

Financial Context

1. The current Medium Term Financial Plan (MTFP) for the period 2009/10 to 2013/14 was agreed by the Council in February 2009. For 2010/11, this assumed an indicative Council Tax increase of 3.75% based on a budget requirement of £391.1m. However, as set out in the Service & Resource Planning report to Cabinet on 15 September 2009, it is likely that the global financial position will impact on our Medium Term Financial Planning, and on our ability to maintain the assumptions underpinning that.
2. The following table sets out the assessment of the estimated changes to the financial position for 2010/11 and the medium term compared to the MTFP agreed by Council in February 2009.

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
<u>Estimated Funding</u>					
Central Government Grant		-7.8	-8.8	-9.9	-9.9
Council Tax (precept)	-1.4	-5.7	-9.7	-10.1	-10.6
Council Tax surpluses/deficits	-0.8	-0.5	-0.5	-0.5	-0.5
Total Funding	-2.2	-14.0	-19.0	-20.5	-21.0
<u>Planned Expenditure</u>					
Identified pressures	6.5	13.0	20.0	30.4	34.0
Savings required ¹	-16.2	-30.5	-44.4	-55.0	-55.0
Carry Forward of Savings	7.5	3.5	5.4	4.1	
Total Expenditure	-2.2	-14.0	-19.0	-20.5	-21.0

Changes to Estimated Funding

3. The estimated funding is the total external funding available to the Council after taking into account expenditure funded by specific grants and income raised through fees and charges. It includes Revenue Support Grant, National Non Domestic Rates, Council Tax (precept) income and the county council's share of the district councils' collection fund surpluses or deficits. The Service & Resource Planning report to Cabinet in September set out the changes in assumptions from those in the MTFP as follows:

Central Government Grant

4. 2010/11 will be the final year of the Local Government Finance Settlement for 2008/09 to 2010/11. Whilst the grant for 2010/11 will not be confirmed until January 2010, it is not expected to change. Oxfordshire is expected to receive £106.3m in 2010/11, a 1.5% increase from 2009/10.

¹ The MTFP agreed in February included an additional £5.0m of savings to be made; these savings had not been identified and are required in addition to the £55.0m shown in the table.

5. The next Comprehensive Spending Review which will set out the expected grant for the three years 2011/12 to 2013/14 is not now likely to be published until October 2010 (assuming a general election in June 2010). The MTFP currently includes annual increases of 1% beyond 2010/11. Given the current level of public sector borrowing and the likely need to reduce expenditure to compensate, the expectation is that there will be no increase in grant for the three year period up to 2013/14. Each 1% change in grant equates to approximately £1.1m.
6. As part of the Revenue Support Grant, Oxfordshire is expected to receive £6.7m of 'Damping grant' in 2010/11. This ensures that Oxfordshire receives the minimum grant increase set by the Government. A possible outcome of the next Comprehensive Spending Review could be that this support could be reduced or it may even cease completely.

Council Tax (precept)

7. The planned Council Tax increase for 2010/11 and the medium term set out in the agreed MTFP is 3.75%. The taxbase, representing the number of properties Council Tax can be collected from, is assumed to increase by 0.5% in 2010/11 and 2011/12, and 0.75% thereafter. Since agreeing the MTFP, there has been no sign of recovery in new house building. With growth of only 0.39% in 2009/10, an increase of 0.5% in 2010/11 now looks very unlikely. Consequently the updated assumption is that there will be no growth in 2010/11 and only 0.25% in 2011/12. The impact of this is to reduce the total funding available by £1.4m in 2010/11 rising to £2.2m in 2011/12. The actual taxbase for each of the district councils will not be confirmed until January 2010.
8. Should the Conservative Party win the next general election, a Conservative government would work with local government to freeze council tax for two years. The impact of reducing council tax increases to 2.5% for the two years 2011/12 and 2012/13 has been included in the current assumptions.

Council Tax surpluses/deficits

9. The county council's share of the district councils' Collection Fund surpluses and deficits was £1.95m in 2009/10. The MTFP assumes £0.8m in 2010/11 and £1.25m in each year beyond. The lower figure for 2010/11 reflected the likelihood that in the short term the amount of bad debts from Council Tax could increase, lowering the income through the Collection Fund. Due to rising unemployment and the likelihood that it may take some time to recover from the recession, this position could no longer be realistic. At this stage it is prudent to assume that there will be no surplus in 2010/11 and reduced surpluses of £0.8m in each year beyond then. The impact of this is to reduce the one-off funding available in each year. As with the taxbase, figures will not be confirmed until January 2010.

Planned Expenditure

Starting point for the 2010/11 budget

10. The starting point for the 2010/11 budget is the 2009/10 budget adjusted for those items set out in the agreed MTFP for 2009/10 - 2011/12². These include inflation, previously agreed budget changes and function changes.
11. Planned savings of £4.8m for 2010/11 are already built into the MTFP, as well as savings of £5.0m for each year from 2011/12 to 2013/14. When the MTFP was agreed by Council in February 2009, further savings of £2.5m in 2010/11 rising to £5.0m in 2011/12 were required but not identified at that stage.

Changes to Planned Expenditure since February 2009

12. Since the budget was agreed, the financial position has been under continuous review. Pressures relating to the medium term have already been identified which require changes to the planning assumptions. These reflect the scale of the national and global recession, changes in legislation and pressures in the cost of services. The pressures which have been identified are:

Global recession

13. Impacts on Strategic Measures: Whilst CPI and RPI inflation measures are reducing as expected, the Baxter index (which is based on construction indices and applied to developer contributions) is not falling so fast or expected to fall as far. It is currently assumed that an extra £1m may be required. Assuming that the rate of deposit remains more in line with the base rate, the amount of income earned on deposits in 2010/11 could be £0.5m lower than budgeted.
14. The MTFP already includes £6m in 2011/12 for the possible increased costs of the employer's pension contributions following the next triennial valuation due to take place in April 2010. The position based on an assessment in June 2009 showed that the cost could be £2.5m higher than already assumed.

Government legislation

15. If responsibility for concessionary fares is transferred to county councils, there would be a shortfall in funding currently estimated to be £3.0m from 2011/12.
16. Further increases in landfill tax of £8 per tonne for each year from 2011 were announced in April 2009. This will cost an additional £1.5m each year, reaching £6.0m by 2014/15.
17. The Carbon Reduction Commitment (CRC) legislation to address climate change and energy saving was passed in October 2008. However, the details and financial implications of the scheme were only announced in the spring 2009. It is estimated that the cost could be £0.1m in 2010/11 rising to £0.2m in 2012/13. When trading commences, the costs may be much more significant and could be £1.0m in 2013/14 rising to £1.5m in 2014/15 although this will depend upon the Council's performance on carbon reduction.

² Part of the Service & Resource Planning – Financial Plan 2009/10 to 2013/14 document

Directorate pressures

18. In previous years budgets there have been pressures in Directorates which the Council made a decision to fund. As referred to earlier, in setting the budget and MTFP in February 2009, identified pressures were built in. However, there are likely to be some further pressures which arise that will need to be managed. Over the medium term, it is estimated that pressures required to be funded are £6.5m in 2010/11 rising to a total of £21.5m by 2014/15. These include pressures in Children and Families in Children, Young People & Families and the implications of changes in eligibility for Continuing Care within Social & Community Services.

Savings Targets

19. Adding together the effect of the funding and expenditure changes gives a total of £60.0m. Of that £21.0m relates to reduced funding, £34.0m to pressures and £5.0m to the unidentified saving built into the MTFP. The level of reduced funding will be a real reduction in the level of expenditure (ie. it will reduce the overall Budget Requirement), but the remaining savings identified will be recycled to fund continuing or new pressures within the overall funding available.
20. To ensure that pressures identified can be managed across the medium term, savings targets totalling £60m as shown in the following table were allocated to Directorates to be addressed through the business planning process.

Directorate	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	TOTAL £m
Children, Young People & Families	4.4	3.9	3.2	2.5	14.0
Social & Community Services	8.1	7.2	6.1	4.6	26.0
Environment & Economy	3.4	3.1	2.6	1.9	11.0
Community Safety & Shared Services	1.6	1.4	1.1	0.9	5.0
Corporate Core	1.3	1.1	0.9	0.7	4.0
TOTAL	18.8	16.7	13.9	10.6	60.0

21. The savings identified through this process are included as part of the Efficiency Strategies along with any additional pressures.