

COUNCIL – 9 FEBRUARY 2010

Service and Resource Planning 2010/11 – 2014/15

**Commentary on the budget 2010/11 – 2014/15
by Assistant Chief Executive & Chief Finance Officer**

Introduction

1. This report sets out my commentary on the Council's financial position overall; including the adequacy of reserves and balances. It also comments on the Service & Resource Planning 2010/11 Report from the Cabinet.
2. My supplementary report to Council sets out finalised information on the taxbase, collection fund surpluses and the Local Government Settlement providing a confirmed position on the funding available to the authority for 2010/11.
3. This commentary takes account of information provided in my supplementary report and the latest budget monitoring information which was presented to the meeting of the Cabinet on the 19 January 2010. My commentary fulfils the requirement of Section 25 of the Local Government Act 2003.
4. In this commentary I have considered the robustness of the Directorate and cross council estimates based on the outturn position for 2008/09, the forecast in year for 2009/10 and priorities for 2010/11 - 2014/15, plus the risks and opportunities throughout the budget and how the risks have been mitigated. I have also considered the estimates for strategic measures and the capital programme, how the budget and Medium Term Financial Plan (MTFP) address the priorities of the Council and the robustness of the MTFP in future years.

Cabinet's Budget Proposals Overview

2010/11 Budget

5. The Cabinet's budget proposals are based on the Council objectives (World Class Economy, Healthy & Thriving Communities, Climate Change & the Environment and Better Public Services) based on a framework of low taxes, real choice, value for money. The Administration's commitment to reduce the rate of increase in council tax continues for 2010/11. The Cabinet achieved its original proposals to reduce the rate of increase to 4% by 2009/10 two years early in 2007/08. The rate of increase was reduced further in both 2008/09 and 2009/10 with a 3.75% increase maintained across the period of the MTFP.
6. The Cabinet's planning assumptions 2010/11 were based on a 3.75% increase followed by increases of 2.5% for 2011/12 and 2012/13 rising back

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to 3.75% thereafter. The proposals for a 2.5% increase in 2011/12 and 2012/13 are in line with their manifesto pledge that should a Conservative government win the general election, which must take place by June this year, they would freeze council tax in those years.

7. The Cabinet's final budget proposals are changed from their planning assumptions for 2010/11, with a Council tax increase of 2.75% proposed. I commented in the addenda to the December Service & Resource Planning report on the Government's expectation the average 3% increase in Council Tax seen nationally in 2009/10 would fall for 2010/11. Any increase higher than 3% would run the risk of capping. I am satisfied that a 2.75% increase for 2010/11 should be a low enough council tax increase to avoid this risk.
8. The proposals for 2010/11 represent a £10.7m (2.8%) increase in the Budget Requirement. This is made up of inflation of 3.7m and real growth of £7.0m. The amount of pressures being funded by corresponding savings totals £19.7m, with further savings which fund one-off investments of £1.4m plus £2.9m which will be added to the efficiency savings reserve. The details and proposals are set out in Annex 2a and Annex 3 of the Cabinet's Report to Council and discussed further below.
9. The budget proposals are in addition to the changes which are set out in the existing MTFP. This includes considerable sums built in to the future years, especially for Adult Demography, Waste, potential Pension costs and Building Schools for the Future.

Medium Term Plan

10. The pressures and savings over the medium term which are proposed by the Cabinet result in a shortfall still to be addressed by 2014/15 of £2.994m. As the Cabinet's proposal has already factored in significant saving assumption arising from the next Comprehensive Spending Review (CSR), and costs from the impact of the pension fund triennial valuation, I believe that the current shortfall could be managed in the time frame available and am therefore content with the proposed medium term position at this stage.

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Year on Year	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m
Total Pressures Identified ¹	20.9	18.2	11.9	20.3	10.0	81.3
Less : Previously agreed but unidentified savings now shown as a pressure		-1.1	-3.1	-3.3		-7.5
NEW PRESSURES	20.9	17.1	8.8	17.0	10.0	73.8
Total Savings Proposed	-27.8	-19.7	-19.4	-14.8	-1.6	-83.3
Less: Savings required in existing MTFP	2.5	2.5				5.0
Less : Previously agreed but unidentified savings now shown as a pressure		1.1	3.1	3.3		7.5
NEW SAVINGS	-25.3	-16.1	-16.3	-11.5	-1.6	-70.8
NET POSITION	-4.4	1.0	-7.5	5.5	8.4	3.0

Cabinet's Budget Proposals Detail

Inflation

11. Inflationary increases for 2010/11 and the medium term are set out in the table below. In the shorter term, the inflation provisions are expected to be adequate. The risk is likely to increase in 2012/13 and beyond. 2012/13 would be the fourth successive year of no more than a 1% pay increase for the public sector. A rate of 1% may at that point no longer reflect the state of the economy or pertaining inflation rates. However, the proposed MTFP does include additional inflation provisions for 2013/14 and 2014/15.

Year	Pay	Non Pay	Contracts
2010/11	0%*	0.5%	1.5%
2011/12	1.0%	1.5%	2.5%
2012/13	1.0%	2.0%	3.0%
2013/14	2.5%	2.0%	3.0%
2014/15	2.5%	2.0%	3.0%

*see paragraph below

Whilst for 2010/11 directorate pay budgets are currently showing a proposed increase of 0.5%, the expectation is now that there will be no increase. As set out in my supplementary report, the Employers' Side of the National Joint

¹ Includes Tax and Grant Funding Pressures

Council has stated that they will not be able to offer any increase in pay for 2010/11 as offering a national pay increase would severely compromise councils' ability to protect front line services and jobs. At this stage it is prudent to leave directorate pay budgets with the 0.5% increase, recognising that it may not be required, and if it isn't, that this funding could be used towards the costs of staff reductions.

12. There is some risk around pay inflation for 2010/11 in terms of the Teachers pay award. Increases for a three year period were agreed in 2007. This included increases of 2.3% from September 2009 and 2010. The increase for 2010 is indicative and subject to review in light of inflation. Most teachers' pay budgets will fall within the Dedicated Schools Grant which has the scope to cover this rise. However, those on teachers' pay and conditions not funded by the Dedicated Schools Grant Funding will be at risk. This may put pressure on services as the current assumption is that this will need to be absorbed.
13. There could also be some risk in 2010/11 relating to other pay bodies which are often agreed at higher rates than the Green book pay award. These include Fire-fighters, Lecturers and Soubury.
14. Whilst contract inflation is allowed for at 1.5% in 2010/11, there is a risk that some contracts which are subject to specified indices may be higher. However, for Environment & Economy (E&E) this has been built into the MTFP through previously agreed policy plans for costs above contract inflation of £0.535m in 2010/11 within Transport. Furthermore, included in the proposed budget is £0.822m in 2010/11 rising to £1.055m in 2011/12 for the highways contract reflecting the higher inflationary increase on the contract.
15. Proposals for savings in Social & Community Services (S&CS) include a restriction on contract inflation for 2010/11 releasing savings of £1.066m. Given the stated savings required in the NHS in Oxfordshire over the next few years and that contract increases should be aligned across the sectors, this is a reasonable assumption.

Efficiencies and Savings Targets

16. The proposed MTFP includes planned efficiencies and savings for each year up to 2014/15. Directors were issued with their share of the savings target in July 2009. Consideration of how savings can be achieved over the medium term was undertaken as part of their Business Improvement & Efficiency Strategies through the Service & Resource Planning process. The savings target was planned to enable identified pressures to be met and phased so that savings were greater than pressures in 2010/11 creating some one-off funding to help deliver the savings in the medium term through one-off investment or potential redundancy costs.
17. Of the total proposed savings for 2010/11 of £27.832m, £15.518m are classed as efficiencies or income generation, £8.431m are classified as coming from alternative funding sources; £2.501m are classified as a service reduction and £1.383m are classified as a combination of efficiencies and service reduction. This demonstrates that Directorates have, wherever possible, proposed

efficiencies and other savings with service reductions as a last resort. Of the total savings for 2010/11 £1.656m are classified as high risk savings. I have taken the risk of these being delivered into account in determining the level of balances required for 2010/11.

18. Communities and Local Government (CLG) requires the council to report savings achieved which are classed as Value for Money. The CLG target is £32.7m for the three years 2008/09 – 2010/11, although a stretch target of £33.6m has been agreed as part of the Local Area Agreement 2 (LAA2). As part of the 2008 Pre-Budget Report, the Government set a further efficiency savings target of £5bn for local government to be found by March 2011. This equates to around a further £5.7m for Oxfordshire. Schools and Fire efficiencies are excluded from these figures as they are reported separately to government. However some of the total savings, such as increased charges, are not classified as Value for Money although other non-cash releasing savings will also be identified. We are on target to achieve both the CLG requirement, the LAA2 stretch target and should also meet the further requirements from the 2008 Pre Budget Report.
19. Value for Money targets for the next Comprehensive Spending Review Period of 2011/12 – 2013/14 have not been announced. Whilst we have achieved high levels of efficiency savings in the past, continuing to achieve a high target having already achieved significant savings will be a challenge.
20. As the years progress over the life of the MTFP, each saving proposal planned to be delivered is less certain. It will be imperative to check each year that the proposed savings are still realistic and achievable and these should be considered prior to addressing any future savings required. Furthermore, in some cases, most notably within S&CS, some savings are classified as 'to be identified'. These will need to be defined and unambiguous prior to the year they relate to and be agreed through the Service & Resource Planning process.
21. Unidentified savings in S&CS start in 2011/12 at £5.380m and rise to £17.165m by 2014/15. Whilst these are significant, the Director believes they can be delivered through implementing a number of transformation programmes including Transforming Adult Social Care and working with the Primary Care Trust (PCT) in 'Creating a Healthy Oxfordshire' programme.

Balances

22. A risk assessment has been undertaken and has deemed balances of £12.5m to be appropriate for 2010/11. The table below sets out a summary of the risk assessment for 2010/11:

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	2010/11 £m
Directorates - additional calls on balances	2.0
Weather related	2.0
Bellwin Threshold 2009/10 – Per CLG	1.4
Credit Risk – per 2008/09 Statement of Accounts	5.2
High Risk Savings – 50%	0.8
Inflation – Pay & Contract (see Para 7 – 10)	0.6
Fire Service contingency funding	0.5
Total	12.5

23. The position on balances to November 2009 is £13.613m (set out in the Financial Monitoring Report to Cabinet in January 2010 and after taking account of the supplementary estimate of £0.475m included in the Addenda to the Service & Resource Planning Report). Drawdown from balances in 2009/10 currently totals £0.850m although further calls are expected before the end of the financial year for ICT and costs associated with the snow. In addition there may be a call relating to retained fire-fighters, the Southwark judgement and variations on property rates. In total, calls on balances could be in the order of £4m for 2009/10. This would mean that balances at 1 April 2010 would be less than the risk assessed level of £12.5m by around £2m. Consequently, as part of the budget proposals, an addition to balances of £1.975m is proposed. This should be sufficient to bring balances back to the risk assessed level.
24. Some further risks remain for 2009/10 based on the Financial Monitoring Reports to Cabinet. These are considered as part of the Directorate analysis below.
25. Historically levels of drawdown from balances have averaged in the order of £2m per year; although this year drawdown may be considerably higher I believe £2m remains a realistic planning assumption as Directorates do have a clear understanding of the need for in-year budgetary control. Given the risks associated with delivery of the savings proposed for 2010/11 and the medium term, I have recommended that the level of balances is increased over the medium term from £12.5m in 2010/11 and 2011/12 to £13.5m in 2012/13 rising by £1m each year thereafter to £15.5m by 2014/15. This addresses the rising risk and adheres to the financial strategy of holding balances at a level commensurate with risk. This will need to be reviewed each year, and as risks are mitigated and uncertainty reduced the level of balances required may be reduced again.

Reserves

26. The Service & Resource Planning Report to Cabinet in January 2010 stated that reserves had been reviewed, but no changes were proposed to them. The position on earmarked reserves at 31 March 2009 is set out in the

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Statement of Accounts, and the expected position to 31 March 2010 is reported as part of the monthly Financial Monitoring Report.

27. The excessive balances held by some schools have continued to be challenged. A process was developed where those schools with excessive balances, which were not fully explained, were called into a panel consisting of Members, the Director for Children, Young People & Families (CYPF) and myself. Interest was withdrawn from those schools who could not justify their position. In total £0.146m of interest was withdrawn relating to the year 2007/08. The same process was undertaken for the 2008/09 outturn; however due to improved financial management no interest was withdrawn from schools.
28. Budget monitoring for the year has indicated that there are a growing number of schools who expect to be in deficit by the end of the financial year. By the end of 2009/10 59 schools are expected to be in deficit, including half of all secondary schools.
29. 230 schools are expected to be in surplus at the end of 2009/10. Budget monitoring submissions indicate that year end balances are more in line with the schools budget submissions than in previous years. The forecast reduction in surplus is to be welcomed, as it will help ensure that the Department for Children, Schools & Families does not claw away money back from Oxfordshire. However, it does limit the flexibility in assisting schools with deficits (in the form of loans) as the authority is getting closer to allowable limits for loans and deficits to school because the allowable limits are based on the level of surpluses.
30. Work is being undertaken on a strategic review of the formula used to allocate funding to schools in Oxfordshire. The principles of the review are to ensure that the formula matches Council priorities, to ensure no school has abnormal surpluses or deficiencies in funding, to ensure changes in national policy and frameworks are reflected and to ensure the formula supports the improvement agenda. It is likely that some schools will benefit from a higher allocation of funds and some a lower allocation as a result, but sustainability of all schools will be fundamental. The new formula is expected to be implemented in 2011/12.
31. The Cabinet's budget includes proposals for the use of existing and potential Local Authority Business Growth Incentive (LABGI) funding held in the LABGI reserve. The funding is to be used for economic development purposes, including supporting the work of the Oxfordshire Economic Partnership in helping promote a World Class economy; support for returning military personnel and their impact on the local economy; and economic recession measures.
32. I am satisfied that these and the other reserves held have appropriate balances to meet the identified needs.

Specific Grants

33. Specific grants account for around half of the Council's expenditure. It is currently estimated² that grant funding for 2010/11 is £528.0m. The largest grant being the Dedicated Schools Grant (£333.4m) which is ring-fenced to schools and school related expenditure. Other large grants for schools include School Standards Grant and the Standards Fund which total £52.1m. In total specific grants for services within CYP&F total £476.7m.

Dedicated Schools Grant (DSG)

34. For 2010/11, the basic per pupil increase in the Dedicated Schools Grant is 2.9%, or 4.3% for those schools where the funding for the ministerial priority for personalised learning is added. This is a real terms increase and should be sufficient for schools to cover existing costs and pressures. There is uncertainty about the level of funding for 2011/12 and beyond, and this could be a significant risk for the future. In addition there is a national review of the formula for distributing the grant to local authorities which will be implemented in 2011/12. Planning assumptions are based on a 1% increase for 2011/12 in line with the cap on public sector pay.
35. In 2008/09 a number of specific grants were pooled into a new un-ringfenced Area Based Grant (ABG). Unlike other specific grants, income is not shown in the relevant service, but as a single line within financing of the budget. ABG is estimated to be £43.2m in 2010/11. Added to ABG in 2010/11 are Supporting People (£16.2m) previously a specific grant, and a new grant, the Learning and Skills Special Purposes (£0.4m), to cover the cost of staff transferring from the Learning & Skills Council (LSC) following its abolition in April 2010. In addition a sum of £210m nationally has been added to ABG for the funded portion of the proposed Personal Care at Home Bill which could be implemented in October 2010. The grant distribution is currently being considered as part of the consultation which will not be complete until 23 February 2010.
36. Funding for post 16 (including Adult Learning) which was previously routed through the Learning & Skills Council will be received through a specific grant, though this has not yet been notified. In addition the Council will receive grant to pass onto Further Education providers. This is expected to be in the region of £40m.
37. Notification has been received for many of the expected grants for 2010/11, though beyond this date there is no certainty and announcement is not expected until the CSR in the autumn. There is a risk that the level of specific grant funding might reduce over the medium term which could have a significant impact particularly for CYP&F.

Directorate Risks & Budget Proposals

38. The areas of risk in the underlying budget for 2010/11, based on the performance set out in the monitoring reports for 2009/10 and the outturn for

² Some grants have not yet been confirmed and some are subject to pupil numbers which will not be confirmed until February/March

2008/09 are set out below. The impacts of the budget proposals are also discussed below along with my comments on their robustness.

Children, Young People and Families (CYP&F)

39. There are areas of pressure in the current year across the Directorate which are leading to an overspend, although this is partially offset by the use of reserves and DSG. The main overspending area is Children & Families where there are a number of pressures including on Placements and Unaccompanied Asylum Seeker Children. The budget proposals for 2010/11 seek to address the underlying budget pressures in this service, and have targeted savings from other areas.
40. There are a number of major changes which the directorate will need to deal with in the coming year, which include
- Directorate efficiencies
 - Learning and Skills Council (LSC) transfer; and
 - Building Schools for the Future.

The following paragraphs address the issues for the current year and the changes which form the key risks for next year and beyond.

Children's Social Care

41. Child protection is the highest priority for the Directorate and in proposing savings for 2010/11 and the medium term this service was excluded. However there are a number of significant on-going pressures within the service. The latest financial monitoring report shows a predicted overspend on this service of £4.756m. The most significant risks are set out below.

(i) Agency Placements

42. Despite investment in previous years, the Agency Placements budget continues to be the most difficult to manage for the Directorate. Following on from the Baby Peter case, there was a 30% rise in the number entering care in the first quarter of 2009/10. There has been an increase in year in the numbers of children and young people with complex needs requiring care. These include, for example, those requiring secure accommodation because of their suicide risk and the numbers requiring mother and baby residential care for court ordered assessments. The current forecast to the end of the financial year is an overspend of £1.806m. The budget proposals include ongoing funding to address the pressures of £2.295m reducing to £2.045m by 2014/15 in recognition that the service should be seeking to avoid further cost increases in the cost of placements over the medium term.
43. In May 2009, the Court of Appeal issued the Southwark Judgement which has significant implications for the way children's services are delivered to homeless 16 and 17 year olds. The Judgement extends the Local Authority's duty of care for this group. It is estimated that the cost of this ruling in the current year is £0.3m but could be up to £1.0m in a full year and this has been recognised in the budget proposals.

(ii) Unaccompanied Asylum Seeker Children (UASC)

44. There have been ongoing pressures in this area since 2002/03 following increased levels of children arriving in Oxfordshire, changes in Government funding relating to the age of the child and level of service needed, and also those children who have been refused the right to stay but have not been returned to their home country. The Council receives different levels of funding for different ages of clients which don't fully meet the full costs of providing services. There has been and continues to be discussion with Government regarding the under-funding. An overspend of £1.049m was carried forward from 2008/09 representing the unfunded costs. A Special Circumstances grant of £0.429m was received in November 2008 for 2008/09, reducing the overall shortfall to £0.590m. This position is comparable to the shortfall in 2007/08 of £0.625m. The current forecast for 2009/10 is an overspend of £0.801m. In recognition of continued under funding, the budget proposals include £0.550m for 2010/11 on an on-going basis. Whilst this is less than the previous years shortfalls, the service aims to work within this funding.

(iii) Other elements of Children's Social Care

45. There is currently overspending approaching £2m in other elements of Children's Social Care including Homelessness; Transport for Looked After Children; Foster Care; Adoption and Special Guardianship Orders; and legal costs. There are proposals for additional funding of £0.327m for these areas, although there maybe some resources available if the £1m for the full year effect of the Southwark Judgement is closer to the current years experience.

Directorate efficiencies

46. The CYP&F approach to efficiencies has been to take a directorate wide perspective rather than focusing on specific functional areas. The strategy focuses on the following areas: cutting bureaucracy and streamlining services; rationalisation and re-structuring; reduction in subsidies and increased income generation. There has been a change of Director during the year, with the new Director starting in February 2010.
47. Opportunities to increase self-help and to generate increased income through fees and charges have been proposed. These include making Outdoor Education Centres self-sufficient financially. There are also proposal to maximise the use of grant funding totalling £1.735m which should be deliverable.
48. As a follow on to the recent restructuring of the Directorate to a locality basis, further efficiency savings are proposed to reduce bureaucracy and minimise back-office functions totalling £1.27m in 2010/11 rising by 2015/16 to £6.576m. Over the medium term there are plans to rationalise and restructure some functions which will provide leaner services and operational structures. The impact of the new Director could provide a catalyst for further change, and this may help in the delivery of future savings.
49. Proposals relating to the School Improvement Service reflect changes to legislation arising from the white paper 'Your Child, Your Schools, Our

Future', which moves the balance of responsibility to schools and the offer from the local authority to intervention and support only.

50. In total the savings proposals for 2010/11 are £6.451m. Achieving these through the routes proposed will be a significant challenge, especially given the large staffing implications. Tight management of vacancies will help this process and reduce further pressure on redundancy costs, but will put pressure on the delivery of services. The Directorate have set up a Board to monitor the delivery of these savings, and they will also be reviewed through the Corporate Service & Resource Planning processes.

Learning and Skills Council (LSC) transfer

51. My report to Cabinet in January set out the latest position on the abolition of the LSC. My supplementary report provides an update. Information on the detailed responsibilities of finance, audit, procurement and legal is coming through slowly. There is also the possibility of some reconfiguration and re-designation of Further Education providers though this will be subject to government policy. The overall 14-19 reform programme includes a number of other requirements beyond the 2010/11 academic year including the raising of the age of participation in education, training or work with training to 17 by 2013 and 18 by 2015. This will be a major challenge for the Directorate as there is not expected to be any additional funding to enable this.

Building Schools for the Future (BSF)

52. The Service & Resource Planning report to Cabinet in January 2010 included a recommendation to resubmit the Readiness to Deliver statement to Partnerships for Schools by 29 January 2010, for entrance to the programme in April 2010. As a consequence of this earlier resubmission, the phasing of the development budget has been amended. The revised phasing is included in the proposed budget. The first year cost relating to the potential PFI affordability gap for those schools included in Oxfordshire's priority project will now fall in 2015/16, outside the MTFP planning period. The estimated cost is currently £2.1m in 2015/16, rising to £3.4m thereafter. This total does not include any contributions from schools which will need to be agreed by the Schools Forum and the schools' governing bodies.

Conclusion on CYP&F

53. Children's Social Care has been set apart as a key priority area for the Council, with no savings attributed to that area. There has been continuing investment in the placements budget as well as in UASC. The overall Directorate overspend will be need to be managed in the new financial year, and this will increase the risk that the efficiencies will not be met and further overspends will emerge.
54. The Directorate are planning to achieve major savings through a variety of routes, but especially through continuing review of staffing and back office working. This will be aided by the arrival in February of a new Director. There is also considerable work planned around the funding mix with the DSG and this will be crucial to the delivery of a sustainable budget in the long term.

Social & Community Services (S&CS)

55. The major areas of risk or where significant changes are occurring in Social & Community Services relate to:
- (a) Personal Care at Home Bill;
 - (b) Pooled Budgets;
 - (c) Social Care for Adults
 - (d) Community Services

(a) Personal Care at Home Bill

56. In December 2009, I reported that the Government had made an announcement about the provision of Free Personal Care for those who had the highest levels of need irrespective of their ability to pay, from October 2010. Since then the Government has published, for consultation, draft regulations which would determine how this would work. Those regulations envisage that Government funding would be provided as an ABG, currently £210m nationally has be proposed for the half year of impact in 2010/11, although the distribution of the grant between authorities is one of the issues that are the subject of consultation. The ABG would only pay for part of the costs of implementing this proposal, and the Government have stated their expectation that the remaining costs, estimated by them nationally to be £125m for the half year would be met by Local Authorities through efficiency savings.
57. The costs to the County Council would arise in three ways. Firstly, there would be a loss of income from some of those who currently pay for care arranged by the County Council. We are in the process of assessing what this loss might be. It is not straight forward because it involves reviewing the detailed circumstances of everyone who currently receives domiciliary care to see whether they would be eligible to free personal care. Secondly, there will be some people who have not presented themselves to Adult Social Care who will decide to come forward if they can obtain free care. This is even more uncertain because no one has a clear idea of exactly how many people may come forward. In Scotland the number of people receiving care has increased by 36% following the introduction of free personal care there. Finally, this Council has already taken account of the levels of savings which could be met from efficiencies. It is therefore likely that if any further costs must be met by this authority they will need to be met from reducing services, either in this area or another service.
58. Many local authorities are trying to understand what will be the implications of these changes. However, because the amount from the Government included in the ABG is fixed, local authorities will bear the financial risk if costs are higher than anticipated. On 29th January, the Association of Directors of Adult Social Services announced the results of a survey of 61 local authorities about the possible costs of Free Personal Care at Home. This identified that the costs of implementing this would be a minimum of £1 billion nationally rather than the £670 million assumed by the Government. This would more than double the cost to local authorities. Further information will be provided as soon as it is available. However, it is important to note that the deadline for

comments on the draft regulations is the end of February so this will inevitably be a risk in the budget that is agreed by the County Council in February.

59. The Health Minister has stated that a review of the working and the costing of the scheme will be undertaken in the first 18 to 24 months of the scheme. This could still leave a significant pressure before any changes are made.

(b) Pooled Budgets

60. Many of the services provided for Adult Social Care are through joint pooled arrangements with the Primary Care Trust (PCT). The total pooled budgets now total £115.2m for Older People, Physical Disabilities and Equipment and £73.9m for Learning Disability. There are currently significant pressures on the pooled budgets, especially that for Older People. Given the further increases in volume which were introduced last year, we will need to ensure that monitoring and reporting of the pools is enhanced.

(i) Older People, Physical Disabilities and Equipment Pooled Budget

61. The 2009/10 Financial Monitoring report to November 2009 shows a forecast overspend on this pool of £7.387m. Of this, £2.892m relates to County Council elements, £4.004m to the PCT and £0.491m relating to the equipment pool. There is an action plan in place to reduce the council element to £1.5m by the year-end.

(ii) Learning Disabilities Pooled Budget

62. The November monitoring report shows an overall overspend of £1.040m of which £0.602m relates to the County Council. Although work is being undertaken to contain and reduce the spending, any overspend will need to be carried forward and will put the 2010/11 budget at risk.

63. Last year budget proposals included reference to the government's proposal to transfer learning disabilities funding from the PCT to local authorities. From April 2011, the County Council will receive funding directly from the Department for Health. The County Council will need to consider how demographic pressures and risks will be managed when the funding transfers. The demographic pressure is estimated to cost the PCT £1.0m each and every year. The fact that there is a pooled budget currently in place does mean that the level of budgets from the PCT are readily identifiable, and this will not be the case for other authorities. There is a further risk, in that the Government could put the funding for Learning Disability into the general Revenue Support Grant formula, rather than providing it as a specific grant. If that were the case, that we would lose resources, and have to challenge the levels of service we could provide.

(c) Social care for adults

64. The latest monitoring position for Adult Social Care suggests that once virements have been made to support the Pooled Budget there will be an overspend of £0.5m, although in total, with the Pooled Budget, this leaves an overspend which will carry forward of £3.3m which will need to be resolved in 2010/11.

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65. There are then significant savings (£10.202m) built into the budget proposals, some of which will be delivered through the Transforming Social Care programme. Whilst they are reflected in identified proposals for 2010/11, there are £5.38m savings still to be identified in 2011/12, rising to £17.5m in 2013/14. This level of unidentified savings creates a risk to the delivery of the current levels of services going forward.
66. The Transforming Social Care programme is currently on track, but there remain risks around the implementation of each of the workstreams. These are further compounded by the introduction of the Personal Care at Home Bill for which the service delivery impacts are also unclear. This has been added to the programme risk register and will require close monitoring. The delivery of the programme has been funded through grant, and whilst there is £2.295m available in 2010/11, it is expected to be required in that period, but there is a risk that further investment will be required in subsequent years.
67. Services which are delivered to Adults are being reviewed as part of this process, as the service needs are expected to change. For example Day Services may not be required in the same way as currently provided once service users have access to their own budgets and have the option on how they will to be supported. Whilst this process is being managed, there are risks around the costs of changing service provision.
68. The costs of demographic changes were built into the council's budget last year, and the impact of a further year (2014/15) has been added in this years proposals. This does help to mitigate some of the risks to the service; however, the levels of demographic change will also need to be closely monitored to ensure that they don't outstrip the provision made. Following the detailed work undertaken last year a review showed that only very minor changes were needed to address 2011/12.
69. Included within the proposals are a substantial increase in the capital programme funding through prudential borrowing to deliver Extra Care Housing and Homes for Older People. In total, £25.2m has been funded through this route, with the revenue implications of the funding offsetting the savings being achieved. These programmes will need to be monitored to ensure that they do deliver the necessary savings.

(d) Community Services

70. This area covers Libraries and Cultural services, along with the Music Service and Adult Learning. The current monitoring of the Libraries and Cultural elements does not show cause for concern, although they do have savings to make in the coming year which will need to be reviewed. The Music Service, whilst currently overspending in year, has a four year change plan which is being implemented which includes changes to the charging regime.
71. Adult Learning is the other area in S&CS which has been over spending. It is supposed to be self funding, with resources coming from the Skills Funding Agency (previously the LSC) or through course fees. However, a repayable supplementary estimate was agreed in 2008/09 and earlier in the financial year it was agreed that the repayment schedule would need to be phased

over four years. There is uncertainty around the dissolution of the LSC and the level of future funding for the Service. This creates a risk for the service which is being monitored.

Conclusion on S&CS

72. There are significant pressures building up between the main Adult Social Care budgets and those managed through the pooled arrangements with the PCT. Whilst there are savings proposals identified for 2010/11 these will need to be managed in addition to the carried forward overspends. For subsequent years there are large numbers of savings still to be identified, however, the Transforming Adult Social Care Programme and other actions are seeking to address that shortfall. Current evidence is that Transforming Adult Social Care is delivering services in a different and reduced cost way.
73. There remains significant risks around the introduction of the Personal Care at Home Bill. This is due to come into effect from 1st October 2010, and it is not yet clear how the pending legislation will be enacted; how the government grant will be allocated amongst authorities nor how many people not currently within the system will present themselves for services.

Environment & Economy (E&E)

74. There are major areas of risk or significant changes occurring across the main Environment & Economy areas, which are:
- (a) Waste Management
 - (b) Transport
 - (i) Highways contract/maintenance
 - (ii) Parking
 - (iii) Concessionary Fares
 - (c) Property
 - (d) Carbon Management
75. The Monitoring report to November 2009 shows the E&E budget being managed within resources with the exceptions of the impact of the winter maintenance and subsequent damage to the highways, and also the area of waste management. The former area has been discussed in previous reports to Cabinet, in the Leader's report to Council, and are the subject of budget proposals which address the position.

(a) Waste Management

76. Waste Management is currently underspending by £0.628m which is made up from short term reductions in tonnage associated with the recession, procurement efficiencies and income, but offset by increased in waste treatment costs. The Directorate have proposed that any year end surplus from waste management, will be added to the Waste Reserve in order to contribute to the funding of the Waste Recycling Centre renewal programme.
77. The Council has increased its recycling and composting rates and has introduced a new food waste processing capacity, and is currently ahead of targets in each area. This continues to alleviate the potential ongoing pressures, as while the new treatment costs more than existing budget for

landfill it defers the large increases anticipated in future years as landfill tax increases and Landfill Allowance Trading Scheme (LATS) fines/purchasing become operational.

78. A competitive dialogue process has been undertaken to procure a long term residual waste management solution via an Energy from Waste plant and the Cabinet meeting in September 2009 recommended a preferred bidder. The proposed site was however refused planning permission in October 2009, although this decision is now subject to Appeal. The overall contract value will be in the region of £800m over the period of the contract. There is a substantial risk to the savings proposals and those already built into the MTFP if this project isn't achieved on time and a further risk if a complete re-tendering exercise is required.

(b) Transport

(i) Highways Contract/Maintenance

79. The Council is currently undertaking a major re-tendering exercise for its Highways Contract. This is due to come into effect in July 2010. Considerable savings are built in to the efficiency proposals arising from this contract, and until that process is complete this remains a risk. Delivery of the existing work, and of the capital programme is broadly on track, although has been impacted by the adverse weather in the past two months. Proposals in the Cabinet's report address the immediate needs for managing the additional repairs to the Highways needed as a result of the snow and the snow clearance.

(ii) Parking

80. The Parking account was at risk in the longer term of going into deficit, following previous decisions to provide free evening and weekend on road parking and make parking at the Park and Ride Car Parks free. However, the Cabinet's proposals address this with alternative income and funding which plan to bring the account back into balance and make a revenue contribution in future years.

(iii) Concessionary Fares

81. The Government announced as part of the pre-budget report in December 2009 that Concessionary Fares would be transferring to the County Council with effect from 1 April 2011. Work will need to be undertaken during 2010/11 to ensure that a scheme is in place, and bus passes are available to those qualifying members of the public from that date. The Cabinet proposals include an expectation that the funding shortfall following the transfer of function will be in the order of £0.9m, and that funding will decrease in subsequent years as efficiencies are made through the transfer. There will need to be expenditure in 2010/11 as part of the preparation, and the funding for this will need to be managed from this sum.

(c) Property

82. The revenue budget for property shows a broadly balanced position for 2009/10 with a series of over and under achievements. This is the second full year of operation since the transfer of all the property budgets from across the Council, and plans are now being put in place to re-organise the function to

better match the requirements of the Council. There are risks going forward though, as savings requirements mean that there will be a significant programme of reduced planned maintenance through the next three years peaking in 2011/12, although the impact has been reduced in 2010/11.

(d) Carbon Management

83. The Cabinet Budget proposals recognise the estimated costs of the introduction of the Carbon Reduction Commitment in 2011/12. They also take account of additional resources to enable work to enable savings in energy to be delivered thereby reducing the allowances we would need to purchase and maximising the income from recycled payments.

Community Safety and Shared Services (CS)

84. The Fire and Rescue Service is expected to remain within budget in 2009/10 with the exception of the pressure currently of £0.225m for retained firefighters which will be met from balances once any savings elsewhere in the directorate are offset.
85. Fire and Rescue Authorities (FRAs) have a duty to plan for emergencies and to maintain plans for the purpose of ensuring, so far as is reasonably practicable, that if an emergency occurs it is able to continue to perform its functions. In the past FRAs have had the support of the military which formed the basis of contingency planning, however such support is now unlikely to be provided. In September 2008, the Cabinet agreed that the authority would follow an approach of maintaining sufficient funds for any unforeseen major interruption in staffing availability such as industrial action or a major terrorist incident in the region which may require support from Oxfordshire. A risk assessment has been completed by the service that identified a total sum of £0.500m would be required to provide a minimal level of fire cover for such an event. This has been reflected in the risk assessment for the purposes of balances.
86. The Shared Services Centre has now been operational for 30 months. Expenditure on the project has continued through the year, and £0.349m is still anticipated to be required to complete the system development and related project work within the centre. The savings were initially planned to repay the capital reserve first, and then contribute to the revenue savings from 2010/11. This was reflected in the MTFP for 2006/07. The latest proposal shows those revenue savings in 2010/11 still being achieved, along with the capital reserve repayment being made 31 March 2011.

Corporate Core (CC)

87. The current position for the Directorate revenue budget is on track in 2009/10 with the exception of ICT which has been reporting an overspend of £2.25m. The ongoing impact of the ICT position is being managed through a staff reduction programme, as a significant proportion of the costs around maintenance and infrastructure are fixed. The in year effect will require a supplementary estimate, as it would not be possible to maintain services

across the directorates and carry forward the overspend in addition to the savings required next year.

88. In the remainder of the Directorate the work is almost all staff related, so the savings will be made by reducing capacity and focusing on the highest priorities.

Strategic Measures

89. In setting the 2009/10 budget, a cautious but realistic budget for Strategic Measures was agreed. As predicted the Bank Rate dropped to 0.5% and has remained there for the financial year to date, with the average annual return currently forecast to be 1.3% in line with the estimate. Given the market conditions and the ongoing banking crisis, which has led to increased credit risk, it was agreed that new or replacement borrowing up to the value of 25% of the portfolio (approximately £50m) would be financed internally whilst it was advantageous to do so. So far all borrowing has been financed internally, although as borrowing rates are expected to rise external borrowing of £20m is planned by the year end.
90. Market predictions continue to be uncertain on how long the rate will remain low but the expectation is that the base rate will remain at its current rate until the last quarter of 2010/11. For the coming financial year an estimate of 1.23% average return has been built in.
91. Allowance has been made in the risk assessment of balances for the potential exposure to credit risk through loss of deposits associated with failures within the banking system. This has been reflected in the Statement of Accounts since 2007/08.
92. The proposed MTFP allows for medium term borrowing in 2010/11 (10 years) at 4.0% and long term borrowing (25 to 50 years) thereafter at 4.5% in 2011/12 and 5.0% in 2012/13 and beyond. The cost of new or replacement borrowing has been reduced by a continuation of the policy to use up to 25% of cash balances (estimated to be around £50m) for internal borrowing. This reduces the level of cash on which interest is earned and the cost of borrowing is in effect the interest lost. This also reduces counter-party risk, as less cash needs to be placed with the banking sector.

Landsbanki

93. The Local Government Association, on 19 January 2010, provided an update to local authority creditors of several of the Icelandic banks, including Landsbanki, with which Oxfordshire still has £5m placed on deposit. The Landsbanki Winding-up Board (WUB) has recognised local authority claims as priority claims, but this decision has been challenged by other creditors. This is contrary to the position reached by the Glitnir WUB, whose decision was to recognise local authority claims as general unsecured claims rather than priority claims. In relation to both banks, the Local Government Association remains confident that claims are deposits which have priority status. The expected recovery rate for claims that have priority status is 88%.

CC9 - Commentary

For general unsecured claims, the expected recovery rate (based on information published by the bank) is around 36%.

94. In accordance with CIPFA guidance which set out that between 90 – 100% of deposits were then expected to be returned, 5% of the deposits and associated interest were recognised as impaired in the 2008/09 accounts. The impairment was recognised in the sum of £0.949m. This position will be updated when the 2009/10 accounts are closed, and then once the position is settled, will be finalised.

Capital Programme

95. The Capital Programme for 2009/10 of £92.8m (excluding devolved schools capital) is currently forecasting to underspend by £1.6m in year. The programme overall (2009/10 – 2013/14) was reported with a resources shortfall of £4.502m. In order to address the shortfall and to allow the inclusion of a number of new schemes in the programmes, a number of lower priority schemes have been reduced in size or taken out of the programme. The Capital Programme has also now been extended to 2014/15 which allows a further £3m prudential borrowing allocation to become available, although it is proposed that this is kept as a contingency given future uncertainties. The proposed programme is now showing a small surplus, although given the uncertainties of the economic and market conditions, which have led to the deficit, this position will require continuing review over the programme period.

Summary of the Cabinet's proposals

96. The Cabinet's proposals have recognised the risks and the service issues for 2010/11 and reflect a robust proposal. They have also recognised the position in future years, building in additional funding for the most significant areas of pressure over the medium term whilst proposing savings to meet the majority of the pressures. They have also accepted the need for further savings to be identified to balance the position over the medium term and have acknowledged that it will be difficult to achieve. A review of the position will be needed as part of the 2011/12 Service & Resource planning process. Given the level of balances, and the risks assessed as part of the overall position, the proposals should be sufficient to maintain a robust budget over the medium term.

International Financial Reporting Standards (IFRS)

97. CIPFA have published a Code of Practice on Local Authority Accounting for IFRS. Local Authority accounting is required to follow IFRS from 1 April 2010. The code contains issues around the regulations and effects on the 2010/11 budget setting for authorities. Having reviewed the guidance I am satisfied that there are no impacts on the budget for 2010/11. There are a couple of outstanding issues which may affect prudential limits and operational boundaries, but the value of these cannot be verified at this time.

Statement of Assurance

98. 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 2010/11-2014/15 under Section 25 of the Local Government Act 2003.

Sue Scane
Assistant Chief Executive & Chief Finance Officer

3 February 2010