

Division(s): N/A

CABINET – 16 SEPTEMBER 2014

Service & Resource Planning 2015/16

Report by the Chief Finance Officer

Introduction

1. This report is the first in a series on the Service & Resource Planning process for 2015/16, providing councillors with information on budget issues for the next financial year and the medium term. The report presents the assumptions on which the existing Medium Term Financial Plan (MTFP) is based, the financial strategy that informs the budget setting process, known and potential financial issues for 2015/16 and beyond which impact on the existing MTFP, and proposes a process for Service & Resource Planning for 2015/16 including a timetable of events.
2. Sustained reductions in Government funding combined with pressure to restrict Council Tax increases have resulted in a significant squeeze on Council resources over recent years, at a time when demand for services has been increasing. This financial squeeze is being addressed through new directorate business strategies for the period 2014/15 to 2017/18 agreed by Council in February 2014 and reflected in the MTFP, which build on the previous strategies agreed in 2011. Over the period 2010/11 to 2017/18 the Council plans to save £265m to offset funding reductions and to meet additional expenditure pressures.
3. The following annexes are attached to this report:

Annex 1a: Review of assumptions in the existing MTFP

Annex 1b: Previously agreed budget changes 2015/16 – 2017/18

Annex 2: Service & Resource Planning timetable for 2015/16

Annex 3a: Financial Strategy 2014/15 – 2017/18 – refreshed 2015/16

Annex 3b: Treasury Management Strategy – Interest Rates

Annex 3c: Corporate Charging Policy

Annex 4: Government consultations and announcements

Assumptions in the existing Medium Term Financial Plan

4. The 2014/15 – 2017/18 Medium Term Financial Plan (MTFP) agreed by Council in February 2014 provides for 1% pay inflation, up to 3% contract inflation, 2% income inflation and nothing for general price inflation in 2015/16, with increased provision for pay inflation in later years.

5. The MTFP includes an additional £8m of on-going funding for demographic and other directorate expenditure pressures added over the period 2015/16 – 2017/18, together with £52m of on-going directorate savings and £9m corporate savings to be delivered over the same period.
6. The MTFP assumes £18m general balances and £64m earmarked reserves at the start of 2015/16. The latest financial monitoring report forecasts £12m general balances and £99m earmarked reserves at the end of 2014/15. The Budget Reserve is being used to manage the cash flow implications of the MTFP. It is forecast to go into £6m deficit in 2015/16, rising to £15m in 2016/17. Any temporary use of other reserves or other balances to manage the position would need to be replaced in a subsequent year.
7. General funding (excluding council tax) is estimated to reduce by £18m between 2015/16 and 2017/18 to £111m a year by 2017/18, a reduction of 24% compared to 2014/15. Council tax increases of 1.99% in 2015/16 and 3.0% in each of the following two years are assumed in the MTFP. Total income from Council Tax (including collection surpluses) is estimated to be £309m a year by 2017/18.
8. Further details on the assumptions in the existing MTFP are provided in Annex 1a, and details of previously agreed directorate budget changes (pressures and savings) for 2015/16 - 2017/18 are set out in Annex 1b.

Service & Resource Planning Process

9. Given the uncertainties over future levels of government funding due to the forthcoming General Election, with no government departmental expenditure limits set beyond 2015/16 and a date for the next spending review unknown, it is proposed not to extend the medium term planning period beyond 2017/18. This timeframe also reflects the period of this administration. Limited adjustments will be made to the existing MTFP to reflect any changes to spending and funding assumptions.
10. 2015/16 is the second year of the four-year directorate business strategies approved by Council in February 2014. Directorates will need to identify proposals to meet on-going expenditure pressures highlighted in the Financial Monitoring report to Cabinet and any new expenditure pressures emerging during this planning round and refresh their strategies accordingly.
11. The Performance Scrutiny Committee will meet to consider detailed budget proposals in mid-December 2014 and capital proposals in early January 2015.
12. The draft Local Government Finance Settlement is expected to be announced in mid/late December 2014 with the final settlement expected in early February 2015. This will confirm the general funding available to the Council for 2015/16 and the Council Tax referendum limit to be applied.

13. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by the end of January 2015. Provisional figures are expected in December 2014.
14. The Council meeting to agree the 2015/16 revenue budget, medium term financial plan and capital programme will take place on 17 February 2015.
15. A timetable for the Service & Resource Planning process is attached at Annex 2.

Relevant Policies and Strategies

Financial Strategy

16. The Financial Strategy sets out how the Council intends to finance its services and priorities and the principles upon which the medium term financial plan and the capital programme are based.
17. A refreshed Financial Strategy for 2015/16 is attached at Annex 3a, following on from a full revision and update in the last service & resource planning round.

Treasury Management – Interest Rates

18. The current MTFP includes the following target rates of return on deposits for the period 2014/15 to 2017/18:
 - 2014/15 0.80%
 - 2015/16 0.80%
 - 2016/17 0.80%
 - 2017/18 1.00%
19. Based on the latest advice from the Council's advisors, past performance on rates achieved on deposits, the current portfolio and market rates, the Treasury Management Strategy Team proposes the strategic measures budget estimates will be based on the following:
 - 2015/16 1.0%
 - 2016/17 1.5%
 - 2017/18 1.9%
20. Further details are provided in Annex 3b.

Corporate Charging Policy

21. The Cabinet agreed an updated Corporate Charging Policy at its meeting on 17 December 2013. The policy is required to be reviewed annually as part of the Service & Resource Planning process.

22. The revised Corporate Charging Policy is attached at Annex 3c. Following last year's full update, only minor changes have been made to the policy this year. Service Managers should have regard to this revised policy in completing the review of charges to be considered by the Cabinet at its meeting in December 2014.

Government consultations and announcements and other developments

23. The Government has initiated a number of consultations and made announcements which have financial implications for the Council. These consultations and announcements, together with other developments, are summarised below, with more details provided in Annex 4.

Finance settlement technical issues

24. The Government is currently consulting on a limited number of technical issues relating to the 2015/16 Local Government Finance Settlement.
25. The increase in the small business rates multiplier for 2014/15 was capped at 2% rather than increasing with the Retail Price Index (3.2%). In 2014/15 local authorities have been compensated for the loss in business rates income¹ through a grant. The Government propose to compensate local authorities in the same way for 2015/16. The Council's estimated compensation in 2014/15 for the cap on the business rates multiplier and additional business rate reliefs announced in the 2013 Autumn Statement is £1.5m. The MTFP assumes that this funding will continue.
26. Some local authorities (including the Council) no longer meet the threshold required to participate in the Carbon Reduction Commitment (CRC) scheme following the Government's withdrawal of all state funded English schools from the scheme. The Government intends to recoup the loss in tax revenue from these local authorities by deducting an amount from their 2015/16 settlement. The Council will lose £0.1m as a result of this deduction.

Business rate pooling

27. The Government has published a revised Business Rates Retention Pooling Prospectus. This updates and replaces the existing Prospectus and provides a timetable for the 2015/16 process.
28. Under the Business Rates Retention Scheme, local authorities can formally seek designation as a pool. This allows the pool members to be treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

¹ The compensation relates to both the Council's local share of retained business rates and the business rates top-up grant, both of which would normally increase in line with the September RPI

29. The County Council is part of the North Oxfordshire Business Rates Pool, along with Cherwell District Council and West Oxfordshire District Council. Under this arrangement the County Council gets a 7.5% share of any retained levies, estimated to be £0.1m for 2014/15.
30. Pools that have previously been designated will continue in existence. Any proposed changes to pools must be notified to the Department for Communities and Local Government (DCLG) by 31 October 2014.

Adult Social Care Funding

31. In July 2014 the Government published a consultation on the funding formulae for implementation of the Care Act in 2015/16. This covers the allocations for additional assessments for the cap on care costs, universal deferred payment agreements and social care in prisons. The indicative total revenue grant allocation for the Council is between £3.6m and £3.7m, depending on which options are chosen. The Department of Health has also announced that it will be asking each upper-tier local authority to estimate the cost it faces implementing Care Act reforms amid growing concern the measures will prove unaffordable.
32. The Local Government Association and NHS England have issued updated guidance on the Better Care Fund. The £1bn pay-for-performance framework has been revised so that the proportion that is now linked to performance is dependent solely on an area's scale of ambition in setting a planned level of reduction in total emergency admissions. Better Care Fund Plans are required to be re-submitted by 19 September 2014.
33. A Supreme Court ruling earlier this year is likely to result in a significant increase in the number of Deprivation of Liberty Safeguards assessments required to be made by local authorities and applications to the Court of Protection. Initial work undertaken by the Association of Directors of Adult Social Services suggests that referrals for assessments/applications will increase ten-fold, costing an additional £88m nationally. A separate report on the resource implications for the Council is elsewhere on this agenda.

Education and Schools Funding

34. In March 2014 the Department for Education (DfE) published a consultation on fairer schools funding for 2015/16 and the allocation of an additional £350m nationally to increase the per-pupil budgets for the least fairly funded local areas. National minimum funding levels for five pupil characteristics and two school characteristics will be used to determine a minimum per pupil funding threshold for each local authority, with Dedicated Schools Grant allocations being topped-up where necessary to meet the threshold. In response to the consultation the DfE has increased the top-up funding to £390m. The additional indicative amount expected for Oxfordshire schools is £3.5m.

35. The DfE published a consultation in June 2014 on the introduction of an Early Years Pupil Premium (EYPP) from April 2015 and on moving to participation funding for the early education entitlement for two year olds from 2015/16. An EYPP of £300 a year per full entitlement take-up is proposed. £50m has been allocated nationally for EYPP and Oxfordshire's indicative allocation is £0.4m. Funding for free early education for the least advantaged two year olds is currently based on estimated eligible two year olds. From 2015/16 the DfE intends to allocate funding according to the actual number of hours funded, to mirror the approach used for three and four year old entitlements.
36. In the 2013 Spending Round, the Government announced that the national total for Education Services Grant (ESG) will be reduced by 20% from 2015/16. Having consulted on ways to make savings earlier this year, in July 2014 the DfE published the final arrangements for 2015/16. The retained duties element of the grant² will remain at £15 per pupil and the general funding rate³ will reduce to £87 per pupil (a 23% reduction). There will be no top-up rate for academies in the 2015/16 academic year, however there will be revised tapered protection arrangements to protect academies from large budget reductions. The Council's current MTFP assumes a £1.4m reduction in ESG in 2015/16. Based on the final arrangements the estimated reduction is £1.6m.

Environment

37. The Government is consulting on implementation of the sustainable drainage systems (SuDS) provisions of the Flood and Water Management Act 2010. Under the Act the County Council will be a SuDS Approving Body, with responsibility for approving proposed drainage systems in new developments or redevelopments. The cost of administering the approval process is likely to be funded through fee generation. There will be additional duties for adopting and maintaining SuDS which serve more than one property, together with a continuing duty as a highway authority for SuDS maintenance in public roads. There is uncertainty as to how maintenance costs will be funded in the short-term, however in the longer term these will be fee based.

Public Health

38. From 1 October 2015, the Government intends local authorities take over responsibility from NHS England for commissioning public health services for children aged 0-5. Local authorities already have responsibility for commissioning public health services for children and young people aged 5-19, so this transfer will enable joined up commissioning from 0-19 years old. For 2015/16 the amount being spent by NHS England area teams on 0-5 services will transfer to local authorities at the point of transfer. From

² The Education Services Grant retained duties rate is paid to local authorities for every pupil, both at maintained schools and academies

³ The Education Services Grant general funding rate is paid to local authorities for pupils in maintained schools and to academies for their pupils

2016/17 onwards, the 0-5 baseline will be added to existing public health grant allocations.

Pensions

39. The employer contribution rate for the Teachers' Pension Scheme will increase from the current rate of 14.1% of pensionable pay to 16.4% with effect from 1 September 2015, following actuarial valuation of the combined existing scheme and new career average revalued earnings (CARE) scheme being introduced on 1 April 2015. The employer contribution rate is expected to be reassessed at the actuarial valuation to be carried out as at 31 March 2016 and the next revision of the employer contribution rate is expected to take effect from 1 April 2019. The estimated full-year additional cost is £1.8m for current maintained schools and £0.1m for directorates. Schools have been alerted to this additional expenditure pressure which will need to be met from existing delegated budgets.

Insurance

40. The Council's insurance contract is due for renewal in June 2015, and the market is hardening. Other local authorities are experiencing a sharp increase in insurance premiums on retendering of contracts, for example of the order of between 50% - 400%. Within the Council's current long-term agreement the cost of premiums has increased moderately year-on-year, however there have been larger increases in the amount of self-insured risk that the insurers are requiring. These increases reflect the additional perceived risk by the insurers based on the Council's claim history. This position is not likely to improve under the new contract, as tenders will take into account claims history, with further pressure arising from an expected increase in future claims. The level of self-insured cover is expected to continue to increase significantly, estimated at £1m for 2015/16 based on current trends. It is anticipated that premiums will continue to increase at around £0.1m per annum over the term of the next contract. There is a further pressure of £0.4m to cover the perceived risk of claims incurred but not yet received.
41. Taking all of these factors into account, for 2015/16 the estimated budgetary pressure to continue with the same level of insurance is of the order of £1.0m to £1.5m, with a further £0.1m in each subsequent year for increases in insurance premiums.

Capital Programme Planning

42. The Capital Strategy section of the Financial Strategy provides the framework for determining capital spending plans and the effective use of the Council's limited capital resources.
43. The Property Asset Management Plan and Highways Asset Management Plan underpin the Capital Strategy. The Property Asset Management Plan sets out the role of the Council's property assets in meeting strategic

objectives and the directorate business strategies. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure. An updated Highways Asset Management Plan is elsewhere on this agenda. The Property Asset Management Plan will be updated as part of the capital planning process and the Highways Asset Management Plan will be updated to include a list of proposed schemes.

44. 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, and implications for the medium term financial plan are clearly identified.
45. In view of the delivery period for significant programmes, such as those relating to the Local Growth Deal, it is proposed to extend the capital planning period a further year to cover the period 2014/15 to 2018/19. This will provide an additional year of funding in the capital programme.
46. New capital investment pressures are currently emerging. Proposals will be brought forward in September/October 2014 to inform the capital planning process. The £18m reduction in the Children, Education & Families programme required due to the shortfall in Basic Need funding highlighted in the 2014/15 to 2017/18 capital programme will also need to be addressed.
47. Councillors will have an opportunity to contribute to capital prioritisation decisions through the January 2015 Performance Scrutiny Committee meeting.

Equality and Inclusion Implications

48. 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.'
49. There are no equality and inclusion implications arising directly from this report. Where any significant changes to services are proposed as part of the 2015/16 Service and Resource Planning process, a general assessment of the broad impact of new budget proposals will be undertaken ahead of the budget being set in February 2015, together with initial service-level assessments for all significant changes.

Financial and Legal Implications

50. This report is mostly concerned with finance and the implications are set out in the main body of the report. 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 2015, will lead to the council tax requirement being agreed in February 2015, together with a budget for 2015/16, updated medium term financial plan and capital programme.

RECOMMENDATION

51. The Cabinet is RECOMMENDED to:

- (a) note the report;**
- (b) approve the Service and Resource Planning process for 2015/16;**
and
- (c) approve the updated Financial Strategy set out at Annex 3a.**

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