Division(s): N/A

CABINET – 17 September 2013

Service & Resource Planning 2014/15 to 2017/18

Report by the Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report is the first in a series on the Service & Resource Planning process for 2014/15 to 2017/18, providing councillors with information on budget issues for 2014/15 and the medium term. The report presents the assumptions on which the existing Medium Term Financial Plan (MTFP) is based, known and potential financial issues for 2014/15 and beyond which impact on the existing MTFP, and proposes a process for Service & Resource Planning for 2014/15 including a timetable of events.

2. The Government's austerity measures have resulted in unprecedented cuts in local government funding over recent years. In response to these funding reductions the Council has made £127m of savings since the start of 2010/11, with a further £74m already planned, of which £43m are expected to be achieved in 2013/14. The Spending Round announcement in June this year (reported to Cabinet on 16 July 2013) confirmed continued significant reductions in Government spending until 2017/18, combined with downward pressure on council tax increases, putting a further squeeze on the Council's resources. This report provides a first look at the additional funding reductions and other budgetary pressures that the Council faces over the medium term.

3. The following annexes are attached to this report:

   Annex 1a: Review of assumptions in the existing MTFP
   Annex 1b: Previously agreed budget changes 2014/15 – 2016/17
   Annex 2: Government consultations, announcements and other initiatives
   Annex 3: Service & Resource Planning timetable for 2014/15

Assumptions in the existing Medium Term Financial Plan

4. The 2013/14 – 2016/17 Medium Term Financial Plan (MTFP) agreed by Council in February 2013 provides for 1% pay inflation, 3% contract inflation and zero for non-pay inflation in 2014/15, with increased provision for pay and non-pay inflation in later years.

5. The MTFP includes an additional £39m of on-going funding for demographic and other expenditure pressures added over the period 2014/15 – 2016/17,

offset by £31m of on-going savings to be delivered over the same period. Taken together with the £127m savings already achieved since 2010/11 and the £43m planned for 2013/14, this brings the savings total for the period 2010/11 to 2016/17 to £201m.

6. General funding (excluding council tax) is estimated to reduce by £30m to £127m a year by 2016/17, a reduction of 19% compared to 2013/14. Council tax increases of 2.5% in 2014/15 and 3.75% in each of the following two years are assumed in the MTFP.

7. Further details on the assumptions in the existing MTFP are provided in Annex 1a, and details of previously agreed budget changes (pressures and savings) for 2014/15 - 2016/17 are set out in Annex 1b.

Government consultations, announcements and other initiatives

8. In the Spending Round published in June 2013 the Government set out public spending totals for the financial year 2015/16. Details of this announcement and the implications for the Council were reported to Cabinet on 16 July 2013. Since then the Government has made a series of further related announcements and initiated a number of consultations which have financial implications for the Council. Other initiatives, not related to the Spending Round, also have financial implications for 2014/15 and beyond. These consultations, announcements and initiatives are summarised below, with more details provided in Annex 2.

<u>Finance settlement technical issues</u>

9. The Government is currently consulting on technical issues relating to the 2014/15 and 2015/16 Local Government Finance Settlements.

10. The consultation includes proposals for dealing with the further 1% reduction in local government resources for 2014/15 announced in the 2013 Budget. The 1% reduction equates to a £219m reduction in the local government spending control total for 2014/15. The Government also intends to increase the amount of 2014/15 Revenue Support Grant held back for safety net payments[1] from £25m to £120m and is consulting on whether to meet £50m of this by reducing the funding available for capitalisation[2].

11. The consultation covers the 2015/16 control total for Revenue Support Grant, together with the methodology the Government intends to use to calculate allocations at an individual local authority level. At a national level, Revenue Support Grant will be 24.2% less in 2015/16 than in 2014/15. From

[1] Safety net payments are made to local authorities experiencing significant reductions in business rates income.

[2] Capitalisation is the treatment of revenue costs as capital expenditure and allows these costs to be funded from borrowing or other capital resources. Capitalisation requires a direction by the Secretary of State for Communities and Local Government.

this reduced total the Government intends to topslice £1.1bn to fund the New Homes Bonus and £50m to meet safety net payments in 2015/16. The Government does not intend to apply the reduction equally to all elements of the Revenue Support Grant and sets out a proposed methodology in the consultation. This has consequences for the amount of Revenue Support Grant for 2015/16 that each authority will receive. The Government is also proposing to reduce 2015/16 Revenue Support Grant for those authorities that become too small to participate in the Carbon Reduction Commitment Scheme. Illustrative 2015/16 allocations will be published alongside the 2014/15 settlement later this year.

12. Although not obvious from the figures provided in the consultation document, it has been suggested by local authority networks that the 2015/16 Revenue Support Grant control total is much worse than indicated by the headline figures in the 2013 Spending Round because the grant has been cut in order to provide the “new” funding for initiatives such as the local government transformation fund and introducing the reforms to social care funding.

New Homes Bonus

13. In the report ‘Investing in Britain’s future’ the Government set out its plans for £400m of New Homes Bonus funding to transfer to the Single Local Growth Fund to be made available to Local Enterprise Partnerships and is currently consulting on a mechanism that will require that a proportion of the New Homes Bonus is pooled by local authorities.

14. The consultation includes two options for the pooling mechanism - an equal percentage of all New Homes Bonus allocations, or, in two-tier areas, requiring upper tier authorities (i.e. county councils) to surrender all of their New Homes Bonus, with the balance coming from the lower tier.

Use of capital receipts for revenue purposes

15. The Government is consulting on proposals to allow capital receipts from new asset sales to be used for one-off purposes to stimulate organisational change. This follows the announcement in ‘Investing in Britain’s Future’ that Government would be consulting on these flexibilities. The Government suggests a bid based competitive process and evaluation criteria for the bids are set out in the consultation.

Business rate pooling

16. The Government has published a revised Business Rates Retention Pooling Prospectus. This updates and replaces the existing Prospectus and provides a timetable for the 2014/15 process.

17. Under the Business Rates Retention Scheme, local authorities can formally seek designation as a pool. This allows the pool members to be treated as if

they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

18. For Oxfordshire, modelling suggests that it would be financially beneficial for the County Council to form a pool with the district councils that have business rate growth above the baseline and this is currently being explored. The deadline for agreeing a pool and informing the Department for Communities and Local Government is 31 October 2013.

Social Care Funding

19. In July 2013 the Government published ‘Caring for our future: Consultation on reforming what and how people pay for their care and support’. The consultation follows on from the Government’s acceptance of the Dilnot Commission’s principles upon which the future funding of care and support should be based.

20. The consultation sets out the proposed reforms and seeks views on the practical detail of how these changes to the funding system should happen and be organised locally. As set out in the Spending Round, the Government will provide £335m in 2015/16 to cover the costs of preparing for implementing funding reform and the requirement to offer deferred payments for residential care.

21. The Government has written to local authorities to clarify the Spending Round settlement for care and support. The letter confirms that only £1.9bn of the Integration Transformation Fund (for health and social care joint working) is additional NHS funding and that £1bn of the funding will be linked to outcomes achieved. £50m capital funding within the Integration Transformation Fund is part of the £335m for implementing social care funding reform. Other costs arising from the Care Bill are said to be provided for within the Spending Round settlement already announced. The Government will pay £188m grant to local authorities in 2015/16 to meet the needs of Independent Living Fund users transferring to local authority responsibility.

Education and Schools Funding

22. The Council is in receipt of non- ringfenced Education Services Grant which provides for central education services for pupils in schools maintained by the Council and a separate element for residual statutory duties for pupils in both academies and maintained schools alike.

23. The total amount of Education Services Grant forecast for 2013/14 is now £8m compared to £9.1m that was assumed in the MTFP. Initial estimates are that the allocation for 2014/15 will reduce to £7m in total, depending on academy conversions through the remainder of 2013/14 and in 2014/15. This is a reduction of £2.1m compared to the current MTFP. Savings plans are in place to achieve £1.3m of this in 2014/15, with the remainder still to be found.

24. As reported to the Cabinet in July 2013, the Department for Education (DfE) has announced that national aggregate Education Services Grant allocations will be reduced by 20% from 2015/16. It is not yet clear how this will be achieved and a reduction of £1.4m in the Council's allocation has been assumed for planning purposes.

25. Following the implementation of substantial changes to school funding formulae for 2013/14, DfE is proposing some changes to the constraints for formulae for 2014/15. The key issue for schools in 2014/15 will be turbulence in school budget shares, with the most significant change arising from changes to the way attainment at the transfer of pupils from primary to secondary will be used in the formula. The Minimum Funding Guarantee will limit year-on-year reductions to no more than 1.5% of previous budget per pupil.

26. The DfE has yet to consult on the introduction of a national funding formula for schools in 2015/16, intended to address the unfair differences in funding between schools in different local authorities.

Pensions

27. There are a number of pension issues which will impact on the budget over the period of the medium term plan. These include the impact of auto-enrolment, the changes to the public sector pension schemes in 2014 and 2015, the results of the 2013 Valuation of the Local Government Pension Scheme and changes to the state pension arrangements.

28. The auto-enrolment changes impacted the County Council from February 2013 following the requirement to re-enrol all staff into their appropriate pension scheme, even when they had opted out previously. The latest figures suggest that around 50% of those auto-enrolled have remained in the scheme at an additional employer cost to the Council of £0.6m. There is a similar additional cost to be met from school delegated budgets. These figures need to be built into the base budget from 2014/15 onwards.

29. The Government is yet to confirm the full details of the changes to the public sector pension schemes due to be implemented from April 2015, including the fire and teacher pension schemes. As these are unfunded schemes, it is possible that all variations in costs arising from the changes will assist to reduce the current Government payments rather than impact on the Council's employer contribution rates.

30. For the Local Government Pension Scheme, the Government is currently in the process of finalising the detail around the changes, which will be implemented from April 2014. This will allow the impact of the changes to be included in the results of the current Valuation exercise, alongside the changes in the financial markets, membership profile etc. since the last Valuation. The Actuary is currently working on the data, and hopes to have

provisional results available later in the Autumn. At the present time, planning assumptions are that the current rate of 19.3% is retained.

31. The final known change is the implementation of a single state pension and the ending out of the current contracting out arrangements. This will impact both on individual employees and the Council who both lose their national insurance rebate. It is estimated that the additional national insurance cost to the Council will be £3.5m, with Oxfordshire schools facing a further pressure of £6m, from April 2016.

Potential funding reductions and other budgetary pressures

32. The report to Cabinet in July 2013 on the impact of the 2015/16 Central Government Spending Round set out the following implications for the Council's revenue funding:

- Restricting council tax increases for 2014/15 and 2015/16 to the 2% referendum limit would require on-going savings of £6.5m. Freezing council tax in each of those two years would require further on-going savings of £5.8m, plus an additional £5.8m if Freeze Grant funding is one-off.

- The reduction in Revenue Support Grant for 2015/16 implied by the headline Spending Round figures was £1.9m worse than allowed for in the MTFP.

- Specific grant funding for 2015/16, including reductions in Education Services Grant, top-slicing of part of the New Homes Bonus and a broad estimate for reductions in other grants, would be cut by £3.9m.

33. Since the publication of the Spending Round further information has come to light through Government consultations and announcements as set out above. This information indicates that the reduction in 2015/16 Revenue Support Grant is £4.2m worse than the headline figures suggested. There is also the potential for the New Homes Bonus grant to be lost altogether, adding a further £1.9m to the potential cut in specific grants. The lower base for the Education Service Grant indicates that a 20% reduction would be £1.4m and not £1.8m as previously anticipated.

34. The funding reductions for 2015/16 implied by the Spending Round are in addition to other known or potential pressures:

- In the 2013 Budget the Government announced an additional 1% reduction in local government resources for 2014/15 – it is estimated that the Council's Revenue Support Grant will be cut by a further £2.1m in that year as a result. The reductions in RSG for 2014/15 and 2015/16 will have a knock-on impact to RSG for future years and it is estimated that there will be a further £2.3m reduction compared to the

MTFP. Overall the shortfall in RSG compared to the MTFP is estimated to be £10.5m.

- The 2013/14 budget includes estimates for a number of specific grants where notifications had not been received before the budget was agreed in February 2013. Actual or anticipated shortfalls in allocations result in an estimated reduction of £2.6m for specific grants from 2014/15.

- Changes to State Pension arrangements, as set out in paragraph 31 result in an estimated £3.5m pressure from the ending of the employers' National Insurance rebate in 2016/17. In addition, the introduction of pension auto-enrolment in 2013/14 is estimated to cost a further £0.6m as a result of more staff being part of the pension scheme.

- The current MTFP provides additional funding for demography (increased client numbers, mainly due to the rise in the elderly population) up to 2015/16. It is estimated that a further £5m will need to be added in both 2016/17 and 2017/18 to cope with the rise in demand for adult social care services.

- In the current MTFP part of the budget is being funded from earmarked reserves. This £7.3m of one-off funding needs replacing from 2017/18.

35. The following table summarises the budgetary pressures over the period 2014/15 – 2017/18. This excludes pressures that would arise from council tax increases that are lower than assumed within the current MTFP – these are addressed in paragraph 36 - 40.

	2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Reductions in Revenue Support Grant	2.1	5.8	0.7	1.9	10.5
Specific grant reductions/top-slicing[3]	2.6	4.8	0.6		8.0
Pensions auto-enrolment and ending of National Insurance rebate	0.6		3.5		4.1
Demography			5.0	5.0	10.0
Replace short-term funding in current MTFP				7.3	7.3
Total pressures (excluding those from council tax)	**5.3**	**10.6**	**9.8**	**14.2**	**39.9**

[3] Assumes all of the New Homes Bonus is removed in 2015/16

36. Budgetary pressures from council tax depend on the extent to which increases are below the assumptions in the current MTFP. As set out in paragraph 6, the current MTFP assumes increases of 2.5% in 2014/15 and 3.75% in each of the following two years.

37. Council tax referendum limits have already been set for 2014/15 and 2015/16. In those years a council tax increase above 2% would trigger a referendum. Limits for future years are not yet known.

38. The Government will make available a grant equivalent to a 1% increase on 2013/14 Band D council tax levels to authorities that freeze or reduce their council tax in 2014/15 and 2015/16.

39. The following tables set out what additional pressures the Council would face if the council tax increase was restricted to 2% in each year of the MTFP and, alternatively, if council tax was frozen in 2014/15 and 2015/16 with an increase of 2% for the remaining years of the MTFP.

	2014/15	**2015/16**	**2016/17**	**2017/18**	**Total**
Percentage council tax increase	2%	2%	2%	2%	
Pressure (£m)	1.3	4.9	5.3	9.3	**20.8**

	2014/15	**2015/16**	**2016/17**	**2017/18**	**Total**
Percentage council tax increase[4]	0%	0%	2%	2%	
Pressure (£m)	4.0	7.8	8.3	12.3	**32.4**

40. These tables provide a couple of scenarios to highlight the level of budgetary pressures arising from changing the council tax increase assumptions. If council tax increases in any of the four years are set somewhere between those assumed in the MTFP and 2% (as shown in the first example) the pressure would be less than the £20.8m indicated. A 1% change in council tax equates to £2.7m, with a small residual effect in subsequent years.

Service & Resource Planning Process

41. The Service & Resource Planning process this year will cover the four-year period 2014/15 to 2017/18 to align with the council tax and budget setting timeframe for the new administration.

42. 2014/15 is the final year of the four-year directorate business strategies first approved by Council in February 2011 and refreshed in the subsequent two years. It is proposed that a new over-arching business strategy for the Council for the period 2014/15 - 2017/18 is developed as part of this Service & Resource Planning round, underpinned by new directorate business strategies for the same period. As part of this exercise Directorates

[4] Assumes Freeze Grant falls out after two years

will need to review their plans for delivering existing savings to ensure that these are still achievable, and put forward plans for managing the potential pressures outlined in paragraphs 32 - 40 above and any other emerging expenditure pressures.

43. The draft Local Government Finance Settlement is expected to be announced in mid/late November 2013 with the final settlement expected in late January 2014. This will confirm reductions to funding that are anticipated as set out in the table at paragraph 35.

44. The Performance Scrutiny Committee will meet to consider detailed budget proposals in mid-December 2013.

45. A timetable for the Service & Resource Planning process is attached at Annex 3.

Capital Programme Planning

46. The Council has a 10 year Capital Strategy which sets out the County Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It provides the framework for determining capital spending plans and the effective use of the Council's limited capital resources.

47. The Property Asset Management Plan and Transport Asset Management Plan underpin the capital strategy. The Property Asset Management Plan sets out the role of the Council's property assets in meeting strategic objectives and the business strategy. The Transport Asset Management Plan sets out the prioritisation for investment in highway infrastructure. These plans will be updated as part of the capital planning process.

48. The Council considers the capital investment and programming activity as an integral part of the Council's Service & Resource Planning process. This ensures that the creation of a new asset or investment in the existing assets and infrastructure network is justified through detailed business strategies and delivery models for the service.

49. The capital planning period will cover the four-year period 2014/15 to 2017/18. This will provide an additional year of funding in the capital programme.

50. The funding assumptions within the capital programme have been reviewed in light of the announcement within the 'Investing in Britain's Future' report of the creation of the Single Local Growth Fund for Local Enterprise Partnerships. The Council receives Integrated Transport Block funding of £4.4m in 2013/14 increasing to £6.3m in 2014/15. From 2015/16 onwards, this funding is being topsliced to fund the Single Local Growth Fund. This results in a loss of funding of £2.8m a year in the capital programme.

51. New capital investment pressures are currently emerging. Outline business cases are likely to be brought forward during the coming months to inform this process in October 2013. Councillors will also have further opportunities to contribute to capital prioritisation decisions through the Performance Scrutiny Committee meeting which will be held in December as part of the Service & Resource Planning process.

Equality and Inclusion Implications

52. The Equality Act 2010 imposes a duty on local authorities that, when making decisions of a strategic nature, decision makers must exercise 'due regard to the need to eliminate unlawful discrimination… advance equality of opportunity… and foster good relations.'

53. There are no equality and inclusion implications arising directly from this report. Where any significant changes to services are proposed as part of the 2014/15 Service and Resource Planning process, a general assessment of the broad impact of new budget proposals will be undertaken ahead of the budget being set in February 2014, together with initial service-level assessments for all significant changes.

Financial and Legal Implications

54. This report is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2014, will lead to the council tax requirement being agreed in February 2014.

RECOMMENDATION

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

(a) Note the report;

(b) Approve the Service and Resource Planning process for 2014/15.

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