

Division(s):N/A

CABINET – 20 DECEMBER 2011

BUSINESS STRATEGY AND SERVICE & RESOURCE PLANNING 2012/13 – 2016/17

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This is one in a series of reports on the Service and Resource Planning process for 2012/13 to 2016/17, providing councillors with information on budget issues for 2012/13 and the medium term. The report includes updated Directorate Business Strategies, along with a summary of the changes to the pressures and savings contained therein. It also provides an update on Government consultations and announcements; sets out the review of charges and provides a draft Capital Strategy, Corporate Asset Management Plan and Transport Asset Management Plan.
2. The report to Cabinet in September 2011 set out a number of consultations and the potential impact on the Council highlighting the uncertainties and the level of risk those uncertainties formed. The impact of most of these remains unclear but updates and details of new consultations are included in this report.
3. The following annexes are attached:

Annex 1	a) Detail of previously agreed pressures/funding in current MTFP for 2012/13– 2014/15 b) Detail of previously agreed savings in current MTFP for 2012/13 – 2014/15
Annex 2	Changes to Business Strategies & MTFP by Directorate
Annex 3	Updated Business Strategies 2012/13 – 2014/15: a) Children, Education & Families b) Adult Social Care c) Community Services d) Community Safety and Fire & Rescue Service e) Environment & Economy f) Chief Executive's Office
Annex 4	Review of Charges 2012/13
Annex 5	Draft Capital Strategy
Annex 6	Draft Corporate Asset Management Plan (CAMP)
Annex 7	Draft Transport Asset Management Plan (TAMP)
Annex 8	a) Capital Prioritisation Principles b) Capital Prioritisation Assessment

Medium Term Financial Plan 2012/13 – 2016/17

4. The table below sets out the draft budget requirement for 2012/13 as per the MTFP 2011/12 to 2015/16 and shows the latest position for both financing and expenditure. Changes from the MTFP for both 2011/12 and over the medium term are explained in the ensuing paragraphs.

Draft Budget 2012/13	MTFP £m	Latest £m	Change £m
Formula Grant	108.2	105.7	-2.5
Council Tax Precept	292.0	284.3	-7.7
Council Tax surpluses/deficits	1.6	1.6	0
Funding – Budget Requirement	401.8	391.6	-10.2
Base (2011/12 budget)	408.6	408.6	0
Inflation	6.1	6.2	0.1
Function and Grant Changes	0.3	0.3	0
Previously Agreed Budget Changes and Allowed Variations	-13.2	-13.2	0
Variations to the existing MTFP	0	-2.2	-2.2
Council Tax Freeze grant	0	-7.1	-7.1
Contribution from Efficiency Reserve	0	-1.0	-1.0
Net Expenditure - Budget Requirement	401.8	391.6	-10.2

Formula Grant

5. The local government finance settlement for 2011/12 and 2012/13 transfers funding out of Formula Grant to reflect that local authorities would no longer be required to provide services for schools that have become Academies. The original calculations were based on Department for Education (DfE) estimates of 200 schools converting to become Academies each year. These estimates have proven to be far too low and as such the DfE consulted in August on increasing the transfer from local authorities by reducing formula grant in 2012/13. The estimated reduction for 2012/13 is £2.5m, with a further reduction of £1.5m in 2013/14 and 2014/15. The outcome of the consultation is not yet known.

6. An addendum will be produced setting out the impact of the Provisional Settlement. Whilst provisional figures were notified alongside the 2011/12 settlement in January 2011, adjustments relating to Academies may result in a different formula grant figure for 2012/13 than that announced in January 2011.

Council Tax Freeze Grant

7. On 3 October 2011 the Government announced new support for local authorities to help them freeze council tax for a second year in 2012/13. The new scheme is similar to that provided in 2011/12, in that councils will receive a grant, equivalent to raising their 2011/12 council tax by 2.5%. Unlike the grant for 2011/12, the freeze grant for 2012/13 will involve a single one-off payment. With a projected taxbase of 244,690, the indicative one-off grant for the Council will be £7.106m. The implication of one-off funding in 2012/13 is that it needs to be replaced on an on-going basis in 2013/14 resulting in a pressure of £7.106m in that year.

Taxbase and Collection Fund

8. The taxbase represents the number of properties Council Tax can be collected from. The existing MTFP assumes an increase of 0.75% for 2012/13. Preliminary information from the district councils indicates that the increase from 2011/12 will only be 0.56%, although the final taxbase will not be confirmed until January 2012. This results in a pressure of £0.549m in 2012/13.
9. The County Council receives annually a share of the District Councils Council Tax Collection Fund surpluses or deficits. The amount can vary considerably from year to year and is one off funding. Preliminary information from the District Councils indicates that £3.6m might be available for 2012/13 compared to £1.6m included in the MTFP. However, the final figures will not be confirmed until 17 January 2012 and could vary considerably either up or down from the provisional estimate. Therefore this potential additional funding has not been reflected in the table above. Consideration of how any surplus will be utilised will be made once the final figure has been confirmed.

Inflation

10. As part of the emergency budget in June 2010, the Chancellor announced a two year freeze on all public sector pay for 2011/12 and 2012/13 therefore no pay inflation is provided for in 2012/13. The existing MTFP allows for 2.0% on non – pay inflation and 3.0% on specific contracts. In September 2011, the Consumer Price Index (CPI) was 5.2% and the Retail Price Index (RPI) was 5.6%. The September rates are used nationally for a number of increases including rates and pensions. As the rates in September were higher than budgeted this has resulted in a pressure of £0.1m compared to the MTFP.
11. Beyond 2012/13, the MTFP allows for inflationary increase of 2.0% for non-pay and 3.0% for contracts. It is not proposed to change these at this stage. Pay inflation in the MTFP for 2013/14 and beyond is 2.5%. In the Autumn Statement the Chancellor announced a 1% cap on public sector pay for 2013/14 and

2014/15. However, he also announced that Departmental budgets will be reduced accordingly. This means that the reduced cost to the council will be offset by reduced Formula Grant funding.

Variations to the existing MTFP

Specific Grants

12. The 2010 Spending Review announced the simplification in the specific grant regime, reducing the number from more than 90 to nine with £4bn transferring nationally from Specific Grant into Formula Grant. As a consequence of this, as part of the 2011/12 Service & Resource Planning process, all specific grants with the exception of those nine set out in the Spending Review were assumed to cease. All expenditure relating to specific grants was retained on the assumption that the services they provided were still required, unless savings proposals were agreed to reduce or cease those services. However, a number of additional specific grants were announced after the Council set the budget in February 2011. These additional grants therefore provide additional funding and where the funding has been confirmed as continuing in 2012/13 the income, which totals £2.195m, will be used towards balancing the overall budget.

2011/12 Pay Award

13. Linked to the pay freeze in 2011/12, early proposals for employees earning less than £21,000 were to provide a pay award of £250pa. This was subsequently changed and the funding of £0.382m that was not required for a pay award was added to the Efficiency Reserve in 2011/12. This is on-going funding and is available to offset pressures from 2012/13.

Directorate Business Strategy Changes

14. The process for reviewing the Directorate Business Strategies is explained in detail in the following paragraphs. The financial impact arising from this review, a total of £0.369m, is reflected in the table above.

Business Strategies 2012/13 – 2014/15 and Service & Resource Planning Process 2012/13 – 2016/17

15. Directorate Business Strategies for 2011/12 – 2014/15 were approved by Council in February 2011 and are consistent with the MTFP. Details of the funding and savings built in for the each Directorate for 2012/13 – 2014/15 are set out in Annex 1a and 1b.
16. Star Chambers took place in October 2011 with follow up sessions in the middle of November 2011. Directorates were asked to reflect on their direction of travel set out in the Business Strategies, to review progress against the strategies and determine whether future plans were expected to be achievable.
17. Through this process some changes to the planned savings of £119m in the Business Strategies for 2011/12 to 2014/15 have been identified. These changes relate to the timing or phasing of existing savings, some newly identified pressures and proposed corresponding savings. In the main, the

Strategies are being delivered as planned with the majority of savings for 2012/13 to 2014/15 expected to be achieved.

18. Even with thorough forward planning, new pressures emerge which impact on the MTFP due to changes which arise either locally or nationally. Through the Service & Resource Planning process this year some pressures have been identified which relate to:
- (a) changes to funding such as the Academies transfer and changes in the taxbase;
 - (b) external factors such as increasing energy costs and increased demography for physical disabilities;
 - (c) new responsibilities such as the duty to support young people on remand and a responsibility to develop services for adults with autism under the Autism Act.
19. Where changes to the existing plans or new pressures have been identified, new savings have been proposed. All of the changes to the pressures/funding and savings assumed in the existing MTFP along with new pressures and savings proposals which are contained in the Business Strategies, are set out Annex 2. Updated Business Strategies are set out in Annex 3.
20. Total changes by Directorate are set out in the table below:

Year on Year Changes	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Children, Education & Families	-0.725	0.125	0.245	-0.355
Social & Community Services	4.094	-0.279	-0.254	3.561
Environment & Economy	-2.600	-0.254	-0.967	-3.821
Chief Executive's Office	-0.400	0	0	-0.400
Funding Changes & Allowed Variations	0.584	4.378	0.856	5.818
Total Variations from current MTFP (+ = shortfall / - = surplus)	0.953	3.970	-0.120	4.803

21. The total variations to the MTFP of £0.953m in 2012/13 and £3.970m in 2013/14 are proposed to be funded through use of the Efficiency Reserve in those years.

Review of Charges

22. As part of the work in completing their Business Strategies, service managers have reviewed their charges. Annex 4a sets out the Councils charging policy and an analysis of the changes in income. The proposed charges are set out in detail in Annex 4b & 4c.

Government Announcements and Consultations

23. A number of Government announcements and consultations were set out in the report to Cabinet on 20 September 2011. These will all have implications for the Council in 2012/13 or later years. These included:
- the Local Government Resource Review (LGRR)
 - the Draft National Planning Policy Framework
 - Localising Support for Council Tax in England
 - Pensions
 - Implementation of the 2010/11 Review of Education Capital
 - School Funding Reform: Proposals for a Fairer System
 - Local Authority Central Spend Equivalent Grant (LACSEG)
 - The Funding of Care and Support.
 - Public Health
24. Since the September 2011 report further consultations and announcements have been made which have financial implications for the Council. These are set out below.

Technical Reforms of Council Tax

25. A consultation on Technical Reforms of Council Tax was published by Communities and Local Government (CLG) on 31 October 2011. The consultation paper discusses options in relation to the council tax liabilities of second home owners, and of the owners of empty properties, including proposals which would require primary legislation. Proposals include giving councils the flexibility to reduce or remove council tax relief on second homes and empty homes and allowing them to use the money to keep overall council tax bills down and/or spend on improving frontline services. Councils can already reduce the second homes discount to just 10 per cent. The proposals give councils the local discretion to charge the normal rate of council tax. At this stage it is unclear what the impact on the taxbase and collection fund will be.

Localism Bill

26. The Localism Bill received royal assent on 15 November 2011 and legal provision now exists for council tax referendums. CLG have confirmed the intention is to enable the council tax referendum process to be in place for setting 2012/13 council tax levels. However, this will be subject to the successful passage of secondary legislation in parliament during December 2011.
27. The 'principles' for Council Tax levels, beyond which a referendum will be triggered, are expected to be announced as part of the local government provisional finance settlement in early December. The Act also requires authorities to set a 'Council Tax Requirement' rather than a Budget Requirement, although the process for calculating the new figure will be similar to that for the Budget Requirement. Full details will be set out by CLG at the same time.

Autumn Statement

28. The Chancellor published his Autumn Statement on 29 November 2011. From this it appears that the four years from 2011/12 to 2014/15 will not be the worst of the funding reductions to the public sector, but that reductions in 2015/16 and 2016/17 will be as much as in the previous four years. This means that a significant real terms cut is anticipated across those two years. This is borne out by detailed examination of the supporting documents to the statement, and it could be worse for local government if health and education are again protected as they have been in the current Spending Review period.
29. Further unknown quantities remain in relation to the LGRR and how this will feed through to County Councils in general, and Oxfordshire in particular. We still wait to see if the 2013/14 base line for transfer to the new system will be before or after the floor damping grant; and what the mechanisms will be for allocating resources in two tier authorities. As the LGRR will impact the position going into 2015/16, it is not proposed to change any of the planning assumptions at this point, but when the position on LGRR starts to become clearer in autumn 2012 plans will need to be amended for the later years in the MTFP with consideration of further budget reductions and how those will be achieved at that point.

New Homes Bonus

30. Provisional allocations for New Homes Bonus in 2012/13 have recently been announced. For Oxfordshire this is £0.491m from 2011/12 plus an additional £0.577m, a total of £1.068m. The funding is aimed at ensuring that those authorities which are growing have the funding to ensure that services and facilities can meet the increased need. However, the provisional allocations total £431m nationally, which is £6m more than initial government estimates due to higher than expected housing growth. CLG have stated that the additional £6m will be recouped from local government resource in 2013/14. This means a further reduction in Formula Grant in 2013/14, which based on the proportional distribution between districts and counties, is likely to result in a greater reduction than the allocation made.
31. The funding received in 2011/12 has been used to establish a capital rolling fund to facilitate, through forward funding, the timely provision of infrastructure that supports planned growth. Therefore, it is recommended that the funding received from the New Homes Bonus for 2012/13 is also made available for the capital rolling fund.

Areas under review

32. The following paragraphs give details of the areas that are under review. The updated position on these will be set out in the Service & Resource Planning report to Cabinet in January 2012.

Strategic Measures

33. The Treasury Management Strategy Statement and the Annual Investment Strategy for 2012/13 will be finalised once the Local Government Finance Settlement is confirmed and capital funding is announced. The 2010 Spending

Review changed the way in which capital funding is made available to councils, by changing from supported borrowing (setting a limit on the amount authorities could borrow) to capital grant. The implications of this in the longer term are being considered and will form part of the Treasury Management Strategy Statement. The statement will also set out the forecast Bank Rate, along with a forecast of rates to be achieved on deposits over the medium term. The forecasts for the cost of borrowing and the amount of income expected from deposits will be reflected in the Strategic Measures budget for 2012/13 and over the medium term.

Reserves

33. Forecast reserves totalling £78.3m as at 31 March 2012 are set out in Annex 4 of the 2011/12 Financial Monitoring & Business Strategy Delivery Report (elsewhere on this agenda). £20.4m relates to school balances. £44.9m are corporate reserves, including the Capital Reserve, Budget Reserve and Efficiency Reserve. The level and use of these reserves is being reviewed and will be updated for the Service & Resource Planning report in January 2012.

Balances

34. The Financial Strategy states that balances should be maintained at a level commensurate with identified risks, based on an annual risk assessment. The forecast balances over the medium term in the current MTFP are set out below.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Estimated Balances at Start of Year	14.1	13.7	14.5	15.5
Budgeted Change in Balances per MTFP	1.6	2.8	3.0	3.0
Total Balances at Start of Year	15.7	16.5	17.5	18.5
Estimated Use of Balances	-2.0	-2.0	-2.0	-2.0
Estimated Balances at End of Year	13.7	14.5	15.5	16.5

35. At the end of 2010/11 balances were £1.0m higher than planned as there were less calls on balances towards the end of the year than anticipated. As a result, balances over the medium term are currently £1.0m higher than the previous risk assessed level. Although an updated risk assessment has not been completed yet, there are additional risks around the implementation of the LGRR from 2013/14 which is likely to require additional balances being held. The outcome of the updated risk assessment will inform the January 2012 Service & Resource Planning report.

Capital Strategy, Corporate Asset Management Plan and Transport Asset Management Plan

36. The draft Capital Strategy attached at Annex 5, sets out the Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It shows how the Council prioritises, targets and measures the performance of its capital programme. It also provides the framework for determining capital spending plans and the effective use of the Council's limited capital resources. This Strategy has been reviewed and updated in light of the changing financial and business strategy environments. Although the main policy framework currently remains unchanged, the updated strategy has a stronger emphasis on achieving economic development and business growth. It announces the establishment of the Rolling Fund as a flexible forward funding mechanism in order to unlock future growth by delivering critical infrastructure that support planned developments.
37. The draft Corporate Asset Management Plan (CAMP), attached at Annex 6, establishes the role of the Council's property assets in meeting strategic objectives and the business strategy. Although this year's review of the plan proposes that the priorities remain largely the same, the CAMP that will be presented to Cabinet in January 2012 will recommend that there should be a shift and clarification in policy, from reducing the size of the non-school estate by 25% to reducing costs by this amount. This also reflects a proposed shift from a priority of holding property to deliver services, to using our property to help deliver broader objectives of the Council and would also better reflect the likely provisions of the Localism Bill.
38. The Transport Asset Management Plan (TAMP), attached at Annex 7, is central to the identification of highway maintenance strategies and the development of the new Transport Services contract. The TAMP contains both asset and financial data that enables more advanced forward planning, improved budget management and improved working practices. The plan recommends additional investment in the highways maintenance, with particular emphasis on major projects.
39. The updated Strategy, CAMP and TAMP will form part of the budget proposals for onward recommendation to Council in February 2012.

Capital Programme

The Capital Budget Setting Process 2012/13

40. In August 2011, the Capital Investment Board confirmed that the prioritisation principles set out in the Council's Capital Strategy provide a robust framework for debating the relative importance of each proposal and making decisions about the investment priorities in this new environment. These are set out in Annex 8a.

41. The capital programme agreed by Cabinet on 18 October 2011 shows a balanced position with a sufficient level of contingency across the five year planning period. The following table shows the level of capital resources that are available to be used as part of the capital budget setting process, the new pressures and proposals and the estimated capital programme surplus.

	£m
Additional Flexible Resources : Annex 8b – Sheet 0 (Includes an estimated additional year settlement, prudential borrowing provision and released earmarked reserves banked for capital budget setting)	54.049
Allocations proposed to be returned to the Corporate Pot for reallocation : Annex 8b – Sheet 1 (based on specific proposals or results of initial feasibility studies)	16.588
Total Estimated Flexible Resources	70.637
New Capital Pressures/Proposals : Annex 8b – Sheet 2	-66.202
Resources Earmarked for Schemes that Remain on Hold & Business Cases under Development	-4.170
Estimated Capital Programme Surplus	0.265

42. Based on the position presented above, the Council is able to fund all capital investment needs related to statutory requirements and maintenance of essential infrastructure and capital investment proposals supporting the delivery of updated business strategies. Annex 8b shows the allocations to be returned to the corporate pot following the annual review of the programme, the new prioritised capital pressures and proposals and the changes to the schemes on hold from last year's capital budget setting process.
43. Options appraisals will be carried out for the schemes that remain on hold to facilitate decision making ahead of the next capital budget setting process. There may be other in-year entries to the capital programme during 2012/13 given that some capital business cases will be developed early in the year. Therefore £4.170m has been set aside for these possible in-year entries in earmarked reserves. Following this adjustment, the capital programme is currently showing a small surplus of £0.265m.

Prudential Indicators

44. As part of the Service & Resource Planning process for 2012/13, Council will need to approve a set of Prudential Indicators which show that the Council's use of borrowing is prudent, affordable and in line with the Council's Treasury Management Strategy. Some of these indicators are around the Treasury Management Strategy and will be included in the Service & Resource Planning report to Cabinet on 17 January 2012 before being considered by Council on 7 February 2012.

45. The remaining indicators are dependant upon either the final agreed budget position or the notified supported borrowing allocations and cannot be calculated at this time.

Consultation

46. Consultation with residents is part of our budget setting process and we take account the views expressed in residents' surveys (Oxfordshire Voice Panel Survey) as well as feedback provided in our budget consultation programme.
47. In addition to high level feedback to inform budget setting the council also carried out detailed consultation exercises to support service change policy decisions, where it is considered appropriate to do so. Examples of these include consultation about proposed changes to services for children and young people and the current consultation on the library service proposals which closed on 30 September 2012.
48. Information about the consultation exercises used to support budget setting and individual policy decisions can be found on the council's eConsult portal on our website.
49. There is also an opportunity to comment on the budget proposals via the Council's website. The consultation is open from 6 December 2011 to 2 January 2012 and the views expressed in this exercise will be considered by Cabinet on 17 January 2012 and will be shared with all councillors in advance of the Council meeting on 7 February 2012.

Financial and Legal Implications

50. This report is mostly concerned with finance and the implications are set out in the main body of the report. In previous years the Council was required under the Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of Council Tax. However, the Localism Act has now passed into law. As a result, Councils will have to set a 'Council tax requirement' instead of a budget requirement.
51. The Localism Act does not give the dates from which this requirement will be in place and secondary legislation needs to be passed by Parliament to implement the changes. However, it is expected that the requirement to set a 'council tax requirement' will be introduced ahead of the 2012/13 budget being agreed in February 2012.

Equality and Inclusion Implications

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

53. As part of the Service & Resource Planning process for 2011/12, the Council produced a general assessment of the impact of the budget on customers ahead of the budget being set in February 2011. This document set out the principles that were being followed, identified the main risks to vulnerable groups and established what actions would be taken to prevent these risks. All significant saving proposals received at least an initial assessment to identify potential risk in advance of the budget being set. Further work has since been undertaken on a number of these assessments as the details of how proposals will be implemented becomes clearer and as feedback is received from consultations. These assessments have been renamed Service & Community Impact Assessments to reflect the view that the Council should be aware of all possible risks and not just those that impact on statutory equality groups.
54. Where any new savings are proposed as part of the Service & Resource Planning process for 2012/13, equality issues will need to be considered from the outset. The Council is again producing a general assessment of the impact of the budget on customers ahead of the budget being set in February 2012. Services are also undertaking Service and Community Impact Assessments in consideration of any new proposals, and continuing to review previous assessments to ensure they reflect any changes or developments.

RECOMMENDATION

53. The Cabinet is RECOMMENDED to:

- (a) Note the report and that an addenda will be produced following the publication of the Draft Local Government Finance Settlement;**
- (b) Consider the revised Business Strategies (Annex 3) and the changes to the pressures and savings (Annex 2) in forming their budget proposals in January 2012;**
- (c) Consider, in forming their budget proposals, the implications in 2013/14 of accepting the Council Tax Freeze Grant in 2012/13;**
- (d) Agree that funding from the New Homes Bonus will be made available for capital as part of the Rolling Fund, noting that the allocation for 2012/13 is £1.068m;**
- (e) In relation to the review of charges:**
 - (1) Note those charges prescribed by legislation;**
 - (2) Approve those charges where there is local discretion as set out in Annex 6 noting that some of those charges will commence before April 2012;**
- (f) Agree the capital prioritisation assessment set out in Annex 8b.**

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Background papers: Nil

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