Division(s): N/A

CABINET – 18 September 2012

Service & Resource Planning 2013/14 to 2016/17

Report by the Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report is the first in a series on the Service & Resource Planning process for 2013/14 to 2016/17, providing councillors with information on budget issues for 2013/14 and the medium term. The report presents the known and potential financial issues for 2013/14 and beyond which impact on the existing Medium Term Financial Plan (MTFP), the assumptions on which the current MTFP is based and proposes a process for Service & Resource Planning for 2013/14 including a timetable of events.

2. This Service & Resource Planning round comes at a time when a greater degree of uncertainty over future resources is being introduced. Two fundamental changes to the basis of funding local government – the implementation of the Business Rates Retention Scheme and the Localisation of Council Tax Support (discussed below) – will increase the level of volatility in the forecast of funding available and the interaction of both with local economic conditions will increase the associated risks.

   The following annexes are attached to this report:
   Annex 1a: Details of the Business Rates Retention Scheme
   Annex 1b: Details of the Localisation of Council Tax Support
   Annex 2: Review of Assumptions in the Existing MTFP
   Annex 3: Service & Resource Planning timetable for 2013/14

Government consultations and other initiatives

3. A number of consultations and other initiatives which will have implications for the County Council are summarised below, with more details set out in Annexes 1a and 1b.

Business Rates Retention Scheme

4. From April 2013 the current Formula Grant system is being replaced by a Business Rates Retention Scheme. Under the new scheme business rates will be split between a 50% local share (retained by local government) and a 50% central share (returned to central government). A system of tariffs and top-ups will be used to redistribute business rates from areas which collect more than their assessed need (based on Formula Grant) to areas that don't

collect enough to meet their assessed need. In addition there will be a levy on 'disproportionate growth' in business rates which will be used to provide 'safety net' payments to those authorities experiencing little or negative growth (subject to a threshold).

5. For two-tier areas[1] it is proposed that the local share will be split 80% districts/20% county councils. As a consequence the County Council is a top-up authority and will not pay a levy, whereas the district councils in Oxfordshire are tariff authorities and will pay a significant proportion of any business rate growth as levies. The councils within the Oxfordshire area are currently exploring whether there is a benefit to forming a business rate pool, for which a single levy figure would be applied based on aggregate growth across the whole area. The City Council has now announced that it will not join a pooled arrangement, but the remaining councils are continuing with developing the option.

6. The government announced a Technical Consultation on the details of the scheme on 17 July, with a closing date of 24 September 2012. Further details on this and other recent government announcements on the Business Rates Retention Scheme are provided in Annex 1a.

7. The replacement of the Formula Grant system with the Business Rates Retention Scheme means that the County Council's funding will be harder to predict initially as a number of baseline positions will not by set by Ministers until later in the year, and on-going as local economic conditions will impact on the level of resources receivable. This latter uncertainty will need to be taken into consideration in determining the level of reserves/balances needed.

Localisation of Council Tax Support

8. As part of the 2010 Spending Review the government announced that, from 2013/14, they would localise council tax benefit and reduce expenditure by 10%. Under the new scheme people will get a discount on their council tax bill rather than an amount deducted from their bill. The effect of giving discounts will be to reduce the council tax base used for calculating council tax rates. Councils will receive a grant to help off-set the reduction in the council tax base. Indicative funding allocations show a £2.5m shortfall between the anticipated cost of the scheme and the grant for the County Council.

9. Oxfordshire districts are consulting on adopting the existing council tax benefit scheme as a countywide scheme for 2013/14. This approach does not give rise to any savings from the council tax support scheme itself. Consideration is being given to making savings by reducing discounts/exemptions on certain classes of properties, such as discounts on second homes. Further details on the localisation of council tax support are provided in Annex 1b.

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[1] Where the county council has fire & rescue service responsibilities

10. Changes to the council tax benefit arrangements make it more difficult to estimate how much council tax will be collected. Variation in the amount of council tax collected means that districts may use the power to vary agreed council tax precept payments to the County Council and the Thames Valley Police and Crime Commissioner. This again will make it difficult to predict the level of income anticipated/expected.

Pensions

11. There are three areas of Government policy which may impact on the Council's budget over the medium term. These are the changes to the public sector pension schemes, the introduction of auto-enrolment and changes to the State Pension.

12. The proposals for the fire service scheme and teacher's scheme include increased employee contributions from April 2012, with further increases from April 2013 and 2014. It is not expected that employer contributions will reduce, with the saving from increased employee contributions reducing the shortfall between pensions in payments and contributions received which the Government has to fund. There may however be an issue with opt out rates from April 2013.

13. For the Local Government Pension Scheme, the proposed changes from April 2014 involve minimal increases in employee contributions and the introduction of a new 50% option, where employees can pay 50% contributions for 50% of the benefit – employers still need to pay the full 100% contribution. There is therefore a potential for increased membership and therefore increased employer contributions under this element of the proposals.

14. Overall though, the Government Actuary has estimated that costs will reduce under the proposed scheme, largely as a result of the link between normal retirement age and state pension age, with average employer contribution rates reducing by 2.2% of pensionable pay. The impact of the changes will vary between LGPS funds, and between employers dependent on their membership profile. Actuaries will also need to take into account the financial climate at the time of the valuation (March 2013), which could add upward pressure on employer contribution rates. Work will continue with the actuary to establish the likely results from the next valuation, effective from April 2014.

15. Auto-enrolment for the County Council comes into operation from February 2013. Under these arrangements, the Council must enrol all staff into a qualifying pension scheme every three years, though the individual member retains the right to opt out. If all the current employees who have opted out of their pension scheme are auto-enrolled back into the scheme, and choose not to re-opt out, the additional annual contributions required by the County Council would be £4.4m, of which £2.6m would fall on schools, and £1.8m on directorate budgets. Given that all these staff have previously

opted out of their pension scheme, it is likely that the majority if not all will opt out again, and there will be no or limited additional costs to the Council.

16. Finally, the Government has proposed changes to the State Pension arrangements from April 2016, which include a single flat rate state pension, and the ending of the current contracting out arrangements. The ending of contracting out will mean that members of current pension schemes will lose their 1.4% national insurance rebate[2] and the Council would lose its 3.4% rebate on the same pay. Employers and Unions have raised their concerns about the impact of these increased costs, and it is currently awaited as to how the Government proposes that these are met. Clearly though there is a potential pressure on the Council budget from April 2016.

Local Authority Central Services Equivalent Grant (LACSEG)

17. The Department for Education (DfE) pays a grant, Local Authorities Central Services Equivalent Grant (LACSEG), to academies because there are some central services received by local authority maintained schools which academies may either provide themselves or buy back from the local authority. Some of these services are funded from Dedicated Schools Grant (DSG) and some from Formula Grant. The government announced in June 2012 that, for the DSG element, local authorities will be required to delegate DSG funding for central services within the notional Schools Block straight to maintained schools and academies. For the Formula Grant element, the DfE is consulting on proposals to replace the current LACSEG allocations to academies with a simpler and more robustly based funding system. It is proposed to do this by deducting amounts from local authorities' Formula Grant and providing a new Education Grant on a per pupil basis to academies and local authorities.

18. The new Education Grant is proposed to be based on national average budgeted spend on education budget items by all local authorities during 2011/12. The consultation raises queries of principle about the way that deprivation and area salary differences should be taken into account, which leaves considerable uncertainty about the total amount for each local authority. Based on 1% of the proposed national total, Education Grant for Oxfordshire is currently estimated to be around £12.5m. The degree of uncertainty in the amount could be in excess of £1m depending on the final arrangements applied by DfE and the Department for Communities and Local Government (DCLG).

19. The amount to be deducted from Formula Grant for each local authority will be equal to the total Education Grant to be provided to the local authority and to academies within the local authority area. Accordingly Formula Grant for the County Council will be reduced by an estimated £12.5m.

20. A small amount of Education Grant will be paid to local authorities in respect of residual statutory duties for pupils in academies. The consultation

[2] On pay between £5,044 and £40,040

proposes that this would be between £8 to £15 per pupil. The County Council might receive £0.6m to £1.1m Education Grant for these duties once all schools have converted to academies.

21. To manage the reduction in Formula Grant it is estimated that the County Council will need to make total savings of some £11.5m to £12.5m as schools convert to academies, of which the first £2.8m is included in the current MTFP. The rate at which such reductions need to be made will depend on the rate of conversion of schools to academies.

National Schools Funding Formula

22. The DfE intends to take first steps towards a national school funding formula from April 2013. These first steps focus only on a radical simplification of each local authority's funding formula and do not include any adjustment to the distribution of resources between local authorities. The simplification removes all targeted funding allocations and replaces them with linear allocations based on pupil numbers, a deprivation factor, a prior attainment factor and a single lump sum for all schools.

23. Schools which were previously in receipt of targeted allocations are therefore anticipated to lose resources, in some cases very significantly. Schools which previously did not receive targeted allocations are likely to receive larger budget shares. Whilst the government's minimum funding guarantee will keep year-on-year changes to no more than -1.5% of previous budget per pupil, the limit on the degree of change also means that some schools could see year-on-year funding reductions over more than a decade before the new formula value is fully implemented.

24. Special schools will see a complete change to the way that they are funded, with a much smaller budget share at the beginning of the year and top ups provided by local authorities in respect of individual pupils. The local authority will come under increased pressure to provide additional funding for pupils with special educational needs, which will be met by allocations from Dedicated Schools Grant retained centrally. Some schools will need considerable extra support from the local authority in order to cope with the changes to the funding regime.

25. Amongst the targeted allocations which will be removed from school budget shares are the allocations for joint use sports facilities. The authority has in the past recovered these targeted allocations from schools in order to meet its commitment to district councils to pay for schools' use of the sports facilities. Funding arrangements for schools' use of joint use sports facilities will need to change from April 2013. The gross cost of the agreements in 2012/13 is £1.5m.

26. Alongside the first steps towards a national school funding formula, DfE is looking to transfer responsibility for the funding of students aged 16 to 24 with higher level needs in further education settings from the Education Funding Agency (EFA) to local authorities. Baseline data about numbers of

students with higher level needs in further education settings will be collected by the end of September 2012. Until that data is assembled it is not possible to assess the budgetary and administrative impact, though it is anticipated that a grant transfer from the EFA will meet most of the cost of allocations to settings.

Public Health

27. The public health function will transfer from Primary Care Trusts (PCTs) to local authorities in 2013/14. Local authorities will be funded for their new public health responsibilities via a ringfenced grant. 2012/13 baseline spend projections for local authorities produced by the Department of Health (DoH) in February 2012 based on 2010/11 expenditure data indicate a shadow allocation for Oxfordshire of £20.9m.

28. Currently PCT allocations are distributed according to a formula set by the Advisory Committee on Resource Allocation (ACRA). ACRA were commissioned by the DoH to develop a formula allocating public health funding relative to population health need. Based on the formula Oxfordshire's share of the £2.2bn national total for 2012/13 would be £22m. Further work is being undertaken on the distribution formula, including a detailed comparison with the estimated baseline spend. Final 2013/14 allocations for the ring-fenced grant will be announced at the end of 2012.

29. Assuming the draft funding allocation is confirmed, there is sufficient funding to maintain the current service. A number of contracts will be retendered prior to the transfer to the County Council and it is assumed that no significant cost pressures will arise from this exercise. The key risks beyond 2013/14 are whether the new public health responsibilities and improved health outcomes for the population will result in pressure to spend more on Public Health; the impact of the next spending review on Public Health and whether the distribution formula will best reflect the population of Oxfordshire.

Social Care White Paper

30. The White Paper "Caring for our future: reforming care and support" was published on 11 July 2012. The paper broadly focuses on quality and access to care and information. The paper has two core principles – firstly, promoting people's independence and wellbeing to prevent, postpone and minimise people's need for formal care and support and, secondly, people should be in control of their own care and support. The paper seeks to consolidate care legislation into one law and seeks to ensure equity of care provision across the country through introduction of a national minimum eligibility threshold. There is a common view that the level will be set at "substantial", this is consistent with Oxfordshire's current practice and so would bring no additional costs. The majority of the detailed points within the White paper build on good practice that Oxfordshire already provides, there may however, need to be some expansion in particular services. The paper commits to additional funding of a further £100 million in 2013/14 and £200

million in 2014/15 in joint funding between the NHS and social care to support better integrated care and support. This amounts to just under £1m in 2013/14 and just under £2m in 2014/15 for Oxfordshire.

31. The government also published a progress report on social care funding reform – 'Caring for our future: progress report on funding reform'. In this report, the government agrees the principles of the Dilnot Commission's model – financial protection through capped costs and an extended means test – would be the right basis for any new funding model. The government did however say that the costs associated with such a decision needed to be understood in the context of the broader economic situation and so proposed deferring consideration of funding reform to the next Spending Review. The report also commits to introducing a universal deferred payments scheme to ensure no-one will be forced to sell their home to pay for residential care in their lifetime. This involves the sale of a house being deferred until the person dies. Oxfordshire already offers this service but it may be that uptake will increase.

Independent Living Fund

32. The Independent Living Fund (ILF) is a trust operating under the Department for Work and Pensions providing support for approx. 19,000 disabled people in the UK in the form of direct cash payments. The Government is consulting on devolving ILF funding to local government from 2015, so that the needs of existing ILF users can be met through the mainstream care and support system and personal budgets. The majority of ILF users already have local authority contributions to their care packages as well as ILF contributions.

33. The basis of devolving the funding is not set out in the consultation. Figures as at June 2012 indicate that Oxfordshire has 229 existing ILF users (1.7% of the total for England), with payments of £4.4m per annum (2.0% of the total for England).

Local Welfare Assistance

34. Under the Welfare Reform Act 2012 the County Council takes on a new responsibility for managing the replacement of the discretionary element of the Social Fund by a localised assistance programme ('Local Welfare Assistance') from April 2013.

35. Local authorities are being given the flexibility to re-design emergency provision, tailored to local circumstances, to replace two elements of the Social Fund - Community Care Grants and Crisis Loans (loans for items and loans for living expenses). Data for the first six months of 2011/12 indicates that about 7,000 awards are made in Oxfordshire a year, with expenditure on these types of grants/loans totalling approximately £0.9m a year.

36. Funding for this local support will be allocated to upper-tier authorities via an un-ringfenced grant based on the equivalent Social Fund spend for 2012/13. There is not a statutory requirement to provide this service, but the government does have certain expectations for the new funding which are set out in a settlement letter. Indicative funding for 2013/14 is £0.944m (which includes £0.165m for administration).

Healthwatch and NHS independent advocacy services

37. Local Healthwatch will replace Local Involvement Networks (LINks) as the consumer champion for patients and the public in health and social care. Local authorities will provide local Healthwatch in their area from April 2013.

38. Funding for the new service will be made up of two parts: on-going baseline funding for LINks and new additional funding for the new service. Since 2011/12 the funding for LINks has been included within Formula Grant. From 2013/14 this funding will form part of the Business Rates Retention Scheme baseline. Some of the new additional funding will also be included within the Business Rates Retention Scheme baseline, with the route for the remainder yet to be finalised. Indicative allocations suggest the County Council will receive £0.108m of additional funding.

39. The Health & Social Care Act 2012 also transfers a duty to commission NHS independent advocacy services from the Secretary of State for Health to individual local authorities with effect from April 2013.

40. Actual funding for the provision of independent advocacy is still to be confirmed. However, indicative grant allocations suggest the County Council will receive £0.134m of un-ringfenced grant for the provision of this service.

Police and Crime Commissioners

41. On 15 November 2012 elections are being held for police and crime commissioners for the 41 police force areas across England and Wales. They will replace police authorities which will be abolished a week later. Police and crime commissioners will have responsibility for appointing the chief constable and holding them to account for the running of the force; setting out a 5 year police and crime plan; setting the annual local precept and annual force budget; and making grants to organisations aside from the police.

42. A variety of community safety funding streams that have previously been available to councils and community safety partnerships will be coming to an end in March 2013. In 2013/14 police and crime commissioners will receive a designated but un-ringfenced grant for commissioning community safety and other activity. From 2014/15 this grant will be rolled into the police grant.

Service & Resource Planning Process

43. Given the current economic climate and the uncertainty over levels of funding for local government in the future, this year the Service & Resource Planning process, MTFP and Capital Programme cover only a four-year period, reflecting the availability of national spending information.

44. 2013/14 will be the third of the four-year directorate business strategies. These were approved by Council in February 2011 and included savings of £119m from 2011/12 – 2014/15. Whilst there have inevitably been some changes, the strategies are being delivered as planned with the majority of the original savings expected to be achieved. Annex 2 summarises the assumptions in the existing Medium Term Financial Plan, including funding for demography and other agreed pressures.

45. Challenge sessions are planned for October 2012. Directorates will need to review their plans for delivering the savings in the 3rd and 4th years of the business strategies to ensure that these are still achievable, along with plans for managing any new pressures.

46. Scrutiny Committees will meet to consider detailed budget proposals in late December 2012/early January 2013. All Members will be able to observe all of the Scrutiny Committees. Briefing sessions will be held prior to the meetings to provide Members with an overview of the latest financial position and the progress to date in relation to the Service & Resource Planning process.

47. The draft Local Government Finance Settlement is expected to be announced in early December 2012 with the final settlement expected in mid-January 2013. This will confirm the starting point for the Business Rates Retention Scheme.

48. A timetable for Service & Resource Planning is attached at Annex 3.

Capital Programme Planning

The Property Asset Management Plan

49. The Property Asset Management Plan is a high level corporate strategy which establishes the role of the Council's property assets in meeting strategic objectives and the business strategy. An implementation programme is currently underway with an aim to:

- Reduce the cost of the council's non-schools portfolio by 25% whilst using property to deliver the Council's broader objectives and support service delivery
- Change the portfolio to support and enable locality working
- Increase co-location of services and sharing with partners and community organisations to improve service delivery
- Increase the amount of property that is Fit for Purpose

- Reduce energy consumption

50. The Plan is currently being updated in light of the recent changes in the regulatory environment and in order to take advantages of the new property services contract.

The Capital Strategy

51. The Council has a 10 year Capital Strategy which sets out the County Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It provides the framework for determining capital spending plans and the effective use of the Council's limited capital resources.

52. It shows how the Council prioritises, targets and measures the performance of its capital programme and sets outs six prioritisation principles for capital investment.

53. A light touch review of the Capital Strategy is currently being undertaken and any key changes will be reported to Cabinet in January 2013.

Capital Programme

54. The Council considers the capital investment and programming activity as an integral part of the Council's Service & Resource Planning process. This ensures that the creation of a new asset or investment in the existing assets and infrastructure network is justified through detailed business strategies and delivery models for the service.

55. The capital programme currently shows a balanced position with sufficient level of contingency across the four year period to 2016/17. This is a comfortable position to start the new service and resource planning process. However, the capital budget setting process over the coming years will be challenging given the uncertainties affecting the economic prospect in the UK and across Europe.

56. This year's capital budget setting process will focus on strategic and high-level issues or key operational bottlenecks underpinning the service delivery in the medium term and creating large demands on capital resources. The capital planning period will be set as four year initially to ensure that the programme is planned with no additional resources until there is more certainty about the level of capital resource into the future, especially beyond 2014/15. This is to ensure that the size of the existing capital programme portfolio remains within an affordable envelope.

57. New capital investment pressures are currently emerging. Outline business cases are likely to be brought forward during the coming months to inform this process in October 2012. Councillors will also have further opportunities to contribute to capital prioritisation decisions through the Scrutiny Meetings

which will be held in December/January as part of the Service & Resource Planning process.

Equality and Inclusion Implications

58. 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.'

59. As part of the Service and Resource Planning process for 2012/13, a high level Council wide assessment of the broad impact of new budget proposals on service users, staff and communities was produced ahead of the budget being set in February 2012. In addition, initial service-level assessments of the potential impact on vulnerable groups were completed for each proposal where a significant change to the service was proposed. These assessments have since been updated as proposals have been developed further and to reflect feedback received from formal consultations.

60. Where any significant changes to services are proposed as part of the 2013/14 Service and Resource Planning process, Service and Community Impact Assessments will need to be carried out in developing the proposals.

Financial and Legal Implications

61. This report sets out the Service and Resource Planning process for 2013/14, although it is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2013, will lead to the council tax requirement being agreed in February 2013.

RECOMMENDATION

62. **The Cabinet is RECOMMENDED to:**

a) Note the report;
b) Approve the Service and Resource Planning process for 2013/14.

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