



**County Council
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COUNCIL – 19 FEBRUARY 2013

Business Strategy and Service & Resource Planning 2013/14 – 2016/17

Commentary on the budget 2013/14 – 2016/17 by Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report sets out my commentary on the Council's overall financial position and also comments on the report from the Cabinet. My commentary fulfils the requirement of Section 25 of the Local Government Act 2003.
2. My supplementary report to Council sets out information on the final Local Government Settlement. This provides the position to enable the authority to set its budget for 2013/14. However, some specific grant information remains outstanding.
3. In this commentary I have considered the robustness of the Cabinet's proposed budget for 2013/14 and the Medium Term Financial Plan (MTFP) based on the outturn position for 2011/12; the forecast in year for 2012/13; the Directorate Business Strategies for 2013/14 – 2014/15 and the priorities of the Council set out in the Corporate Plan for 2013/14 – 2017/18. I have also considered the risks and opportunities throughout the budget and how the risks have been mitigated, the estimates for strategic measures and the capital programme and the adequacy of balances and reserves.

Cabinet's Budget Proposals Overview

Context

4. With a whole series of funding reforms being introduced in April this year, financial planning for the medium term has never been more challenging or more important. Our planning for reduced funding started back in June 2009 when the scale of the economic challenge began to emerge and this has provided a strong base to respond to the continuing financial challenges which Local Government faces. Reductions to funding as part of the Spending Review in 2010, for the four years to 2014/15, were factored into the 2011/12 MTFP. These reductions are now expected to continue into 2018. The reductions in 2015/16 and 2016/17 are expected to be as great as for the previous four years. A Spending Review is expected this summer, but is only likely to be for 2015/16.
5. The final Local Government Finance Settlement for 2013/14 and provisional Local Government Finance Settlement for 2014/15 was announced on 4 February 2013 along with some specific grant announcements. However, a

number of significant grants remain outstanding. Assumptions have been built into the MTFP of the estimated amounts of income, but there remains a risk on the difference between the assumption and the actual amount. Any variations will need to be addressed during the year.

6. The budget for 2013/14 is robust and deliverable. The impacts over the medium term to 2016/17 have also been considered and are also sound and achievable.

Directorate key risks

Children, Education & Families

7. The Directorate has seen a significant amount of change in service delivery and structure over the last two years. In setting the budget for 2011/12, the creation of the new Early Intervention service was a key risk. However, the service became operational in September 2011 and provides a single integrated service to families through seven hubs. No further savings were made last year or are proposed in the current plan.
8. Funding mechanisms for Early Intervention have been changed by the Government, with the unringfenced Early Intervention Grant being transferred to the Start Up Funding Assessment. In doing this it was cut by £5.0m and will now be reduced in future years as part of the spending review totals. The proposed MTFP has not passed these reductions onto the service, but has treated the grant reduction as a corporate pressure.
9. The existing MTFP includes savings in relation to Children's Centres, and there are further savings in the proposed MTFP. These are expected to be achieved through a review of management and support structures, and will not impact on the children's centres themselves.
10. Children's social care has been an area which has been protected from cuts. Given the continuing increases in caseload since Baby Peter further investment of £1.4m is now proposed from 2013/14. It is possible that this will underspend in the first year as it will take time to fill posts with suitably experienced officers. However, some of the underspend on salaries is likely to be required for training and development.
11. There are two savings proposed which reduce budget provision but should not have any impact on service provision, as there are currently underspends due to less client numbers in these areas following previous budget increases. These are for asylum seeking young people where all rights of appeal have been exhausted, and funding for the Southwark judgement which obliged the Council to provide housing and support for homeless 16 and 17 year olds. There should not be a risk to these savings, but if increases are seen in the coming year they will need to be addressed through balances.
12. From April 2013 all local authorities are required to implement a new school funding formula. The main purpose of the new funding formula is to simplify

school funding arrangements as a first step towards a more equitable system nationally. As this first step does not amend the distribution of resources between local authority areas, all that the simplification can do is to redistribute the existing resources differently amongst schools. The new formula removes many of the factors that targeted resources to specific schools such as Joint Use Sports Agreements and split sites. The consequence of removing specific factors is that that funding is now spread amongst all schools.

13. The minimum funding guarantee for schools will continue in 2013/14 and no school will see a reduction of more than 1.5% per pupil in their budget share compared with 2012/13. Whilst overall changes arising from the new formula will be as much as a gain or loss of 10% in the long term, the minimum funding guarantee helps ensure that changes in 2013/14 are much less turbulent, and for the majority of schools the transitional protections agreed by Schools Forum eliminate funding reductions in 2013/14.
14. The proposed MTFP includes the application of full overhead costs to charges made to schools for support services provided by Oxfordshire Customer Services, effectively removing a subsidy which the Council has been providing to them. To reduce the impact on schools, the full subsidy cost of £0.5m will be achieved in two steps; £0.25m from April 2013 and a further £0.25m from April 2014.

Academies

15. Since my commentary last year, the number of schools who have converted to or are in the process of converting to academy status has increased significantly. There are currently 38 Primary Schools, 26 Secondary Schools and 5 Special Schools who will have converted (or will be in the process of converting) by the end of this financial year. The work required from the local authority perspective is quite onerous and last year a reserve was created to manage the additional costs excepted through the conversion process. Schools balances are required to be transferred within three months of in conversion and as stated in paragraph 52 below the level of schools balances is expected to have reduced to £8m by the end of 21013/14.
16. For 2011/12 and 2012/13 funding was removed from formula grant for the cost of Local Authority Central Services Equivalent Grant (LACSEG) on a pro-rata basis of pupils in Academies nationally. Last year there was a change in the methodology and a calculation was made based on the actual number of pupils in Academies in each authority. Where the costs of LACSEG estimated are less than the amounts removed from Formula Grant, the Department for Communities & Local Government will refund the difference through an un-ring fenced specific grant. Where costs are above the amounts removed, no additional funding will be recovered from Local Authorities. Funding of £1.3m was received relating to the excess deduction from formula grant in 2011/12. The calculation for 2012/13 is expected to take place in March 2013. A much smaller returned grant, or even no returned grant is expected, given the

increased number of schools who have converted to Academies over the last year.

17. From 2013/14 all LACSEG funding is removed from formula grant and each authority will receive a grant, the Education Services grant, on a per pupil basis for pupils who remain in maintained schools. A small amount of grant is also provided for the functions which remain the local authority's responsibility even if all schools converted to Academies such as SEN provision, exclusions, pupil placed planning. Whilst the funding reductions for 2013/14 have been built into the proposed MTFP, there is a risk that as more schools convert to Academies, that the Children, Education & Families directorate cannot reduce their spend on relevant services to keep pace of the reducing Education Services grant.

Social & Community Services

18. Adult Social Care accounts for almost 40% of the Council's spend excluding schools. Due to its size, the Adult Social Care budget has the largest savings for 2013/14 and the medium term compared to other services. These savings also need to be seen in the context of significant pressures from increasing numbers of older people as well as increasing numbers of adults with learning disabilities and physical disabilities. The demand on the Older Peoples' Pooled budget is the most significant element of the pressures in Adult Social Care, totalling £6.2m in 2013/14.
19. There are some extra resources from the NHS which will help with managing part of the pressures. In December 2012, the Department of Health published allocations for 2013/14 relating to transfers of funding between PCTs and local authorities for social care services to benefit health. Nationally, allocations have risen by £237m and include £100m referred to in the White Paper, Caring for our future. The extra resources, including an estimated £1.5m for re-ablement, total £3.8m in 2013/14, rising to £4.3m in 2014/15, on top of the £5.9m already in the MTFP. It is assumed that this additional funding will continue beyond this spending review period to 2015/16 and beyond, which is a possible risk, but given this Government's commitment to protect Health from spending reductions, there is a good probability that this will continue in the future.
20. There are some planned savings which amount to £4.5m by 2016/17, around 5% of the budget. However, the savings assumed for 2013/14 are very modest and are not cuts in service provision. All the savings reflect the agreed strategy which is in the main about trying to make sure that we limit people's need for care by intervening early and in the right way. Pressures on the Older Peoples' Pooled budget are currently projected to fall over the medium term from £6.2m in 2013/14 to £5.2m by 2016/17. This assumes reducing future demand and cost through the earlier intervention, and will have to be absorbed.
21. This is the biggest risk in terms of savings for the Council in 2013/14. However, there are a number of new developments which may mitigate the

risk. Although the impact of these developments and in particular when they might start to impact on the demand for care is not known. There is also a risk that the increased demand for care seen this year may continue in the future so other ways of mitigating the pressures may need to be explored if the pressures on the older people budget continue.

22. The new developments include:
 - The introduction of discharge to assess which should help reduce the demand for permanent care home placements.
 - Increasing the number of people who benefit from re-ablement which should help to reduce the demand for care generally
 - Reviewing the effectiveness of a number of services to ensure that they are reducing the demand for care.
 - Improving information and advice including for those funding their own care.
 - Reviewing the way that equipment is provided to make it effective.
 - With the Clinical Commissioning Group, the Council is bidding for the latest round of Winter Pressures money which will be used to eliminate the waiting lists for adult social care. By intervening earlier, it is hoped that people's care needs can be addressed before they grow and therefore cost more.
 - Also with the Clinical Commissioning Group, the Council is developing a Dementia Action Plan which aims to intervene earlier for people with dementia (alongside earlier diagnosis of the condition). Earlier intervention tends to reduce the longer term costs of meeting care needs.
 - Introduction of a single point of access for health and social care professionals. This enables the right services to be targeted.
23. Moving to a much larger and genuinely pooled budget with health should also help to identify scope to make savings for the benefit of all. Some savings have been assumed from this. These are however relatively modest (around 1% of the budget) and not until 2015/16. Furthermore, several other areas are also being explored that may reduce future demands. These include, accelerate the development of extra care housing and also develop alternative housing based services for people with more complex needs. Explore whether the Shared Lives programme can support more older people and also consider the option of Homeshare; commission services that address loneliness and isolation; and develop Integrated Locality Teams with the health service.
24. Even with all of these actions, there will still be risks. In recognition of this, an on-going contingency of £2.3m is set aside in case the pressures cannot be managed in full. The situation will need to be monitored very carefully in the next financial year.
25. Demographic funding for all client groups is included in the existing MTFP up to 2016/17, with the exception of older people, for which demography is included up to 2015/16. In my commentary last year, I referred to the Dilnot review proposals, which if implemented in 2015/16 would fundamentally change the way in which social care is funded. In July 2012, the White Paper

“Caring for our future: reforming care and support” was published setting out a direction and a series of proposals building upon the Government’s Vision for Adult Social Care (Autumn 2010). At the same time, the Government published a report on the progress of funding reforms. The Government agrees that the principles of Dilnot would be the right basis for any new funding model –financial protection through capped costs and an extended means test. The funding of demography for older people beyond 2015/16 will need to be reviewed next year once the position on the Dilnot review and the spending review for 2015/16 have been finalised.

26. In January 2013, the Cabinet considered the care home fee rates for 2013/14 that will be consulted upon. The MTFP includes the financial implications of the consultation proposals. In addition, the Cabinet confirmed the 3% uplift that was agreed as an interim increase from 2012/13. This is also factored into the MTFP. There has been much press attention regarding the financial stability of care homes following the collapse of Southern Cross and there is a risk that the care homes will seek higher increases in future which again puts pressure on the adult social care budget.
27. In 2010/11, the physical disability part of the older people and physical disabilities pool overspent by £1.1m. This was carried forward to be managed in 2011/12. However, the overspend continued and at the end of 2011/12 a supplementary estimate of £1.85m was sought and approved to meet the accumulated overspend. The overspend reflected an increase in client numbers and an increased demand for spending which had been until 2010/11 met from the older people’s part of the pool. As part of the MTFP agreed in February 2012, additional funding of £0.8m was agreed to correct the underlying budget in 2012/13 and build in an additional £0.2m in 2013/14 and each year beyond for demography. It was thought that this would be sufficient to meet needs and provide a sustainable position going forward. Despite this additional funding, as 2012/13 progressed it was clear that expenditure had increased and the forecast exceeded available budget by £1.8m. A detailed piece of work established a number of reasons for this.
28. Compared to the previous forecast it was clear that unit costs were higher and that attrition rates were much lower than forecast resulting in higher costs, and for longer period. In addition, the waiting list of people whose needs have had assessed but who are waiting to have funding allocated had grown from 1 in September 2011 to 41 by June 2012. In December 2012, Council approved a virement of £1.8m from the Learning Disabilities Pooled Budget to offset this pressure on a one-off basis. £1.1m of the £1.8m has been utilised to cover the overspend in 2012/13 and new clients that have been assessed to receive a service. The remaining £0.7m will be placed in a reserve to funded on-going costs for the assessed waiting list clients over the next two years. The proposed MTFP includes £1.9m additional funding from 2013/14 to address the underlying shortfall. This will take additional investment on physical disabilities to £3.0m over the last two years, an increase of 38% on the 2011/12 budget. The proposed 2013/14 budget for physical disabilities is £11m and the budget is now expected to be adequate to meet current demand and costs, however this will be closely monitored.

29. Another key change in the relationships with Health is the abolition of the Primary Care Trusts (PCT) and the creation of GP clinical commissioning groups (CCG). In Oxfordshire a single CCG will replace the PCT with it being virtually co-terminus with the county boundaries. The CCG has been operating in shadow form since April 2012 and has been working closely with the PCT and Adult Social Care. This should help drive better outcomes for service users and use total resources in the most efficient and effective way.
30. Savings of £1.3m were originally included in the MTFP agreed in February 2011 from 2012/13 relating to community transport provision. The MTFP agreed in February 2012 rephrased and reduced this saving to £0.2m in 2012/13 rising to £0.6m by 2014/15 to reflect the decision to continue providing transport for people who meet the FACS¹ eligibility criteria. Detailed proposals on the implementation of transport charges to day centres which better reflected the cost of providing services were developed and consulted upon in June 2012. In January 2013 Cabinet agreed to a phased increase in the charges from September 2013 to April 2015. The increased charges, once fully implemented will achieve the £0.2m savings in the MTFP for 2012/13. The remaining savings of £0.4m are expected to be achieved through the wider review of community transport. This has been reprofiled into 2015/16 as the project is in its early stages.

Public Health

31. The Council takes on responsibility for Public Health from April 2013 and the funding for this will be through a ring-fenced specific grant. Allocations have been notified for 2013/14 and 2014/15 and are in line with planned expenditure for both years. The Council has been working closely with Public Health colleagues in preparation for the transfer to the Council and this should place the Council in a good position to take on this new function.

Environment & Economy

32. The Directorate includes a diverse range of services, which as well as roads and transport, waste, strategic planning, economic development, also includes Oxfordshire Customer Services. This combination of services provides both key front line services but also support to the organisation. Savings across the medium term plan fall into both of these categories.
33. The Council re-tendered its highways contract with a new contractor taking over from April 2011. Contract savings were delivered in both 2011/12 and 2012/13, with further savings of £1.8m required in 2013/14. The start of the contract has coincided with the funding reductions from central Government and the subsequent savings that have been required by the Council. This has led to a lower base of work from which to make further efficiencies and the MTFP proposes the re-instatement of efficiencies of £1.5m for 2013/14 which are no longer deliverable and would, if retained, be cuts to service.

¹ Fairer Access to Care Services

34. The area stewardship fund was introduced in 2011/12, created from utilising £1.0m of highways maintenance funding. In setting the budget for 2012/13, a further £1.0m of additional one off funding was added to the fund. The proposal maintains the £1.0m base funding for 2013/14, but refocuses the criteria back towards highways maintenance. The continuation of the fund in future years will be dependent on the availability of further one off funding.
35. There has been heavy rain fall over a prolonged period giving rise to a number of flood alerts. In the latter part of November 2012, the county experienced another flood. The prolonged rainfall has resulted in some different impacts from the 2007 floods. In early January 2013, a very significant subsidence was experienced on Oxford Road, Abingdon caused by an embankment collapsing. Should there be other sites around the county requiring remedial work, the Department for Communities & Local Government have confirmed that the necessary road repairs would not count as eligible expenditure under the Bellwin Scheme. The cost of repair will need to be met from existing resources, either revenue or capital and this has been identified as a risk against balances. This may result in a delay of existing planned work and could have a detrimental impact on the highway resulting in further urgent remedial works.
36. The proposed MTFP includes re-introduction of day time parking charges at the Park and Ride car parks. There will be a consultation in the spring, so only a part year impact is included in 2013/14.
37. Oxfordshire has one of the highest rates of recycling rates nationally. Through the Oxfordshire Waste Partnership, we have worked with the District Councils to achieve recycling rates that are considerably higher than the targets set out in the agreed Waste Strategy. Building on this success the targets in the strategy are being reviewed, with the potential to set higher targets still. Agreement has been reached with the District Councils to remove the link between the recycling targets and the financial incentive payments. The saving in the proposed MTFP represents the phasing out of the financial incentive payment to each district by 2018/19.
38. In April 2012 the property and facilities function took on responsibility for all property related issues, including county-wide facilities management services establishing the corporate landlord function. A new property and facilities contract commenced in July 2012, and delivers that corporate landlord function. A key milestone for the contract was the completion of a condition survey of the property estate. This has demonstrated a reduction in the maintenance backlog and allows for the extension of the non-essential maintenance 'holiday' from 2015/16 to be included.
39. The contract also includes delivery of the asset rationalisation programme, reducing the size of the public estate. This will deliver revenue savings and realise capital receipts. Through locality reviews, increasing emphasis is being given to identifying and then realising opportunities to co-locate public sector services within individual localities. This also links to savings in ICT.

40. Oxfordshire Customer Services (OCS) comprises ICT, finance, HR including the Oxfordshire Skills and Learning Service, the Schools Division and the Customer Services Centre. There is a major transformation programme in progress which will deliver savings, linked to changed ways of working for employees and managers. This will provide a more efficient service delivery model and enable staff and managers to handle more processes electronically themselves. Both this changed way of working and the reduced size of the authority will allow savings to be achieved.
41. In September 2012, all school facing delivery managed through Oxfordshire Customer Services was consolidated into a single service. This provides a single point of contact for schools. All services within Oxfordshire Customer Services are currently subject to a strategic review to determine whether they are a service the Council must continue to operate in its current scope, and if so whether there is strategic value in retaining the service in-house or commissioning the service externally.

Chief Executive's Office

42. Savings are proposed that remove the base budget funding for the Big Society Fund and the Change Fund. The Change Fund purpose has been subsumed into the Efficiency Reserve, which has sufficient funds to deliver the planned change programmes. As the budgets for the Chief Executive's Office are predominantly staffing, any reductions have a direct impact on the capacity to deliver. Given the continuing significant changes to the policy and finance framework the proposed staff savings have sought to minimise the risk around capacity.

Overall

43. The overall impact of the directorate business strategies which combine to form the overarching Council strategy, as reflected in the Corporate Plan, have been recognised and resourced in the MTFP. There are risks associated with a number of the individual elements of the plans, but these are mitigated by contingencies along with appropriate levels of reserves and balances.
44. The continuing funding reductions provide further risk, particularly concerning the Council's capacity to manage business as usual at the same time as delivering the changes required to realise the savings in the business strategies. However, there should be sufficient resources available in the Efficiency Reserve to manage the one-off implications of the change programme and manage the cash flow implications arising from the different timings of the pressures and savings. By 2016/17 the Council will have a smaller cost base, and will need to be delivering services in a different way.

Balances

45. An assessment of financial risks to the budget and medium term plan has been undertaken to determine the appropriate level of balances for 2013/14 and the medium term. In setting the 2011/12 budget it was recognised that there were increased risks arising from the national economic position, with the requirement to make significant £119 million of savings over the following 4 years on top of the £35 million delivered in 2010/11. The need was identified for increasing levels of balances to ensure that any shortfall in achieving savings was able to be managed in a controlled way. In the event, the delivery of the savings was achieved for 2011/12 and the latest forecast for 2012/13 shows those targets are expected to be achieved also.
46. In addition to the risks included in previous years, from 2013/14 the re-localisation of business rates through the introduction of the rates retention scheme gives rise to additional risk. The element of business rates funding which is determined as the local share is dependent on the business rates forecast by each District Council in Oxfordshire. The amount then actually collected could differ from the forecast and the variation will be adjusted for in the subsequent year through the collection fund. The rates retention scheme increases the volatility of funding the Council receives and it is therefore appropriate to reflect this in the level of balances held.
47. I set out in my commentary last year that due to the difficult economic environment, there would be an increasing risk of some market failures which the Council would need to be in a position to respond to. During 2012/13 there have been several bus contractors who have gone into administration and the immediate action required to ensure a continued service along with replacement contracts have given rise to additional costs. The economic forecast is not any brighter going into 2013/14, so this risk continues.
48. The Local Government Finance Settlement has confirmed that significant funding reductions in Local Government are a reality and the Chancellor made it clear in his Autumn Statement in December 2012 that this will continue into 2017/18. It is also a likelihood that the austerity will continue beyond then too.
49. Against this background, Directorates have worked hard to achieve their savings. The fact that there have been no calls on balances so far during 2012/13 demonstrates that Directorates have strong financial management. For this reason, I have been able to recommend that £1.5m of the £2m which was set aside for potential calls on balances in 2012/13 can be used, on a one-off basis in 2013/14 to support the budget through a contribution to the Efficiency Reserve. This will help manage the cash flow implications arising from the imbalance of pressures and savings identified to meet these over the medium term.
50. The Cabinet has accepted the recommendation to maintain the increasing levels of balances in the shorter term from £15.7 million in 2013/14 and to £16.7 million in 2014/15 and beyond.

Reserves

51. Earmarked reserves, as one off funding cannot be used to fund our recurrent expenditure. They are held for specific purposes and are often used to manage cash flow. At the end of 2011/12 our earmarked reserves were £117m. By the end of 2012/13 they will be £102m. It is estimated that by the end of 2013/14 they will be significantly reduced at £78m and will drop to an estimated £22m by 2016/17. As with balances, the increased risk associated with significant funding reductions means that resources are being set aside from decreasing base budgets to help manage change projects which operate over more than one financial year. These include reserves for the Thriving Families programme, for the Asset Rationalisation Programme and for the costs of supporting schools converting to academies.
52. School reserves will be significantly lower at the end of 2012/13 than they were at the end of 2011/12. As schools transfer to academies any balances also transfer. Schools balances are projected to fall from £29m at the end of 2011/12 to £8m by the end of 2013/14.
53. There are a number of corporate reserves which we would also expect to be holding, such as for insurance and capital. There is however, a plan for the majority of reserves to be utilised over the medium term planning period, which is evident in the reducing balance by 2016/17.
54. The Efficiency Reserve was created in 2009/10 to help manage the investment needed for service redesign, efficiencies to be delivered and for redundancy costs. As was the case in setting the MTFP last year, the reserve will also be used to manage the cash flow implications of the pressures and savings profile being different over the medium term. To improve clarity between the cash flow movements and the funding to assist with service redesign, the cash flow part of the reserve will be moved to the existing budget reserve leaving the Efficiency Reserve solely for the purpose it was originally intended. Both reserves are expected to be used in full by 2016/17.
55. The introduction of International Financial Reporting Standards (IFRS) from 2010/11 has resulted in an apparent increase in the level of reserves held at the year end. Unspent specific grants now have to be treated as a carry forward rather than a receipt in advance. This increased the apparent level of reserves by around £7m in 2011/12. A similar sum is expected as the balance at the end of 2012/13.

Inflation

56. The proposed MTFP sets out some changes in inflation assumptions from the existing plan. In his Autumn Statement, the Chancellor reaffirmed the cap in public sector pay of 1% for 2013/14 and 2014/15. As a result it is proposed to limit pay inflation in the MTFP at 1% for those two years. Provision for non-pay inflation is included in the existing MTFP at 2% per year but is proposed to be removed for both 2013/14 and 2014/15 with directorates absorbing the pressures which may arise.

57. The high inflation figures that have been seen since the middle of 2011 have tailed off. 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 have increased since then, with CPI in December at 2.7% and RPI at 3.0%, the main upward pressure came from university tuition fees and has no impact on the County Council. The Bank of England forecast that inflation is likely to move downwards from the second half of 2013, with the risks of inflation being above or below the 2% target beyond then being broadly balanced.
58. Given the announced cap on pay, there is little risk of limiting pay inflation to 1% for the next two years. In relation to non-pay, not applying inflation will save around £1.7m across directorates premises, transport and supplies and services budgets. As these are more controllable than pay and contracts, this should be achievable. There is some risk around contracts, especially where they are subject to indices such as the Retail Price Index (RPI) or the Baxter Index which are often higher than CPI. In these cases, Directorates will need to manage any difference between the index that needs to be applied to the contract and a 3% inflationary uplift on the budget.

Strategic Measures

59. The risks around the treasury management function have for the past few years been around the stability of the banking sector, the continuing Eurozone crisis, and a lack of domestic and global growth giving rise to recession and stagnation. This has been managed by reducing the exposure to banks generally and foreign banks in particular. There has also been a reduction in the length of any deposits, in order to reduce risk. The ongoing risk remains however, that there is a collapse of one of the major UK banks or the unmanaged dissolution of the Eurozone, and the Government does not provide support to the sector. If that does happen, then the impact will be broader than just on strategic measures, or indeed the Council.
60. The proposed MTFP includes reductions in interest receivable on deposits based on prudent levels in the assumed level of Bank rate and rate of return. The proposed MTFP is now based on the Bank rate remaining at 0.5% until 2017 extended from 0.5% up to 2016 in the existing MTFP. This reflects the continued lower bank rate that the market is forecasting. Over the last six months yields have started to reduce with the average rate obtained on a three month deposit with a strong credit quality bank or building society being 0.45%, lower than the current Bank rate. Given this reduction, the rate of return which is built into the proposed MTFP has been reduced from 0.50% above the Bank rate to 0.40% in 2013/14, 0.35% in 2014/15 and 0.30% in 2015/16 and 2016/17. This is a reasonable and cautious approach and whilst it does have the impact of reducing overall returns on our cash balances the level of cash balances over the medium term has been revised upwards to reflect latest trends and this offsets the impact of the lower rate of return.

61. From 2011/12, the Council has received a share of new homes bonus funding as an incentive for housing growth. 80% of the funding goes to District Councils and the county receives 20%. The funding for each year is provided in the form of an un-ringfenced grant for six years so is expected to rise each year as an extra year's housing growth is added. Additional funding of £1.1m in 2013/14 rising to £2.9m by 2016/17 is expected to be received over and above the £0.5m already being received for previous growth. It was agreed last year that the £0.5m received relating to 2011/12 was placed in a newly created capital rolling fund for use within the capital programme as a flexible forward funding mechanism. The proposed MTFP and Capital Programme do not change this principle but use the new additional funding from 2013/14 to support the revenue budget.
62. In setting the 2008/09 budget and MTFP, revenue funding for prudential borrowing was agreed in order to create a programme of £25 million capital investment over a period of ten years to 2018. The capital funding was intended to deliver non- schools and non-highways projects that would not otherwise be funded. The annual revenue contribution required to achieve this level of capital investment was £1.35m per year, increasing to £1.4m in 2011/12. As the spend profile has not been as high as anticipated, the revenue contribution was revised to £1.25m per year in 2011/12. The proposed MTFP revises both the capital investment and the required annual revenue contribution. The capital investment will be limited to the amount spent to date plus the amount included in the current capital programme, a total of £19.3m. The annual revenue contribution will be reduced to £0.975m per year, a saving of £0.275m to fund this revised level of investment.

Council Tax levels

63. The Cabinet is proposing a council tax increase of 1.99% for 2013/14, a 2.5% increase for 2014/15 and 3.75% thereafter. The existing MTFP includes council tax increases of 3.75% for 2013/14 and beyond.
64. In 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% in 2013/14 reduced from 3.5% in 2012/13. An increase above 2% will require a referendum. The difference between a 2% increase in 2013/14 and the 3.75% set out in the existing MTFP results in an on-going pressure of £5.8m.
65. At the same time as proposing the referendum threshold, the Chancellor announced support for local authorities to freeze council tax. If an authority froze its council tax for 2013/14 (i.e. at the same level as the 2012/13 amount) the authority would receive a 2-year grant equivalent to a 1% increase. The indicative grant for Oxfordshire would be £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 a pressure of £6.7m. The Cabinet is not proposing to take up the grant. Given the longer term

implications and the level of savings that already need to be made, this is a prudent choice.

66. Reducing the planned council tax increase to 2.5% in 2014/15 seems a reasonable assumption on the basis that the referendum level is unlikely to increase significantly next year from the 2% cap in 2013/14. Beyond then, the assumptions remain unchanged from the existing MTFP, with planned council tax increases of 3.75%. This will need to be reviewed each year in light of future referendum levels.

Capital

67. In line with the MTFP, the capital programme is being proposed for a four year period to 2016/17. Whilst this does limit the amount of future planned infrastructure, it is more prudent, given the current economic position, to ensure that the programme is planned with no additional resources until there is more certainty about the level funding in the future, especially beyond 2014/15. This will ensure that the size of the existing capital programme portfolio remains within an affordable envelope. In addition to this there are significant changes on the horizon in relation to capital funding and governance with the introduction of Local Transport Boards and devolution of major transport funding, the outcome of the City Deal bid recently submitted to Department for Transport and the growing remit of the Local Enterprise Partnership. With all this uncertainty a four year programme is pragmatic.
68. This year, the capital proposals address the strategic and high-level issues underpinning the service delivery. Over half of the available resources of £23m will be used to help manage the significant pressures on primary school places. The number on roll at Oxfordshire's primary schools has risen by 886 (1.9%) over the last year and more than the increase in the previous year of 1.3%, with reception age alone growing by over 3%. The additional pupil place requirement for basic need is currently estimated to be 1,145 places which this funding will help to deliver.
69. The capital proposals include forecast allocations for the education settlement which is still awaited. This is for structural maintenance and schools basic need. The Department for Education are passing the capital maintenance funding directly to academies and further relatively large reductions have been factored into the capital programme already on an annual basis. This will impact on the remaining amount available for the authority to allocate compared to the number of maintained schools.
70. The Council will continue to be responsible for basic needs irrespective of the mix of maintained, academy or free schools. If the grant allocation received is less than the amount built in the capital programme, then a decision will be needed on how that basic need programme is funded. The additional grants for social care and fire have yet to be allocated, and are awaiting confirmation of the education figures.

71. The latest forecast expenditure on the capital programme for 2012/13 as reported to Cabinet in December 2012 was £49.8m (excluding devolved schools capital) against the last approved programme of £50.0m. Actual and committed spend was 55% of the forecast compared to 73% at the same time last year (against a higher forecast spend of £67.1m). For 2012/13, planned work was greater in the second half of the year due to the transition period to the new property contract with Carillion Capita Symonds in July 2012. However, there is a risk that the capital programme will not be delivered if there are further adverse weather conditions in the remainder of the financial year. The proposed capital programme includes £78.4m of planned spend for 2013/14. This is higher than either of the last two years so there is a risk that this volume of work can be delivered.
72. The introduction of the Community Infrastructure Levy (CIL) from April 2014 should deliver a more predictable income stream for the Council towards infrastructure. However, it is unlikely to provide as much funding as current S106 agreements. The Charging Authority, which in Oxfordshire is the District Councils, is allowed to retain 5% of the levy for administration and any community with a neighbourhood plan is entitled to 25% of the levy. The District Councils will be able to introduce the levy if there is a need to support planned growth and if there is a funding gap between the cost of the infrastructure required and the level of funding likely to be available. The County Council will need to seek an agreement with each District Council on the level of contribution from CIL towards the cost of services and infrastructure which we provide. Developer contributions will still apply in site specific infrastructure. But it is already recognised that developer contributions historically have not been sufficient to fund all new infrastructure requirements. This gives rise to a major risk and it will be important to work closely with the District Councils to ensure that infrastructure needs are appropriately identified and that the County Council receives an adequate share of the CIL.
73. The traditional streams of funding the capital programme are likely to reduce over the medium term. In addition to the likely reduction in capital grant associated with the reductions in public sector funding, there will also be reductions related to schools converting to academies; and therefore potentially less capital receipts.
74. Overall, the proposed programme is balanced with sufficient level of contingencies. The provisional nature of the future years' programme will mean that the Council has some flexibility to respond to changing or unforeseen requirements or changes in funding. However any significant change in the future years' funding will require a more thorough review of the programme as part of the Service & Resource Planning process.

Implications of the Local Government Finance Act and the Welfare Reform Act

75. In addition to the implementation of the local retention of business rates, the Local Government Finance Act also included the introduction of the localised

council tax reduction scheme. Both of these will create volatility in the levels of funding which the Council will receive. Whilst the top up part of the business rate will be fixed and inflated by RPI each year, the local share will be entirely dependent on the forecast of business rates for the forthcoming year set by the District Councils having taken into account estimates for appeals on rateable values. This is also then subsequently affected by the amount of business rates collected compared to the forecast, any variation being adjusted on a one-off basis through the collection fund as with council tax. The estimate of business rates for the forthcoming year is required to be notified to the County Council by 31 January each year. This is very late in the budget setting timetable, the effect of this makes decision making very difficult.

76. In addition, the localisation of council tax benefits via the council tax reduction scheme gives rise to further turbulence in funding. The County Council has worked with the District Councils to agree an Oxfordshire wide scheme for 2013/14 which did not either disadvantage the low paid or act as a disincentive to work. A scheme was agreed that replicates the support provided under the existing scheme. To help offset the 10% savings the Government is seeking from the new local scheme, the District Councils have reduced the level of council tax discounts provided on certain classes of properties. This scheme will however need to be reviewed for 2014/15 to take account of the introduction of Universal Credit (see paragraph 78) along with the actual numbers of claimants, which could rise from the existing council tax benefit scheme. There is a risk that these changes both for 2013/14 and in the longer term will result in less council tax being collected and an increase in outstanding debt. This would impact on the collection fund and potentially on the taxbase, if lower collection rates are built into the districts forecasts. One of the District Councils has already lowered their collection rate from 98% to 97%. This position will need to be monitored to understand the impacts.
77. The Welfare Reform Act received Royal Assent in March 2012. Ministers claim that this Act represents the biggest overhaul of the benefits system since the 1940s. Its wide-ranging reforms are driven by a need to reduce the welfare bill and to overhaul the benefit system to promote work and personal responsibility. Many of the policy changes resulting from the Act are coming into force during 2013.
78. At the centre of Act is introduction of the Universal Credit a single streamlined benefit replacing number of benefits² payable to people both in and out of work. It is to be phased in from October 2013, with all households transferred to Universal Credit by the end of 2017. In addition the Act introduces a cap on housing benefit; the introduction of a size eligibility criteria for social housing where under-occupancy of a property will result in a loss of benefit; a 1% cap in working age benefits; the abolition of parts of the discretionary Social Fund replaced by Local Welfare Assistance; and the replacement of the Disability

²including Income Support, Job Seekers Allowance, Employment & Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit

Living Allowance (DLA) with the Personal Independence Payment (PIP) for working age new claimants.

79. The impact of the changes will be felt by a range of people such as the working-age low paid or unemployed, large families, disabled people, carers and vulnerable people. The risks around these groups include the potential for increases in rent arrears and personal debt. This risk is potentially increased by the policy of paying people direct and monthly, as opposed to fortnightly. There is an acute lack of appropriately sized, cheap accommodation throughout the county, so claimants may find themselves with an income/outgoings gap that cannot be easily remedied. There is potential for a shifting population as families and individuals attempt to find affordable rents. Although as the shortage of housing across the county is so acute, the volume of such movement is likely to be small. Advice providers are already reporting increases in homelessness enquiries and growing numbers using credit cards to pay their housing costs. Concerns are that use of pay-day loans and loan sharks will increase sharply.
80. As well the potential impacts on the Collection Fund and taxbase mentioned above, these changes could also impact on social care budgets, both for adults and children, as well as on services such as trading standards.

Pension reforms

81. There are three areas of Government policy on pensions which could impact on the Council's budget over the medium term. These are the changes to the public sector pension schemes, the introduction of auto-enrolment and changes to the State Pension.
82. The fire service scheme and teacher's scheme will see increased employee contributions from April 2013 and 2014 in addition to those in April 2012. Whilst the employee contribution is planned to increase, it is not expected that employer contributions will reduce. The saving from increased employee contributions is expected to reduce the shortfall between pensions payments made and contributions received which the Government has to fund. The risk that arises with increased employee contributions is that there may be potentially higher opt out rates, leaving individuals with insufficient pensions in their retirement.
83. For the Local Government Pension Scheme (LGPS), the proposed changes from April 2014 involve small increases in employee contributions and the introduction of a new 50% option, where employees can pay 50% contributions for 50% of the benefit – employers still need to pay the full 100% contribution. There is therefore a potential for increased membership and therefore increased employer contributions under this element of the proposals.
84. Auto-enrolment for the County Council comes into operation from February 2013. Under these arrangements, the Council must enrol all staff into a qualifying pension scheme every three years, though the individual member

retains the right to opt out. If all the current employees who have opted out of their pension scheme are auto-enrolled back into the scheme, and choose not to re-opt out, the additional annual contributions required by the Council would be £4.4m, of which £2.6m would fall on schools, and £1.8m on directorate budgets. Given that all these staff have previously opted out of their pension scheme, it is likely that the majority if not all will opt out again, and there will be no or limited additional costs to the Council.

85. No additional funding has been factored into the MTFP for either the new 50% option for the Local Government Pension Scheme or for any impact of the auto-enrolment. Both of these will need to be monitored carefully and reflected in the MTFP next year if there are indeed financial implications.
86. The Government Actuary has estimated that costs of the proposed scheme will reduce, largely as a result of the link between normal retirement age and state pension age, with average employer contribution rates reducing by 2.2% of pensionable pay. The impact of the changes will vary between LGPS funds, and between employers dependent on their membership profile. Actuaries will also need to take into account the financial climate at the time of the valuation due in March 2013, which could add upward pressure on employer contribution rates. Work will continue with the actuary to establish the likely results from the next valuation, effective from April 2014.
87. Finally, the Government has proposed changes to the State Pension arrangements from April 2016, which include a single flat rate state pension, and the ending of the current contracting out arrangements. The ending of contracting out will mean that members of current pension schemes will lose their 1.4% national insurance rebate³ and the Council would lose its 3.4% rebate on the same pay. Employers and Unions have raised their concerns about the impact of these increased costs and it is currently not clear how the Government proposes that these are met. Clearly though there is a potential pressure on the Council budget from April 2016, which has not yet been factored into the MTFP.

External Publications

88. A recent report by the National Audit Office challenges the view that Councils can continue to absorb reductions in Central Government funding without reducing services. It points out that local authorities must balance making savings with meeting their statutory duties. The existing and proposed MTFPs have achieved savings through efficiencies and service re-design rather than making decisions to completely cease any services. There is a risk that if there are further funding reductions this position will not be sustainable.
89. The Audit Commission publication, Tough Times 2012 set out seven key indicators of good financial management in 2011/12. These apply not only to 2011/12 but each and every year. The key indicators were:

³ On pay between £5,044 and £40,040

- a. 2010/11 savings and efficiency plan was in place and on target;
- b. The Council has accurately predicted the level of Government support in its planning for 2011/12;
- c. The Council has reviewed its medium term financial plan to reflect its 2011/12 settlement;
- d. Leadership understood the financial management challenge facing the Council in setting its 2011/12 budget
- e. Council has undertaken appropriate modelling of key financial data in setting its 2011/12 budget;
- f. There had been effective formal challenge by members of the financial assumptions in the 2011/12 budget;
- g. Council had avoided short-term financial management approaches in its 2011/12 budget compared to 2010/11.

The Council applied all of these in 2011/12 and has continued to do so in planning for budgets beyond then too.

Statement of Assurance

90. I have made a thorough examination of the Cabinet's budget proposals as set out above. I am satisfied that the budget proposals are sufficiently robust, recognising the risks discussed. This constitutes my Statement of Assurance on the budget proposals for 2013/14 and the medium term to 2016/17 under Section 25 of the Local Government Act 2003.

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

12 February 2013

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COUNCIL – 19 FEBRUARY 2013

BUSINESS STRATEGY AND SERVICE & RESOURCE PLANNING

2013/14 TO 2016/17

Second Supplementary Report by Assistant Chief Executive & Chief Finance Officer

Flood Defence Levy

1. Since the papers for the Council meeting on 19 February were published, information has been received from the Environment Agency on the flood defence levy for 2013/14.
2. The County Council's flood defence levy comprises amounts for three regions: Thames, Severn Trent and Anglian Central, with the Thames region making up over 99% of the total. The 2013/14 flood defence levy is £0.531m, an increase of £0.054m from the previous year.
3. The 2013/14 proposed budget for the flood defence levy (as set out in Annex 2 of the Cabinet's report) is £0.478m, £0.053m less than the confirmed levy.

Referendum Limit

4. As set out in the previous supplementary report, the limit for triggering a referendum has been confirmed as an increase in the relevant basic amount of council tax of over two per cent. The relevant basic amount of council tax is the council tax requirement less the amount of any levies, divided by the tax base. The County Council's relevant basic amount of council tax for 2013/14 is £1,182.49. This compares to £1,159.58 for 2012/13, an increase of 1.976%.

Conclusion

5. As the £0.053m shortfall in budget for the flood defence levy does not have a significant impact on the budget proposals it is suggested that it is met from balances in 2013/14. This will mean that a change to the proposed budget is not required.
6. The increase in the County Council's relevant basic amount of council tax is below the amount deemed to be excessive and therefore a referendum will not be required.

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

February 2013

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