DIVISION(s): N/A

CABINET – 21 DECEMBER 2010

BUSINESS STRATEGY & SERVICE AND RESOURCE PLANNING 2011/12 – 2015/16

Report by Chief Executive, Assistant Chief Executive (Strategy) and Assistant Chief Executive & Chief Finance Officer

Introduction

1. This is one in a series of reports on the Service and Resource Planning process for 2011/12 to 2015/16, providing councillors with information on budget issues for 2011/12 and the medium term. The report includes the Directorate Business Strategies, provides an update on the Service and Resource Planning process and sets out the review of charges.

2. The report to Cabinet in November 2010 set out the potential impact of the Spending Review, along with subsequent announcements, on Oxfordshire highlighting the uncertainties and the level of risk those uncertainties formed.

3. The following annexes are attached:

Annex 1:	Savings Proposals 2011/12 – 2014/15
Annex 2a	Children, Young People & Families Business Strategy
Annex 2b	Social & Community Services – Adult Social Care Business Strategy
Annex 2c	Social & Community Services – Community Services Business Strategy
Annex 2d	Social & Community Services – Community Safety Business Strategy
Annex 2e	Environment & Economy Business Strategy
Annex 2f	Customer Services Business Strategy
Annex 2g	Chief Executive's Office Business Strategy
Annex 3:	Revenue Budget Prioritisation
Annex 4a:	Review of Charges
Annex 4b & c:	Current and proposed charges
Annex 5:	Initial Capital Prioritisation Assessment (to follow)
Annex 6:	Overarching Equality Impact Assessment (to follow)

Draft Local Government Finance Settlement

4. The Draft Local Government Finance Settlement is due to be announced in December 2010. At the time of writing this report the settlement had not been announced and the date of the announcement was not known. An addendum to this report will be produced once the information is available. The announcement of the Draft Local Government Finance Settlement marks the

start of a six week consultation period with the final settlement being announced in mid to late January 2011. It is possible therefore that the figures contained in the settlement could be subject to change and remain draft until the final settlement.

5. The draft settlement is expected to provide provisional Formula Grant figures for 2011/12 and draft figures for the remainder of this term of Parliament. To align with the Government's planning period it is proposed that the final year covered by the Service and Resource Planning process, 2015/16 reflects the position for 2014/15. Furthermore, given the changes that are expected in 2013/14 due to the national review of Local Government Formula and the abolition of the Primary Care Trusts it is proposed that an indicative Medium Term Financial Plan is proposed and agreed for the two years 2013/14 and 2014/15.

6. A number of function changes are expected to be announced as part of the settlement. These are adjustments to the Formula Grant to reflect new or amended duties or responsibilities. The provisional Local Government Finance Settlement should also provided information on the nine remaining specific grants.

Directorate Business Strategies

7. Directorate Business Strategies have been completed which set out a direction of travel for what the Directorate will deliver in terms of range of services and standards over the medium term in the context of reduced funding. It pulls together the strands of work that comprise the Council's Business Strategy, and ensures that with such high levels of change being managed that there is a single focussed overview.

8. The table below sets out the savings which are proposed in the Business Strategies. These are set out in more detail at Annex 1. The Business Strategies which provide the information to support the proposals are set out at Annex 2a to 2g.

9. There are further areas of work under review, outside of the Directorate Business Strategies, which impact on the budget for 2011/12 and MTFP, these is are discussed later in the report (paragraphs 17 to 34).

Total proposals	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Cross Directorate	-10.6	-12.4	-14.8	-17.4
Children, Young People & Families	-10.3	-14.4	-15.7	-16.9
Social & Community Services	-16.7	-27.8	-33.8	-40.0
Community Safety	-0.5	-1.0	-1.5	-1.6
Environment & Economy	-11.0	-18.2	-24.1	-27.3
Customer Services	-1.8	-3.3	-3.9	-4.4
Chief Executives Office	-1.5	-1.8	-2.1	-2.1
TOTAL PROPOSALS	**-52.4**	**-78.9**	**-95.9**	**-109.7**
Possible reduction on passported specific grants	-3.9	-5.3	-4.9	-6.1
TOTAL ALL SAVINGS PROPOSED	**-56.3**	**-84.2**	**-100.8**	**-115.8**
Estimated changes to funding – compared to existing MTFP				
Taxbase	-0.7	-0.7	-0.7	-0.7
Collection Fund	-2.2			
TOTAL PROPOSALS	**-59.2**	**-84.9**	**-101.5**	**-116.5**

10. The report to Cabinet in November set out a savings target based on the latest planning assumption. This will be replaced with the actual savings required following the draft settlement but for now the savings proposed are compared to the planning assumption. This is set out below.

Total proposals	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Target Savings – November 2010	-58.6	-93.5	-107.4	-119.2
Total Savings Proposed	-59.2	-84.9	-101.5	-116.5
Shortfall (+) / Surplus (-) against target savings	-0.6	8.6	5.9	2.7

11. These figures show that if the Local Government Finance Settlement reflects the planning targets, then budget could be balanced in year one. However, there is still further work to balance year's two to four. This will need to be addressed once the Local Government Finance Settlement is known.

Service and Resource Planning process 2011/12 – 2015/16

12. At Strategy & Partnerships Scrutiny Committee on 18 November 2010, the Assistant Chief Executive & Chief Finance Officer reported that work had

been undertaken on a paper for developing revenue budget proposals in light of a set of priorities. It is intended that this will be used once the draft Local Government Finance Settlement is known if there is more funding available than the current planning target. The Cabinet is recommended to agree to adopt the prioritisation principles as out in Annex 3.

13. On 20 December 2010, all of the Scrutiny Committees will meet to consider the Directorate Business strategies and proposals for savings. The comments from each committee will be considered by Strategy & Partnerships Scrutiny Committee in January 2011 prior to be fed back to Cabinet in order that the Cabinet can take the comments into consideration in proposing their budget and MTFP.

Review of Charges

14. As part of the work in completing their Business Strategies, service managers have reviewed their charges. Annex 4a sets out the Councils charging policy and an analysis of the changes in income. The proposed charges are set out in detail in Annex 4b & 4c.

15. Where new charges are proposed or the proposed increase in charges is more than 1.5%[1], these will contribute towards the savings set out in the Business Strategies.

16. The information in the review of charges reflects, where appropriate, the increase in VAT to 20% from January 2011. Whilst the increase in VAT commences before the start of the new financial year, it was agreed by Cabinet in July 2010 that the increase in relevant fees from the VAT rate increasing would be absorbed in order to keep charges constant for whole of 2010/11.

Further areas under review

Strategic Measures

17. The Treasury Management Strategy Statement and the Annual Investment Strategy for 2011/12 will form part of the Service & Resource Planning report to Cabinet in January 2011. These will be finalised once the Local Government Finance Settlement is confirmed and capital funding is announced. The Treasury Management Strategy Statement will set out the forecast Bank Rate, along with a forecast of rates achieved on deposits and for long term borrowing. These will be reflected in the Strategic Measures budget for 2011/12 and over the medium term.

18. There are a number of known factors which will influence the Strategic Measures budget:

[1] Inflation included on income budgets for 2010/11

19. Long Term Borrowing: The report to Cabinet in September 2010 set out the assumptions of a 50% reduction in borrowing allocations from Government to support capital expenditure over the period 2011/12 to 2014/15. This will reduce the borrowing costs in the Strategic Measures budget. The announced increase of 0.87% in the cost of borrowing from the PWLB will though increase any borrowing undertaken.

20. Interest earned on cash balances: As funding for the organisation decreases over the medium term, so too will the level of cash balances held. This will have an impact on the interest earned on cash balances. Interest rates also have an impact. The MTFP is based on the forecast rates set out in the Treasury Management Strategy for 2010/11, with an average return of 2.35% in 2011/12, up from 1.23% in 2010/11. Latest economic forecasts predict that base rate will remain at 0.5% until the latter half of 2011, rising slowly thereafter. These predictions of a lower bank rate for longer mean that revisions to the forecast are necessary to take account of the reduction on interest earned on cash flows.

Inflation

21. The report to Cabinet in September 2010 highlighted the need to review the inflation assumptions built into the current MTFP. The existing MTFP had already included a reduction in pay inflation for 2011/12 and 2012/13 to 1.0% (from 2.5%) along with reductions in non pay inflation. Together these brought savings of £2.9m in 2011/12 rising to £5.3m in 2012/13. As part of the budget in June 2010, the Chancellor announced a two year freeze[2] on all public sector pay for 2011/12 and 2012/13. Based on this announcement, further pay inflation savings of £1.1m in 2011/12 rising to £2.3m in 2012/13 are proposed.

22. It is also proposed to freeze non-pay inflation budgets, allowing no inflation in 2011/12. This is expected to save £1.2m and is also shown in the cross directorate page of Annex 1. Although inflation is currently running above the government target of 2.0%, more efficient procurement is expected to allow the same amount of goods and services to be procured for a lower sum. The impact of not increasing budgets for inflation is therefore expected to be manageable. Inflation on contracts will still be provided for at 2.5% in 2011/12.

23. Beyond 2012/13, the current MTFP allows for inflationary increase of 2.5% for pay, 2.0% for non-pay and 3.0% for contracts. Although it is not proposed to change these currently, as funding for the organisation decreases over the medium term so does the amount of inflation required. Savings arising from a lower base are anticipated to be £2.5m in 2013/14 rising to £3.7m in 2014/15.

24. All of the inflationary savings are reflected in the cross directorate section of Annex 1.

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[2] with the exception of those who earn less than £21,000 who will receive a flat increase of £250 p.a.

National Insurance

25. The current MTFP includes £1.4m of funding for an increase in employer National Insurance contributions of 1% from 2011/12 as announced in previous year's national budgets. The emergency budget in June 2010 included an increase in the threshold at which National Insurance applies for 2011/12 thereby creating a saving. This has been calculated as £0.662m and is reflected in the cross directorate section of Annex 1.

Terms and Conditions

26. The council has been looking for ways of making savings in ways that preserve services and do not lead to job losses. Building on the staff suggestion scheme and in line with many other councils we have decided to review staff terms and conditions. Negotiations have been opened with Unison about these proposed changes and Unison has agreed to consult its members on the following proposals:

- Reducing redundancy compensation from twice the statutory weeks' pay on actual rates to one and a half times statutory weeks on actual pay.
- Freezing incremental rises for two years for those on Grade 8 or above (i.e. paid over £21,000 per year)
- Reducing car mileage rates by 5 pence per mile to 35 pence per mile.

27. These proposed changes will bring savings in the region of £4.0m in 2011/12. Of this £1.9m is shown as Cross Directorate saving in Annex 1 for the two years of the increment freeze and car allowance reduction, however the further saving relates to a reduced redundancy cost.

Taxbase and Collection Fund

28. Some preliminary figures have been received from the district councils on the Taxbase for 2011/12. The Taxbase represents the number of properties Council Tax can be collected from. The existing MTFP includes an increase of 0.25% for 2011/12. Preliminary information from the district councils indicates that the increase from 2010/11 could be 0.49%. This would provide additional funding of £0.670m on an on-going basis compared to the MTFP. Actual taxbase figures will not be confirmed until January 2011. This additional funding has been reflected in the summary of savings proposals set out in Annex 1.

29. The county council receives annually a share of the district councils Council Tax Collection Fund surpluses or deficits. The amount can vary considerably and will not be confirmed until January 2010. Early indications from the district councils suggest that this could be in the region of £3.1m compared to £0.8m in the MTFP. This is one-off funding. As with the taxbase, this additional funding has been reflected in the summary of savings proposals set out in Annex 1.

Reserves

30. In line with the Financial Strategy[3] and as part of the Service & Resource Planning process a review of earmarked reserves has been undertaken. The purpose of the review is to determine whether the purposes for which they are held are still valid and whether there are any which could be used to provide one-off funding. The current assessment of forecast reserves to 31 March 2011 is set out in Annex 4 of the Financial Monitoring Report (item CA6 on this agenda).

31. The review has identified that in the majority of cases, the level of reserves held are appropriate for the needs identified. There has been an increase in the number of earmarked reserves over the past two years which reflects the need to even out programme or cyclical spending patterns as the overall financial position becomes tighter.

32. An analysis of the Insurance Reserve has identified that within the forecast £6.0m at the end of 2010/11, a sum of up to £2.4m could be used for alternative purposes. This sum does represent an allowance for claims outside previous experience[4]. However, the likely calls on this element of the reserve are low; a one off contribution to revenue is proposed. This is included in the Cross Directorate page of the Summary Savings at Annex 1.

33. As part of the current MTFP agreed by Council in February 2010, funding of £6.0m was set aside from 2011/12 for pensions to ensure sufficient funds were available to manage the increased costs expected following the 2010 evaluation. Preliminary figures from the evaluation indicate that it will not be required. Therefore this sum could be utilised, either on an ongoing basis or on a one off basis for three years and allow more resilience to be held against a future revaluation when there is expected to be an implication from a reduced number of staff in the pension fund. It is proposed that no decision is taken on this at present until the final Local Government Finance Settlement is confirmed in January 2011.

Balances

34. The financial Strategy states that balances should be maintained at a level commensurate with identified risks, based on an annual risk assessment. The forecast balances over the medium term in the current MTFP are set out below. An updated risk assessment is being undertaken which takes into account 2010/11 financial projections and the risks in the 2011/12 budget. This will be finalised once the Final Local Government finance Settlement is known in January 2011.

[3] Financial Strategy 2010/11 to 2014/15 approved by Cabinet in December 2009

[4] e.g. the identification of a new illness that can be traced back to actions/inactions of the Council in the past

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Estimated Balances at Start of Year	**10.6**	**12.5**	**12.8**	**13.6**	**14.6**
Budgeted Change in Balances per MTFP	3.9	2.3	2.8	3.0	3.0
Total Balances at Start of Year	**14.5**	**14.8**	**15.6**	**16.6**	**17.6**
Estimated Use of Balances	-2.0	-2.0	-2.0	-2.0	-2.0
Estimated Balances at end of year	**12.5**	**12.8**	**13.6**	**14.6**	**15.6**

Corporate Asset Management Plan and Capital Strategy

35. The Corporate Asset Management Plan is a high-level corporate strategy which establishes the role of the Council's assets in meeting strategic objectives and the business efficiency strategy. It is being updated and revised from 2010/11 to include the recommendations of the Asset Strategy work; to reflect the current financial context and consequent changes proposed in the Business strategies and to align with the priorities in the draft Corporate Plan 2011/12 to 2015/16.

36. The Capital Strategy which forms part of the Corporate Asset Management Plan is also being updated to align with the priorities in the draft Corporate Plan 2011/12 to 2015/16 and in light of the Spending Review 2010. The revised strategy is expected to be mainly consistent with the one approved in February 2010 demonstrating that the Council's approach to long-term capital investment is still sound despite the challenging financial environment. Its context however is being expanded to cover a number of key developments:

- A set of principles for prioritising capital investment proposals in order to support most effective use of capital resources. These principles are proposed to be used to determine capital investment priorities for the Council for the next five years.

- The Council's commitment to achieving more flexible use of capital resources acknowledging this flexibility as a key to achieving most effective use of capital resources.

- Managing growth effectively and establishing stronger links between infrastructure planning and the asset management planning process through the effective use of developer contributions.

- A review of the recent consultations announced around new financial incentives for local economic growth (set out in the November Service & Resource Planning Report) and the Council's commitment to maximising capital investment through the effective use of these where they prove to be affordable and value for money.

- further strengthen the capital programme management principles through clearly defining a policy for capital programme and provide flexibility by dividing the five year capital programme into two key components to respond to the uncertain funding environment: the firm capital programme (the first two years) and the provisional capital programme (the last three years).

37. Whilst the principles for prioritising capital investment proposals will be included in the draft Capital Strategy which will be presented to Cabinet in January 2011, they are set out below in order that they can be agreed now and adopted for drafting the Capital Programme for 2011/12 to 2015/16.

- **Priority 1:** projects which enable compliance with our legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance. For projects in this category, there is still a need to justify the cost level.

- **Priority 2:** projects where a major proportion (50% or more) of the capital is from external sources which will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.

- **Priority 3:** projects that generate revenue savings through the delivery of the new business strategy or service transformation proposals. For projects in this category, there is still a need to explore whether or not they could be self-financing, for example through prudential borrowing.

- **Priority 4:** projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.

- **Priority 5:** projects that facilitate economic development and housing growth - in particular in priority localities (Banbury, Bicester, Abingdon, Oxford City, Didcot and Carterton).

- **Priority 6:** projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income;

Capital Programme

The Capital Budget Setting Process 2011/12

38. On 18 October 2010, The Capital Investment Board (CIB), acting as the Capital Star Chamber, considered 56 capital projects or new pressures using the prioritisation principles for capital investment set out above. It was noted that this was the first iteration of the capital prioritisation process and agreement was made to revisit schemes with significant allocations and new pressures before final budgets are agreed for the capital programme. The

agreed principles will be upheld when assessing the relative merits of capital investment decisions with an aim to producing a balanced capital programme with sufficient level of contingency for January 2011.

39. During December 2010, the Board will also consider transport schemes that are solely or partially funded by developer contributions with an aim to maintain the level of capital investment in transport where possible through effective use of S106 resources. It is expected that most of the funding will be restricted to particular schemes at this stage, but it is considered as an important step in achieving better alignment of the main capital programme and the growth portfolio. Following this process, a proposed list of prioritised capital schemes will be circulated as Annex 5 (to follow).

Prudential Indicators

40. As part of the Service & Resource Planning process for 2011/12, Council will have to approve a set of Prudential Indicators which show that the Council's use of borrowing is prudent, affordable and in line with the Council's Treasury Management Strategy. These indicators will be taken to Council for approval in February 2011. Some of these indicators are around the Treasury Management Strategy and will be included in the Service & Resource Planning report to Cabinet in January 2011.

41. The remaining indicators are dependant upon either the final agreed budget position or the notified supported borrowing allocations and cannot be calculated at this time.

Consultation

42. In developing the Directorate Business Strategies set out in Annex 1 to this report, the Council has already taken into account the views expressed in the Oxfordshire Voice Budget Consultation Survey and the Oxfordshire Big Debate. The Council is now inviting comments on its overall proposed budget. A summary of the comments received will be presented for consideration as part of the Council's proposed budget in January 2011.

43. Where appropriate and as we are legally required to do, the Council will carry out separate formal consultation with service users and/or stakeholders where significant changes to services are proposed as part of the Directorate Business Strategies. These consultations are separate to the Business Strategy & Service and Resource Planning cycle.

Financial and Legal Implications

44. 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 Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of Council Tax. This report provides information on the financial position for the authority which forms a basis for those requirements,

leading to the budget requirement and Council Tax being agreed in February 2011.

Equality and Inclusion Implications

45. An overarching Equality Impact Assessment setting out how all communities in the county will be affected by the proposals reflected in the Business strategies along with the need for mitigating action is set out in Annex 6 (to follow). Service level Equality Impact Assessments are also being drafted. These will be completed in time for consideration alongside the Cabinet's proposed budget in January 2011.

RECOMMENDATION

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

(a) Note the report and that an addenda will be produced following the publication of the Draft Local Government Finance Settlement;

(b) Agree the revenue prioritisation principles set out in Annex 3;

(c) 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 4;

(3) Approve those charges for which an increase will commence before April 2011.

(d) Agree the use of £2.4m of the insurance reserve for alternative purposes in 2011/12;

(e) Agree the capital prioritisation principles set out in paragraph 37.

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Background papers: Nil

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December 2010