

Division(s): N/A

## **CABINET – 18 DECEMBER 2012**

### **Service & Resource Planning 2013/14 to 2016/17**

**Report by the Assistant Chief Executive & Chief Finance Officer**

#### **Executive Summary**

This position statement on the service and resource planning process sets out:

- previously agreed additional funding and savings included in the first two years of the medium term financial plan;
- newly identified pressures; and
- an overview of the complex changes to the local government funding system being introduced from April 2013 and the uncertainty this gives over the funding position for next year and beyond.

The report does not include new savings proposals. The Cabinet will bring forward proposals to address the emerging pressures in January 2013, once the funding position is clearer.

#### **Introduction**

1. This report is the second 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 provides information on budgetary pressures faced by the Council and gives an update on the changes to the local government funding system. The report also provides an update on government consultations and initiatives and sets out the review of charges.
2. The provisional local government finance settlement is not expected to be announced until on or around 19 December 2012 and therefore the impact of the settlement is not included in this report. An addenda setting out the implications of the Chancellor's Autumn Statement due on 5 December 2012 will be circulated prior to the meeting.
3. The following annexes are attached:  
  
Annex 1    Previously agreed pressures and savings in the current MTFP  
Annex 2    Pressures on the MTFP  
Annex 3    Review of charges

## Medium Term Financial Plan (MTFP) 2013/14 – 2016/17

4. The existing MTFP includes the final two years of the directorate business strategies approved by Council in February 2011. The previously agreed additional funding and savings for 2013/14 and 2014/15 included in the MTFP are set out at Annex 1 and are summarised in the following table.

	2013/14 £m	2014/15 £m	Total £m
<b>Additional Funding<sup>1</sup></b>			
Children, Education & Families	-0.1	-0.6	-0.7
Social & Community Services	4.7	5.7	10.4
Environment & Economy	5.0	1.3	6.3
Chief Executive's Office		-0.2	-0.2
Corporate			0.0
<b>Total Additional Funding</b>	<b>9.6</b>	<b>6.2</b>	<b>15.8</b>
<b>Savings</b>			
Children, Education & Families	-1.2	-1.1	-2.3
Social & Community Services	-6.6	-7.1	-13.7
Environment & Economy	-7.9	-3.9	-11.8
Chief Executive's Office	-0.7	-0.2	-0.9
Corporate	-0.1	1.6	1.5
<b>Total Savings</b>	<b>-16.5</b>	<b>-10.7</b>	<b>-27.2</b>
<b>Previously Agreed Budget Changes</b>	<b>-6.9</b>	<b>-4.5</b>	<b>-11.4</b>

### Pressures on the MTFP

5. There are pressures on the MTFP coming from a number of areas – new pressures identified by directorates as well as corporate pressures. The corporate pressures arise from taxbase changes as well as a shortfall in funding already included in the later years of the MTFP reflecting anticipated cuts in formula grant beyond 2014/15. The known pressures to date are set out in Annex 2 and are summarised in the table overleaf.
6. These pressures will need to be addressed as part of the council tax setting process and taken into consideration in the Cabinet's budget proposals.

<sup>1</sup> Where a negative is shown this relates to previous years' one-off funding falling out

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Corporate	0.5	0.5	15.1	2.2	18.3
Children, Education & Families	1.5				1.5
Social & Community Services	10.3	1.7	-2.6		9.4
Environment & Economy	2.2	2.2	-2.0	-0.1	2.3
Chief Executive's Office					0.0
<b>Total Pressures</b>	<b>14.5</b>	<b>4.4</b>	<b>10.5</b>	<b>2.1</b>	<b>31.5</b>
<b>Pressure from council tax referendum threshold</b>	<b>5.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>5.8</b>
<b>Further pressure from freezing council tax</b>	<b>3.1</b>	<b>0.2</b>	<b>3.1</b>	<b>0.3</b>	<b>6.7</b>

7. More detail on the corporate pressures and pressures on the level of council tax are given in the following paragraphs.

#### Council Tax Base

8. The taxbase represents the number of properties council tax can be collected from. The existing MTFP assumes a taxbase of 246,757 for 2013/14, based on an increase of 0.75% from 2012/13.
9. The government's scheme to localise council tax support will change the way support is provided – people will get a discount on their council tax bill rather than benefit being deducted from their gross council tax bill. The effect of giving discounts is to reduce the council taxbase. The County Council will receive council tax support grant to help offset the reduction in the council taxbase.
10. The government has stated that a 10% saving is expected with the introduction of the new scheme and it is anticipated that the grant will not fully meet the costs of the scheme. The County Council has explored with the District Councils ways of reducing the budget pressure. The District Councils are considering amending discounts/exemptions on certain classes of properties, such as discounts on second homes. The effect of reducing these discounts/exemptions is to increase the council taxbase and therefore increase the income to the council.
11. On 16 October 2012 the government announced a one-off grant to help authorities develop their council tax support schemes. The schemes put forward by the District Councils qualify for the grant, which means the County Council is eligible to receive £0.6m of one-off funding. Once the transition grant falls out in 2014/15 and with an expectation that the number of claimants may rise in the future, it is currently estimated that there will be an on-going pressure of £0.5m a year.

12. The following table sets out the latest estimate of the County Council's taxbase for 2013/14 taking into account the changes outlined above.

	<b>Taxbase</b>
2012/13 taxbase	244,920
0.75% increase assumed in MTFP	1,837
<b>Estimated taxbase per MTFP</b>	<b>246,757</b>
Reduction due to localisation of council tax support	-21,720
Increase due to amendment of discounts/exemptions	2,518
<b>Estimated revised taxbase</b>	<b>227,555</b>

13. The reduction in taxbase from the new support scheme means that a 1% increase in council tax generates £0.2m less precept income than the taxbase assumed in the MTFP. Growth in the number of properties and/or changes to collection rates could also have an impact on the final taxbase, which will not be known until late January 2013. For planning purposes a £0.5m on-going pressure is currently assumed for these taxbase changes.

#### Council tax level

14. The existing MTFP includes an increase in the Band D council tax of 3.75% in each of the years 2013/14 to 2016/17.
15. On 8 October 2012 the Chancellor announced the government's intention to lower the threshold at which a referendum on council tax increases can be triggered to 2%. If an authority proposes to increase its council tax by more than 2% compared to 2012/13, it will be required to subject this decision to a binding referendum. In 2012/13 the threshold was set at 3.5%. The details will be formally announced as part of the provisional local government finance settlement in December 2012. The difference between a 2% increase in 2013/14 and the 3.75% set out in the existing MTFP would result in an on-going pressure of £5.8m.
16. At the same time as proposing the referendum threshold, the Chancellor announced support for local authorities to freeze council tax. If an authority sets its Band D council tax for 2013/14 at the same (or lower) level than the 2012/13 amount the authority will receive a 2-year grant equivalent to a 1% increase in the 2012/13 amount. The indicative grant is £2.6m for each of 2013/14 and 2014/15. As the grant is only for two years if taken it would need to be replaced on an on-going basis from 2015/16, resulting in an a pressure of £6.7m in addition to the amount set out in paragraph 15.
17. The Cabinet will need to form a view on the council tax level for 2013/14 in proposing their budget on 29 January 2013.

#### Business Rates Retention Scheme

18. Alongside the emerging pressures outlined above is the uncertainty over the amount of funding the County Council will receive through the new business rates retention scheme.

19. The existing MTFP assumes £103.0m of formula grant in 2013/14 (excluding £7.1m of 2011/12 council tax freeze grant), a reduction of £5.2m compared to 2012/13.
20. From April 2013 the current formula grant system is being replaced by the 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). The County Council will receive an element of its general funding from the local share of business rates and the remainder from revenue support grant (RSG). The authority's formula funding will be based on an amount calculated using the formula grant methodology, adjusted for the transfer out of local authority central services equivalent grant (LACSEG)<sup>2</sup>. Grants transferring in to the business rates retention scheme will be added to this amount to give the authority's start-up funding assessment. Illustrative figures for the start-up funding assessment provided by the Department for Communities and Local Government are set out in the table below.

	<b>£m</b>
Formula grant scaled to 2013/14 spending control totals	102.0
Less: LACSEG	-14.0
<b>Formula funding</b>	<b>88.0</b>
Add specific grants transferring in:	
2011/12 council tax freeze grant	7.1
Council tax support grant	23.1
Early intervention grant	17.0
Learning disability & health reform grant	20.2
Lead local flood authorities grant	0.2
Total grants transferring in	67.6
<b>Start-up funding assessment</b>	<b>155.6</b>

21. The LACSEG removed from formula grant is being replaced by a new education grant that will be paid to local authorities and academies on a per pupil basis. Local authorities will receive an allocation for all pupils in maintained schools plus an amount for functions that will remain local authority responsibilities (e.g. Director for Children's Services). Both the amount removed from formula grant and the amount returned as education grant will be based on pupil census data. The provisional finance settlement will be based on the January 2012 pupil count. This will be updated in the final settlement for the October 2012 pupil count.
22. The early intervention grant is currently an un-ringfenced grant. This is being transferred into the start-up funding, although it will exclude an amount being transferred to the dedicated schools grant to fund new duties to provide free education for 2 year olds from lower income households plus an amount to be retained centrally by government for future use in funding early

<sup>2</sup> The LACSEG adjustment represents an amount within formula grant for central services received by local authority maintained schools

intervention and children's services. Indicative allocations at a national level indicate a 27% reduction in funding for the amount being transferred into the start-up funding. This represents around £6.4m for Oxfordshire. Heavy lobbying has taken place regarding the possible reduction in funding. It will not be clear until the draft settlement what the actual funding will be.

23. It should be noted that the CLG figures are only illustrative at this stage as changes to formula grant data/methodology and the basis for transferring grants in/out of the scheme are still to be confirmed. Changes to the methodology and/or basis of transfers could have a significant impact on the start-up funding assessment, leading to considerable uncertainty over the amount of funding the County Council will receive in the provisional finance settlement. Any differences between existing specific grants removed and the amounts added in to the start-up funding assessment and the amount of LACSEG removed and the new education grant would result in a pressure on the MTFP. Until the provisional settlement is announced the extent of this pressure is unknown, but could be of the order of £5m.
24. The start-up funding assessment will be split between the authority's business rates funding baseline and the element to be met from RSG. Modelling suggests that this will be approximately a 40%/60% split. In future years the business rates funding baseline will increase with the Retail Price Index, however the RSG element will reduce in line with government spending plans.
25. The business rates funding baseline will determine how much the County Council will receive from business rates. As the County Council will only receive 10% of the business rates in Oxfordshire (with 50% going to the government and 40% to the District Councils), the difference between this sum and the funding baseline will be provided by a 'top-up' amount. The business rates funding baseline, top-up and RSG will be notified in the provisional finance settlement.
26. The County Council's actual share of business rates for 2013/14 will depend on the amounts collected by the District Councils. The District Councils are due to provide provisional forecasts in late December 2012.

#### Inflation

27. The existing MTFP allows for 2.5% pay inflation, 2.0% for non-pay, 3.0% on specific contracts and 2% on income. In the 2011 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 reduce accordingly, meaning that the reduced cost to the County Council is expected to be offset by reductions in government funding.
28. In September 2012 the Consumer Price Index (CPI) was 2.2% and the Retail Price Index (RPI) was 2.6%, significantly lower than the corresponding rates in the previous September (5.2% and 5.6% respectively). The September rates are used nationally for a number of increases including business rates and pensions. Although both price

indices increased in October 2012 the main upward pressure came from university tuition fees and has no impact on the County Council. The Bank of England continues to predict that CPI will fall back to 2% in the long run.

29. In view of the proposed cap on public sector pay, it is proposed that provision for pay inflation for 2013/14 and 2014/15 is reduced to 1%. In addition, it is proposed that no provision is made for non-pay inflation in 2013/14 and 2014/15, with directorates absorbing any pressure arising. Taken together these changes to allowances for inflation are expected to generate on-going savings of £3.5m in 2013/14 and a further £3.5m in 2014/15. It is not proposed to change the allowance for contract inflation or income in the MTFP.

### **Service & Resource Planning process 2013/14 – 2016/17**

30. Challenge sessions took place in late October 2012. Directorates were asked to review their plans for delivering the savings in the 3<sup>rd</sup> and 4<sup>th</sup> years of the business strategies and put forward proposals for managing any newly identified pressures.
31. The lateness of the Chancellor's Autumn Statement (due 5 December 2012) has pushed back the expected date of the provisional local government finance settlement to 19 December at the earliest. In view of this the Scrutiny Committee meetings to consider the detailed budget proposals have been scheduled for 10 January 2013. A briefing session will be held on 4 January 2013 to provide Members with an update on the provisional finance settlement and an overview of the Scrutiny Committee papers. The papers will set out the latest position on pressures and proposed savings, together with updated business strategies.
32. The Cabinet will propose its budget on 29 January 2013. There will be a briefing for Members on the budget proposals on 24 January 2013.
33. The final local government finance settlement is expected to be announced in late January/early February 2013. The Council will meet to set the council tax on 19 February 2013.

### **Review of Charges**

34. As part of the work being undertaken to update business strategies, service managers have reviewed their charges. Annex 3a sets out the County Council's charging policy and an analysis of the changes in income. The proposed charges are set out in detail in Annex 3b and the Library Service concession matrix at 3c.

## Government Announcements and Consultations

35. A number of government consultations and other initiatives were set out in the report to Cabinet on 18 September 2012. These will have implications for the County Council in 2013/14 or later years. These included:
- Business Rates Retention Scheme
  - Localisation of Council Tax Support
  - Pensions
  - Local Authority Central Services Equivalent Grant (LACSEG)
  - National Schools Funding Formula
  - Public Health
  - Social Care White Paper
  - Independent Living Fund
  - Local Welfare Assistance
  - Healthwatch and NHS independent advocacy services
  - Police and Crime Commissioners
36. Since the September 2012 report further consultations and announcements have been made which have financial implications for the County Council. These are set out below.

### Remand of Children

37. On 21 September 2012 the Ministry of Justice published a consultation 'The New Remand Framework for Children: Allocation of New Burdens Funding to Local Authorities', which seeks views on the devolution of financial responsibility to local authorities for children placed in secure remand from April 2013. The consultation closed on the 16 November 2012. The proposed funding allocation for the County Council under the new arrangement is £0.171m.

### Business Rates Retention Scheme

38. The government issued draft regulations covering the detailed operational aspects of the business rate retention scheme for consultation on 25 October 2012, with a closing date of 23 November 2012. These regulations mirrored previous details provided in the summer consultation document.
39. On 21 November the government made a policy statement on business rates retention. The key elements announced were: a limit on the levy on disproportionate growth to 50p in the pound; confirmation that the safety net would be set at 7.5% below the funding baseline, the most generous level previously proposed; confirmation of the 80% district councils/20% county councils split in the local share of business rates in two-tier areas; a limit to the funding held back for New Homes Bonus payments in 2013/14 and 2104/15; a change to the basis of calculating authorities' proportionate shares of the national business rates total to only using the last two years' data instead of five and a reduction in the estimated national rates total to allow more for appeals – these impact on baseline funding positions.

40. The changes announced, in particular the imposition of a maximum levy and changes to proportionate shares, have implications for the pooling arrangement proposed for the County Council and District Councils. Further work is being undertaken to assess whether there remains a benefit to forming a business rate pool. The government has recognised this and has extended the deadline for confirming arrangements.

#### Autumn Statement

41. The Chancellor is due to publish his Autumn Statement on 5 December 2012. An addendum will be produced setting out the main features of the statement and any known implications for the County Council's financial position.

### **Strategic Measures, reserves and balances**

#### Strategic Measures

42. The Treasury Management Strategy Statement and the Annual Investment Strategy for 2013/14 will be finalised once the local government finance settlement is confirmed. From April 2011 the government replaced the "credit approval" system, providing resources to support capital investment as grant rather than borrowing consent. The 2012/13 Treasury Management Strategy Statement was updated to reflect this change – as a result there are no plans to borrow externally and internal borrowing will be used to finance prudential schemes. This position will be reviewed after capital funding for 2013/14 has been announced. The statement will also set out the forecast Bank Rate, along with forecast of interest rates to be achieved on investments over the medium term. The forecasts for the cost of borrowing and the amount of income expected from investments will be reflected in the Strategic Measures budget for 2013/14 and over the medium term.

#### Reserves

43. Forecast reserves totalling £95.8m as at 31 March 2013 are set out in Annex 3 of the 2012/13 Financial Monitoring & Business Strategy Delivery Report (elsewhere on this agenda). £11.9m relates to school balances – during the year it is anticipated that £5.9m of school balances will be transferred to schools which have converted to academies. £55.1m are corporate reserves, including the Efficiency Reserve and Capital Reserve. The level and use of these reserves is being reviewed and will be updated for the Service & Resource Planning report in January 2013.

#### Balances

44. The County Council's policy is to maintain balances at a level commensurate with identified risks. The forecast balances over the medium term in the current MTFP are set out overleaf.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
<b>Estimated balances at start of year</b>	<b>13.7</b>	<b>14.5</b>	<b>15.5</b>	<b>16.5</b>
Budgeted change in balances	2.8	3.0	3.0	2.0
<b>Total balances at start of year</b>	<b>16.5</b>	<b>17.5</b>	<b>18.5</b>	<b>18.5</b>
Estimated use of balances	-2.0	-2.0	-2.0	-2.0
<b>Estimated balances at end of year</b>	<b>14.5</b>	<b>15.5</b>	<b>16.5</b>	<b>16.5</b>

45. Balances at the end of 2011/12 were in line with the estimated position per the MTFP and there have been no calls on balances to date in 2012/13, although the recent flooding may result in some use of balances before the end of the financial year. The position will be updated for the January 2013 Service & Resource Planning report to take into account the proposals to balance the budget over the medium term and the uncertainty of future funding levels under the business rates retention scheme.

## Capital Programme

### Capital Strategy

46. The Council's capital strategy sets out prioritisation principles for capital investment and provides the framework for determining capital spending plans and the effective use of the limited capital resources. An update to the capital strategy will be reported to Cabinet in January 2013, along with updated corporate asset management and transport asset management plans.

### Future Devolved Governance

47. In September 2012 the Department for Transport set out detailed proposals for devolving funding for local major transport schemes to local transport bodies (LTBs) from 2015. LTBs will be voluntary partnerships between local authorities, local enterprise partnerships (LEPs) and other stakeholder organisations. Their primary role will be to decide which investments should be prioritised, to review and approve individual business cases for those investments, and to ensure effective delivery of the local major schemes programme. Further details will be reported to Cabinet at a later date.
48. In October 2012 the government announced a second wave of City Deals. Twenty cities and their wider areas, including Oxford and Central Oxfordshire, have been invited to compete for deals that would see government devolve powers in exchange for responsibility for delivering growth locally. Further details are provided in the report Future Devolved Governance: City Deals, elsewhere on this agenda.
49. These two initiatives are likely to have an impact on the Council's capital programme and on the capital governance arrangements.

### Capital Resources

50. The following table shows the resources that are available to be allocated to new schemes in the capital programme up to 2016/17.

<b>Additional Flexible Funding:</b>	<b>£m</b>
Additional Basic Needs Settlement	5.5
Additional Capital Receipts	4.0
Earmarked Reserves for Capital Budget Setting	12.0
<b>Total Flexible Resources</b>	<b>21.5</b>

51. Pressures on capital resources include schools basic need and the east/west rail project as set out below.
52. The number on roll at Oxfordshire's primary schools rose by 886 (1.9%) from May 2011 to May 2012, faster than the 1.3% increase in the previous year. For reception age alone, numbers have grown by over 3%. The additional pupil place requirement for basic need is currently estimated to be 1,145 places. The budget requirement at this stage is estimated to be £13m.
53. Delivery of East/West Rail will require construction of new road bridge(s) where there are existing level crossings – the higher level of rail traffic will mean that level crossings will no longer be acceptable on grounds of safety risk and inconvenience to local traffic. Government funding for East/West Rail was dependent upon the consortium securing a local contribution of around £30m, with best endeavours to secure an additional £20m – this figure needs to be secured from local partners along the length of the project (5 local transport authorities) and over the course of what is anticipated to be a 15-20 year franchise. The mechanism for securing a local contribution is currently the subject of discussion. Based on a population distribution, the contribution from Oxfordshire could be up to £10m or £0.660m per year (assuming a £50m total contribution).
54. The Cabinet will need to consider these and other pressures when allocating the available flexible resources in the proposed capital programme in January 2013.

### **Consultation**

55. Consultation with residents is part of the budget setting process and views expressed in the residents' survey (Oxfordshire Voice Citizens' Panel) are taken into account. The survey asks panel members about their service priorities and includes general questions about the council's finances.
56. In addition to this, the County Council also carries out detailed consultation exercises to support service change policy decisions, where it is considered appropriate to do so. Examples of these include the consultation on the proposed introduction of charges for long-stay use of Thornhill and Water Eaton Park & Ride sites and the consultation on the proposed charges to day and resource centres.

57. Information about the consultation exercises used to support budget setting and individual policy decisions can be found on the County Council's [consultation portal](#) on our website.
58. There is also an opportunity to comment on the budget proposals via the County Council's website. The consultation is open from 4 January 2013 to 1 February 2013 and the views expressed will be taken into consideration in the budget proposed to Council and will be shared with all councillors in advance of the Council meeting on 19 February 2013.

## **Equality and Inclusion Implications**

59. 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.' Oxfordshire's Equality Policy 2012-2017 sets out how the Council is approaching its responsibilities for ensuring that all residents in Oxfordshire have fair access to services and equal life chances.
60. It also ensures we are compliant with legislation by setting our equality objectives for the next four years, and includes specific actions we will take to build on current achievements and address areas where improvements are needed in our performance.
61. As part of the service and resource planning process for 2013/14, the Council will produce a general assessment of the impact of the budget on customers ahead of the budget being set in February 2013. This document will set out the principles that are being followed, identify the main risks to vulnerable groups and establish what actions would be taken to prevent these risks. All significant changes to the budget are to receive an impact assessment to identify potential risk in advance of the budget being set. Further work will be 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 Service and Community Impact Assessments (SCIAs) will form part of the budget papers to be considered by Scrutiny Committees in their meetings on the 10 January.

## **Financial and Legal Implications**

62. This report is mostly concerned with finance and the implications are set out in the main body of the report.
63. The Local Government Finance Act 2012 which introduces the business rates retention scheme received Royal Assent on 1 November 2012. The government's consultation on the draft regulations that underpin the new scheme closed on 23 November 2012. The outcome of the consultation is not yet known, however it is expected that the regulations will be in place before the Council is required to set the council tax requirement in February 2013.

## **RECOMMENDATION**

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

- (a) Note the report and that an addenda will be produced following the announcement of the Chancellor's Autumn Statement;**
- (b) Consider, in forming their budget proposals, the council tax referendum threshold announced by the Chancellor;**
- (c) Consider, in forming their budget proposals, the implications in future years of accepting the Council Tax Freeze Grant in 2013/14;**
- (d) Consider, in forming their budget proposals, the revised inflation assumptions set out in paragraph 29;**
- (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 3 noting that some of these charges will commence before April 2013.**

SUE SCANE

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Background papers: Nil

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