

## CABINET – 24 JANUARY 2017

### SERVICE & RESOURCE PLANNING 2017/18 – 2020/21

#### Report by the Director of Finance

#### Introduction

1. This report is the final report to Cabinet in the series on the service & resource planning process for 2017/18 to 2020/21, providing councillors with information on budget issues for 2017/18 and the medium term. It sets out the proposed 2017/18 budget, the draft 2017/18 – 2020/21 Medium Term Financial Plan (MTFP) and 2016/17 – 2020/21 Capital Programme. Information outstanding at the time of the Cabinet meeting will be reported to Council when it considers the budget on 14 February 2017.
2. The budget and draft 2017/18 – 2020/21 MTFP include the Cabinet’s budget proposals which take into consideration the latest information on the council’s financial position outlined in this report plus comments from the Performance Scrutiny Committee meeting on 5 January 2017 and comments from the public consultation on the budget. As final notification of some funding streams is awaited, some further changes may be made to the budget proposals ahead of Council on 14 February 2017.
3. The service & resource planning report to Council in February will be set out in four sections:
  - Section 1 – Leader of the Council’s overview
  - Section 2 – Council Vision
  - Section 3 – Chief Finance Officer’s statement on the budget
  - Section 4 – Budget Strategy and Capital Programme
4. This report forms the basis of Section 4 to that report and the annexes are numbered on that basis. The report also sets out the review of charges for Cabinet approval at Annex 1.

<b>Section 4</b>	<b>Budget Strategy and Capital Programme</b>
4.1	Draft medium term financial plan (MTFP) 2017/18 – 2020/21
4.2	Revenue budget pressures and savings proposals
4.3	Council tax 2017/18 (draft)
4.4	Draft detailed revenue budget 2017/18
4.5	Treasury management strategy statement and annual investment strategy for 2017/18 (including prudential indicators and minimum revenue provision policy statement)
4.6	2017/18 risk assessment for level of balances
4.6.1	Summary of balances and reserves
4.7	Dedicated Schools Grant provisional allocation 2017/18

4.8	Virement rules for 2017/18
4.9	Updated capital programme 2016/17 – 2020/21
4.9.1	Capital proposals for 2017/18 – 2020/21
4.9.2	Highways Structural Maintenance Programme 2017/18 – 2018/19
4.9.3	Strategic Property Asset Management Plan
4.10	Comments from Performance Scrutiny Committee
4.11	Budget consultation report
<b>Annex 1</b>	<b>Review of Charges</b>
Annex 1a	Overview and Summary
Annex 1b	Proposed Charges

## Council Vision

5. The Council will not have a new Corporate Plan until after the May 2017 elections. However our approach will continue to be based on the vision of a Thriving Oxfordshire for Everyone, where:
  - Every community thrives, and everyone can play an active part
  - Everyone leads safe, healthy lives while people with the greatest need are cared for so:
    - older and disabled people can live independently
    - every child has the best start in life
    - everyone is protected from abuse or neglect
  - A strong and thriving economy creates jobs and homes for the future, where the environment and quality of life for Oxfordshire communities is protected.
  
6. We will achieve this by:
  - Putting residents at the heart of everything we do
  - Understanding the strengths and needs of each community, so we can help them to help themselves
  - Working closely with elected members and empowering our staff to make a real difference to people's lives
  - Continually looking for new ways to improve services and reduce costs
  - Working with people, communities and other organisations as one, joined up council
  - Fighting for Oxfordshire to secure investment in public services and infrastructure
  - Making dealing with the council simpler, with better use of digital technology

## Overview and advice from the Chief Finance Officer

7. Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (Director of Finance) is required to report on the robustness of the estimates made in determining the council tax requirement and on the adequacy of the proposed financial reserves. This assessment will be included in Section 3 of the report to Council in February 2017.

## Information Outstanding

8. There are several areas where information is still provisional and on which assumptions are included in the budget and capital programme for 2017/18:
  - Final local government finance settlement, including the revenue support grant and the business rates top-up
  - Local business rates forecasts
  - Surpluses/shortfalls on council tax and business rates collection funds
  - Several specific grant notifications including the Special Educational Needs and Disabilities (SEND), Extended Rights to Free Travel and Local Reform and Community Voices.
  - Education capital maintenance grant
9. Any changes once this information is finalised could have an impact on the budget or capital programme. Any changes to the provisional assumptions will be reported to Council in February 2017 by the Director of Finance. All Councillors will be notified of any updated information once it is received.
10. In light of the information outstanding, it is proposed that authority is delegated to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the Cabinet's proposed budget ahead of the Council meeting on 14 February 2017.

## Draft Budget 2016/17 and Medium Term Financial Plan to 2019/20

11. In September 2016, Cabinet agreed that the Medium Term Financial Plan (MTFP) to be agreed by Council on 14 February 2017 would cover the four years 2017/18 to 2020/21. A draft MTFP for 2017/18 to 2020/21 is set out in Section 4.1. This is based on the latest information on financing available to the Council following the Provisional Local Government Finance Settlement plus the new pressures and proposed savings as set out in Section 4.2 to this report.

## Provisional Local Government Finance Settlement

12. On 15 December 2016, the Provisional Local Government Finance Settlement was announced by the Secretary of State for Communities and Local Government, Sajid Javid MP. The announcement set out provisional allocations for 2017/18 as well as 2018/19 and 2019/20. The publication of the Draft 2017/18 Local Government Finance Report was the start of a consultation period that ended on 13 January 2017. The final settlement is therefore not expected until the first week of February 2017.
13. This year's settlement is the second year of the current four year Spending Review period and the four year funding offer for local authorities (2016/17 to 2019/20). Following submission of an Efficiency Plan to the Department for Communities and Local Government (DCLG), the Council had notification that it is formally on a four year settlement on 17 November 2016.

### *New Homes Bonus*

14. In early 2016, the DCLG consulted on options to reform the New Homes Bonus Scheme from 2017/18. The aim of the reforms was to sharpen the incentive to deliver new housing. The Government also wished to reduce the level of payments, in order to provide additional funding for the Improved Better Care Fund. Proposals included:
  - (1) Withholding the Bonus from areas where an authority does not have a Local Plan in place
  - (2) Abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal
  - (3) Adjusting the Bonus to reflect estimates of <sup>1</sup>deadweight
  - (4) A reduction in the number of years for which the Bonus is paid from the current 6 years to 4 years.
  
15. The Government has now responded to their consultation confirming that payments of the New Homes Bonus will only be made on housing growth above 0.4% of the local authority's housing stock (the consultation proposal was 0.25%). Payments will also reduce from 6 to 5 years in 2017/18 and to 4 years in 2018/19. This will yield £241m to fund the one-off Adult Social Care Support Grant in 2017/18.
  
16. In 2018/19 the Government will consult on the remaining two proposals:
  - (1) Withholding the Bonus from areas where an authority does not have a Local Plan in place
  - (2) Abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal
  
17. DCLG has published provisional New Homes Bonus allocations for 2017/18, the seventh year of the scheme. Payments include the grant awarded in years 3 to 6 as well as year 7. The existing MTFP includes reductions in forecast income in anticipation of the outcome of the consultation. However, the council's provisional allocation for 2017/18 is £4.2m and is £0.3m higher than estimated.

### *Adult Social Care Support Grant*

18. In 2017/18 there will be an Adult Social Care Support Grant of £241m nationally funded from changes to the New Homes Bonus described in paragraph 14 above. This grant has been allocated based on the adult social care relative need formula and Oxfordshire will receive £2.3m.

### *Adult Social Care Precept*

19. The 2017/18 settlement sets out that upper-tier authorities will be able to increase the social care precept to 3%, in each of the next two years. However, the total increase may be no more than 6% in total over the next three years. The existing MTFP already assumes a 6% increase across the three years to 2019/20; therefore there are no additional on-going resources available to the council through this measure. However, this proposal does raise additional council tax

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<sup>1</sup> Deadweight refers to usual housing growth

income of £3.3m in 2017/18 and £3.8m in 2018/19, offset by the loss of £7.5m of precept income assumed in the existing MTFP in 2019/20.

20. Local authorities will be expected to demonstrate how the adult social care precept has been spent on adult social care services and councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 must also show how they plan to use this extra money to improve social care. Details of the conditions of the scheme have not however been announced yet. They are expected in the “near future”.

## Draft Budget 2017/18

21. The table below sets out the funding available for 2017/18 and the net operating budget for 2017/18. The net operating budget represents the gross expenditure on council services less specific government grants (such as the Dedicated Schools Grant). Changes from the previous report and from the MTFP for both 2017/18 and over the medium term are explained in the ensuing paragraphs.

	(a)	(b)	(c)	(b) - (a)	(c) - (b)	(c) - (a)
	MTFP	December	Proposed	Dec Report	Proposed	Proposed
	£m	Report	Budget	vs MTFP	Budget vs	Budget
		£m	£m	£m	Dec Report	vs MTFP
				£m	£m	£m
<b>Funding</b>						
<u>Government Grant:</u>						
Revenue Support Grant	-18.7	-18.7	-18.7	0.0	0.0	0.0
Business Rates Top-up	-38.1	-38.1	-37.8	0.0	0.3	0.3
<u>Business Rates:</u>						
Local Share of Business Rates	-30.5	-30.5	-30.5	0.0	0.0	0.0
Business Rates Surplus/Deficit	0	0	0	0.0	0.0	0.0
<u>Council Tax:</u>						
Council Tax Requirement	-323.3	-324.4	-328.0	-1.1	-3.6	-4.7
Council Tax Surplus/Deficit	-4.0	-6.9	-6.9	-2.9	0.0	-2.9
<b>Total Funding</b>	<b>-414.6</b>	<b>-418.6</b>	<b>-421.9</b>	<b>-4.0</b>	<b>-3.3</b>	<b>-7.3</b>
<b>Expenditure</b>						
Base Budget (2016/17 Net Budget)	417.5	417.5	417.5	0.0	0.0	0.0
Inflation	3.4	3.4	2.6	0.0	-0.8	-0.8
Function & Funding Changes	2.0	3.2	1.4	1.2	-1.8	-0.6
Previously Agreed Budget Changes in MTFP	-8.3	-8.3	-8.3	0.0	0.0	0.0
<u>Variations to the Existing MTFP:</u>						
New Pressures & Changes to Previously Agreed Plans	0.0	30.1	37.7	30.1	7.6	37.7
New Savings	0.0	-25.8	-29.0	-25.8	-3.2	-29.0
<b>Total Expenditure</b>	<b>414.6</b>	<b>420.1</b>	<b>421.9</b>	<b>5.5</b>	<b>1.8</b>	<b>7.3</b>
<b>Budget Shortfall</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>1.5</b>	<b>-1.5</b>	<b>0.0</b>

## **Revenue Support Grant, Business Rates Top-up and Local Business Rates**

22. The Revenue Support Grant is one of the funding elements that is guaranteed through the Government's four year offer and therefore the council's allocation is unchanged in 2017/18 and over the medium term.
23. Although, the council's Business Rates top-up allocation is also guaranteed through the four year offer, the amount announced in the provisional settlement has reduced by £0.3m compared to the MTFP. This is due to the impact of the 2017 Business Rates Revaluation as explained below.
24. Revaluation realigns rateable values with current rental values set by the market to reflect relative changes in the rental value of properties in different sectors and locations. This process ensures that the total business rates bill is shared fairly across ratepayers according to property values. A revaluation, however, does not raise any additional revenue at a national level. To maintain the total revenue raised through business rates the government adjusts the business rate multipliers (the tax rate) either up or down to counter balance the increase or decrease in total rateable values as a result of a revaluation. This is done after allowing for the effects of changes in the Retail Price Index and an allowance for anticipated losses from appeals against rateable values.
25. The last revaluation came into effect on 1 April 2010 and was based on rateable values set at 1 April 2008. Revaluations normally take place once every five years. However, in 2012, the government postponed the 2015 revaluation until 2017 in order to provide greater stability for businesses during a period of economic difficulty. The 2017 revaluation will be based on rental values on 1 April 2015 and come into effect on 1 April 2017.
26. On 23 November 2016, the Government confirmed that from April 2017 the small business non-domestic multiplier will reduce from 48.4p to 46.6p and the national non-domestic multiplier will reduce from 49.7p to 47.9p to ensure business rate receipts remain constant in real terms.
27. The Business Rates Retention Scheme is based on gross rates payable; this is before any reliefs or discounts are paid. To neutralise "as far as is practicable" the impact of the 2017 revaluation in the business rate retention scheme, DCLG have reset the scheme's system of tariffs and top-ups. The impact of this for the Council is a reduction in income of £0.3m.
28. The district councils are required to provide final estimates of the council's share of the locally retained element of business rates for 2017/18 by 31 January 2017, together with the council's share of any surplus/deficit estimated from 2016/17. There is no movement from the existing MTFP to report at this stage as the information remains outstanding.
29. The business rate pool established between Cherwell District Council, West Oxfordshire District Council and the County Council in 2014/15 will continue into 2017/18. The pooling arrangement is expected to bring benefits to the area as a whole through reduced levies on business rates growth. This means that pool

members get to keep more business rate income than they otherwise would have done. For 2017/18 the County Council will receive a 10% share of any growth, in return for taking on a 2.5% share of any losses. The financial benefit for the County Council is expected to be small (approximately £0.2m).

## **Council Tax**

### *Council Tax requirement*

30. A council tax increase of 4.99% is proposed in 2017/18, just below the council tax referendum threshold of 5%. A council tax increase of 4.99% is also proposed for 2018/19 and 1.99% in 2019/20 and 2020/21. This reflects the announcement in the provisional settlement that upper-tier authorities are able to increase the adult social care precept by 3% in the next two years but by no more than 6% over the next three years.
31. This proposal raises additional council tax income of £3.3m in 2017/18 and £3.8m in 2018/19, however the council does not then receive the £7.5m of precept income assumed in the existing MTFP in 2019/20.
32. The existing MTFP includes a taxbase<sup>2</sup> of 242,566 for 2017/18, based on assumed growth of 1.63%. As set out in the report to Cabinet in December 2016, the growth was increased to 1.97% in line with early estimates received from the district councils. The final taxbase for 2017/18 has now been confirmed by all district councils at 243,776 an increase of 2.14% from 2016/17. Compared with the December 2016 report this increases the amount of funding available by £0.4m in 2017/18 and a further £0.6m over the medium term.
33. The existing MTFP included growth in the taxbase beyond 2017/18 of 1.63% per year. As set out in the report to Cabinet in December 2016, it is proposed to increase the taxbase by 2.0% in 2018/19 in line with expected housing growth. The anticipated increase remains at 1.63% for 2019/20 and 2020/21 but this will be reviewed next year.
34. Section 4.3 provides a draft of the council tax calculation including the council tax requirement for 2017/18 and the Band D council tax equivalent.

### *Council Tax Surpluses/Deficits*

35. The latest estimate for the council's share of income from collection fund surpluses and shortfalls is £6.9m, an increase of £2.9m from the MTFP. Each district council must formally notify the County Council of its share of any surpluses or shortfalls on the council tax collection funds within seven working days of 15 January 2017. The final and confirmed position will be notified in due course.

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<sup>2</sup> The taxbase is the number of banded properties that the council uses to set the council tax. It is the total number of properties in the county weighted by reference to council tax bands A to H and takes into account discounts and exemptions.

## **Inflation**

36. Pay inflation for 2017/18 has been applied to budgets in-line with the national pay offer for Local Government agreed in May 2016 for both 2016/17 and 2017/18. The award was based on the announcement in the 2015 Spending Review that that the average public sector pay increases up to 2019/20 would be 1.0%. Salaries at scale point 17 (£17,547 per annum in 2016/17) and below receive higher increases to take account of the increase in the National Living Wage. There is no provision for non-pay inflation. Inflation of up to 3% has been applied to contracts based on the relevant price indices for each contract. The total amount of inflation applied to budgets is £2.6m for 2017/18, £0.8m less than the budget of £3.4m. The difference will be held in contingency until the final business rates figures have been received from the district councils.

## **Function and Funding Changes**

37. The function and funding changes relate to changes to specific grant allocations. Some allocations for 2017/18 are yet to be confirmed (see paragraph 8) and are based on provisional estimates. The existing MTFP includes funding changes of £2.0m in 2017/18 relating to reductions in the Education Services Grant (£1.0m), the New Homes Bonus (£0.5m), the Special Educational Needs & Disabilities Grant (£0.4m) and the Independent Living Fund Grant (£0.1m).
38. The report to Cabinet in December 2016 included a further reduction of £1.2m in 2017/18 for the Education Services Grant. The Spending Review 2015 announced plans to cut the overall grant and these plans have been implemented sooner than expected.
39. Following the provisional settlement function and funding changes now total £1.4m, £1.8m less than the December 2016 report. The changes arise from:
- The New Homes Bonus allocation is £0.3m higher than the assumed amount in the existing MTFP;
  - The Council will receive a one-off Adult Social Care Grant in 2017/18 of £2.3m;
  - The Department of Health has confirmed the Public Health grant allocations for 2017/18 which are the same as the indicative allocations announced in February 2016. Oxfordshire will receive £31.3m, which is £0.8m less than 2016/17.
40. The Public Health Grant will continue as a separate ring-fenced grant in 2017/18 but is expected to be transferred into RSG from 2018/19 and then be included within the new Business Rates Retention Scheme from 2019/20.

## **Variations to the existing MTFP**

### *New pressures and savings*

41. The following table sets out the changes to the new pressures and savings proposals from the December 2016 Cabinet report.



	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total All £m
<b>Position in December 2016 Report</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.5</b>
<b>Changes Since December Report:</b>					
Business Rates Top-Up allocation	0.3	-0.1	-0.1		<b>0.1</b>
Taxbase changes (final increase of 2.14% in 2017/18)	-0.4	0.2	-0.7	0.0	<b>-1.0</b>
Saving on Inflation	-0.8				<b>-0.8</b>
Increase contingency (from saving on inflation)	0.8				<b>0.8</b>
Specific Grant changes	-0.3	0.5	-0.5		<b>-0.3</b>
Contribution to Balances to bring to risk assessed level	2.0	-2.0			<b>0.0</b>
Remove additional CT surplus in 2018/19 & 2019/20		1.0		-1.0	<b>0.0</b>
<b>Adult Social Care:</b>					
Adult Social Care Grant Income	-2.3	2.3			<b>0.0</b>
Adult Social Care Grant Expenditure Budget in ASC	2.3	-2.3			<b>0.0</b>
Use Adult Social Care Grant to Fund Demography	-2.3	2.3			<b>0.0</b>
Adult Social Care Precept Income - 3%, 3%, 0%	-3.3	-3.8	7.5		<b>0.4</b>
Adult Social Care Precept Expenditure Budget in Adult Social Care	3.3	3.8	-7.5		<b>-0.4</b>
Use of some Adult Social Care Precept to fund demography and Adult Social Care pressures	-2.0	-1.9	3.5		<b>-0.4</b>
Reduction to Carers Grants saving to reflect outcome of consultation but still subject to Cabinet approval	0.1				<b>0.1</b>
Increase to Daytime Support saving to reflect outcome of consultation but still subject to Cabinet approval	-0.1	-1.1			<b>-1.2</b>
Based on current financial modelling of the potential saving from developing a payment by results contract through a Social Impact Bond for learning disability services (17SCS17), the planned saving needs to be deferred to outside of the current MTFP period.		1.0			<b>1.0</b>
Change in Use of Budget Reserve from December Report	1.2	0.1	-2.1	1.0	<b>0.2</b>
<b>Total Changes since December Report</b>	<b>-1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-1.5</b>
<b>Total Budget Changes over MTFP</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

42. The main changes from the report to Cabinet in December 2016 impact on Adult Social Care. The proposal to increase the Adult Social Care Precept by 3% in each of the year's 2017/18 and 2018/19 rather than 2% in 2017/18, 2018/19 and 2019/20 as assumed in the current MTFP (still a total of 6% over the three year period) and the one-off Adult Social Care Support Grant changes the profile and use of funding available in this area. The following table sets out both the funding and expenditure impact of this.

	2017/18	2018/19	2019/20	2020/21	Total All
	£m	£m	£m	£m	£m
2% Adult Social Care Precept Income (in MTFP)	6.4	6.9	7.5		20.7
Additional 1% Adult Social Care Precept	3.3	3.8	-7.5		-0.4
Total Precept Income	9.6	10.7	0.0	0.0	20.3
New Adult Social Care Support Grant (one-off)	2.3	-2.3			0.0
<b>Total Adult Social Care Funding</b>	<b>11.9</b>	<b>8.4</b>	<b>0.0</b>	<b>0.0</b>	<b>20.3</b>
Funding National Living Wage & Other Pressures	3.3	3.6	3.4		10.3
Funding Pressures proposed in 17/18 - 20/21 MTFP	2.1	1.3			3.4
Funding Demography	5.0	1.6			6.6
	10.4	6.5	3.4	0.0	20.3
<b>New One-off Funding:</b>					
Daytime Support Transition	0.4	0.3	-0.7		0.0
Grow, Develop & Build Resilience in External Workforce	0.5	0.5	-1.0		0.0
Transforming Delivery	0.7	1.1	-1.8		0.0
	1.5	1.9	-3.4	0.0	0.0
<b>Total Adult Social Care Expenditure</b>	<b>11.9</b>	<b>8.4</b>	<b>0.0</b>	<b>0.0</b>	<b>20.3</b>

43. The December 2016 Cabinet report included a proposal to use the Social Care precept to fund the new pressures within Adult Social Care and to switch part of the funding of demography pressures from corporate resources to the precept. This proposal remains in place but, due to the proposal to increase the Adult Social Care Precept by 3% in 2017/18 and 2018/19 rather than 2% in 2017/18, 2018/19 and 2019/20, it will release corporate funds over two years rather than three years. This leaves £1.5m of precept funding available in 2017/18 and £1.9m in 2018/19 to fund one-off adult social care priorities. This funding is then available for the ongoing expenditure required within the existing MTFP in 2019/20.
44. Local authorities will be expected to demonstrate how the adult social care precept has been spent on adult social care services and councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 'must also show how they plan to use this extra money to improve social care'. Details of the conditions of the scheme have not however been announced yet. They are expected in the "near future".
45. Other changes in relation to Adult Social Care since the report to Cabinet in December 2016 are for the deferral of the previously agreed saving of £1.0m in Learning Disabilities for a Social Impact Bond. The savings from this are now expected to be achieved outside of the timescale of the MTFP. This is offset, subject to decisions elsewhere on this agenda, by an increase in the saving relating to Daytime Support of £1.2m.

### Draft Detailed Revenue Budget 2017/18

46. Section 4.4 sets out the draft detailed revenue budget for 2017/18. The draft budget reflects the Council's new organisational structure following the senior management review and approval by Cabinet in January 2017. The annex shows the movement in gross expenditure and income from 2016/17, comprising inflation, function and funding changes, previously agreed funding and proposed

virements. For illustrative purposes, the annex includes the effects of the new funding for pressures and proposed savings as set out in Section 4.2.

## Reserves

### *Un-earmarked Reserves (Balances)*

47. The financial strategy states that balances will be maintained at a level commensurate with identified risks based on an annual risk assessment and subject to a minimum of 2.5% of gross expenditure (excluding schools). A risk assessment for 2017/18 is attached in Section 4.6 which takes into account the current financial monitoring position and the risks in the 2017/18 budget and the economy generally. The risk assessment has concluded that balances should be held at £17.6m for 2017/18, the same as 2016/17.
48. The financial monitoring report to Cabinet on 20 December 2016, reflecting information for seven months of the financial year, showed the 2016/17 forecast year-end position on balances as £15.4m, based on the assumption that much of the forecast overspend would be a call on balances. This is £2.2m below the risk assessed level of £17.6m for 2016/17 and 2017/18. It is proposed that a contribution to balances of £2.0m will be included in the budget for 2017/18 to take them back to the risk assessed level for 2017/18. The projected level of balances over the medium term is set out in Section 4.6.1.

### *Earmarked Reserves*

49. All the Council's reserves which are maintained for specific purposes have been reviewed as part of the service and resource planning process. A summary of the planned use of the reserves over the medium term is given in Section 4.6.1. This shows that most of the revenue reserves will be used over this period, with the forecast falling to £51.0m by the end of 2020/21, of which £9.4m relates to schools. The latest forecast position for the Budget Reserve is set out below.

### *Budget Reserve*

50. The Budget Reserve is used to manage the cash flow implications arising from a different profile of pressures and savings in the MTFP. The existing MTFP includes a contribution to the reserve in 2017/18 of £7.2m. The budget proposals set out in section 4.2 require a contribution of £7.1m in 2017/18 to balance the revenue budget. This leaves an estimated balance in the budget reserve of £1.3m in 2017/18. The overall impact on the Budget Reserve based on the previously agreed use and new pressures/savings proposals is set out below.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
<b>Opening balance</b>	<b>1.2</b>	<b>1.3</b>	<b>6.2</b>	<b>10.9</b>
Previously agreed contribution	7.2	2.2	2.2	2.2
Contribution to/from reserve in 2017/18 budget	-7.1	2.7	2.5	2.6
<b>Closing balance</b>	<b>1.3</b>	<b>6.2</b>	<b>10.9</b>	<b>15.7</b>

51. The table shows that the Budget Reserve will be in surplus over the medium term. However, each year as part of the Service & Resource Planning process, the Budget Reserve is used to manage the cash flow implications arising from a different profile of pressures and savings balance the budget, so it is expected to be fully utilised over the medium term.

## **Treasury Management Strategy & Strategic Measures**

### *Treasury Management Strategy*

52. Treasury management is the management of the council's cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
53. The treasury management strategy statement and the annual investment strategy for 2017/18 are set out in Section 4.5. This document complies with the requirements of legislation, codes and government guidance, including the technical requirement of the CIPFA treasury management code of practice. It sets out, amongst other things the investment strategy for the Council's temporary cash flow surpluses.
54. The prime objective of the council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business and only once these have been satisfied should the return on the investment be considered. The annual investment strategy for 2017/18 continues with this premise. The strategy for financing prudential borrowing during 2017/18 maintains the option of using temporary internal balances.
55. It is proposed that any changes required to the 2017/18 treasury management and investment strategies are delegated to the Director of Finance in consultation with the Leader of the Council and the Cabinet Member for Finance. This is included in the recommendations at the end of the report.
56. As part of the service & resource planning process for 2017/18 the council is required to approve a set of prudential indicators which show that the council's prudential borrowing is prudent, affordable and in line with the council's treasury management strategy. Appendix A of Section 4.5 sets out the draft prudential indicators.
57. Section 4.5 also incorporates the minimum revenue provision (MRP) policy statement for 2017/18 at Appendix B. Legislation requires Council to approve a statement of its policy annually before the commencement of the financial year. The MRP policy has been updated to reflect the change in the method of payment from a reducing balance method, where the debt is never fully repaid, to a straight line method, fully repaying the debt over a 50 year period.

## *Strategic Measures*

58. The report to Cabinet in December 2016 included savings of £6.3m in 2017/18 from strategic measures mainly as a result of the change to the MRP policy set out in paragraph 57 above.
59. The current MTFP assumes an average bank rate of 0.85% for 2017/18 and 1.15% in 2017/18. Following the reduction in the Bank Rate to 0.25% in August 2016, the Council's treasury advisor Arlingclose now projects it to remain at 0.25% for the duration of 2017/18. Given the current inflation outlook and that that the Bank of England has highlighted that excessive levels of inflation will not be tolerated for sustained periods, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession. The council has therefore revised its view on interest rates and now forecast the average bank rate for 2017/18 and the medium term to stay at 0.25%.
60. Taking into account the Treasury Management Strategy principles that prioritise security and liquidity of principal over investment return, target rates to be achieved on deposits have been reviewed, these are forecast as: 0.3% above the bank rate in 2017/18, reducing to 0.15% above bank rate in 2018/19 and 0.05% above in both 2019/20 and 2020/21. The reduction in the size of the premium above base rate in later years reflects the forecast reduction in cash balances over the period. This will result in a reduction to the proportion of cash available for long term investment at higher rates, subsequently reducing the premium achievable. The revised rates have been incorporated into the strategic measures budget forecast.
61. The average cash balance for 2017/18 is forecast to be £296.9m. This is higher than the average cash balance forecast in the current MTFP and compensates for the reduction in average bank rate.
62. As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the council will be required to prudentially borrow £40m on behalf of OxLEP to fund the City Deal schemes, Milton Interchange and Chiltern Slip Road.. The existing MTFP assumes that the majority of this borrowing requirement will fall in 2017/18 and that remains the position based on current project spend forecasts.

## **Schools Funding**

63. Dedicated Schools Grant (DSG) allocations for 2017/18 were announced on 20 December 2016. Oxfordshire's provisional allocation for 2017/18 is £444.9m and is set out in Section 4.7.
64. Following this announcement, consultation on the final funding formula for 2017/18 took place at Schools Forum on 12 January 2017 prior to approval of the formula through Cabinet Member Delegated Decision on 17 January 2017. No change is proposed to the structure of the formula from 2016/17 in line with the principle of minimising turbulence pending the introduction of the new national funding

formula. Schools Forum agreed to maintain the current units of resource per pupil (in the first instance).

65. Since 2013/14 the DSG has been split into three blocks (schools, early years and high needs) but Local Authorities have been able to transfer funding between the blocks. Due to this, in part, patterns of spending can be very different from the way the blocks are allocated in the DSG settlement. During 2016, the Department for Education (DfE) conducted an exercise to establish baselines reflecting 2016/17 spend. This revised pattern of expenditure forms the base for the 2017/18 allocations.
66. The DfE has also made both changes in the way that the Education Services Grant (ESG) is allocated and reduced the funding available. ESG funding is currently made up of two elements:
  - retained duties rate - passed to local authorities to fund services they provide to all schools, including academies. This is £15 per pupil.
  - general duties rate - passed to both local authorities and academies to fund services authorities provide to maintained schools but which academies must provide themselves. This is £77 per pupil, which is ceasing from September 2017.
67. The DfE has transferred the funding previously allocated through the ESG retained duties rate into the schools block for 2017/18. Despite the transfer of this funding into the schools block, the funding is required to support statutory services. On 12 January 2017, Schools Forum agreed that this funding, totalling £1.4m, can be retained centrally.
68. Funding for the general duties element has been reduced and ceases from September 2017. Local Authorities are able to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools which were previously funded through the ESG. ESG transitional grant for 2017/18 will be £1.2m but the cost of providing these duties is £1.5m, therefore funding of £0.3m has been requested through Schools Forum and approval from Maintained representatives was given at their meeting on 12 January 2017. It should be noted that the transitional grant is one-off; this means that in 2018/19, the Council will be seeking the full £1.5m funding from maintained schools.

## **Virement Scheme**

69. When approving the budget each year the council is required to agree the virement rules. The existing arrangements have been reviewed and are set out for approval in Section 4.8. No changes are proposed from 2016/17.

## **Capital Programme and Asset Management Plans**

### *The Capital Programme: 2016/17 to 2020/21*

70. The updated capital programme in Section 4.9 includes the revised funding assumptions and the inclusion of an extra year for 2020/21 to give additional estimated funding of £24.6m as reported to Cabinet in December 2016 and

Performance Scrutiny Committee on 15 December 2016 and as set out in Section 4.9.1. The additional funding includes a reduction in the basic need grant after the Education Funding Agency announced in March 2016 that the council's allocation for 2018/19 would be nil. In light of this allocation, the assumed grant for 2019/20 has been amended to £3.7m from £4.5m and the additional year, 2020/21 has also been included at £3.7m.

71. An additional year of school maintenance funding has been estimated for 2020/21 at £2.0m, but this is only confirmed one year at a time and the 2017/18 allocation has still not been confirmed (currently estimated at £3.2m).
72. Including an additional year of highways maintenance, Integrated Transport Block, the self-assessed incentive fund in 2020/21 and the Pothole Action fund in 2017/18 results in additional estimated funding of £19.8m.
73. The Council received £4.5m in 2016/17 for the Disabled Facilities Grant programme that is issued to the County Council but passed straight to the District Councils and is also part of the Better Care Fund. This grant has not been built into the capital programme for future years at present and will be included following formal government announcement.
74. The updated capital programme includes £19.8m of new basic need and annual programme budget allocations from corporate resources. Basic Need has been allocated £1.7m (excluding S106 contributions) and £18.1m has been added as an additional year of annual programmes in 2020/21 (including £14.6m for Highways Maintenance).
75. A further £2.1m has been allocated towards the Westgate Library refurbishment project as approved by Cabinet in October 2016.
76. Further pressures totalling £2.6m have been allocated in addition to the basic need and annual programmes.
77. The need to complete reconstructive works to the substructure of Kennington Railway Bridge was identified during a maintenance inspection. Interim measures costing £0.9m have been carried out during 2016/17. Permanent works estimated at £2.0m will be required in 2018/19 and have been included in the draft capital programme.
78. Capital investment of £0.4m is required towards the two Grade II Listed Barns at Cogges Farm - Witney, built 17<sup>th</sup> Century, to address variable signs of decay and degradation of the roof structure. It is also proposed to introduce a Controlled Parking Zone at Iffley Fields in Oxford at a cost of £0.2m.
79. The table below shows the change in the overall capital programme from the last programme approved by Cabinet in October 2016.

	<b>Oct 2016 Programme £m</b>	<b>Jan 2017 Programme £m</b>	<b>Change £m</b>
People: Children's Services	160.6	176.5	+15.9
People: Adults & Public Health	34.6	34.6	0.0
Communities: Highways & Transport	150.0	169.8	+19.8
Communities: Other	34.9	35.3	+0.4
Resources	17.6	24.1	+6.5
<b>Total</b>	<b>397.7</b>	<b>440.3</b>	<b>+42.6</b>
Schools Local Capital	4.9	5.6	+0.7
Earmarked Reserves	89.3	79.9	-9.4
<b>Total Capital Programme</b>	<b>491.9</b>	<b>525.8</b>	<b>+33.9</b>

80. The additional change in the Children's Services programme relates to additional basic need and Growth Portfolio provision from S106 contributions and a further £0.6m for the Early Years Entitlement Capital Fund from grant. An additional £4.4m is included for the Local Growth Fund, any scheme with a funding agreement in place, where the County Council passes the funding onto another body to deliver, is included in the programme under the Resources directorate.

### *Asset management plans*

81. The Highways Asset Management Plan sets out the prioritisation for investment in highway infrastructure. The two year rolling programme for all highways structural maintenance activities is set out in Section 4.9.2 and has been developed to reflect current needs and to ensure that prioritisation of schemes enables the Council to derive the greatest value from its investment.
82. The Strategic Property Asset Management Plan (SAMP) which sets out the role of the Council's property assets in meeting strategic objectives has been updated and is attached at Section 4.9.3. The revised SAMP now aligns with the Council's key corporate priorities and the Transformation Programme. There is now an emphasis on developing place and investment strategies to inform how the Council's assets can shape places, deliver more effective services meeting current and future local needs whilst also providing income and/or capital receipts to invest in council service provision.

### **Comments from Performance Scrutiny Committee**

83. The Performance Scrutiny Committee considered the revenue pressures and savings proposals along with capital proposals at its meeting on 15 December 2016. However, as the Provisional Local Government Finance Settlement wasn't announced until the day of the meeting, the Committee agreed to consider the proposals in light of the outcome of the settlement at its meeting on 5 January 2017. A summary of the comments from the meetings is attached in Section 4.10.



## Consultation

84. Between 8 December 2016 and 9 January 2017 members of the public and stakeholders were invited to comment through the council's website on the budget proposals and Council Tax increases. Nine responses were received and a summary of these responses is included in Section 4.11.

## Review of Charges

85. As part of the Service & Resource Planning process, managers have reviewed their charges for 2017/18. Changes in income arising from this review are summarised in Annex 1a and the proposed charges are set out in Annex 1b.

## Equality and Inclusion Implications

86. 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.'
87. The December 2016 Cabinet report included the potential impacts of the budget proposals in an overarching Service and Community Impact Assessment and individual service and community impact assessments that have been produced for individual proposals - assessing the potential impact on protected groups and communities from a particular saving.

## Financial and Legal Implications

88. 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 will lead to the council tax requirement being agreed in February 2017.

## RECOMMENDATION

89. **The Cabinet is RECOMMENDED to RECOMMEND Council to approve:**
- **in respect of revenue:**
    - (1) **a budget for 2017/18 and a medium term plan to 2020/21, based on the proposals set out in Section 4.2;**
    - (2) **a council tax requirement (precept) for 2017/18;**
    - (3) **a council tax for band D equivalent properties;**
    - (4) **virement arrangements to operate within the approved budget;**
  - **in respect of treasury management:**
    - (1) **the Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18;**

- (2) to continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the Treasury Management Strategy Team;
  - (3) that any further changes required to the 2017/18 strategy be delegated to the Director of Finance in consultation with the Leader of the Council and the Cabinet Member for Finance;
  - (4) the Prudential Indicators as set out in Appendix A of Section 4.5;
  - (5) Minimum Revenue Provision Methodology Statement as set out in Appendix B of Section 4.5;
  - (6) The Specified Investment and Non Specified Investment instruments as set out in Appendix C and D of Section 4.5;
  - (7) The Treasury Management Policy Statement as set out in Appendix E of Section 4.5;
- In respect of capital:
    - (1) Approve a Capital Programme for 2016/17 to 2020/21 as set out in Section 4.9 including:
      - (i) the new capital proposals as set out in Section 4.9.1 (Appendix 3);
      - (ii) the Highways Structural Maintenance Programme 2017/18 and 2018/19 as set out in Section 4.9.2;
    - (2) Approve the Strategic Asset Management Plan at Section 4.9.3;
  - to delegate authority to the Leader of the Council, following consultation with the Director of Finance and the Cabinet Member for Finance, to make appropriate changes to the proposed budget.
90. The Cabinet is **RECOMMENDED** to approve:
- (1) the Review of Charges as set out in Annex 1.

**LORNA BAXTER**  
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January 2017