Financial Strategy 2019/20

Overview

This budget is underpinned by a financial strategy to ensure the financial sustainability of the Council, deliver essential services to residents and achieve our vision for **thriving communities for everyone in Oxfordshire**, within a limited amount of resource. This will continue to be achieved by focusing on transforming how we operate and increasing income generation.

To succeed in long term sustainability and financial resilience requires successful delivery of two critical elements which reflect the financial planning principles for the budget and medium-term plan:

- Managing the impact of rising need, caused by population growth and increased complexity, for adult and children's social care through demand management approaches, more effective pathways and commercial improvements.
- Delivering the savings currently in the medium term financial plan (MTFP), and identifying upwards of £17m of savings included in the MTFP from transforming how we work

Over the last 5 years, we have generated savings to taxpayers of £220m, and are budgeted to deliver a further £41m of additional savings by the end of 2018/19.

The Council has a good track record in delivering savings and delivering value to our residents, with a constant focus on our strategic outcomes and financial prudence.

£26.7m of savings and funding are proposed for 2019/20, in addition to £7.3m included in the existing MTFP. Of this, £14.7m are from transformational activity comprising income generation, effective contract management and service redesign.

£14.9m arises from changes to funding including those announced as part of the Budget in October 2018 and the Provisional Local Government Finance Settlement announced in December 2018. The remaining £4.4m relates to other operational savings.

Funding Context

In 2016/17, the government changed the methodology for distributing funding and introduced the term core spending power which took into account the wider resources available to councils including council tax, locally retained business rates as well as revenue support grant. The new distribution methodology was designed to ensure that 'local councils delivering similar services received similar percentage reductions in the 'settlement core funding for those services'. Authorities with a greater proportion of their core funding coming from council tax receiving less revenue support grant (and ultimately less business rates that they are able to retain). Including a measure of council tax into the calculation results in Oxfordshire being adversely affected. The Council accepted the offer from Central Government for a multi-year settlement, in return for an Efficiency Plan. The settlement provides the Council with certainty of some central government funding streams from 2016/17 until 2019/20. Revenue Support Grant (RSG) was expected to be negative in 2019/20, with £6.2m expected to be returned to government. However, the government consulted on removing negative RSG in the summer and this was confirmed as part of the Local Government Provisional Finance Settlement announced in December 2018.

The funding position beyond 2019/20 is not clear. We are awaiting a Spending Review in 2019; a new funding formula, the introduction of 75% Business Rates Retention all of which are due to be implemented in 2020/21.

Work on the Fair Funding review, a review of the existing needs and distribution formula, has been progressing slowly. A consultation on local authorities' relative needs and resources was published in December 2018. This is the second of three expected consultations on the new formula. The needs formula has not been reviewed since the implementation of the 50% business Rates retention scheme in 2013/14 and there is recognition that it is out of date and does not reflect need. The new formula will determine how much funding each council receives and is expected to be implemented in 2020/21.

Since the introduction of the 50% Business Rates retention scheme in 2013/14, growth across Oxfordshire has been consistent and by the time we get to the next reset of the baseline in 2020/21, Oxfordshire County Council will be receiving approximately £3.7m annually. Whilst this will reduce to zero at the reset in 2020/21, it is expected to grow at a similar rate again.

Over time the government has introduced the adult social care precept and the improved Better Care Fund, as well as adult social care grant funding. Further ringfenced grants were announced as part of the Budget in October 2018, and are available to support expenditure in 2018/19 and 2019/20. This was in recognition of national concerns about social care funding levels and the impact of these on NHS pressures.

Medium Term

We recognise the challenges we face and our Transformation Programme is central to delivering the savings and generate the income required to reach a balanced budget over the medium term, as well as deliver a fundamental change in the way we work both internally and with partners. There will be a continued focus on service redesign, commercialism, effective contract management and working with partners to secure value for money in delivering our Corporate Plan priorities.

Beyond 2020/21 the current working assumption is that the level of government support will remain stable. The position for 2020/21 itself is much less certain. The current assumption in the proposed MTFP is that all of the one-off funding received in 2019/20 does not continue and all of the growth in business rates since 2013/14 is lost. This funding totals £17.3m. Given the national recognition of pressures in adult social care, and more recently children's social care, it is currently assumed the council's assessed need will increase. However, the council also has relatively high resources – i.e. the tax base which reduces the reliance on government grant.

Forecasts from the Institute for Fiscal Studies using information from the Budget 2018 indicate a flat cash position for un-protected services, which includes local government, over the period 2018/19 to 2023/24. Based on this forecast therefore, it is expected that at least some of the temporary funding in 2019/20 will continue as part of the spending review and new formula. However, as it is not possible to predict what the funding level will be, the proposed MTFP does not assume any of this funding for 2020/21. As a consequence of this assumptions, the proposed MTFP has a budget shortfall of £15.6m in 2020/21. Work will need to commence early in the 2019/20 financial year to plan for how a shortfall will be addressed as it will not become clear until the autumn this year, how much funding the council will receive in 2020/21. Updates will be provided to Cabinet as information on the Spending Review and new funding formula become available.

Tax base growth is expected to be 2% from 2020/21 and beyond. After taking into account an allowance for inflation and the current levels of demographic growth, the tax base increase required to give a breakeven position is around 1.75%. The targets Given the ambition to plan for and support the delivery of 100,000 homes by 2031 as part of the Housing & Growth Deal secured in February 2018, this increase is expected to be surpassed in the medium term.

Long Term

In planning for the long term, it is important to understand both the context of Oxfordshire as well as the main drivers of change. In this context, we need to ensure that the most fundamental issues facing the organisation which have been identified are responded to. Longer term planning needs to account for alternative possible future economic and political environments.

The new Capital & Investment Strategy sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. This strategy effectively becomes the long-term plan.

In moving towards a longer-term approach to financial planning, the decision was made last year to extend the capital programme period from four years, in line with the Medium Term Financial Plan, to a ten-year programme. This longer-term approach will offer strategic choice and options around developing our community assets and respond to the fundamental issues of rising demand in adults and children's services and allow for a for planned approach to replacement of assets.

The Council has already taken advantage of this longer-term approach. In July 2018, Cabinet approved investment Street Lighting LED replacement programme of £41m replacing traditional lanterns with LED. And as an invest to save scheme, the costs will be repaid from the savings in the energy costs that will be generated from the programme. In September 2018, Cabinet approved investment of £120m in the Council's assets to be funded by borrowing. Reduced funding and deterioration in asset condition in highways and property led to reassessment of the benefits of investment. Investment at this stage will allow repairs to many of the roads already in poor condition and reduce the number of potholes that arise and improve the longevity of future repairs in these areas, thus reducing the increasing pressure on revenue resources.

Measuring financial performance

Measuring the Council's financial health through a set of targeted measures is a key way of measuring our financial health and resilience in supporting the Council's plans and priorities. The key indicators upon which we will measure ourselves are set out in Annex 1 below.

Financial Management

Financial indicators alone will not give a complete picture of financial health and sustainability; strengths of financial management and governance are also an essential foundation of any successful organisation.

During the year, work has been underway to improve the governance, effectiveness and assurance of Financial Management across the council; and to highlight the ongoing actions to improve the financial management systems and competency across the organisation. As part of this work, earlier in the year, a self-assessment of organisational financial management using the CIPFA Financial Management Toolkit was undertaken. Whilst the outcome positively reaffirmed that overall, we have an adequate system of Financial Management, the response from stakeholders highlighted that there are a few areas to be improved that would provide a better customer experience for them as financial managers. The review also highlighted the need for a clearer definition of the financial management roles and responsibilities, and the performance standards expected of those responsible. Progress against the action plan is reported regularly to the Audit & Governance Committee.

Annex 1

Indicator	2019/20 Target		Within MTFP period
Delivering to budget & Achieving Savings:			
Total Directorate outturn variation (based on latest budget)	=< 1%		=< 1%
Total outturn variation	0%		0%
Achievement of planned savings	100% green 90% amber 70% red Total savings 95%		n/a
Progress towards achieving savings in 2020/21	90% of all savings are on track to be achieved		n/a
Use of Grants / Earmarked Reserves			
Unplanned use of Earmarked Reserves in year (based on original council budget)	<£250K		Aim to reduce target over time
Total outturn variation for DSG grant funded services	Schools and early years to break even. Use of high needs DSG to match Action Plan		Schools and early years to break even. Use of high needs DSG to match Action Plan
Use of non – DSG revenue grant funding	>=95% of grant funding is spent in year.		
Ability to manage unplanned/unforeseen events			
General balance outturn at the risk assessed level	=>the risk assessed level		=>the risk assessed level
Forecast outturn of cost of insurance claims received in year	=< the actuarial assessment		=< the actuarial assessment
Capital Programme Delivery			
Average cost variation from Concept Design (Gate 1) baseline to Practical Completion (Gate 3)	<=2%		<=1%
Value of committed capital expenditure funded by s106 not yet received	<=5% of total programme		<=5% of total programme
Value of total ten-year capital programme funding shortfall	<=8% of total programme		<=5% of total programme
Debt Management			
Invoice Collection Rate	Corporate debtors	97.50%	98%
	ASC contribution debtors	92%	94%

Indicator	2019/20 Target		Within MTFP period
Debtor Days	Corporate debtors	35 days	30 days
	ASC contribution debtors	100 days	65 days
Debt requiring impairment	Corporate debtors	<£0.300m	<£0.250m
	ASC contribution debtors	<£2m	<£1m
Write offs as a percentage of invoiced income	Corporate debtors	<0.10%	<0.05%
	ASC contribution debtors	<1%	<0.60%
Unsecure debt over 1 year	Corporate debtors	<£0.5m	<£0.250
	ASC contribution debtors	<£1.6m	<£1m
Treasury Management			
Average interest rate achieved in-house compared to treasury Management Budgeted Rate	>=0.98%		2020/21 >=1.00% 2021/22 >=1.00% 2022/23 >=1.25%
Average Annualised Return achieved compared to Benchmark Rate* (Pooled Fund)	>=3.75%		>=3.75%

(*) composite od 7 Day LIBID, 7 Day LIBID + 50BPS, IPD Other Balanced Property Funds Index, BofA Merrill Lynch 1-10 Year Non-Gilt Index & BofA Merrill Lynch Euro High Yield ex Financials Index (GBP Hedged)