COUNCIL – 10 FEBRUARY 2012

Business Strategy and Service & Resource Planning 2012/13 – 2016/17

Commentary on the budget 2012/13 – 2016/17 by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report sets out my commentary on the Council's overall financial position and also comments on the Business Strategy and Service & Resource Planning 2012/13 Report from the Cabinet. My commentary fulfils the requirement of Section 25 of the Local Government Act 2003.

2. My first report to Council set out information on the confirmed Collection Fund position. My supplementary report sets out finalised information on the Local Government Settlement which, now confirmed, provides a confirmed position on the funding available to the authority for 2012/13.

3. This commentary takes account of information provided in my supplementary report and the latest financial monitoring information which was presented to the meeting of the Cabinet on the 17 January 2012.

4. In this commentary I have considered the robustness of the Directorate estimates for 2012/13 and the Medium Term Financial Plan (MTFP) based on the outturn position for 2010/11; the forecast in year for 2011/12; the Directorate Business Strategies for 2011/12 – 2014/15; the priorities of the Council set out in the Corporate Plan for 2012/13 – 2016/17. I have also considered the risks and opportunities throughout the budget and how the risks have been mitigated, the estimates for strategic measures and the capital programme and the adequacy of balances and reserves.

Cabinet's Budget Proposals Overview

Context

5. With a whole series of funding reforms set to be introduced from 2013/14, planning for the medium term has never been more challenging or more important. The thorough planning started back in June 2009 when the scale of the economic challenge started to emerge has provided a strong base to respond to the financial challenges which local government now faces. Reductions to funding as part of the Spending Review in 2010 for the four years to 2014/15 which were factored into the MTFP agreed by Council in February 2011are now known to continue well into the next Spending Review period and are expected to be as much in the first two years, 2015/16 and 2016/17, as the previous four.

6. As details have not yet emerged on the Local Government Finance Bill, which will set out the changes to the funding system and the Council Tax Benefit localisation, maintaining the previous agreed assumptions for the MTFP is a reasonable position, although it will need to be reviewed once further information is received, and plans put in place to address any funding shortfall should there be one.

7. Provisional Central Government funding for 2012/13 was announced in January 2011 along with the final Local Government Finance Settlement for 2011/12 and a series of specific grant announcements. The provisional settlement for 2012/13 was announced in December 2011, and was in line with the two year announcement from January 2011. The final settlement for 2012/13, which was published on 31 January 2012 proposed no change to the provisional figures and should be approved on 8 February 2012. Draft specific grant allocations have also been confirmed. As there has been almost no change since setting the 2011/12 – 2015/16 budget and MTFP, it was reasonable for the Cabinet to continue as planned with the delivery of the Business Strategies. This has meant little change to the Business Strategies for the period 2012/13 to 2014/15

8. The budget for 2012/13 is robust and deliverable reflecting the second year of the four year Business Strategy agreed by Council in February 2011.

Directorate key risks

Children, Education & Families

9. In setting the budget for 2011/12, the setting up of the new Early Intervention service was a key risk. The service became operational in September 2011, and provides a single integrated service to families through seven hubs. Although the risk has not materialised there were further savings planned for 2012/13, which given the infancy of the service would have created further risk. The Cabinet proposal removes this risk by removing the savings required from this service. This should allow the service to develop in a stable situation.
10. In 2010/11 the Children's agency placements budget underspend by £1.145m. The latest Financial Monitoring Report to November 2011 reported to Cabinet in January 2012 set out a forecast underspend in 2011/12 of £0.775m. This reverses the trend of the previous continuing and increasing pressure on the budget and overspending. The changed position reflects a more careful use of resources with the budget being delegated to area managers who are responsible for determining needs of individual children. It still remains a volatile budget which has to react to needs but the risk of significant overspend in 2012/13 is reduced.

11. In the 2011/12 budget setting process, the Unaccompanied Asylum Seeking Children service was funded with direct expenditure, as grant income was no longer expected. However, after the budget was set in February 2011, notification was received that this grant would be paid, based on the number of clients supported. This means that there is now additional funding in this budget compared to previous years and compared to needs. The proposal is to remove

the £0.3m. As the budget provides more funding than needed, there is no risk to the service in doing this.

12. Home to school transport is another service area which has historically seen significant budget pressures and overspending. Since the transfer of the service to the Integrated Transport unit in 2007, there has been continuing reductions in spend with underspends reported annually from 2006/07 with a forecast underspend of £0.718m for 2011/12 based on the Financial Monitoring Report to Cabinet in January. Savings had been built in from 2008/09 and continue into the MTFP, but these have now been brought forward as they are expected to be achieved early.

13. The per pupil allocation for the Dedicated Schools Grant remains unchanged in 2012/13 from 2011/12. However, the funding for the pupil premium will double in 2012/13 from the 2011/12 rate. The two year local government pay freeze affects teachers as well as the Green Book staff in schools. On this basis, whilst there will be other inflationary and cost pressures to be absorbed, there will be no pressure arising from the pay award. The increase in funding arising from the pupil premium should meet inflationary pressures in schools budgets as a whole however the impact on individual schools will be different.

14. In mid-December 2011, the Prime Minister announced a troubled families' initiative aimed at turning lives around for families, getting parents into work, children attending school, reducing crime and anti-social behaviour and cutting costs for the State. Additional funding of £1.6m is proposed spanning two years to respond to this initiative. Work in Oxfordshire is already very much focussed on the more vulnerable members of the community whether in the context of their social care, educational or other needs. The new CEF structure means that the Directorate is well placed to respond, with the lead being taken, by the Early Intervention Service working in close partnership with the Youth Offending Service and Children's Social Care.

Social & Community Services

15. Due to its size, the Adult Social Care budget had the largest savings target for 2012/13 compared to other services. Delivering these in a service driven by demand was always going to be challenging.

16. Many of the savings were driven through the required changes in service in moving to personal budgets. With clients having the ability to choose their provider with personal budgets, competition was expected to and has led to a lowering in cost of home support. Linked to this, the internal home support service was closed down during 2011 with service users being transferred across to external providers. The amount of home care has increased over the last year and the budget will fund further increases in 2012/13 and future years.

17. Inflationary increases on external contracts were minimised again in 2011/12 leading to savings which were built into the MTFP. Further savings are included in the MTFP for 2012/13 to 2014/15 but there is a risk going forward that this cannot be sustained.

18. As most of the spend for adult social care is now in the form of contracts or through personalised budgets there is limited scope for reducing costs. The Homes for Older People contract is now in its tenth year of a 25 year contract. Despite this contract being at the forefront of service delivery in 2002, social care provision is now quite different from that envisaged as part of the contract. Working with the Oxfordshire Care Partnership, the council is seeking to re-negotiate the contract and provide Extra Care Housing (ECH) places and extra nursing places instead of the residential places included in the contract currently. In many cases the cost of ECH is less than that of residential care places so savings can be achieved. In addition, there is scope to increase the income to the County Council through Oxfordshire Care Partnership having more people who are funding their own care in the homes.

19. The Older People and Physical Disabilities pooled budget has in the past been managed in totality rather than as individual client groups. In 2010/11, the physical disability part of the pool overspent by £1.144m. This was carried forward to be managed in 2011/12. However, the Financial Monitoring Report presented to Cabinet in January 2012 set out a forecast overspend on physical disabilities of £1.733m which includes the overspend brought forward from 2010/11. The continuing overspend reflects the increase in client numbers over the past few years. Additional funding for demography has been provided for older people and learning disabilities for several years at the level which reflected the expected increase demand for spending. However, in the case of people with physical disabilities, there was no demography funding until very recently. A review has identified that the level of demography funding that had been provided understated the likely impact of increased demand. The proposed budget includes additional funding in 2012/13 of £0.8m to correct the underlying budget and an additional £0.206m in 2013/14 and each year beyond for demography. This should be sufficient to meet needs and provide a sustainable position going forward. The overspend in the current year has been highlighted monthly in the Financial Monitoring Reports and is likely to require a contribution from balances.

20. The older people part of the pooled budget has been supplemented this year with additional funding of £6.1m from health with PCTs transferring this funding to local authorities to invest in social care services to benefit health, and to improve overall health gain. It has now been confirmed through the NHS Operating Framework that this transfer of funding, albeit at a slightly different level, will continue for the Spending Review period to 2014/15. It was thought in agreeing the MTFP last year that the funding would only be provide for two years and a pressure of £1.5m was built into 2013/14 when it was expected to fall out and leave some residual costs. This is now proposed to be removed from the MTFP. The risk remains that the funding falls out in 2015/16 after the Spending Review period, though this would coincide if the Dilnott review proposals are implemented. Those proposals would fundamentally change the way in which social care is funded. The Government’s intentions on this matter will be revealed when the White Paper on Adult Social Care is published in the spring.

21. The Council takes on responsibility for Public Health from April 2013. Funding for this will be through a ring-fenced specific grant. Shadow allocations are expected imminently with allocations for 2013/14 due to be announced at the end of 2012.

The Council has been working closely with Public Health colleagues to provide information to the Department for Health on expenditure across Oxfordshire on public health functions and in preparation for the transfer to the Council. These preparations should place the Council in a good position to take on this new function.

22. Another key change in the relationships with Health, is the move away from the Primary Care Trust (PCT) to a new GP commissioning group (GPCG). In Oxfordshire this is being developed on an almost County wide basis, with a single GP commissioning body replacing the PCT. There has been close working between the PCT, GPCG and Adult Social Care, and this should minimise the risks of any cost shunting between sectors, and lead to improvement for patients and clients to get the best care when they need it.

23. Savings of £1.3m were included in the current MTFP for 2012/13 relating to Community Transport. The proposed MTFP rephrases and reduces this saving to £0.6m by 2014/15 with savings in 2012/13 of £0.2m still being required. The changes reflect the proposal to continue providing transport for people who meet the FACS eligibility criteria. Detailed proposals are currently being developed and there is a risk that a delay in agreeing and implementing them will lead to a shortfall in the savings achieved, although now the saving requirement is reduced, it is no longer a significant risk.

24. The MTFP agreed in February 2011 included savings of £1.7m over the medium term relating to the restructure of the Libraries network. Proposals for changes went out to consultation in May 2011. The proposal, to keep all libraries open with some support from volunteers was a significant change from the original suggestion to withdraw funding from twenty libraries and a response to the public concern. The revised proposal which went out for public consultation would have saved £1.053m. Following the consultation further adjustments were agreed by Cabinet in December 2011 resulting from modifications in the volunteering levels in community and community plus libraries. The savings now total £0.986m a reduction of £0.714m compared to the existing MTFP. Of the £0.986m saving now required, £0.673m relate to changes not related to the community library proposals. These savings should therefore be deliverable.

Environment & Economy

25. The proposed MTFP includes reductions in the waste budget predicated on the continuing lower levels of waste disposal that have been seen over the past few years. There is a risk that when the economic position recovers that waste disposal increases as it can be seen nationally that during a recession or periods of low growth, that waste disposal is reduced. However if the reduction is due to changes in behaviour, the trend should be maintained.

26. Oxfordshire has one of the highest rates of recycling rates nationally. Through the Oxfordshire Waste Partnership, we have worked with the District council to achieve recycling rates that are considerably higher than the targets set out in the agreed Waste Strategy. This success has been achieved in part by a scheme of non-statutory financial incentives. Building on this success the targets in the

Strategy are being reviewed, with the potential to set higher targets still. As part of this there will be a need to review the way the current non-statutory incentives work with the expectation that this will produce a saving in the medium term, although the delivery of this will be a risk. .

27. The Council re-tendered its Highways contract last year, with a new contractor taking over from April 2011. They delivered contract savings in 2011/12, and further savings of £1.4m are required in 2012/13. In addition, there is a further pressure in 2012/13 as the contract includes an RPI increase, which is higher than the inflation allocation built into the budget, so further efficiencies will be required to deliver a balanced financial position.

28. There is also a procurement exercise underway for Property and Facilities management which is due to commence in July 2012. Savings have also been built into that procurement, and as the process is yet to be finalised these remain a risk.

29. The Customer Services operating model is planned to be extended with in Oxfordshire Customer Services (OCS) to include Human Resources and Finance. This project is linked to the implementation of an employee and manager self-service transformation. This will fundamentally change service delivery in OCS, provide a more efficient service delivery model and enable staff and managers to handle more processes electronically themselves. Savings are based on a 10% reduction in cost over the three years to 2014/15. There are risks around changing the way the organisation works, re-designing process and the implementation of a new system, however, this way of working is not unusual in other business' and the savings should be deliverable.

30. Another linked project which will deliver savings is the telephony project. This will change the method of communication from desktop phones to using the functionality provided on PC's through Windows 7 or through mobile working. This will be a major change for how people work but provides flexibility and better ways of working.

Chief Executive's Office

31. Changes in the Chief Executive's Office are deliverable in that costs relate mainly to staffing. The risk this poses is around the capacity to deliver and given the significant changes around the Open Public Services White Paper, the Localism Bill, and the Local Government Finance Bill, this will need to be managed carefully.

Overall

32. The overall impact of the directorate business strategies which combine to form the overarching council strategy, as set out in the Corporate Plan, have been recognised and resourced in the MTFP. There are risks associated with a number of the individual elements of the plans, but these are mitigated by the reserves and balances.

33. The continuing levels of change emulating from central government does provide another risk, particularly concerning the council's ability to manage that change at the same time as delivering the business strategies. However, there should be sufficient resources available in the Efficiency Reserve to manage the one-off implications of the change programme. The reserve was set up for this purpose. Given the likely smaller cost base that the Council will have by 2015/16 this is reflecting a new way of working, which will require more adaptable resources.

Balances

34. An assessment of financial risks to the budget and medium term plan has been undertaken to determine the appropriate level of balances. In setting the 2010/11 budget it was recognised that there were increased risks arising from the national economic position, with the requirement to make significant financial savings over the following 4 years. The need was identified for increasing levels of balances to ensure that any shortfall in achieving savings was able to be managed in a controlled way. In the event, the delivery of the savings in 2010/11 was achieved and the latest forecast for 2011/12 shows those targets are expected to be achieved also.

35. In addition to the risks included in previous years, in an increasingly difficult economic environment there are other risks which need to be taken into account. The consequences of a recession or the collapse of the Eurozone would be widespread, and have implications for many of the council services. There would be an increasing risk of some market failures which the Council would need to be in a position to respond to.

36. There are also further changes that the government has consulted on which will impact in 2013/14 and beyond, this means that the need for increased levels of balances over the medium term remains. In 2013/14 there are the changes in the funding of local government, as well as structural changes which include the transfer of Public Health from the NHS, and the potential for changes to Academy funding. In the following years there is likely to be changes in Adult Social Care funding arising from the Dilnott review, as well as the impact of the 2014 Spending Review, of which the current expectation is for further reductions being required from local government funding.

37. The Cabinet has accepted the recommendation to maintain the increasing levels of balances from 2012/13 to 2015/16. The level of balances is reviewed on an annual basis and once certainty of these risks is clarified then adjustments can be made at that time.

Reserves

38. Estimated earmarked reserves at the start of 2012/13 are now higher than estimated this time last year for a number of reasons. Firstly, school reserves are now higher than previously estimated, although these are expected to decrease as funds held for specific projects are spent. As schools transfer to Academies any balances, whether surplus or deficit will also transfer.

39. The second element of reserves, which has increased from previous year estimates relates to the carry forward reserve. This is the reserve into which the year-end directorate balances are transferred. The treatment of this changed due to the introduction of the IFRS for the 2010/11 accounts, which meant that unspent specific grants had to be treated as a carry forward rather than a receipt in advance. This increased the apparent level of reserves by around £6m.

40. The final element relates to additional reserves being created to help manage the decreasing base budgets from services, to fund specific pieces of work. These are mainly small in nature, generally less than £0.5m.

41. There are a number of corporate reserves which we would also expect to be holding, such as for insurance and capital. There is however, a plan for the majority of reserves to be utilised over the medium term planning period, which is evident in the reducing balance by 2015/16.

42. One reserve worthy of specific comment is the Efficiency Reserve. It was created in 2009/10 to help manage the investment needed for service redesign, efficiencies to be delivered and for redundancy costs. It now anticipated that it will be used through to 2015/16 by which time there should be more clarity on the ongoing financial position, and any ongoing impacts would need to be built into the base budget.

Inflation

43. The proposed MTFP provides no changes in inflation assumptions from the existing plan with increases of 2% for non-pay budgets and 3% for contracts.

44. The high inflation figures seen since the middle of 2011 are expected to reduce in early 2012 as the impact of the VAT increase in January 2011 falls out and previous steep increases in import and energy prices. The weaker global economy will also reduce inflationary pressures and the Bank of England and other forecasters expect the Consumer Price Index (CPI) for inflation to be near to its 2% target by the end of 2012. On this basis, the 2% increase for non-pay inflation seems adequate.

45. There is some risk around contracts, especially where they are subject to indices such as the Retail Price Index (RPI) or the Baxter Index which are often higher than CPI. In these cases, Directorates will need to manage any difference between the index that needs to be applied to the contract and a 3% inflationary uplift on the budget.

46. In his Autumn Statement, the Chancellor announced a cap in public sector pay of 1% beyond the two year freeze for 2013/14 and 2014/15. He also stated that departmental budgets would be reduced accordingly to reflect the cap. On that basis, it is expected that the reduced cost to the council will be offset by reduced Formula Grant funding. So whilst a 2.5% increase is included in the MTFP is 1.5% more than is needed taking into account reduced Formula Grant equivalent to 1%, effectively the excess provision is 0.5%. It is considered prudent to retain this sum

as a contingency should there be any pay groups which are awarded a pay increase higher than the 1% cap.

Strategic Measures

47. The risks around the Treasury Management function have for the past four years been around the stability of the banking sector, the emerging Eurozone crisis, and a lack of domestic and global growth giving rise to a recession. This has been managed by reducing the exposure to banks generally and foreign banks in particular. There has also been a reduction in the length of any deposits, in order to reduce risk. The ongoing risk remains however, that there is a collapse of one of the major UK banks or the unmanaged dissolution of the Eurozone, and the government does not provide support to the sector. If that does happen, then the impact will be broader than just on strategic measures, or indeed the Council.

48. The proposed MTFP includes reductions in interest receivable on deposits based on prudent levels in the assumed level of Bank rate and rate of return. The proposed MTFP is now based on the Bank rate remaining at 0.5% until 2016. At this time last year the economic outlook was much more positive with markets expecting a rise in UK interest rates in the summer of 2011 rising to 2.75% by June 2013.

Council Tax levels

49. The existing MTFP included a Council Tax increase of 2.5% for 2012/13. The Cabinet is proposing to utilise the Council Tax freeze grant which was announced in October 2011and set a zero increase from the 2011/12 level. In their proposed MTFP, the Cabinet has built in the implications of the 2012/13 Council Tax Freeze Grant being one off only and the on-going implications this has from 2013/14.

50. The existing MTFP includes Council Tax increases of 3.75% in the years beyond 2012/13 and the Cabinet's proposed MTFP does not change this. This will need to be reviewed each year in light of the provisions in the Localism Bill where excessive increases in Council Tax will trigger a referendum. The Secretary of State will determine the excessiveness principles above which an authority is required arrange a referendum seeking the support of the local electorate. For 2012/13, Council Tax increases that exceed 3.5% will trigger this referendum requirement. The Localism Bill also abolished the capping regime. The Council could if it wished seek to hold a referendum to have a higher increase, but need to be mindful of the costs and the implications.

Capital

51. When setting the 2011/12 Capital Programme a firm programme was agreed for 2012/13, with a provisional programme for 2013/14 – 2016/17, although the additional funding for 2016/17 was not included. The programme now presented confirms the programme for 2012/13 and 2013/14, and the provisional programme for 2014/15 – 2016/17 but now includes an estimate of the additional funding available in 2016/17.

52. The major elements of the programme relate to Education and to Transport and growth related infrastructure. Both of these are subject to substantial changes arising from the Government, particularly in the area of Education, and the estimates included in the programme are therefore subject to more likelihood of change than in the past. Whilst the proposal remains for a firm programme for two years, the level of capital investment for the five year planning period is subject to change in line with funding.

53. The capital proposals address the reduction of £3.5m from the education settlement, which was partly from structural maintenance allocation and partially from basic need announced in December 2011. The structural maintenance reduction arises from the schools that have converted to academies or are about to. The Department for Education are passing the capital maintenance funding directly to academies and further relatively large reductions may be expected on an annual basis. This will impact on the remaining amount available for the authority to allocate compared to the number of maintained schools. Therefore, the assumptions for future year's allocations of capital maintenance have also been reduced by 50% to reflect the likelihood of further academy conversions.

54. The reduction in the basic needs allocation is mainly due to a change in the methodology for allocating funding for pupil places; the methodology now includes both numbers on roll and capacity data. The Basic Needs allocation has been protected through the reduction of the Schools Access Initiative (SAI) Programme. The council will continue to be responsible for Basic Needs irrespective of the mix of maintained, academy or free schools. New schools to be delivered as part of the new developments in growth areas will have an impact on the possible mix within the sector and will therefore make the allocation of basic needs more complex in the future.

55. The programme includes the establishment of a Rolling Fund by April 2012 to support growth through addressing infrastructure bottlenecks in the County. Consideration will be given to the allocation of the Growing Places Fund currently being set up by the Local Enterprise Partnership (LEP) and to the schemes identified through the Infrastructure Framework, as there may be a need to align programmes of investment or provide match funding for some of these schemes.

56. The remaining programme then applies the prioritisation principles as set out in the Capital Strategy, with schemes under categories 1 – 4 being included, but with a small number of schemes remaining on hold. Options appraisals will be carried out for these schemes to facilitate decision-making ahead of the next capital budget setting process.

57. The latest Capital Programme as reported to Cabinet in January for 2011/12 was £69.0m (excluding devolved schools capital). The latest 2011/12 programme attached to the Cabinet's proposal shows a decrease in planned spend to £64.0m. The actual and committed spend to the end of December 2011 was 84% providing greater confidence in the deliverability of the agreed programme by the end of March 2012.

58. The traditional streams of funding the capital programme are likely to reduce over the medium term. In addition to the likely reduction in capital grant associated with the reductions in public sector funding, there will be reductions related to schools converting to academies; and therefore potentially less capital receipts. There are a number of alternative funding models which could replace these such as Public Private Partnership, Private Finance Initiative, Local Asset Backed Vehicles and Tax Increment Financing. Use of any of these models would need to be considered very carefully as they are much longer term vehicles, tend to require revenue commitments and are potentially higher risk.

59. The introduction of the Community Infrastructure Levy as a new tariff based mechanism for contributions from developers towards infrastructure should provide greater flexibility and a more predictable funding stream than the current Section 106 arrangements. However, it is still not clear what the tariff/ levy income can be spent on, how it will be apportioned, how it will be transferred from charging bodies to infrastructure delivery organisations, and how it will affect the future of the S106 agreements. This gives rise to some risk in the funding of capital infrastructure over the medium term.

60. Overall, the proposed programme is balanced with sufficient level of contingencies. The provisional nature of the future years' programme will mean that the Council has some flexibility to respond to changing or unforeseen requirements or changes in funding. However any significant change in the future years' funding will require a more thorough review of the programme as part of the Service & Resource Planning process.

Local Government Finance Bill

61. Whilst some details on the localisation of business rates have been set out as part of the Local Government Finance Bill, it is still too early to tell what the implications are for individual authorities. More detail is expected in the spring 2012, though it is not expected that we will know the draft funding levels until December 2012, as part of the draft Local Government Finance Settlement.

62. The funding assumptions for future year grant in the Cabinet proposal have remained on the basis of information on changes expressed at the national level from the Chancellor's Budget and Autumn Statement.

63. In addition, the localisation of Council Tax benefits is included in the Finance Bill. This will require Billing Authorities to propose their own scheme for Council Tax benefit, and manage the financial implications of that scheme, with a consequent impact on precepting authorities. As the implications of this change can't yet be quantified it has not been built into the Cabinet's proposals, although, along with the localisation of business rates it has fed into the justification for holding higher levels of balances in future years.

Academies

64. The Department for Education (DfE) issued a consultation in December which changes the methodology for deducting funds from Formula Grant to be passed to

Academies to meet responsibilities which to the Academy upon conversion. For 2012/13, Communities and Local Government (CLG) will calculate the cost of Local Authority Central Services Equivalent Grant (LACSEG) towards the end of the 2012/13 financial year based on the actual number of pupils in Academies in each authority. This is a change from the current methodology which removes funding on a pro-rata basis nationally. Where the costs of LACSEG estimated are less than the amounts removed from Formula Grant, CLG will refund the difference through an un-ring fenced specific grant. Where costs are above the amounts removed, no additional funding will be recovered from Local Authorities. On this basis there is no risk to Formula Grant funding for 2012/13.

65. A permanent solution is however from 2013/14 is being sought as part of the Local Government Resource Review. CLG will explore removing all funding from the Local Authority and transferring it to the DfE. The DfE would then administer a grant to Local Authorities and Academies proportionate to the number of pupils for which they are responsible according to a national rate. There is a risk that the amount returned to the Local Authority could be less than it currently spends in support of those pupils, thereby creating a pressure on the budget.

66. When schools transfer to Academy status, the Local Authority does retain some responsibilities such as home to school transport, SEN provision, exclusions, pupil placed planning (which links to capital basic needs) and some responsibilities around admissions. The financial implications of these are not currently possible to determine as it will partly depend on the number of schools converting and their individual arrangements.

67. There are also potential financial implications around the loss of traded services income in Oxfordshire Customer Services. Currently there is a good take up of traded services by schools who have converted to Academies and there are no immediate financial implications. The loss of income from all secondary schools and several primaries could also be managed. It would result in some staff reductions, but the services could be scaled back to accommodate the reduction in income. However, in the longer term the position is extremely uncertain. Whilst there is currently good take up of services and few Academies, future income is not guaranteed. As the market for provision of services such as payroll and finance expands there is less certainty that services will be bought back. It is likely in the longer term that there will become a point at which the loss of income will reach a tipping point where the provision of traded services is not viable.

Pension reforms

68. There are no pension changes built into the proposals for 2012/13, which is the second year of the Local Government Pension Scheme (LGPS) tri-annual revaluation. There are however, proposals from Government which are being negotiated with the unions which could affect the pension liabilities of the council in the medium term period.

69. It was originally envisaged that a revised LGPS would be introduced from April 2015, and that there would be increases in employee rates from April 2012. This could have required a reduction in the Employer rate, although it was unclear how

this could have been actioned without legislation. In addition to union protest, there had been concerns that given the freeze on pay the increases in employee rates could have led to a reduction in scheme membership. This could have multiple impacts: in future years it could lead to more resource requirement for the council as people had less pension provision to look after themselves; more immediately, if there was a decrease in membership of the scheme it could lead to a cash flow deficit, if the pension liabilities outweighed the contributions from serving members.

70. Following negotiation with the unions, whilst these have not yet concluded, it now appears possible that the new scheme will be introduced a year earlier, from April 2014, but that there will not be employee increases from April 2012. In the light of the continuing uncertainty it is reasonable for no changes to be made at this time to the previous revaluation proposals built in to the plan. The employers' pension provision will need to be reviewed on an annual basis.

71. In addition to LGPS some Council staff are also impacted by the Fire Fighters Pension Scheme and the Teachers' Pension Scheme. Changes are being proposed to both of these as well, although unlike the LGPS they are not funded schemes with the employer contribution rates being set by Government. There are no proposals to change the employer rate, the proposed changes increase in members' which are deemed necessary to address the imbalance between the employer and employee contribution rates.

Statement of Assurance

72. I have made a thorough examination of the Cabinet's Budget proposals as set out above. I am satisfied that the budget proposals are sufficiently robust, recognising the risks discussed. This constitutes my Statement of Assurance on the Budget proposals 2012/13 - 2016/17 under Section 25 of the Local Government Act 2003.

Sue Scane
Assistant Chief Executive & Chief Finance Officer

2 February 2012