensuing paragraphs.

	£m
Revenue Support Grant	5.868
Business Rates Top Up	39.034
Non-Domestic Rating Income	32.064
Council Tax Precept	352.026
Council Tax Collection Fund Adjustments	4.688
Business Rates Collection Fund Adjustments	0.000
NET OPERATING BUDGET	433.680

Revenue Support Grant, Business Rates Top-up and Local Business Rates

30. The Revenue Support Grant is one of the funding elements that is guaranteed through the Government's four year offer and therefore the council's allocation is unchanged in 2018/19 and 2019/20.
31. The district councils are required to provide final estimates of the council's share of the locally retained element of business rates for 2018/19 by 31 January 2018, together with the council's share of any surplus/deficit estimated from 2017/18.

There is no movement from the existing MTFP to report at this stage as the information remains outstanding.

32. In the Budget announced in November 2017, the chancellor of the Exchequer announced that from 2018/19 Business Rates Multiplier would be increased by CPI instead of RPI. As part of the Provisional Local Government Finance Settlement, the Council will receive a Grant for compensation of this change. Until the district councils confirm the final estimates of business rates, the actual benefit of this grant is not known. It is currently estimated at £0.4m and the final position will be reflected in the budget report to Council.
33. The business rate pool established between Cherwell District Council, West Oxfordshire District Council and the County Council in 2014/15 will continue into 2018/19. The pooling arrangement is expected to bring benefits to the area as a whole through reduced levies on business rates growth. This means that Oxfordshire gets to keep more business rate income than it otherwise would have done. For 2018/19 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 (approximately £0.2m).

Council Tax requirement

34. A total council tax increase of 5.99% is proposed in 2018/19. This is made up of a 2.99% general increase, just below the council tax referendum threshold of 3%, plus a 3.00% adult social precept as set out in the existing MTFP.
35. A council tax increase of 2.99% is proposed for 2019/20, just below the current referendum level of 3%. However, the referendum limit is subject to levels of inflation rates next autumn so this could change. Beyond 2019/20 a 1.99% increase is proposed.
36. This proposal raises additional council tax income of £3.3m in 2018/19, £3.7m in 2019/20 and a further £0.1m thereafter.
37. The existing MTFP includes a taxbase³ of 248,683 for 2018/19, based on assumed growth of 2.00% in line with increases in the previous two years and the rate of housing growth in Oxfordshire. The report to Cabinet in December 2017 set out that the provisional the taxbase increase was only 1.13%. The final taxbase for 2018/19 has now been confirmed by all district councils at 246,830 an increase of 1.24% from 2017/18. Compared with the December 2017 report this increases the amount of funding available by £0.4m in 2018/19 but is £2.6m less than assumed in the MTFP.
38. As the taxbase increase for 2018/19 was only 1.24% compared to the 2.00% planned, the allocation for the Adult Social Care precept has been revised down by £0.5m from £10.7m to £10.2m.

³ 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.

39. The existing MTFP included growth in the taxbase beyond 2018/19 of 1.63% per year. Despite the taxbase only increasing by 1.24% in 2018/19, housing growth is expected to accelerate, therefore an increase of 2.0% per year is proposed for the MTFP period.
40. The draft council tax calculation including the council tax requirement for 2018/19 and the Band D council tax equivalent is set out in Section 4.3.

Council Tax Surpluses/Deficits

41. The latest estimate for the council's share of income from collection fund surpluses and shortfalls for 2018/19 is £4.7m, an increase of £0.7m compared to the MTFP assumption. 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 2018. The final and confirmed position will be notified in due course.

Inflation

42. The report to Cabinet in December 2017 set out anticipated savings in inflation over the medium term based on expected pay award increases and current levels of CPI inflation. However, at the time of publishing the report to Cabinet in December, the National Employers made a final offer on local government pay covering the period 1 April 2018 to 31 March 2020. The award provides a 2% increase in both years, with a higher increase for those on lower pay points to reflect the increase in the National Living Wage. The 2015 Spending Review set out that the average public sector pay increases from 2016/17 up to 2019/20 would continue to be capped at 1.0%. The existing MTFP and the report to Cabinet in December had assumed that this would be applied. The 2017/18 and 2018/19 pay award for Firefighters continues to be negotiated. It is proposed to hold £0.6m from the inflation allowance in Corporate Contingency until the outcome of the negotiation is known. There continues to be no provision for non-pay inflation. Inflation of up to 3% has been applied to contracts based on the relevant price indices for each contract. The total amount of inflation applied to budgets is £5.3m for 2018/19, £0.3m less than the budget of £5.6m.

Function and Funding Changes

43. Function and funding changes relate to changes to local government functions and changes to specific grant allocations. Some allocations for 2018/19 are yet to be confirmed (see paragraph 26) and are based on provisional estimates. The existing MTFP includes funding changes of £9.4m in 2018/19 relating most significantly to reductions in;
- Transition Grant £4.5m,
 - Social Care Grant £2.3m,
 - New Homes Bonus £1.1m,
 - Education Services Grant £1.0m,
 - Special Educational Needs & Disabilities Grant £0.4m

44. The report to Cabinet in December 2017 included a further reduction of £0.2m in 2018/19 for the Education Services Grant.
45. Following the provisional settlement function and funding changes total £8.9m, £0.7m less than the December 2017 report. The changes arise from:
 - The New Homes Bonus allocation is £0.3m higher than the assumed amount in the existing MTFP;
 - The estimated £0.4m additional Section 31 grant for Business Rates Compensation as mentioned in paragraph 32.
46. Public Health grant allocations for 2018/19 were announced on 21 December 2017. Oxfordshire will receive £30.5m, which is £0.8m less than 2017/18 but in line with expectations. The Department of Health also confirmed that the Public Health Grant ring-fence and grant conditions will remain in place until 31 March 2020. From April 2020, it is expected that the Public Health Grant will be replaced by retained business rates but only on the understanding that appropriate assurance arrangements are in place relating to the use of the funding.

Improvement & Investment proposals and Pressures & Savings proposals

47. The report to Cabinet in December set out the details of improvement and investment proposals as well as identified pressures and proposed savings. After taking into account the re-phasing of the savings relating to the Fit for the Future Programme transformation programme, there was a remaining net pressure of £5.8m in 2018/19, £0.9m in 2019/20 and a net saving of -£5.7m in 2020/21 and 2021/22. The following table sets out the changes to the new pressures and savings proposals since the December report. Those that are not explained elsewhere in the report are set out in the following paragraphs.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total All £m
Overall Position per December report (shortfall +/-surplus -)	5.8	0.9	-1.9	-3.8	1.0
Additional pressures/expenditure:					
19PC2 - Further funding for Looked After Children based on most recent trajectory	1.0				1.0
19PC5 - Reprofile Entry to Care savings based on latest trajectory	0.9		-0.9		0.0
19RES9 - Finance Service Redesign amended saving	0.1				0.1
19CM2 - further Education Services Grant reduction	0.2				0.2
NEW - Cabinet Priorities Funded From Reserves	1.0		-1.0		0.0
NEW - Additional 1% Pay Award - reduction in inflation saving	1.2	1.5			2.7
NEW - Increase contingency to reflect risk in budget proposals	1.0	-1.0			0.0
Revised Position prior to further measures to balance budget	11.2	1.4	-3.8	-3.8	5.0
Additional savings/income:					
19CM3 - Final Taxbase increase 1.24% (compared to 1.13% in December report)	-0.4	0.0	0.0	0.0	-0.4
19CM11 - Additional Strategic Measures income relating to Treasury Management	-0.9	-0.6	-0.1	-0.1	-1.8
NEW - Reduce annual contribution to general balances	-1.0				-1.0
NEW - Adult Social Care Precept - reduce spend to reflect lower taxbase increase in 2018/19 (linked to 19PA8)	-0.5				-0.5
NEW - Additional New Homes Bonus Grant	-0.3				-0.3
NEW - Estimated Additional Section 31 Grant for Business Rates Compensation	-0.4				-0.4
NEW - Remove budget for Pensions Past Service Deficit	-0.8				-0.8
NEW - Reduce newspapers in Members Resource Centre (£546 saving)	0.0				0.0
NEW - Additional 1% Council Tax in 2018/19 and 2019/20	-3.3	-3.7	-0.3	-0.3	-7.6
NEW - Use of Budget Equalisation Reserve		0.3	-0.3	-1.0	-1.0
NEW - Use of Budget Prioritisation Reserve to balance budget,	-3.5	2.5	4.6	-2.6	1.0
Revised Overall Position as per January Report (shortfall +/-surplus -)	0.0	0.0	0.0	-7.9	-7.9

48. Following latest projections, an updated assessment of risk and in response to comments from Performance Scrutiny Committee, further funding is proposed for Children's Social Care. An additional £1.0m is proposed to be added to Placements and Corporate parenting (reference 19PC2), taking the total additional funding to £7.4m. There is also £1.1m of demography funding allocated for 2018/19. It is also proposed to defer £0.9m of the savings relating to entry to care (reference 19PC5) to allow more time for the process to take effect. Furthermore, an additional £1.0m is proposed to be added to the Corporate Contingency budget which is held to manage the risks particularly around demand led budgets.
49. £2.0m is being made available from the Budget Prioritisation reserve to fund Cabinet priorities over the two-years 2018/19 and 2019/20.
50. It is proposed to remove the £0.8m budget for the LGPS past service deficit funding as a different approach will be explored to reduce the deficit on the pension fund and reduce the annual employer contribution rates at future revaluations.
51. There are several other minor changes to pressures and savings which combined total £0.2m. These are a change to the saving achievable in Finance (reference 19RES9), a further pressure relating to Education Services Grant which removes the funding entirely (reference 19CM2) and a new saving relating to reducing the number of newspapers in the Members Resource Centre.

Draft Detailed Revenue Budget 2018/19

52. Section 4.4 sets out the draft detailed revenue budget for 2018/19. The annex shows the movement in gross expenditure and income from 2017/18, comprising inflation, function and funding changes, previously agreed funding and proposed virements. For illustrative purposes, the annex includes the effects of the new improvement and investment proposals and pressures and savings proposals as set out in Section 4.2.

Virement Rules

53. 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 4.5. No changes are proposed from 2017/18.

Financial Strategy

54. A new financial strategy, set out in Section 4.6, has been developed that sets out a vision for how the Council will become self-sustaining and financially resilient in delivering its vision for thriving communities for everyone in Oxfordshire. As set out in the report to Cabinet in December, to succeed in reaching this state requires successful delivery of three critical elements which reflect the financial planning principles on which the proposed budget and MTFP are based. These are:
- Managing the impact of rising need, caused by increased population and increased complexity, for adult and children's social care through effective demand management approaches and cost control
 - Taking a holistic approach to use of reserves and other corporate measures as well as income generation, to ensure the council has the financial breathing space during 2018/19 and 2019/20 to drive forward actions which will reduce demand
 - Delivering the savings currently in the medium term financial plan (MTFP), and identifying upwards of £15m of savings included in the MTFP from transforming how we work.

Earmarked Reserves and General Balances

55. The earmarked reserves and general balances policy statement is set out in Section 4.7.
56. The risk assessment for the level of general balances to be held for 2018/19 has determined that it is appropriate to hold £16.3m. The projected level of balances at 31 March 2018 is £18.8m, above the risk assessed level.
57. It is proposed that annual contribution to general balances is reduced from £2.0m to £1.0m and that this is transferred to Corporate Contingency, increasing it to £6.0m (including the £0.6m held for Firefighters pay inflation as mentioned in paragraph 42).
58. Details of earmarked reserves and their planned usage over the medium term are set out in Section 4.7.1. In line with the financial planning principles on which the

budget and MTFP are based, reserves will be used over the medium term to allow time for the delivery of actions aimed at reducing demand. Excluding schools, reserves reduce from an expected £74.7m at 31 March 2018 to £48.8m by the end of 2021/22.

Treasury Management Strategy & Strategic Measures

Treasury Management Strategy

59. 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.
60. The treasury management strategy statement and the annual investment strategy for 2018/19 are set out in Section 4.8. 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.
61. 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 2018/19 continues with this premise. The strategy for financing prudential borrowing during 2018/19 maintains the option of using temporary internal balances.
62. During 2018/19 the Treasury Management Team will consider ESG⁴ investments and analyse what impact adopting ESG criterion into the Council's overall Treasury Management Strategy would have in terms of risk and return. The results of this analysis will be reported back to Council as part of the Treasury Management Mid Term Review.
63. It is proposed that any changes required to the 2018/19 treasury management and investment strategies are delegated to the Director of Finance 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.
64. As part of the service & resource planning process for 2018/19 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 4.8 sets out the draft prudential indicators.
65. Section 4.8 also incorporates the minimum revenue provision (MRP) policy statement for 2018/19 at Appendix B. Legislation requires Council to approve a statement of its policy annually before the commencement of the financial year.

⁴ environmental, social and governance

Strategic Measures

66. The report to Cabinet in December 2017 included savings of £1.0m in 2018/19 from strategic measures mainly as a result of the increased cash balances held and a small rise in the Bank Rate. Following a more detailed review, and a desire to achieve greater value from the cash balances held, this has now been increased to £1.9m.
67. The average cash balance for 2018/19 is forecast to be £333.0m. This is higher than the average cash balance forecast in the current MTFP, contributes to the additional expected interest in 2018/19 and the medium term, and allows for a more diverse approach to the Treasury Management Strategy.
68. The current MTFP assumes an average bank rate of 0.25% for 2018/19 to 2020/21. Following the increase in the Bank Rate to 0.50% in November 2017 and that current inflation forecasts continue to overshoot the Bank of England target; the council has revised its view on interest rates. The forecast now includes a further 0.25% increase in 2018/19 giving an average bank rate of 0.63%. A further 0.25% increase is also forecast in both 2019/20 and 2020/21 resulting in an average bank rate of 0.88% and 1.0% respectively. An average bank rate of 1.0% is also forecast for 2021/22.
69. Taking into account the Treasury Management Strategy principles that prioritise security and liquidity of principal over investment return, target returns to be achieved on both internal and external deposits have been reviewed. For 2018/19, the target return on in-house deposits is 0.75% and for externally managed deposits the target rate of return (excluding capital appreciation) is 4.0%. Further details are set out in the treasury management strategy statement at Section 4.8.
70. As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the council will be required to prudentially borrow £40m on behalf of OxLEP to fund the City Deal infrastructure schemes. The existing MTFP assumed that the majority of this borrowing would fall in 2017/18. Based on current project spend forecasts, there will not be a borrowing requirement now until 2018/19 and 2019/20.

Schools Funding

71. Dedicated Schools Grant (DSG) allocations for 2018/19 were announced on 19 December 2017. Oxfordshire's provisional allocation for 2018/19 is £460.7m and is set out in Section 4.9.
72. During the summer 2017, the government published details of new formulae for the Schools, High Needs and Central Services Block and how these would be implemented in 2018/19. In October, further details were published about the National Funding Formula including individual school data.
73. The Government has stated that its long-term intention is that schools' budgets should be set on the basis of a single, National Funding Formula (NFF). This "hard" formula would allocate funding to all schools based on the NFF factors.

When fully implemented, the NFF is expected to target around £14m extra to Oxfordshire schools. In 2018/19 as implementation of the NFF is phased, initial estimates identify approximately £7m extra.

74. Compared to the current Oxfordshire formula, the NFF has both new factors and applies different values to the factors in the funding formula. The key difference is that the basic per pupil funding in the NFF is significantly lower than the basic per pupil funding in the Oxfordshire formula. There is a movement from basic per pupil funding to the additional needs factors of Deprivation, Low Prior Attainment (LPA) and English as an Additional Language (EAL).
75. To avoid instability in funding, the NFF builds in protection in 2018/19 of:
 - A minimum gain of 0.5% per pupil
 - A minimum per pupil level of funding of £4,600 per secondary pupil and £3,300 per primary pupil
 - A cap (ceiling) on any gains of 3% per pupil at individual school level
76. These protections and the increase in funding to Oxfordshire of £7m result in all Oxfordshire Schools gaining under the proposed NFF in a range of between 0.2% to 2.9%.
77. During November, schools were consulted on whether to move to the National Funding Formula in 2018/19 or whether to move towards the new formula in steps. The majority of responses were in favour of the move to the NFF from 2018/19. Schools Forum subsequently agreed and recommended moving directly to the NFF rather than making a step change.

Capital Strategy and Capital Programme

Capital Strategy

78. In September 2017, CIPFA issued a consultation on proposed changes to the Prudential Code. This included the proposal to introduce the requirement for Council to approve a Capital Strategy annually as part of the budget setting process. The purpose being to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, and affordability. Whilst the outcome of the consultation and a revised code has not been published, a Capital Strategy has been produced and is included in the suite of papers at Section 4.10 as part of this report for onward approval by Council.

Capital Programme 2018/19 – 2027/28

79. Traditionally, one additional year is added to the capital programme in the Service & Resource Planning process. However, in line with the ambition to focus on a longer-term approach to financial planning to ensure the most fundamental issues facing the organisation can be responded to, it is proposed to move from a four-year to a ten-year capital programme. This longer-term approach will offer strategic choice and options around developing our community assets, responding to issues such as rising demand in adults and children's services and allows for a planned approach to the replacement of assets.

80. In recent years, the only capital funding available has been to support schools basic need, school's structural maintenance, highways maintenance and major transport schemes via the Local Growth Fund. There has been little resource available to meet the needs or priorities of the Council.
81. The updated capital programme in Section 4.10.1 includes funding assumptions for the grants listed in the paragraph above estimated to the year 2027/28. This includes a forecast of £14.0m of basic need funding, £13.8m of school's maintenance funding and £125.4m of highways maintenance funding. These forecasts will be revised each year as further funding announcements are made.
82. The change of approach in the use of surplus assets, to consider them on a case by case basis and maximise the value the Council achieves from them, is expected to provide in the region of £45m additional funding over the ten-year period. Managing capital resources over a longer term will allow some schemes to proceed earlier in the programme with the expectation of a capital receipt at a future date. It will be important to ensure that there is a suitable balance of planned expenditure in advance of any capital receipt to allow for delays or revaluations.
83. The following table summarises the estimated funding available and the proposed allocations against the portfolio areas set out in the December 2017 Cabinet report.

	£m
Estimated Funding Available:	
Additional estimated funding up to and for 2027/28	153.2
Capital Receipts & other resources	40.5
Earmarked Reserves released for reallocation	12.1
Total Estimated Funding Available	205.8
Proposed Allocations:	
Grant Funded Streams	
Schools Basic Need	-22.8
Schools Maintenance (Annual Programme)	-13.0
Highways Maintenance (Annual Programme)	-102.4
Portfolio Areas	
Schools Estate	-5.0
Non-Schools Estate	-6.9
Operational Assets	-15.2
Highways and associated Infrastructure	-20.0
Operational Redesign	-15.0
Capital Programme Contingency	-5.5
Total Funding Requirement	-205.8
Total Surplus(+)/Shortfall(-)	0.0

84. The proposed portfolio area allocations are based on a combination of identified schemes with known budget requirements, identified schemes with estimated budget requirements and general allocations where services can bring forward business cases to bid for the funding. For the portfolio areas, detailed business cases will go to the Community Infrastructure Portfolio Board who will approve

them or make recommendations to Cabinet for inclusion in the capital programme above the threshold set out in the Financial Procedure Rules.

85. The Schools Basic Need allocation includes funding for known schemes to 2021/22 and an allocation to match additional funding for the period to 2027/28.
86. The Schools Maintenance and Highways Maintenance allocations are based on the annual allocations in the current capital programme continuing each year to 2027/28.
87. The Schools Estate allocation of £5.0m is available for further schemes in addition to the annual maintenance programme and can be allocated based on condition data.
88. The Non-Schools Estate allocation includes an annual allocation for minor works and health and safety works totalling £1.9m to 2027/28, £0.2m for replacement fire doors at some fire stations and an estimated budget of £3.0m for the re-provision of Maltfield Children's Home that is nearing the end of its useful life. A further £1.8m is available for the period to 2027/28.
89. The Operational Assets allocation includes estimated funding for replacement fire vehicles, ICT equipment including the data centre and a new ICT system in Children's Services.
90. An allocation of £20.0m is being proposed for Highways and associated infrastructure. At this stage, it is expected the majority of this funding will be allocated to street lighting to realise revenue savings.
91. Within the Organisational Redesign portfolio there is a proposed allocation of £15.0m. It is expected that this will be used to address demand management and organisation redesign.
92. The table below shows the change in the overall capital programme from the last programme approved by Cabinet in December 2017.

	Dec 2017 Programme £m	Jan 2018 Programme £m	Change £m
People: Children's Services	133.8	179.4	+45.6
People: Adults & Public Health	26.1	26.1	0.0
Communities: Highways & Transport	137.6	282.8	+145.2
Communities: Other	30.8	38.9	+8.1
Resources	16.7	46.3	+29.6
Total	345.0	573.5	+228.5
Schools Local Capital	3.8	7.4	+3.6
Earmarked Reserves	81.8	103.4	+21.6
Total Capital Programme	430.6	684.3	+253.7

93. In addition to the funding set out at paragraph 83, the Children's Services programme includes additional S106 resources forecast over the programme period and the capital programme now also includes the Local Growth Fund

Round 3 grant allocations. This is held in earmarked reserves until funding agreements are in place for each scheme.

Highway Structural Maintenance Programme

94. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure. The two-year rolling programme for all highways structural maintenance activities is set out in Section 4.10.3 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

95. The Performance Scrutiny Committee considered the revenue improvements and investments plus pressures and savings proposals at its meeting on 14 December 2017. Capital its meeting on 5 January 2017. A summary of the comments from the meetings is attached in Section 4.11.

Consultation

96. Between 6 December 2017 and 8 January 2018 members of the public and stakeholders were invited to comment through the council's website on the budget proposals and Council Tax increases. 21 responses were received and a summary of these responses is included in Section 4.12.

Review of Charges

97. At its meeting in December 2017, Cabinet considered the review of charges. The details of changes in income arising from this review and the proposed charges are not circulated with the agenda papers having been circulated for the meeting in December 2017. An electronic copy is available on the website with the documents for this item (link at bottom of page)⁵. A paper copy has been made available to cabinet members, is available in the Members Resource Room and in the Central library and Reception at County Hall.
98. Cabinet is now recommended to agree these charges in the context of the proposed budget.

Equality and Inclusion Implications

99. The Equality Act 2010 imposes a duty on local authorities that, when making decisions of a strategic nature, decision makers must exercise 'due regard to the

⁵http://mycouncil.oxfordshire.gov.uk/documents/s40488/CA_DEC1917R13%20Annex%202a%20Review%20of%20Charges.pdf
http://mycouncil.oxfordshire.gov.uk/documents/s40489/CA_DEC1917R14%20Annex%202b%20Review%20of%20Charges%202018-19.pdf

need to eliminate unlawful discrimination... advance equality of opportunity... and foster good relations.'

100. The December 2017 Cabinet report included the potential impacts of the budget proposals as set out in the Service & Community Impact Statements.

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 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 2018.

RECOMMENDATION

102. **Cabinet is RECOMMENDED to approve:**

- **The Review of Charges for 2018/19**
- **The Financial Strategy**
- **The Earmarked Reserves and General Balances Policy Statement 2018/19 including the creation of the Budget Prioritisation Reserve.**

103. **Cabinet is RECOMMENDED to RECOMMEND Council to approve:**

- **in respect of revenue:**
 - **a budget for 2018/19 and a medium term plan to 2021/22, based on the proposals set out in Section 4.2;**
 - **a council tax requirement (precept) for 2018/19;**
 - **a council tax for band D equivalent properties;**
 - **virement arrangements to operate within the approved budget;**
- **in respect of treasury management:**
 - **the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19;**
 - **to continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the Treasury Management Strategy Team;**
 - **that any further changes required to the 2018/19 strategy be delegated to the Director of Finance in consultation with the Leader of the Council and the Cabinet Member for Finance;**
 - **the Prudential Indicators as set out in Appendix A of Section 4.8;**
 - **Minimum Revenue Provision Methodology Statement as set out in Appendix B of Section 4.8;**
 - **The Specified Investment and Non Specified Investment instruments as set out in Appendix C and D of Section 4.8;**
 - **The Treasury Management Policy Statement as set out in Appendix E of Section 4.8;**

- **In respect of capital:**
 - **The Capital Strategy for 2018/19 -2027/28**
 - **A Capital Programme for 2017/18 to 2027/28 as set out in Section 4.10.1 including:**
 - (i) **the new capital proposals as set out in Section 4.10.2 (Appendix 3);**
 - (ii) **the Highways Structural Maintenance Programme 2018/19 and 2019/20 as set out in Section 4.10.3;**
- **to delegate authority to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the proposed budget.**

LORNA BAXTER

Director of Finance

Contact Officers: Katy Jurczynszyn – Strategic Finance Manager (Financial Strategy & Monitoring)
Tel: 07584 909518

Section 2.1: Maggie Scott – Assistant Chief Executive
Tel: 07557 082579

Section 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.10: Katy Jurczynszyn – Strategic Finance Manager (Financial Strategy & Monitoring)
Tel: 07584 909518

Section 4.8: Tim Chapple – Financial Manager (Treasury Management)
Tel: 07586 478653

Section 4.9: Sarah Fogden – Finance Business Partner (CEF)
Tel: 07557 082613

Section 4.10.3: Tim Shickle – Team Leader, Asset Renewals
Tel: 07920 591545

Section 4.12: Carole Stow – Marketing and Consultation Manager
Tel: 07867 467803

January 2018