Lancashire County Council

Executive Scrutiny Committee

Tuesday, 3rd February, 2015 at 2.00 pm in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

Lancashire County Council

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

7. Date of Next Meeting

The next meeting of the Executive Scrutiny Committee will be held on Tuesday 3 March 2015 at 2pm at the County Hall, Preston

8. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of schedule 12A to the Local Government act 1972 as indicated against the heading to the item.

Part II (not open to the Press or Public)

9. Superfast Broadband Extension Programme (SEP)

Report to follow

10. Partnering Framework for Mechanical and Electrical Engineering (Installations) (Pages 115 - 120)

I Young
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Executive Scrutiny Committee

Minutes of the Meeting held on Wednesday, 7th January, 2015 at 2.00 pm in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

County Councillor Bill Winlow (Chair)

County Councillors

A Atkinson	P Hayhurst
A Barnes	S Holgate
Mrs S Charles	J Oakes
D Clifford	D O'Toole
B Dawson	N Penney
M Green	

1. Apologies

Apologies were received from County Councillor Geoff Driver.

2. Disclosure of Pecuniary and Non-pecuniary Interests

There were no interests declared.

3. Minutes of the Meeting held on 2 December 2014

Resolved: That the minutes of the meeting held on 2 December 2014 be confirmed as a correct record and signed by the Chair.

4. Reports for decision by Cabinet

The Committee considered the following report to be presented for decision by Cabinet on 8 January 2015.

a. Money Matters - The 2015/16 Budget and Financial Strategy 2016/17 to 2017/18

The Committee received a report setting out updates on matters affecting the Council's financial position, including the details of the Local Government Finance Settlement for 2015/16, which was announced on 18 December.

In presenting the report, the Deputy Leader of the Council noted that discussion were still ongoing with government in relation to funding for the council's Care and Urgent Needs Support Scheme, and highlighted the close work being undertaken between the NHS and the Council's social care services on hospital admissions and discharges to reduce the pressure on the NHS.

The Committee's attention was drawn to the consultation responses, and it was confirmed that the Cabinet on 8 January would agree its budget proposals for formal consultation.

In addition, it was confirmed that a legal challenge will be made by the County Council against the Government's decision to terminate the payment of the waste infrastructure grant from 31 July 2015 and that almost £6m was required to be set aside as a contingency in respect of this.

In response to questions, it was confirmed that further conversations had taken place with the Chair of the Lancashire Safeguarding Children's Board, who had confirmed she was satisfied with the assurances given by the council.

The Deputy Leader confirmed that we would provide a copy of his response to the Leader of Chorley Council's letter to the Committee, and it was also confirmed that every effort would be made to ensure that the formal proposals would be circulated to all Parish Councils, amongst the other wide range of consultees.

Resolved: That the recommendations in the report to the Cabinet be noted and that no additional comments or suggested alternative recommendations be made.

5. Forthcoming Individual Cabinet Member Key Decisions

The Committee considered the following key decisions due to be taken by individual Cabinet Members.

b. Fishergate Central Phase 2(a) Public Realm Improvement

A report was presented setting out the next phase of public realm improvements in Preston City Centre to extend the "shared space" initiative along Fishergate to complete the pedestrian connectivity between the Bus Station and it's western apron and the Railway Station, and seeking approval from the Deputy Leader for the works to be carried out as an advance commitment against the Fishergate Central Growth Deal project.

Members praised the phase 1 work to Fishergate, and noted that motorist and pedestrian behaviour had adapted well to the shared space concept.

Resolved: That the recommendations in the report to the Cabinet Members be noted and that no additional comments or suggested alternative recommendations be made.

a. **Implementing the Care Act - Approval of a new Deferred Payment Policy**

The Committee received a report setting out the council's proposed Deferred Payment Scheme, in accordance with the requirements of the Care Act 2014. It was reported that sections 34-36 of The Act established a requirement for a Deferred Payment Scheme which all relevant local authorities must have ready for implementation from 1 April 2015.

Resolved: That the recommendations in the report to the Cabinet Members be noted and that no additional comments or suggested alternative recommendations be made.

c. **Implementing the Care Act 2014 - Approval of a new Policy for Undertaking Assessments and Providing Support for Carers in Lancashire**

The Committee considered a report on the on the council's proposals in relation to support for carers of all ages in line with the requirements of The Care Act 2014.

It was reported that in order to meet its statutory duties, the County Council must implement new arrangements for carers from 1 April 2015, particularly in respect of carers' assessment, the provision of support, which must include the option of a personal budget to those eligible.

It was recognised that the position would need to be carefully monitored given the level of uncertainty about the possible levels of demand for support.

Resolved: That the recommendations in the report to the Cabinet Members be noted and that no additional comments or suggested alternative recommendations be made.

d. **Implementing the Care Act: Development of a s75 Partnership Agreement with Lancashire Care Foundation Trust for meeting the County Council's responsibilities for provision of Social Care in Prisons**

The Committee received a report on the new duties under the Care Act 2014 which made the County Council responsible for social care in prisons and approved premises in Lancashire.

It was reported that negotiations have been taking place with Lancashire Care Foundation Trust (LCFT) for several months with a view to establishing a new Section 75 partnership agreement under the NHS Act 2006. Such s75 agreements enable NHS and local authority bodies to undertake each other's functions in order to support the delivery of local objectives. The new s75 agreement with LCFT would mean it will discharge the substantive majority of the County Council's responsibilities for social care in prisons as part of an integrated health and social care service for prisoners.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

e. **The Provision of additional Primary School Places in Lancashire**

A report was presented outlining proposals in relation to the requirement for additional reception places for 2015 and beyond in a number of areas in Lancashire in accordance with the council's statutory duty to ensure that a primary or secondary school place is available for every child of statutory school age living in Lancashire who requires one.

The proposals presented related to the Morecambe and Heysham areas, and to the Euxton area. These issues had been the subject of previous report to the Cabinet Member. It was reported that the position in relation to the requirement for school places was constantly under review n order to ensure appropriate provision..

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

f. **Schools Budget 2015/16**

The Committee received a report seeking the approval of the Cabinet Member for Children, Young People and Schools to submit the Schools Block budget proforma and requesting approval of the Lancashire Early Years and High Needs Block Budgets for 2015/16.

It was noted that, in accordance with the Government's school funding framework, the Authority is required to submit a final Schools Block budget proforma for 2015/16 to the Education Funding Agency (EFA) by 20 January 2015.

It was reported that the matter would be considered by the Schools Forum, and that its decisions and recommendations will be provided for the Cabinet Member's consideration.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

g. **Conversion of Footway to Cycle Track A6 London Road between**

Frenchwood Avenue and North Road, Preston

The Committee considered a report setting out a proposal to change a footway into a shared use cycle track for pedestrians and cyclists along the A6 London Road between Frenchwood Avenue and North Road, Preston, as part of the on-going Local Sustainable Transport Fund (LSTF) works.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

h. **Early Response Service**

A report was presented setting out options for the for the future funding of Early Response during 2015/16 and 2016/17. A minimum of £1.7m saving has been identified that can be utilised to support the County Council's transformation process. The Early Response proposal had been developed out of collaboration between Lancashire County Council (LCC) and Lancashire Constabulary aimed at setting out a strategic approach to managing and reducing demand on statutory services through prevention and timely, appropriate intervention.

Resolved: That the recommendations in the report to the Cabinet Members be noted and that no additional comments or suggested alternative recommendations be made.

6. Urgent Business

There was no urgent business.

7. Date of Next Meeting

It was noted that the next scheduled meeting on Tuesday 20 January would be cancelled, following the cancellation of the Cabinet scheduled for 22 January. The next meeting of the committee would therefore be at 2pm on Tuesday 3 February 2015 at the County Hall, Preston

8. Exclusion of Press and Public

Resolved: That under Section 100A(4) of the Local Government Act, 1972, the press and public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraphs of Part 1 of Schedule 12A to the Local Government Act, 1972 and that in all circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

9. Procurement of a Supplier or Suppliers to Provide Lancashire County Council with Supply and Distribution of Chilled and Fresh Produce

The Committee received a report setting out a recommendation to approve the award of contracts for the supply and distribution of chilled and fresh produce.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

10. Select Lists for Construction Works over £60,000

A report was considered which set out a recommendation, following the completion of a tender process conducted in accordance with EU Regulations and the County Council's Standing Orders, to approve the establishment of 10 Select Lists to be used when tendering construction work with an estimated value between £60,000 and the EU threshold.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

11. Supply and Application of Surface Dressing

The Committee received a report setting out a recommendation, following completion of a tender process conducted in accordance with Lancashire County Council Standing Orders and Public Contracts Regulations 2006, to approve the award of a framework agreement to one contractor for the supply and application of surface dressing materials.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

12. Procurement of a Supplier to supply Traffic Signal Maintenance to Lancashire

A report was considered which set out a recommendation, following completion of a tender process conducted in accordance with the County Council's standing orders, domestic and EU procurement law, to approve the award of a contract for the provision of Traffic Signal Maintenance.

Resolved: That the recommendations in the report to the Cabinet Member be noted and that no additional comments or suggested alternative recommendations be made.

I Young
County Secretary and Solicitor

County Hall
Preston

Executive Scrutiny Committee
Meeting to be held on Tuesday 3 February 2015

Electoral Division affected:
None

Cabinet Reports for Decision

Contact for further information:
Josh Mynott, (01772) 534580, Office of the Chief Executive,
josh.mynott@lancashire.gov.uk

Executive Summary

The Committee is invited to consider any decision making reports being presented to Cabinet on 5 February 2015.

Recommendation

That the Committee scrutinise any reports for decision by Cabinet on 5 February 2015 and make recommendations to Cabinet as appropriate.

Background and Advice

The Cabinet on 5 February 2015 will receive the decision making reports listed on the agenda cover sheet.

The committee is invited to consider any reports submitted to Cabinet for decision, and to comment as appropriate.

Any recommendations made by the Committee will be reported to Cabinet on 5 February.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Implications are as set out in the reports to Cabinet.

Lancashire County Council

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Cabinet – 5 February 2015

Report of the County Treasurer

Electoral Divisions affected: All

Money Matters – Update on the County Council's Financial Position for 2014/15
(Appendix 'A' refers)

Contact for further information:
George Graham, (01772) 538102, County Treasurer's Department,
george.graham@lancashire.gov.uk

Executive Summary

In order to maintain overall strategic control of the County Council's finances, the Cabinet receives regular Money Matters reports. The purpose of these is to

- Highlight the high risk financial issues facing the County Council, both in the current and future financial years, together with any action which may be required;
- Set out the Council's likely financial position at the end of the financial year and;
- Assess any impact on the Council's overall financial outlook.

The report set out at Appendix 'A' is the budget monitoring report for 2014/15, and reflects the position as at 31 December 2014

The key headlines of this are:

- A forecast underspend on services of £4.1m, meaning the Council will not need to call on the planned use of County Fund balance in 2014/15 of £2.6m to support the revenue budget
- An extra-ordinary financial position on the capital financing budget of £52m. This position is a direct result of the ongoing risk management activity in response to the current economic volatility which has impacted on the financial markets. This position is a one-off, and must be considered to be extra-ordinary.
- The capital investment programme is on track to deliver 81.6% of spending in 2014/15.
- The County Fund Balance is forecast to remain at £36m, as reported at the

last meeting of the Cabinet.

Recommendation

Cabinet is asked to:

(i) Note the forecast position for the 2014/15 revenue budget and capital investment programme;
(ii) Consider the appropriate use of the funds arising from the one off extra-ordinary position on the capital financing budget and the release of £1.7m from the Strategic Investment Reserve, as part of the Cabinet's overall consideration of the 2015/16 to 2017/18 revenue position and future capital investment programme.

Background and Advice

See Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's overall approach to risk management continues to be to manage exposure to risk by the most appropriate means. This report is part of the risk management framework designed to manage future risks.

List of Background Papers

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Money Matters – Update on the County Council's Financial Position for 2014/15

1. Introduction

This report provides an update for Cabinet on the County Council's current financial position. The report is in three parts:

Section A – Sets out the forecast end of year position for the 2014/15 revenue budget

Section B – Sets out progress on the Capital Investment Programme

Section C – Sets out the impact of the current monitoring position on the County Council's reserves and County Fund balance.

Section D – Sets out the County Treasurer's conclusion on the overall financial health of the County Council

2. Summary of the Financial Position

This report provides Cabinet with a view on the Council's current financial performance and the anticipated position at the year end. The forecast is based on information to the end of December 2014 and shows in summary:

Section A - For the Revenue Budget

- A forecast underspend on services of £4.1m, meaning the Council will not need to call on the planned use of County Fund balance in 2014/15 of £2.6m to support the revenue budget

- An extraordinary financial position on the capital financing budget of £52m. This position is a direct result of the ongoing risk management activity in response to the current economic volatility which has impacted on the financial markets. This position is a one-off, and must be considered to be extra-ordinary.

- Given the extra-ordinary nature of the position on the capital financing budget, it is recommended that Cabinet consider the appropriate use of these funds as part of the overall considerations of the 2015/16 to 2017/18 revenue position and future capital investment programme.

- Within the forecast position for 2014/15, there remains ongoing risk around the achievement of previously agreed savings. In the context of the Council's overall financial position for 2014/15 these do not place the Council at risk. Given the level of savings that the Council must deliver in future years, robust monitoring must continue for the remainder of 2014/15 and beyond in order to effectively manage the financial position in 2015/16 and beyond.

Section B - For the Capital Investment Programme

- The forecast for capital spending in the year is £192.591m which is 81.6% of the programme.
- The remaining spending will slip into future years, resulting in slippage of £43.322m.

Section C - For Reserves and Balances

- The current forecast leaves the balance on County Fund at £36m.
- The downsizing reserve is forecast to be £76.1m at the end of the financial year.
- £1.7m of resources within the strategic investment reserve can be released.

3. Section A - The 2014/15 Revenue Budget

3.1 The Overall Summary

In February 2014 the County Council approved a revenue budget of £758.310m, which when adjusted for in year changes, results in a cash limit for monitoring purposes of £759.301m. The monitoring position against this budget at 31st December 2014 is set out below and shows an underspend on services of £4.1m and the extra – ordinary position in relation to capital financing of £52m.

Budget Area	Cash Limit	Forecast End of Year Position	-Under/Over spend	
	£m	£m	£m	%
Spending on Services				
Adult Services, Health and Wellbeing	326.303	326.579	0.276	0.1
Children and Young People	147.164	149.606	2.442	1.7
Environment	168.846	158.657	-10.189	-6.0
Office of the Chief Executive Including BTLS	47.706	52.399	4.693	9.8
County Treasurer	5.657	5.490	-0.167	-3.0
Corporate	38.426	36.904	-1.522	-4.0
Strategic Items	-6.265	-4.532	1.733	-27.7
Lancashire County Commercial Group (LCCG)	-6.378	-7.760	-1.382	21.7
Year End Position for Spending on Services	**721.459**	**717.343**	**-4.116**	**-0.6**

Capital Financing	37.842	-14.158	-52.000	-137.4
Budget Requirement	**759.301**	**703.185**	**-56.116**	**-7.4**

The key issues emerging are as follows:

3.2 Adult Services, Health and Wellbeing Directorate

Overall the forecast position for Directorate has improved by £1.228m since the previous cabinet report resulting in a small overspend forecast.

There are a number of relatively small changes in the financial position across services within the Directorate, this report highlights the issues which have the greatest impact on the Council.

The largest change relates to Personal Social Care, which includes both commissioned care for all client groups and the social work staffing teams (excluding Mental Health in both cases) and is the most material area in expenditure terms and is largely demand led. The reduction in forecast relates largely to Older People services which is primarily the result of reduced admissions to residential and nursing care and in the overall volume of domiciliary care being commissioned reflecting, in part, the impact of preventative measures such as the expansion of the reablement service.

There is also increasing pressure of £0.45m on in house Adult Disability Services due to increased demand for day services, and increasing pressure of £0.351m on the Mental Health service from increases in demand for non-residential care services, although this in part reflects some success in reducing the numbers of people being supported in residential and nursing care which has been subject to significant growth in previous years. These are offset by savings as a result of management action to reduce costs across Business Support, Commissioning and Community Services.

Whilst the Public Health position is forecast as being in line with budget there is now expected to be an underspend against the Public Health Grant in the region of £1.5m. As per the requirements of the grant this will be carried over to the next financial year as part of the existing ring fenced Public Health reserve. The same conditions of use that apply to the grant will continue to apply to this reserve. The under spend is primarily the result of unforeseen delays in the commissioning of services.

Management Action

The directorate leadership team have been aware of the ongoing pressures and have taken steps to manage within existing budget provision through effective demand management and the identification of offsetting underspends where possible, including involving health partners through the development of the Better Care Fund and more integrated working with the formal pooled budget to be in place from April 2015.

A number of work streams are also in place to mitigate, as far as is possible, the financial impact of the various national changes affecting the directorate including Ordinary Residence, Winterbourne and Deprivation of Liberty Safeguards (DOLS) as well as financially modelling the financial impact of the Care Act with the first set of changes taking effect from April 2015.

Delivery of Revenue Savings

A robust monitoring framework is in place for the critical challenge project areas and the only area currently flagged as a significant risk to date is transport with under-achievement of savings estimated at £1m, this is accounted for in the overall revenue position. In addition, it may not be possible to deliver the full £0.5m skills review savings within Lancashire Adult Learning due to changes to the levels of grant funding and linked conditions, but any under-achievement has assumed to be met through funding from reserves and will need to be addressed as part of the lifelong learning project.

3.3 Directorate for Children and Young People

The Directorate is currently forecasting an over spend of £2.442m, which is an improvement of £1.220m since the last report to cabinet. The most significant pressure to emerge is in the area of agency placement costs and work is in hand to strengthen the management and monitoring of the placement approval and funding processes.

In line with previous reported details, there is a significant overspend forecast of £10.340m due largely to Children's Social Care agency placement costs (£7.3m) with Special Educational Needs (£1.1m), Mainstream Transport (£1.0m), Children Looked After (£0.9m).

Factors that have led to the Children's Social Care agency placement costs projected overspend include:

- The recent implementation of the Liquid Logic case management system has presented a number of challenges that have had a significant impact on the invoicing and forecasting processes across both children and adults services. With the support of Management Team some time limited resource is now in place to clear the invoice backlog. Support for social care staff is needed to ensure that care packages are recorded accurately and in a timely manner and a training programme is in development and will be delivered to staff from November.

- Some weaknesses have been identified at various points in the end to end decision-making, placement-finding and procurement process. The Directorate has invested heavily in a number of initiatives focused on providing services in a different way to prevent young people coming into care where appropriate, and to reduce the number of young people placed in long term care. Budget reductions are linked to the success of these projects and there is evidence supporting positive impact. The number of young people starting to be looked after in 2014/15 to date is lower than 2013/14 at the same point. However it is recognised that the number of young

people returning home is not at the desired level which is impacting on the Directorate's ability to deliver services within budget. Reducing spend on a permanent basis to operate within the reduced funding envelope demands robust and consistent placement decision-making to ensure needs are met by providing the right services and that a targeted commissioning approach is adopted to focus on individual placement costs and the utilisation of existing capacity. Specific actions are detailed under 'Management Actions' below.
However, this significant overspend has been offset by management action to reduce costs across the business. An underspend of £7.9m is forecast across a number of areas, which has reduced the overall overspend to £2.4m.

The agency provider spend for children with disabilities is projected to under spend by £1.951m and £0.393m on in house fostering. School Improvement continues to forecast a £1.2m underspend and schools termination costs £1.0m. Due to the level of overspend being experienced the directorate has been undertaking a squeeze on non-essential expenditure creating savings of £2.5m, an increase of £0.583m plus targeting expenditure reductions in a number of services including, Young Peoples Service £0.300m, Children's Centres £0.550m.

Management Action

The challenges from the implementation of the Liquid Logic case management system along with identified weaknesses in the end to end decision-making, placement-finding and procurement process are being addressed as a corporate priority and additional staffing resource is in place directed at resolving the invoice and system-user issues across both children and adults services

The cost associated with looked after children placement presents a key budget risk. A review was recently carried out by a member of the Institute of Public Care into the Council's systems and services in support of placement outcomes. Based on the findings, actions to address the agency placement projected overspend include:

- Development of a 'brokerage' model to source and commission suitable placement and support services. Evidence has shown that introducing a team that understands demand and knows the market well has achieved cost savings through placement stability and better commissioning of services;

- Focusing on the recruitment and retention of Lancashire foster carers, including further development of a peer-network approach to supporting new carers.

- An external review of Children Social Care is to be commissioned, to seek to work with a partner who has successfully worked with other authorities in this area. It is envisaged that this will significantly contribute to efficiency improvements moving forward.

- The placement decision-making process will be changed to ensure a more stringent and consistent approach across the service.

- Work is also currently underway to benchmark costs against other local authorities to ensure we are aligned with the recorded industry performance.

Delivery of Revenue Savings

In 2014/15 there is a planned saving of £2.8m linked to developing and reshaping services to children, young people and families to ensure that services are aligned efficiently and effectively. Of this £2.8m planned saving, an estimated £0.7m is considered to be at risk and therefore contributes towards forecast revenue overspend of £2.4m.This planned saving is linked to a number of commissioned services targeted at de-escalation and prevention of Children and Young People going into care. Detailed monitoring of outcomes at service user level is carried out to assess the incremental impact over and above the benchmark 'norm'. Evidence indicates clear success; however, achievement of the savings is linked to general demand. Therefore, if referral rates increase significantly despite these interventions there is a risk to achieving the full savings target. The Directorate has taken measures to mitigate the risk as much as possible by e.g. targeting Youth Services and Early Years with front-loading some of the 2015/16 savings targets.

£0.4m of saving in 2015/16 is linked to the monitoring of Early Years providers which was considered not to be statutory allowing a reduced level of monitoring. However, this saving is now at risk due to changes in Early Years guidance from the Department of Education which is likely to make monitoring a statutory responsibility of the Local Authority.

£0.088m of savings from Charging for Post 16 Transport for Young People with Special Educational Needs and Disabilities will be delayed plus £0.070m from ceasing adoption allowances for current adopters are at risk. The relevant services are identifying efficiencies elsewhere to address these issues.

While savings from reducing new demand entering the system would appear to be being delivered based on current activity there are clearly some considerable financial risks around how needs that are presenting are being addressed which the Directorate are prioritising for attention. Updates will be provided to Cabinet as the work progresses.

3.4 The Environment Directorate

- There is an increase in underspend since the last cabinet period of £2.111m and this has moved due to a number of service movements, as follows:

- Lancashire Highway Service underspend of £0.375m - Due to a review of the allocation of the resources to Capital, additional revenue staff costs in relation to street lighting and structural drainage work have been identified.

- There is a forecast underspend in Transport and Environment of £2.0m which is made up of a number of elements, including a reduction in an adjustment from 2013/14 in relation to subsidised bus services which has now been assessed as unnecessary, releasing £0.837m. The additional £0.5m investment into Community Transport provided as part of the 2014/15 budget is unlikely to be committed this financial year due to commissioning delays caused by a review of service provision being undertaken and the difficulties now being faced in relation to tendering of this service. The position on Concessionary Travel expenditure has also reduced since last reported due to a continued fall in passenger numbers.

- There is a reduction in the underspend in relation to waste of £0.554m due to essential lifecycle maintenance work at the Farington/Thornton Waste treatment facilities being brought forward into 2014/15 resulting in additional costs in this financial year. This has been partially offset by savings achieved against the landfill disposal budget as more waste has been diverted from landfill than originally anticipated.

Delivery of Revenue Savings

With regards to the cost of energy on Street Lighting, prices have increased by approximately 11% on average for the period July 2014 to March 2015 which is considerably in excess of that contained within the budget of £6.2m. The total additional cost of this increase is estimated to be £0.800m and as a consequence the £0.270m savings reduction in the 2014/15 budget will not be achieved. This issue has been incorporated into the 2015/16 budget process.

Lancashire Permit Scheme £0.165m - in line with Department for Transport guidelines the new Highway Permit Scheme will only come into operation from 1st March 2015 as opposed to the original date of 1st January 2015. This will result in a reduction in permit income against the original target of £0.200m for 2014/15, but will not affect future years.

Highway Infrastructure Sponsorship £0.050m - It is likely that the ongoing contractual dispute will prevent the achievement of target income in the current financial year. This should not affect future years.

Sustainable Drainage Consenting and Enforcement £0.150m- consultation is ongoing which puts enactment of the Sustainable drainage Approving Body (SAB) at risk. Local implementation is now on hold and will not achieve any application fee income this year, and is a risk for future years. Alternative income streams are being sought to seek to mitigate this, but is unlikely to be fully mitigated this financial year.

3.5 The Office of the Chief Executive Including BTLS

The Office of the Chief Executive (OCE)

A net £0.787m underspend position is forecast within the Office of the Chief Executive. The underspend has increased by £0.459m since last reported to cabinet, and is largely as a vacancy management savings.

BTLS

The reported position for BTLS reflects forecast pressure of £5.480m, which has increased by £0.577m from the previous reporting period. Income for Cumbria

Lancashire Education Online (CLEO), payroll and ICT s are forecast to be below budget, with external clients reducing services. Westfield income is forecast to over achieve against that budgeted. From 2015/16 the CLEO and Westfield services, will transfer to BTLS thereby reducing the financial risk on the Council due to falling levels of income.

3.6 The County Treasurer's Directorate

The County Treasurer's Directorate is showing an overall forecast underspend of £0.167m. The under spend has increased by £0.146m since last the report to Cabinet and relates to staffing savings arising from vacancy management.

3.7 Lancashire County Commercial Group

Lancashire County Commercial Group is forecasting an under spend of £1.382m, an increase of £1.232m since the last report to cabinet due to close control of costs which has reduced the cost of service provision.

3.8 The Corporate Budget

Overall the corporate budget is forecast to underspend by £0.027m which is an improvement of £1.093m since the last Cabinet report.

Previously, it was forecast that pension costs would be overspent by £1.331m due to an increase in historic pension costs, in line with Consumer Prices Index. The pensions forecast overspend has been revised at £0.578m.

In relation to the Care and Urgent Needs service, the forecast underspend remained unchanged at £1.495m, relating to lower than anticipated payments to claimants.

3.9 Strategic Items

This budget contains a number of strategic items, including:

- Property and Facility management savings to be allocated as realized;
- Business Intelligence Review savings
- Public Health Overhead Contributions
- Lancashire County Commercial Group Pay award.
- Contributions to/from Reserves.

The forecast overspend is currently at £1.733m and this is unchanged since the last cabinet report and have been incorporated into the financial strategy going forward.

3.10 Capital Financing Costs

Current projections indicate that there will be an extra-ordinary position of £52m within the capital financing costs budget. This underspend has been developing rapidly over recent months and has increased by £45m since the last position was reported to cabinet.

This extra-ordinary position is largely due to gains realised following the sale of bonds. The market has become substantially more volatile as a result of market expectations of deflation in the Eurozone and potentially the rest of the developed world, and the expectation of further Eurozone Quantitative Easing. The sales of certain bonds have been made as the Chief Investment officer has been rebalancing the investment portfolio to maintain a cautious low risk position.

£8m of the surplus is as a result of HM Treasury recalling investments in UK Government War loan stock in the Autumn Statement. The Council invested in these in 2012 as a de-risking exercise to reduce the exposure to bank credit.

Section B - The 2014/15 Capital Investment Programme

In February 2014 the Council agreed a capital investment programme of £198.675m. Adjusting for changes to the programme due to slippage carried forward from 2013/14 and new approvals, the programme is currently £232.328m. The new approvals are principally due to new grants being received for highways maintenance, an increase in the expenditure on the Superfast Broadband project to reflect the grants received and an increase in the provision for the work on the fire damage to Leyland St Mary's to better reflect the latest estimates with the insurance company.

	£m
Original Programme	198.675
Approvals brought forward from 2013/14	4.085
New Approvals	33.153
Programme 2014/15	**235.913**

The forecast position by Directorate is shown in the table below:

	Programme	**Forecast for the year as at December**		**Change in Forecast since previous report**	
	£m	**£m**	**%**	**£m**	**%**
Adult Health & Wellbeing	3.185	1.344	42.2	0.002	0.2
Children & Young People	59.022	45.950	77.9	-4.161	-8.3
Environment	110.768	107.441	97.0	3.113	3.0
Corporate	57.905	34.551	59.7	-5.670	-14.1
LCCG	5.033	3.305	65.7	0.145	4.6

Total	**235.913**	**192.591**	**81.6**	**-6.571**	**-3.3**

It is currently anticipated that the reduction in expenditure of £6.571m represents slippage and will be carried forward into later years. Some of the key reasons for the change are:

Adult Services, Health and Wellbeing

- There is some slippage on the Libraries Regeneration scheme largely due to the re-profiling of expenditure at the Bolton-Le-Sands library due to final clarification to design solutions and resourcing. However this is offset by expenditure on improving information systems now anticipated in this year rather than next.

Children and Young People

- The expected reduction in expenditure on Children and Young People is mainly due to an estimated reduction in school expenditure in the year. This is the result of:

  - The new primary school at Weeton Primary has seen further delays in agreeing heads of terms for the land sale with Ministry of Defence (MOD). There have also been issues relating to rights of way with MoD and utilities companies. (£0.575m)

  - Barnoldswick West Craven major extensions/re-modelling. The phasing of the re-modelling works are more complex than initially thought resulting in a revised spending profile (£0.580m)

  - Nelson Lomeshaye School is a major extensions/re-modelling for a 1 Form Entry expansion. The forecast now reflects a more realistic phasing of the works in an occupied school (£0.200m)

  - Preston Sir Tom Finney School – Significant structural work was required to the corridors to facilitate movement of pupils and specialist equipment around the building. Once on site and the existing structures were exposed additional design work was required. In addition specialist drainage designers have had to be appointed to assist in drainage design for the hydrotherapy pool. (£1.490m).

Environment

- Strong progress has been made on obtaining the necessary land or gaining the necessary licences to deliver the Pennine Reach project. As a consequence the programme of works is being accelerated, where practical, to bring the project further into line with the original funding profile submitted to the Department for Transport. In addition the implementation of the Compulsory Purchase Order for the land needed to construct Accrington Bus Station, means that initial compensation will be paid in 2014/15 to the affected interests in the site. Forecast spend for 2014/15 has, therefore risen by approximately £1.2 million.

- There is an increase of some £2.5m in expenditure on Section 278 highway schemes as the upturn in the economic situation continues to prompt increased development activity and a consequential rise in Section 278 highway works. The estimated costs on these types of works has increased significantly although all costs are recoverable from developers.

Corporate

- The Economic Development expenditure is lower by £4.3m than previously expected with it now reflecting the new phasing of the expenditure following the review of the Superfast Broadband project, that has been undertaken with the delivery partners and funding bodies. The additional approval to the Capital Programme in the year of £23.183m reflects grants approved being added to the Programme. It was anticipated that the project would be completed in the current financial year and the previous forecast reflected this. Since the last forecast and after discussions with the delivery partner and the funding organisations the project has been extended into the next financial year to June 2015. The underspend in year reflects the revised delivery timetable.
- Growing Places which represents loans provided to outside bodies for development purposes is less than previously forecast as one of the projects is not now expected to proceed.(£1.5m)

In addition to the forecast above since the Capital Programme was set in February 2014 the City Deal has been signed and the phasing of the expenditure indicates that expenditure in 2014/15 will be in the region of £14.8m.

4. Section C – Impact on Reserves

This section of the report deals with the impact of the forecast variations identified above on the Council's major reserves and makes recommendations for adjustments between reserves.

County Fund

Taking the forecast set out in this report, together with the budgeted use of County Fund balance into account the forecast position for County Fund at year end is:

	£m
Opening Balance	**36.0**
Less : Budgeted Use	-2.7
Add : Service Underspend	4.1
Closing Balance before adjustments	37.4

Transfer to Downsizing Reserve in line with previous resolution	-1.4
Forecast Year End Position 31.3.15	**36.0**

Cabinet agreed in September that any balance above £36m at the end of the year should be transferred to the Downsizing Reserve, and in line with this resolution £1.4m would be transferred.

Strategic Investment Reserve

The Strategic Investment Reserve was created to finance a range of projects over a considerable period of time, largely, but not exclusively in relation to economic development. The forecast position at the end of 2014/15 on the reserve is set out below. Spending is due to continue over future years. However, the Cabinet Member for Children, Young People and Schools, and the Cabinet Member for Adult and Community Services were recommended to consider a revised financial allocation to the Early Response during 2015/16 and 2016/17, ranging from no investment up to a maximum investment of £1.3m, and as a result, one-off resources of £1.7m can be released from this reserve.

	£m
Opening Balance 1 April 2014	**26.8**
Forecast spend in 2014/15	-6.6
Closing Balance at the end of 2014/15	**20.2**

Downsizing Reserve

The Downsizing Reserve exists to support the costs of change which results from the need to make savings of over £300m over the period 2014/15 to 2017/18. The table below provides a forecast of the year end position for this reserve, taking into account the resources transferred in, together with the anticipated use in the year.

	£m
Opening Balance 1 April 2014	**99.2**
Previously reported additional resources and transfers	2.3
Anticipated Drawdown 2014/15	-25.4
Anticipated Forecast Position 31 March 2015	**76.1**

5. Section D – Conclusion

As a result of the impact of one off benefits, mainly from the management of the investment portfolio, the Council is forecast to end the year with an under spend of £56m. This underspend has been developing rapidly over recent months due to gains being realised on the sale of bonds.

In addition there are a number of pressures which continue, while some of these are essentially one off, others do indicate longer term demand pressures which have been reflected in the revenue budget report elsewhere on the Cabinet's agenda.

Cabinet - 5 February 2015

Report of the County Treasurer

Electoral Division affected: All

Money Matters - The 2015/16 Budget and Financial Strategy 2016/17 to 2017/18
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

Over the past few months, the Cabinet has considered a number of reports setting out both the level of financial challenge facing the Council over the next three years, and the service offer proposals which set out in an open and transparent way, what can be delivered within the resources available, and the proposals to deliver the level of savings required.

The Council continues to face significant challenges as a result both of the demand for its services and the wider public finance environment. This results in the Council having a net budget available of £681m in 2017/18 compared to £758m for 2014/15. Taking into account fees, charges and other sources of income, the Council will have total resources available to invest in services of £1.2billion. After taking into account the savings agreed by Full Council in February 2014 of £62m, over the three years 2015/16 to 2016/17, the Council needs to make further savings of £176m.

At its meeting on 8 January 2015, the Cabinet published for consultation its budget proposals for 2015/16 and agreed to seek the views of stakeholders on its proposals. The stakeholders include:

- The County Council's Budget Scrutiny Working Group
- The Office of the Police and Crime Commissioner
- The Lancashire Combined Fire Authority
- Recognised Trade Unions
- Borough, City and Unitary Councils in Lancashire
- Lancashire Members of Parliament
- Third Sector Lancashire
- Parish Councils and the Lancashire Association of Local Councils
- Lancashire Safeguarding Children's Board
- Lancashire Care Association
- The Older People's Forums

Lancashire County Council

- The Chamber of Commerce
- The Lancashire Enterprise Partnership
- Healthwatch Lancashire
- The Clinical Commissioning Groups
- Young People's Engagement Forums

The report at Appendix 'A' provides Cabinet with an update on the revenue budget for 2015/16 as a result of:

- The ongoing review of costs, resources and risks on the revenue budget
- The receipt of the final council tax surplus position on the collection fund
- The availability of additional council tax resources, and
- The availability of additional one-off resources

The report also includes the advice of the County Treasurer on the robustness of the estimates within the revenue budget and the level of reserves and provisions held by the County Council. It is the view of the County Treasurer that the estimates are robust, and that the level of reserves and provisions held by the County Council are appropriate, given the level of risk to which the County Council is exposed. However, given the financial challenge ahead, it is vital that the County Council has access to one-off resources for risk management purposes and to deliver the investment needed to ensure a "safe-landing" over the next three years as the Council downsizes significantly.

Recommendations

Cabinet is asked:

(i) To note the changes in the forecast of the Council's costs and resources for 2015/16 as set out in the report and the consequential impact upon the level of reserves within the Cabinet's budget proposals;
(ii) To consider the responses received from the consultation on the Cabinet's revenue budget proposals for 2015/16;
(iii) To note and have regard to the advice of the County Treasurer in relation to the robustness of the budget and the adequacy of reserves;
(iv) To delegate authority to the Deputy Leader of the County Council, in consultation with the County Treasurer, to agree the translation of the service offer proposals into the financial management framework (which reflects the management structure) and for this to be incorporated within Cabinet's budget proposals to Full Council;
(v) To note the level of one-off revenue resources available within the 2015/16 revenue budget, as set out in the table below, and approve their use in the first instance to balance the Council's 2015/16 revenue budget. Based on Cabinet's current budget proposals, together with the updated information included in Appendix 'A', a total of £5.646m is required to balance the budget, leaving one-off available resources of £0.318m.

Additional one off revenue resources in 2015/16	**£m**
Council Tax Collection Fund surplus in 2014/15	(5.400)
Returned New Homes Bonus	(0.564)

Total one-off revenue resources	(5.964)

(vi) To note the level of further one-off resources available in 2015/16 as set out in the table below:

Additional One-Off Resource	£m
2014/15 Capital financing position (as set out elsewhere on Cabinet's agenda)	52.0
Release of Strategic Investment Reserve	1.7
Remaining one-off resources from within the 2015/16 budget, as set out in (v) above	0.3
Review of earmarked reserves	10.7
Total	**64.7**

(vii) To note the calls against this additional one-off resource as set out below:

Issue to be Addressed	£m
Provision for the Waste Infrastructure Grant	5.990
Adult Social Care Budget Consultation	13.819
Provision to mitigate against the risk re Property Savings in 2015/16 and Deprivation of Liberty Safeguards	4.000
Insurance Provision	1.000
Total	**24.809**

This leaves one-off resources available of £39.9m.

(viii) To consider the use of the available one-off resources of £39.9m, as set out in (vi) and (vii) above, for risk management purposes within the budget proposals to Full Council on 12 February 2015;

(ix) To recommend to the Full Council on 12 February 2015 proposed budget allocations to services, a total budget requirement and the associated Band D Council Tax for 2015/16.

Background and Advice

As set out at Appendix 'A'.

Consultations

As set out at Appendix 'A'.

Implications:

As set out at Appendix 'A'.

Risk management

As set out at Appendix 'A'.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Financial Strategy papers	April - December 2014	Gill Kilpatrick, County Treasurer's Directorate, (01772) 534715

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

The 2015/16 Budget and Financial Strategy 2016/17 - 2017/18

1. Introduction

This report provides the Cabinet with an update on the County Council's budget for 2015/16 and future years. It provides a framework for the Cabinet to agree its revenue and council tax recommendations to Full Council on 12 February 2015.

Over the past few months Cabinet has received a series of reports which provided the financial forecast for the Council over the period 2015/16 to 2017/18. The Council is facing significant challenges due to the wider public finance environment, whilst at the same time the demand for its services is increasing. The Council must find further savings of £176.873m over this period. This is in addition to the £62.513m of savings agreed by Full Council in February 2014, meaning that over the period 2015/16 to 2017/18 the Council will have made a total of £239.386m savings, of which £100.846m falls into 2015/16.

This results in the Council having a net budget available of £681m in 2017/18 compared to £758m for 2014/15. The Council will have total resources available to invest in services in 2017/18 of £1.2 billion.

In the Autumn Statement the Chancellor made it clear that austerity measures will continue, to support the reduction in the deficit. A further £10 billion of efficiency savings are expected to be achieved by 2017/18. The government has to date delivered £67 billion of the £99 billion planned reductions in spending by the end of 2015/16. Furthermore, the Chancellor stated that austerity is expected to continue until 2019/20. Non-protected departments, of which local government is one, will see the same rate of funding reductions as those experienced since 2010.

The Council has met this challenge robustly – at the heart of this is the recognition that to be sustainable and deliver for our communities the Council will need to change. Management and organisational structures will need to be streamlined and the Council will have to work differently. Given the scale of the challenge it is impossible to make the level of savings required by a series of piecemeal cuts and changes; a more fundamental approach is required. The service offer proposals published for consultation by Cabinet on 8 January 2015 set out the redesign of services and the savings to be delivered

2. The 2015/16 Revenue Budget

2.1 Progress on the 2015/16 Revenue Budget to date

Table 1 below provides a summary of the progress that has been made to date to develop the Council's budget for 2015/16 and the strategy to meet the saving gap in 2016/17 and 2017/18:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Savings gap reported to January 2015 Cabinet	79.793	51.560	45.520	176.873
Cabinet's proposals published on 8 January 2015:				
Savings from Cabinet's Service Offer proposals	(68.420)	(39.468)	(38.321)	(146.209)
Increase in Council Tax of 1.99%	(7.474)			(7.474)
Use of One-Off Funds	(3.899)	3.899	-	-
Savings gap	**0**	**15.991**	**7.199**	**23.190**

Table1

Annex1 of this report sets out the savings for 2015/16 to 2017/18 contained within the Cabinet's service offer proposals published on 8 January 2015.

2.2 Update on the Council's resource and expenditure forecast for 2015/16 and future years

The Council's resource and expenditure forecast is under continual review during the budget process to ensure that the budget is robust. Since Cabinet met on 8 January 2015 this review has continued, and together with the information received from the City and Borough Councils has resulted in the following updated information:

- £4.050m increase in council tax income in 2015/16 due to the receipt of further updates on the tax base (i.e. the number of properties upon which council tax is paid) from the Lancashire City and Borough Councils. The final tax base position will only be confirmed by 31 January 2015. A verbal update on the final tax base figures will be provided to Cabinet at the meeting.

- A reduction in the Education Services Grant (ESG) funding of £4.864m in 2015/16, with further reductions forecast in future years, which has emerged as further challenge of the budget has shown that the ESG funding announced in the settlement was lower than that incorporated in the forecast.

- A reduction in the forecast for inflation paid to the Strategic Partnership of £0.276m in 2015/16, with further reductions in future years, reflecting the latest inflation information

- From the ongoing budget challenge it has also emerged that a contribution from reserves of £1.209m had erroneously been incorporated into the budget. The details of these changes are shown below in table 2:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Additional income from forecasted increase in council tax base	(4.050)	-	-	(4.050)
Reduction to Education Services Grant funding	4.864	0.959	1.090	6.913
Revised inflation forecasts	(0.276)	(0.217)	(0.159)	(0.652)
Remove erroneous contribution from reserves	1.209			1.209
Impact on the overall position	**1.747**	**0.742**	**0.931**	**3.420**

Table 2

The impact of these changes on the savings gap is summarised below in table 3, and would require a further use of reserves, or one-off funds, of £1.747m to balance the budget in 2015/16, taking the total to £5.646m.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Savings gap following Cabinet on 8 January 2015	0	15.991	7.199	23.190
Further costs and resources identified	1.747	0.742	0.931	3.420
Increase in use of one-off funds	(1.747)	1.747		-
Remaining gap	**0**	**18.480**	**8.130**	**26.610**

Table 3

2.3 Availability of One-Off Funds

Table 4 below provides details of further one-off resources the Council will receive in 2015/16:

Additional one off resources in 2015/16	**£m**
Council Tax Collection Fund surplus in 2014/15	(5.400)
Returned New Homes Bonus	(0.564)
Business Rates Collection Fund surplus/deficit 2014/15	TBA
Total one-off resources	**(5.964)**

Table 4

The surplus on the Council Tax Collection Fund has been notified by the Lancashire City and Borough Councils and indicates the projected position for 2014/15. This represents an increase in the level of council tax collected above the amount forecasted at this time last year. The surplus is an additional one-off resource.

No information has yet been received in relation to either a surplus or deficit position on the business rates collection fund.

It is recommended that the one-off additional resources in 2015/16 of £5.964m be utilised in the first instance to balance the Council's 2015/16 budget. Based on Cabinet's current budget proposals, together with the updated information above, a total of £5.646m is required to balance the budget, leaving available one-off resources of £0.318m.

3. The 2015/16 Revenue Budget and Financial Strategy for 2016/17 and 2017/18

The Cabinet's budget proposals, together with the changes outlined in section 2 of this report, would result in the following revenue budget for 2015/16, as set out in table 5 below:

Revenue budget 2015/16	Gross Budget £m	Income £m	Net Budget £m
Cost of Being in Business	**103.968**	**(51.937)**	**52.031**
Service Offer Proposals			
Social Care	494.685	(119.486)	375.199
Other Services We Provide To Adults	16.979	(3.698)	13.281
Coroners Service	2.159	-	2.159
Public Health & Wellbeing	105.064	(75.610)	29.454
Other Services For Children & Young People	115.294	(60.792)	54.502
Highway Services	75.316	(44.498)	30.818
Bus & Rail Travel	42.002	(8.864)	33.138
Waste Management *1	104.908	(20.152)	84.756
Other Environment Services	16.500	(10.629)	5.871
Cultural Services	20.460	95.130)	15.330
Economic Development and Skills	19.571	(18.913)	0.658
Total for the Service Offers	**1,012.938**	**(367.772)**	**645.166**
Financing Charges	50.794	(18.400)	32.394
Use of one off resources		(5.646)	(5.646)
Revenue budget 2015/16	**1,167.700**	**(443.755)**	**723.945**
Funded by			
Business rates			175.558
Council Tax			387.099
Revenue Support Grant (RSG)			157.415
New Homes Bonus			3.873
Total Resources			**723.945**

Table 5

*1 – this includes £14.8m of capital financing costs which will be transferred under the process set out below

It is important to note that the service offer proposals set out clearly the level of investment within individual service offers, together with the costs of being in business. In order to ensure effective and robust financial management arrangements within the Council, the cash limits for service offers must be clearly set out in line with the new organisational structure. This work is nearing completion, but at the time of writing the report, the final steps in the assurance framework had not been completed. It is therefore recommended that in order for Full Council to consider the budget management framework of Cabinet's budget proposals, Cabinet delegate authority to the Deputy Leader, in consultation with the County Treasurer, to agree the translation of the service offer proposals into the financial management framework (which reflects the management structure) and for this to be incorporated within Cabinet's budget proposals to Full Council.

The indicative cash limits on a service offer basis for 2016/17 and 2017/18 arising from the Cabinet's proposals are set out in annex 2 to the report.

4. Risks and Uncertainties which impact upon the 2015/16 Revenue Budget Proposals

At the time of writing this report there are a number of financial issues which may impact upon the revenue budget for 2015/16.

4.1 The Final Local Government Settlement for 2015/16

The information provided in the Provisional Local Government Finance Settlement for 2015/16 that was announced on 18 December 2014 has formed the basis of the budget proposals published for consultation by Cabinet on 8 January 2015, and contained within this report. There still remains the possibility of further changes to the level of resource allocated to the Council in the final settlement, although any such changes would be expected to be small. The Final Settlement is expected to be announced on 4 February 2015 and will then be debated in the House of Commons by 12 February 2015. A verbal update on the final settlement will be provided to Cabinet at the meeting on the 5 February 2015.

4.2. Council Tax base

As set out earlier, the Council has received provisional forecasts for the level of the council tax base (i.e. the number of properties upon which council tax is paid) for 2015/16 from City and Borough Councils. The statutory deadline for the provision of final tax base figures to the County Council is the 31 January, after the publication of this report. Previous experience has shown that this forecast may change, although any impact is expected to be small. A verbal update of the impact of the final tax base figures will be provided to Cabinet at the meeting on 5 February.

4.3. Business Rates Income

City and Borough Councils are currently preparing their forecasts of the amount of business rates income they expect to collect in 2015/16. The County Council will receive a 9% share of the growth over the previous year. The level of resources received in the year will reflect the actual level of business rates income rather than the amount forecasted. City and Borough Councils must provide this forecast information to the County Council by 31 January 2015, therefore a verbal update on the formal forecast of income from business rates will be provided to Cabinet at the meeting on 5 February.

There remains a risk that the formal forecasts received from the City and Borough Councils by 31 January may differ, potentially significantly, from the forecast, although it has been prepared on a prudent basis.

In addition, there remains a risk that with this, a deficit on the business rates collection fund may be advised, which would impact on the level of one-off resources available to the Council.

4.4. Deprivation of Liberty Safeguards

As set out in previous reports, the Supreme Court judgement related to Deprivation of Liberty Safeguards (DOLS) presents a £2.9m risk to the Council. The level of financial risk, and the potential mitigating factors are being explored. However, at this point, no funding has been received for this, and it is recommended that resources be earmarked within a risk management reserve to address this risk in 2015/16 if it crystallises.

4.5. Waste Infrastructure Grant

The Council received notification from Defra on the 16 December 2014 of the decision to terminate the payment of the waste infrastructure grant from 31 July 2014. The Council considers that it has very strong grounds to contest this decision and will now challenge Defra's decision by way of a Judicial Review. £5.990m of waste infrastructure grant is contained within the Council's forecast of resources for each of the three years 2015/16 to 2017/18. Although the Council is confident of its case, this resource must be considered to be at risk and therefore an amount set aside from reserves to provide cover in 2015/16. This position will be subject to review, and therefore may impact on the forecast of resources for future years.

4.6 Inflation

As inflation rates remain relatively low, this represents a minimal risk in the forecast of spending to 2017/18.

4.7. Pay

It has previously been reported to Cabinet that forecasts include the pay award of 2.20% from 1 January 2015 to 31 March 2016, and then an assumed increase of 2% each year thereafter. Also, that forecasts included the Living Wage of 2.7% in September 2014. The Chancellor has announced that restraint in public sector will continue, this could result pay increases of less than 2%. If this is the position the impact will be reflected in future updates to the financial forecast.

4.8 Adult Social Care Consultation

The formal consultation on the Adult Social Care proposals contained within the service offers will end on the 31 March 2015, when the results of the consultation will be formally considered by the Cabinet Member. Clearly, this date falls after the consideration of the Council's budget proposals for 2015/16, and therefore in order to ensure a full and proper consideration of the results of the consultation, the Council must earmark resources to cover the savings identified within these proposals for 2015/16. This amounts to £13.8m.

4.9 Delivery of Property Savings

The Council's current budget plans include the delivery of property savings of £1.1m, with further savings of £5m planned for 2017/18. The achievement of these savings is predicated on the implementation of the property strategy, which covers in the order of 500 Council buildings (excluding schools), with a clear view of the condition information and running costs of each building, together with the accommodation requirements contained within the service offer proposals published on 8 January 2015.

This work is ongoing, and as set out below, will require investment to deliver. Whilst it is clear that property savings will be achieved, the delivery of property savings in 2015/16 must be considered to be at risk, and as such, provision should be made in 2015/16 to offset this risk.

5. Budget Consultation 2015/16

Consultation on the Cabinet's service offer proposals has been undertaken with a range of organisations as set out below:

- The County Council's Budget Scrutiny Working Group
- The Office of the Police and Crime Commissioner
- The Lancashire Combined Fire Authority
- Recognised Trade Unions
- Borough, City and Unitary Councils in Lancashire
- Lancashire Members of Parliament
- Third Sector Lancashire
- Parish Councils and the Lancashire Association of Local Councils
- Lancashire Safeguarding Children's Board
- Lancashire Care Association
- The Older People's Forums
- The Chamber of Commerce
- The Lancashire Enterprise Partnership
- Healthwatch Lancashire
- The Clinical Commissioning Groups
- Young People's Engagement Forums

The feedback received from these groups to date is shown in annexes 3 to 6, and in addition, responses have been received from individual members of the public, which have been shared with the Leader and Deputy Leader. As the deadline for the receipt of responses was 4 February, those responses received between the publication of the report, and the Cabinet meeting will be circulated at the meeting.

Cabinet is asked to consider the consultation responses received in their consideration of the budget proposals to be recommended to Full Council on 12 February 2015.

6. Management of Risk and Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that in giving consideration to budget proposal members have regard to the advice of the Council's Chief Finance Officer (in the case of the County Council the County Treasurer) on the robustness at the estimates and the adequacy of the Council's reserves. This section of the report provides the County Treasurer's advice on these matters.

Over the next few years, the Council is facing significant level of risk, which requires careful consideration, management and mitigation to ensure ongoing financial and service stability, and to prevent the Council being exposed to financial shocks. This section sets out the risks facing the Council, and the resources that the Council has available to assist in the management and mitigation of these risks.

6.1 Overview of the Risk Environment

6.1.1 Level of Future Resources from Central Government and On-going Austerity

The Finance Settlement provided provisional funding arrangements for 2015/16, and there is no clarity on the level of support from central government for future years. In the Autumn Statement the Chancellor stated that austerity measures will continue up to 2019/20. The Office for Budget Responsibility (OBR) stated within the Economic and Fiscal Outlook that roughly 40% of the total cut in day to day public services spending between 2009/10 and 2019/20 will have taken place in this parliament. This means there is roughly 60% of spending cuts still to be made in the next parliament. The potential impact on the wider Local Government is not known at present.

The Council's forecast of government resources in 2016/17 reflects the continuation of the average reductions the Council had experienced since 2010 at 7.0% (after taking into consideration the potential impact of local growth in business rates). However, both the LGA and commercial consultancies have produced forecasts which indicate this may be a risk position to take. The mid-point of the LGA and other forecasts is a reduction of 9% in both 2016/17 and 2017/18. A 2% change in this assumption makes a difference of about £6.6m to the forecast resources available in 2016/17 and £6.1m in 2017/18. A 2% change over both years would amount to £12.7m in total.

6.1.2 Instability of Business Rate resources

The Council must also be able to manage potential instability in the Business Rates retention system. Whilst the Council has set aside £5m within a volatility reserve, in reality, business rate income would have to reduce by £12.4m before the safety net mechanism within the system is triggered, potentially exposing the Council to a level of resource volatility not covered by the reserve. Although this risk lessens as information becomes available over a longer period on the operation of the scheme, given the potential impact of the appeal in relation to Heysham Power Station, this remains a prudent approach.

6.1.3 Demand

There is continued pressure on the Council's budget, and the most up to date demand forecasts have been included. However, any increases in demand will add pressure to future budgets. The Council continues to face significant budget pressures due to demands for Adults Social Care and Learning Disability Services. In addition, the impact of national changes relating to Ordinary Residence, the Winterbourne Concordat and Deprivation of Liberty Safeguards, will add further pressure on the Council's resources and this has been reported in previous Cabinet reports.

Children's Social Care agency placement costs is a further area affected by financial pressures. The Council is in the process of developing a 'brokerage' model to source and commission suitable placement and support services. There is also a strong focus recruiting and retaining foster carers, and development of a peer-network to provide support to new carers. In order to achieve efficiency improvements Children's Social Care is to be commissioned, to work with a partner who has a track record of successfully working with other local authorities in this area. The Council is currently benchmarking its costs against other local authorities to ensure this is in line with the wider local government sector performance. These collective measures will assist in addressing this area of ongoing financial pressure.

However, it is important to recognise that this remains an area of ongoing risk that requires careful ongoing management and monitoring to ensure it is captured and recognised and that appropriate action is taken.

6.1.4 The Care Act

It has previously been reported that under the Care Act local authorities have a responsibility to ensure that residents

- Receive services that prevent their care needs from becoming more serious
- Can access information and advice to make good decisions about their care and
- Have a range of high quality care providers to choose from

With effect 1 April 2015 local authorities will also need to cover costs for care once residents have reached a lifetime care cost limit of £72,000. This could lead to additional pressures on the Council's budget.

The final allocations for the implementation of the Care Act in 2015/16 were announced in December 2014, with up to £10.5m revenue and £1.1m capital funding available to Lancashire County Council. The main areas of spending will include the implementation of the:

- New national eligibility criteria for Adult Social Care;
- Additional entitlements for Carer assessment and support;
- New Deferred Payment policy;
- Delivery of Social care in prisons; and the
- Delivery of early social care assessments in preparation for the introduction of the cap in care costs regulations to be introduced from April 2016.

The Department of Health has not yet announced funding allocations for the reforms due to be implemented from April 2016, in particular relating to the introduction of the cap on care costs and the changes to the financial means-test thresholds for Adult Social Care. Local authority allocations for these reforms are not expected to be received until later in 2015, but there continues to be concern that the total resource provided will be insufficient and that the distribution mechanism used will fail to match the incidence of increased costs. This represents an area of high risk, not just for the Council, but for upper tier authorities nationally.

6.1.5 Availability of Capital Resources and Delivery of the Masterplans

As set out in the capital investment programme report elsewhere on the Cabinet's agenda, the level of resources for capital investment in highways and transport is lower than anticipated, resulting in a shortfall of resources in relation to the delivery of the Masterplans, and the investment available for highways maintenance.

In addition, the current market conditions has meant that not only is the generation of capital receipts not in line with expectations, but that the Council has no flexibility in terms of available capital resources to ensure appropriate planned investment in the maintenance of assets, particularly in relation to property and other assets.

Included within this is the maintenance of ICT assets. There are a number of potential projects which require investment to maintain the ongoing stability of ICT assets, and bring applications up to date in order to ensure that software is supported.

6.1.6 Delivery risk

The Council has a good reputation for the delivery of savings, and the implementation of change programmes which deliver both savings and redesigned services. However, the Council is facing an unprecedented level of savings, with £100m of savings to be delivered in 2015/16, and longer term service redesign which will deliver savings in 2016/17, 2017/18 and future years. Maintaining momentum and ensuring robust and rigorous change management arrangements will be critical in ensuring the Council remains on track. There are a significant number of factors, both internal and external which may impact upon delivery. Access to resources to mitigate financial risk should delivery not run according to plan is critical to maintain financial health and stability over the next few years.

6.1.7 Downsizing Effectively

The Council has set aside significant resources to enable the effective downsizing of the organisation, including resources to fund voluntary severance, but also to invest in ICT and other service developments which will enable the Council to deliver its savings programme.

As the council downsizes, over the period to 2017/18, but also potentially beyond, access to one-off resources will play a fundamental role in enabling the Council to not only deliver savings, but also to ensure the maintenance of sustainable services which deliver for Lancashire's communities.

The reshaped County Council will require a reshaped property estate which is fit for purpose, which supports service delivery but also maximises the use of property assets, thereby reducing the number of buildings and the costs of property.

The solutions to deliver this will be particular to each locality depending on both the nature of the current asset stock and the availability of possible alternatives. Whilst it is reasonable to expect this programme to be self-financing from capital receipts, given the current position with regards to the generation of capital receipts, this is unlikely. At this stage there is no clear view on the level of resources required to deliver the property strategy, and significant further work is required. However, delivery of the strategy is key to unlocking a significant part of the savings included in the revenue budget.

6.1.8 Insurance Risk

The County Council's insurance arrangements, like those for the majority of larger local authorities involve the self-insurance of a range of risks up to a given total value of claims, with certain risks being entirely externally insured. The premiums charged to the revenue budget reflects these arrangements. The significant changes in the scale and nature of the organisation that will take place over the coming three years will require a fundamental reassessment both of the scale of insurable risk that the Council is facing (e.g. there will be fewer properties to insure) but also the balance between external and self-insurance. In the meantime it will be necessary to ensure that the various insurance provisions which relate to historic claims are sufficient to meet the potential calls on them.

In particular the provision made in relation to the Council's potential share of the costs of the winding up of Municipal Mutual Insurance (MMI) needs to be kept under review to ensure Council's potential liability can be met without impacting on the revenue budget.

The County Council has also faced an exceptional and particularly complex series of claims in relation to the fire at Leyland Business Park which have now been settled. Given the exceptional scale and nature of these claims the self-insured element of them would potentially present a risk of a shortfall in the insurance provision unless there was an increase in charges to services which would be a revenue pressure. Again prudence would indicate a need to make specific provision to deal with this exceptional issue reducing the risk of pressure within the revenue budget.

6.2 Assessment of reserves and the availability of one-off resources

The Council holds reserves for a number of reasons:

- To ensure the organisation is in a good position to deal with unexpected events, such as flooding or the destruction of a major asset through fire.
- To ensure the organisation can manage in year budget pressures due to the variation in demand for services.
- To adequately meet demands identified within the budget and fund specific projects.

There is no right answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- The level of risk evident within the budget as set out above.
- A judgement on the effectiveness of budgetary control within the organisation.
- The degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

The level of risk evident within the budget is clearly increasing as set out in the analysis above, and sets the context within which the Council needs to consider the level of reserves it holds.

The effectiveness of budgetary control is a combination of both systems and processes and the risk environment within which the Council is operating. Budgetary control procedures remain strong.

The Council currently has earmarked reserves available of £76.1m to fund the costs of downsizing the Council. The Council will face significant severance costs as the number of staff reduces over the next three years.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2015 is £36m.

The Chancellor has stated that the austerity measures within which the Council is operating is likely to continue to 2019/20, if not beyond. Therefore is important the Council maintains a level of reserves which enables the Council effectively manage the risk environment within which it operates.

In overall terms, the Council has an appropriate level of reserves available to manage the overall financial risk it is facing in 2015/16, with the ability to be flexible in terms of managing the balance between holding reserves and managing budget reductions in 2015/16. However, the longer-term management of the risk environment the council is operating in, and the financial resources available to support that risk requires careful consideration.

The Council is in an almost unique position of having significant one off resources available to assist in managing the level of risk it is facing. The resources available are as follows:

6.2.1 The Downsizing Reserve

The Council is undergoing a major transformation to streamline processes and re-design the way in which services are delivered with a reduced workforce. In order to downsize the organisation and its services safely, and provide resources to enable investment to undertake this successfully, the Council's downsizing reserve was established to provide funds to support the cost of voluntary severance, together with investment to pump prime the delivery of the service offers, particularly where investment is required to deliver savings.

At the end of 2014/15, it is forecast that the Council will have £76.1m funds within the downsizing reserve, which enables sufficient flexibility to meet the costs of voluntary severance to March 2017, and provide investment support for ICT development and other pump priming required to deliver the service offers as published. This level of balances within the Downsizing reserve is considered to be adequate to meet the ongoing costs of reshaping the Council. However, this will be reviewed on a regular basis as the Council is likely to require funds, particularly invest to save resources, to support the reshaping process and service offer proposals.

6.3 One-Off Resources Available and Calls on the funds

6.3.1 Availability of one-off resources

The following one off resources available are set out in table 6 below:

One-Off Resource	**£m**
2014/15 Capital financing position (as set out elsewhere on Cabinet's agenda)	52.0
Release of Strategic Investment Reserve	1.7
One-off resources from within the 2015/16 budget, as set out in paragraph 2.3	0.3
Review of earmarked reserves (see below)	10.7
Total	**64.7**

Table 6

6.3.2 Review of Earmarked Reserves

The opportunity has been taken to conduct a mid-year review of other earmarked reserves to ensure that the Council sets resources aside for appropriate commitments and priorities, and complements the ongoing work which has been reported to Cabinet throughout the year within the Money Matters reports. This has identified a total of £10.736m which can be released from the following reserves, as set out in Table 7 below.

	Sum Available £m
Local Welfare Reserve (no identified commitments)	1.000
Community Support Reserve (no identified commitments)	0.250
Adult Learning Reserve (redundancy costs now to be borne centrally as with other services)	1.000
Corporate DFM Balance (no commitments identified)	1.746
OCE DFM Balance (no identified commitments)	0.117
Property DFM Balance (no identified commitments)	0.114
Speed Awareness Reserve (no longer required and no commitments identified)	0.492
Occupational Health (no commitments identified)	0.084
LCCG Vehicle Excess Reserve (change of accounting policy means the reserve is no longer required)	1.428
CYP Reserves (various small sums no commitments identified)	0.684
Adults - Grant Funded Projects Reserve (sum not required)	2.000
Adults LD Remodelling Reserve (sum not required)	1.821
Total	**10.736**

Table 7

6.3.3 Calls against One-Off Resources

Issue to be Addressed	**£m**
Provision for the Waste Infrastructure Grant	5.990
Adult Social Care Budget Consultation	13.819
Provision to mitigate against the risk re Property Savings in 2015/16 and Deprivation of Liberty Safeguards	4.000
Insurance Provision	1.000
Total	**24.809**

Table 8

This leaves available one-off resources of £39.9m. Cabinet is asked to consider the use of these funds for risk management purposes within the budget proposals to Full Council.

7. Equality and Diversity

The consideration of savings proposals will also take full account of the Council's duty under s.149 of the Equality Act 2010 to have due regard to the need: to eliminate discrimination, harassment, victimisation or other unlawful conduct under the Act; to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and to foster good relations between persons who share a relevant protected characteristic and persons who do not share it. Where necessary this consideration will involve consultation with those people who may be adversely affected by the proposals.

Having due regard means analysing at each step of formulating, deciding upon and implementing policy what the effect of that policy is or may be upon groups who share protected characteristics defined by the Act. The protected characteristics are: age, disability, gender reassignment, race, sex, religion or belief, sexual orientation or pregnancy and maternity, and, in some circumstances, marriage and civil partnership status.

Where analysis shows that there may be a possible negative impact it will then be necessary to consider whether any steps can be taken to mitigate or reduce the potential adverse effects. This may involve an amendment to the original proposals. The analysis and negative impacts must then be balanced against the reasons for the proposals, that is to say the need for budget savings.

Equality Analyses have been updated to reflect the outcome of consultation and provided with this report to Cabinet for it to be considered before making recommendations to Full Council.

The Equality Analyses documents can be viewed at the following link:

http://council.lancashire.gov.uk/documents/s54867/Equality%20Analysis%20for%20Service%20Offers.docx?CT=2

8. Conclusion

The Council continues to face significant financial challenges in the period 2015/16 to 2017/18 and beyond. Austerity is set to continue and alongside this there is considerable legislative, operational and delivery risk. It is vital that the Council maintains robust financial and operational monitoring to oversee the delivery of savings, and is able to take action to respond to the changing environment.

The Council is in an almost unique position with the availability of significant one-off resources to support the effective downsizing over 2015/16 to 2017/18 and beyond, and to provide risk management resources to ensure financial and service sustainability.

Annex 1

Phasing of Savings 2015/16 to 2017/18

Service Offer	Total Savings	2015/16 Savings	2016/17 Savings	2017/18 Savings
	£m	£m	£m	£m
Cost of Being In Business	7.818	3.380	1.706	2.732
Social Care	66.390	19.455	21.779	25.156
Other Services We Provide To Adults	5.252	5.141	0.111	-
Coroners Service	0.171	0.171	-	-
Public Health & Wellbeing	23.183	8.882	7.904	6.398
Other Services For Children & Young People	9.845	5.615	3.265	0.965
Highway Services	5.395	4.445	0.736	0.214
Bus & Rail Travel	0.739	0.658	0.081	-
Waste Management	20.053	18.000	1.053	1.000
Other Environment Services	1.656	1.310	0.304	0.042
Cultural Services	5.263	0.920	2.529	1.814
Economic Development and Skills	0.443	0.443	-	-
Grand Total	**146.208**	**68.420**	**39.468**	**38.321**

Indicative Cash Limits 2016/17

	Gross £m	Income £m	Net £m
Cost of Being in Business	**111.041**	**(51.128**	**59.913**
Service Offer Proposals			
Social Care	487.207	(120.554)	366.653
Other Services We Provide To Adults	16.736	(3.698)	13.038
Coroners Service	2.169	-	2.169
Public Health & Wellbeing	96.128	(75.610)	20.518
Other Services For Children & Young People	112.044	(60.358)	51.686
Highway Services	75.473	(44.498)	30.975
Bus & Rail Travel	43.395	(9.029)	34.366
Waste Management	106.250	(20.150)	86.100
Other Environment Services	15.519	(10.535)	4.984
Cultural Services	18.214	(5.130)	13.084
Economic Development and Skills	19.747	(19.913)	-0.166
Total for the Service Offers	**992.882**	**(369.475)**	**623.407**
Financing Charges	55.720	(18.250)	37.470
Revenue Budget 16/17	**1,159.643**	**(438.853)**	**720.790**
Funded by:			
Business rates			179.561
Council Tax			388.834
RSG			128.936
New Home Bonus			4.979
Total Resources			**702.310**
Funding Gap			**18.480**

Indicative Cash Limits 2017/18

	Gross £m	Income £m	Net £m
Cost of Being in Business	**106.801**	**(50.038)**	**56.763**
Service Offer Proposals			
Social Care	480.406	(121.423)	358.983
Other Services We Provide To Adults	17.337	(3.698)	13.639
Coroners Service	2.179	-	2.179
Public Health & Wellbeing	90.347	(75.610)	14.737
Other Services For Children & Young People	111.862	(59.886)	51.976
Highway Services	76.534	(44.498)	32.036
Bus & Rail Travel	44.906	(9.200)	35.706
Waste Management	107.795	(20.119)	87.676
Other Environment Services	15.827	(10.890)	4.937
Cultural Services	16.815	(5.130)	11.685
Economic Development and Skills	19.974	(19.913)	0.061
Total for the Service Offers	**983.982**	**-370.367)**	**613.615**
Financing Charges	55.966	(18.250)	37.716
Less savings to be identified for 16/17	(18.480)		(18.480)
Revenue Budget 2017/18	**1,128.269**	**(438.655)**	**689.614**
Funded by:			
Business rates			184.153
Council Tax			391.013
RSG			101.339
New Home Bonus			4.979
Total Resources			**681.484**
Funding Gap			**8.130**

Hope this reaches you OK , as discussed on the phone just now.

From: Mike Wedgeworth [mailto:mike@thirdsectorlancashire.org.uk]

Sent: 13 January 2015 14:07

To: 'Gorman, Dave'

Subject: RE: Consultation on the County Council's Budget Proposals 2015/16 - 2017/18

Hi Dave

Thank you very much for this further opportunity to comment on the Budget Proposals.

It is devastating to see that the Council must make even more reductions, and it is to be hoped that the spending review following the election of a new government might offer some amelioration, especially in the field of social care. The current crisis in the Health Service will become even worse if allocations for social care are to be reduced.

I am pleased to note, on behalf of the third sector, the Council's commitment to find new ways of working with communities and partners. This of course, is something of a journey for us also, but the commitments evident in the Council's procurement strategy, and its emphasis on Social Value, convince us that such co-operation will be effective. Our vehicle for commissioning , Greater Together, is seen as the ideal way to achieve this, bearing in mind that the larger charities who win tenders should be in a position to sub-contract some of the work to the smaller.

As to the detail of the Budget proposals, I can only say that I am sure that everyone concerned will have done their best to make spending reductions where they will do the least harm.

We look forward to continuing to work with the Council, both its members and officers, in trying to defend the people of Lancashire against what seems to be the present Government's policy of shrinking the public sector almost out of existence.

It is possible I will be able to offer further thoughts before your deadline, once I have had an opportunity to consult colleagues

Trade Union Budget Consultation

Note of the Meeting held on Thursday 15 January 2015 at 2.00 pm in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

Chair

County Councillor David Borrow, Lancashire County Council

County Councillors

County Councillor Geoff Driver CBE, Lancashire County Council
County Councillor Bill Winlow, Lancashire County Council

County Council Officers

Jo Turton, Chief Executive
George Graham, Deputy County Treasurer
Deborah Barrow, Head of Human Resources

Representing the Trade Unions

Sandra Blight, GMB Regional Officer
Julie Burgess, UNITE
Elaine Cotterell, UNISON Branch Secretary
Sam Ud-din, National Union of Teachers
Mac Harrison, NASUWT
Liz Laverty, Secondary Headteachers Association
Les Ridings, Association of Teachers and Lecturers
Francesca Sullivan, UNITE

Welcome and Introductions

County Councillor David Borrow, Deputy Leader of the County Council, welcomed all attendees to the meeting, the purpose of which was to consult with the recognised Trade Unions on the County Council's recently published budget proposals for 2015/16 to 2017/18.

1. Apologies for Absence

Apologies for absence were received from County Councillor Jennifer Mein, Deputy Leader, Lancashire County Council, and Pat Grant, UNISON Regional Officer.

2. Money Matters - The 2015/16 Budget and Financial Strategy 2016/17 to 2017/18

County Councillor Borrow gave an overview of the budget proposals recently considered by Cabinet and which were now the subject of formal consultation. Reference was also made to the County Council's transformation process, which involved an overall reduction in the staffing establishment, and also to wider aspects of the County Council's budget such as the schools budget, which saw the majority of funding being passported to schools.

The level of savings required for 2015/16 - 2017/18 was in excess of £176m which was in addition to the savings of £139m agreed by the Full Council in February 2014, giving a total savings requirement of £315m. Taking into account the savings which would arise from the service offers currently being consulted on, together with a proposed increase in Council Tax of 1.99%, there remained a gap of over £23m. Assumptions had been made for 2016/17 - 2017/18 assuming a 7% reduction in the Revenue Support Grant in each of those years.

The outcome of the General Election in May 2015 would have an impact with any new Government undertaking a Spending Review. The outcome of the review may mean that further changes might need to be made to the County Council's budget once the impact of the review had been assessed.

The following comments were made by Trade Union representatives:

- The County Council's Transformation process was having a big impact on staff and it was noted that Trade Unions were involved through regular meetings with the Chief Executive and other officers and through the Joint Negotiating and Consultative Forum (JNCF);
- The outcome of the LGA Peer Review and what plans are in place to address the areas for improvement highlighted around financial leadership and the transformation process;
- The proposed 1.99% increase in Council Tax is to be welcomed in the context that the County Council is exploring all avenues to increase revenue;
- The increased use of volunteers, particularly in service areas likely to see significant reductions in staff. Volunteers should be seen as adding value to a service and should not be seen as a replacement for employed staff;
- Noted the proposed use of £3.9m in reserves if required and asked for assurances that a proper review of the use of reserves would be undertaken where reductions in staff/increased use of volunteers was being proposed;
- In respect of Traded Services for schools, it was suggested that a dialogue should be had with the Schools Forum and individual schools. The services provided were highly valued and there might be a willingness on the part of schools to pay more for particular services.

County Councillor Borrow and officers responded as follows:

- The outcome of the LGA Peer Review had been a fair and balanced report and it was proposed that the areas for improvement would be addressed through the new Corporate Strategy which was currently being developed. Longer term financial and service planning would be introduced linked to the knowledge that austerity in the public sector would last until at least 2020. This would also involve looking at the County Council's unit costs and benchmarking against them;
- There was an assumption being made by a large number of Councils that the Revenue Support Grant would eventually disappear and local government needed to ensure that there was a fairer distribution of resources and that the tax base was as strong as possible;

- A letter had been sent to the DCLG, copied to all County Councillors, requesting a meeting with Ministers to discuss the financial settlement. Separate representations, together with a request for a meeting had been made through the County Council network on which the Deputy Leader was Finance lead. Particular representations are being made with regard to the Care and Urgent Needs Support Service, where funding has been ceased.
- The Downsizing reserve contained significant funds and if some of that was no longer needed at the end of the transformation process, it could be transferred back to the mainstream budget to support services;
- Risks to the budget included the outcome of the General Election as previously raised, together with the impact of the Care Act which, in 2016/17, could see costs to the County Council of £30m - £40m.
- Schools are important to Lancashire realising revenue of some £65m per annum and detailed conversations with the Schools Forum would take place once the budget had been agreed by Full Council on 12 February.

3. Budget Resolutions of the Cabinet Meeting held on 8 January 2015

This was dealt with under item 2. above.

4. The Schools Budget for 2015/16

This was dealt with under item 2. above.

County Councillor Borrow thanked all attendees for their comments and input which would now be considered as part of the overall consultation on the County Council's budget proposals for 2015/16 to 2017/18.

Jo Turton
Chief Executive

County Hall
Preston

GRAHAM JONES MP
HYNDBURN

Annex 5

Scanned
Acknowledged

14 January 2015

HOUSE OF COMMONS
LONDON SW1A 0AA

Cty Cllr Jennifer Mein - Leader
Lancashire County Council
PO Box 78
County Hall
PRESTON
PR1 8XJ

Our Ref: GJ/NS/01015/01150076

Dear Jenny

I am replying to your letter of the 8th of January regarding the County Council's Budget proposals. I wish to make several points regarding the County's finances going forward.

First of all, I would appreciate a face-to-face briefing on the consequences of the proposals within the budget. However I will make three important points regarding Haslingden and Hyndburn.

There is an outstanding issue of the fairness of the distribution of the money collected from the empty homes premium. Lancashire is a vast and incredibly diverse county, with each area having differing needs, competing for a single budget. The empty homes premium is intended to tackle the issue of privately-owned second homes which stand empty, of which there are hundreds in Hyndburn. However the money is not distributed back to Hyndburn for investment in these communities. **I would like to see a formal recognition of this in the budget – money levied on this basis must make its way back to these communities.**

Secondly I would formally oppose the ending of the £10million Waste Recycling Partnership. This would be the end of a necessary joint service that funds recycling (kerbside collection) in many parts of the Borough, and would cause severe cost problems for lower tier authorities down the line. All changes must bear in mind the needs of the boroughs, and **I would therefore formally oppose the ending of the Partnership and ask that budget includes provision to maintain this service as it currently was/is.**

Finally, and once again related to waste disposal, is Great Harwood Recycling Station. I would like to see Lancashire County Council funding the reopening of this service. Hyndburn is currently only served by one such waste centre, and there was a great deal of public outrage when the site was closed by the previous Conservative administration, and I know from my correspondence and conversations with my constituents that there is a great demand for the return of this service. **I would therefore like to see Great Harwood Recycling Centre reopened.**

Yours sincerely

Graham

Graham Jones MP

Constituency Office: 50 Abbey Street, Accrington, Lancashire BB5 1EE
Telephone: 01254 382283 Fax: 01254 398089 email: graham.jones.mp@parliament.uk http://hhgrahamjones.blogspot.com

Ribchester Parish Council

Telephone: (01254) 878453
E-mail: ribparishc@tiscali.co.uk

Councillor Jennifer Main
Leader
Lancashire County Council
PO Box 78
County Hall
Preston

22 January 2015

Dear Councillor Main

CONSULTATION ON THE COUNTY COUNCIL'S BUDGET 2015/2016 TO 2017/2018

Thank you for the invitation to comment on the proposed budget for 2015 to 2018.

As a rural parish we have particular concerns about:

Highways, particularly repair, maintenance and winter gritting.

Public and Community Transport.

Residents of rural areas, particularly the elderly and the young often encounter difficulties in accessing the most basic of public services. In these situations public and community transport is a necessary lifeline and a buffer against loneliness. While it may be tempting to concentrate resources in the more populous urban areas, the level of deprivation is often greater in rural areas. It must also be borne in mind that rural residents pay the same or often higher rates of Council Tax as their urban neighbours and often resent doing so, perceiving that they receive less in exchange.

The Parish Council is **opposed** to any increase in Council Tax for 2015/2016. While 42p per week may appear a small amount, nevertheless it is a significant additional annual sum to be taken from already overstretched family budgets. The proposal is also somewhat perverse, given that the extra amount raised over that available from a tax 'freeze' is relatively small; just over £3m, on a budget of £1.165 billion.

There is also some disquiet about the proposal to set aside some £105m to fund the costs of 'downsizing' the Council. The amount appears excessive, particularly given the recent revelation that the County Council spent some £53m in agency and consultancy costs during the period 2010/2011 to date to cover the posts of redundant workers.

Yours sincerely

Alan Ormand

Alan Ormand
Clerk

11 Chesterbrook, Ribchester, PRESTON PR3XT

Agenda Item 4c

Cabinet - 5 February 2015

Report of the County Treasurer

Electoral Division affected: All

Money Matters - The Capital Investment Programme 2015/16 and Beyond
(Appendix 'A' refers)

Contact for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Directorate
gill.kilpatrick@lancashire.gov.uk

Executive Summary

The County Council has previously approved Capital Investment Programmes for new starts up to and including 2014/15. Given the announcement in the Local Government Finance Settlement of a number of long term capital grants and the continuation of budgetary provision for vehicle replacement it is appropriate for the Cabinet to consider recommendations to the Full Council which incorporate these resources into the capital programme.

The details set out in the report at Appendix 'A' and Annexes 1 and 2 continue the previous practice of passporting resources to the relevant service in order to meet known demands. There do, however, remain a range of risks both in terms of future demand and resources which should be considered in framing the County Council's overall budget covering both revenue and capital spending.

Recommendation

Cabinet is recommended to:

(i) Note the level of additional capital resources made available through the Local Government Finance Settlement, and approve the passporting of central government resources announced for all years to the relevant programmes;

Lancashire County Council

(ii) Recommend to Full Council the capital investment programme for 2015/16 including the incorporation of the following resources from Capital Grants into the relevant forward Capital Investment Programme, and delegate any adjustments in phasing to the s151 Officer in consultation with the Deputy Leader of the Council:

Start Year	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Schools (Provisional)	21.168			21.168
Integrated Transport	6.054	6.054	6.054	18.162
Highway Maintenance	23.075	21.154	20.514	64.743
Adult Social Care – Extra Housing Strategy	3.073			3.073
Adult Social Care – Disabled Facilities Grants	6.365			6.365
Total	**59.735**	**27.208**	**26.568**	**113.511**

(iii) Passport the Disabled Facilities Grant to the City and Borough Councils in line with the relevant grant conditions;

(iv) Note that the service offer proposals to 2017/18 includes provision of £3.2m per annum for the financing of the vehicle replacement programme, and recommends the Full Council to incorporate these resources into the relevant forward Capital Programme;

(v) To consider the allocation of £5m from the available one-off resources as set out in the 2015/16 revenue budget report to support the forecast shortfall on capital receipts;

(vi) Note the draft programme at Annex 1 incorporating changes in phasing and the nature of various schemes together with the above recommendations and consider recommendations to Full Council;

(vii) Consider the allocation of Highways and Transport capital resources for new starts as set out in Annex 2 and appropriate recommendations to Full Council;

(viii) Note the County Treasurer's assessment of the financial risks associated with the Capital Investment programme.

Background and Advice

As set out at Appendix 'A'.

Consultations

As set out at Appendix 'A'.

Implications:

As set out at Appendix 'A'.

Risk management

As set out at Appendix 'A'.

List of Background Papers

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Money Matters - The Capital Investment Programme 2015/16 and Beyond

1. Introduction

This report sets out the level of additional capital resources made available to the County Council through the Local Government Finance Settlement and other sources together with an overview of demand for capital investment in the context of the Council's transformation programme.

2. Resources Available to the Council

Resources available to the Council to support capital investment potentially come from a number of sources:

- Central government support
- Capital receipts
- Prudential borrowing
- The Council's revenue resources

2.1 Central Government Support for Capital Spending

Central Government support for capital spending generally comes in the form of annually announced capital grants. The County Council, in line with practice in most councils, has traditionally treated these as ring fenced. While it would be possible to divert the government grant allocated to these areas to other council priorities in general terms these areas have been key priorities. In addition, government statements over the years have highlighted the risk that such diversion of resources *could* result in lower allocations in future years.

2.1.1 Schools and Early Years (both the improvement of existing schools and the provision of new places)

The grant for 2015/16 has not yet been announced by the government, but indicative figures received earlier in the financial year were £21.168m for 2015/16, of which c£8m was for basic need (i.e. new school places), which is likely to leave a demand pressure in terms of resources for new places. The remaining £13.168m is to fund maintenance and minor improvements

Other than the use of s106 contributions, the County Council has not in recent years added any of its own resources to the government grant available to fund capital investment in schools. There is significant demand for new places in some parts of the County.

2.1.2 Integrated Transport Funding

This resource transfers to the Lancashire Enterprise Partnership as part of the Local Growth Fund allocation. Given the scale of demand for capital investment across the various Highways and Transport Masterplans, the level of resources announced does not match demand for investment. The recent round of announcements have provided the £6.054m each year from 2015/16 to 2020/21, which will provide matched funding for masterplan schemes included within the Growth Deal. However, given the scale of resources required for delivery of the masterplans there is a shortfall of £4.044m over the period to 2017/18 between the resources available and the intentions set out in the various masterplans.

2.1.3 Highway Maintenance Funding

The recently announced allocations for highways maintenance are:

Total allocation (£m) 2015/16	**Total allocation (£m) 2016/17**	**Total allocation (£m) 2017/18**	**Indicative allocation (£m) 2018/19**	**Indicative allocation (£m) 2019/20**	**Indicative allocation (£m) 2020/21**
23,075	21,154	20,514	18,567	18,567	18,567

Allocations over a longer term are welcome, and enable greater financial and operational planning. However, given the level of annual spending requirement outlined in the Transport Asset Management Plan there is inadequate funding of c£29m over the six year period. Of this, £10.257m falls over the period 2015/16 to 2017/18.

2.1.4 Better Care Fund (BCF)

A further ring fenced category has emerged with the introduction of the Better Care Fund (BCF) which will include both the General Social Care Capital Grant and the Capital Grant for Disabled Facilities Grants.

- The general social care capital grant allocation of £3.073m in 2015/16 will form part of the overall BCF and must be spent on delivering the overall objectives of the Fund with sign off by the Health and Well Being Board. The County Council has already agreed to commit the 2015/16 allocation of £3.073m to the delivery of the Extra Care strategy.
- The capital grant for disabled facilities grants of £6.365m must be passported to the district councils.

Further exceptional capital resources may be made available for the costs of implementing the Care Act, but it is suggested that these are passported on the grounds that they represent a new burden.

2.2 Capital Receipts

The current capital programme requires capital receipts of £29m to support existing commitments in 2015/16 and later years, with £21m required in 2014/15. This includes both earmarked receipts (where the sale of a specific asset has been earmarked to fund a specific scheme) and general receipts which support the overall programme.

The forecast for capital receipts has been reviewed in light of current market conditions. Taking the position on earmarked receipts and general receipts together there is a potential shortfall over the next 2 years of between £4m-£5m, on the assumption that all disposals scheduled in 2015/16 take place and deliver the estimated receipts. Given the current market conditions, it is likely that major receipts such as the Building Schools for the Future sites will take much longer to deliver receipts than previously anticipated due to the need to do significant work to achieve development schemes for the sites which maximise the receipt for the Council.

Given the financial uncertainty surrounding these resources, it is proposed that £5m of the extra-ordinary position in relation to capital financing which is forecast for 2014/15 be set aside to provide alternative funding for the capital programme. When the receipts are realised, the funding will be available to support the Council's capital investment priorities.

2.3 Prudential borrowing

Prudential borrowing is available to the Council to support capital investment, but it must be affordable within the Council's revenue budget plans and the potential outcome from such capital investment would have to be balanced against the impact it would have on the Council's need to make savings, and subsequent impact on services. However, given the current financial position and the potential future risks, there would appear to be currently no scope for further prudential borrowing at this time. Every £1m of prudential borrowing would require revenue support of up to £0.1m per year, depending on the nature of the assets being acquired.

2.4 Revenue Resources

The Council can use revenue resources whether from the revenue budget or available one off resources to finance capital expenditure. Currently, revenue resources of £3.2m per annum are included within the service offer going forward to fund the vehicle replacement programme across a range of operational services including Highways, Countryside and Travelcare.

3 Competing Priorities for Capital Investment

As ever, there are competing priorities for the use of capital resources. Those issues which have emerged include:

i. Repairs and renewals needed to maintain our assets, including the shortfall of Highways Maintenance funding over the next three years which amounts to £10.257m.
ii. The current annual "core" programme, which is an annual sum for smaller programmes of schemes within some services. These are in effect rolling programmes of work.

3.1 The requirement for repairs and renewals

A potential overall requirement for repairs and renewals (other than in relation to Highways), is set out below and is based on either current spending levels or initial estimates in relation to areas where it is known that there are ongoing requirements which are not currently provided for.

	£m Starts Per Annum
Repairs and Renewals	
Structural Maintenance of Buildings *(More significant planned maintenance spend such as roof and boiler replacements)*	1.500
Minor Improvement Works *(Small alteration schemes to buildings to adapt to changing user requirement and issues such as disability adaptations)*	0.750
Maintenance of Non Highway Structures *(There is currently no provision for structures like the Crook O' Lune bridge where a planned approach rather than crisis response would be beneficial)*	0.500
Energy and Water Conservation Measures *(Very few schemes met the criteria for the previous revolving fund arrangement and in future direct investment based on an appropriate business case allowing the taking of the full relevant revenue saving would be appropriate.)*	0.500
Total Repairs and Renewals	**3.250**

3.2 Core (small) programmes

Currently the following small programmes have usually been included in the Capital Investment Programme and should be considered in the context of the overall corporate priorities:

Service Spending	£m Starts Per Annum
Strategic Development *(Provision for smaller projects often providing a degree of matched funding for larger schemes)*	1.000
Environmental and Community Projects *(A relatively small amount of match funding which releases land fill tax of £0.9m back to projects in Lancashire)*	0.080
Total Service Spending	**1.080**

4 A Capital Starts Programme for 2015/16 and Beyond

Cabinet is requested to consider the following recommendations:

a) That all central government resources announced for all years are passported to the relevant programmes to support equivalent amounts of spending, as shown in the draft programme at Annex 1. For the Highways and Transport Programme a proposed allocation of these resources is at Annex 2. As the Schools resource remains provisional it is proposed that the detailed allocation is determined by the relevant Cabinet Member(s) as in previous years and that any adjustments to phasing as a consequence of this are delegated to the s151 Officer.

b) The Disabled Facilities Grant be passported to the City and Borough Councils in line with the relevant grant conditions.

c) The programme incorporates a vehicle replacement programme to 2017/18 set at a level in line with the resources currently available within the revenue budget, but subject to the agreement of the detailed overall replacement programme by the relevant Cabinet Member(s).

d) That the identified shortfall of capital receipts be addressed by setting aside £5m of the extra-ordinary 2014/15 financial position on the capital financing budget.

e) Consider priorities for further capital investment in light of resource availability, in particular in relation to the identified shortfall on resources for the Highways and Transport Masterplans and core programme areas such as repairs and renewals.

A draft Capital Investment Programme for 2015/16 and beyond incorporating the above recommendations is set out at Annex 1, with the detail of the Highways and Transport programme at Annex 2. In addition this programme incorporates changes in phasing to reflect the latest round of budget monitoring, which is reported in detail elsewhere on the agenda for this meeting, and:

- The various changes to the programme already agreed to support the delivery of the Preston Bus Station scheme (incorporating the Youth Zone). Specifically this involves a change in the level of provision for Short Break Units for Children with Disabilities to match the resources within the revenue service offer and the level of demand. This follows the review of commitments against the capital programme for Children and Young People's Services which was requested by Cabinet when the revised bus station scheme was approved.

- Incorporates the expenditure that will be incurred by the County Council (on behalf of the LEP) on all City Deal schemes as separately identified programmes. It will be necessary to incorporate the detail of the various Growth Deal Schemes for which the County Council will be accountable body when that Deal is signed.

The draft Highways and Transport Programme at Annex 2 reflects the following:

- The level of resource for Highways maintenance allocated through Government Grant. As indicated above over the 3 years to 2017/18 this is £10.257m less than the requirement set out in the Transport Asset Management Plan (TAMP). Clearly this presents a risk in terms of deterioration of the asset and members may wish to consider whether and how this should be addressed.
- The first phase of delivery of the various masterplans. However, the resources available are £4.044m less than the cost of the schemes identified for delivery through the masterplanning process. Unless additional resources can be identified a revised programme which fits the available resources will need to be considered by the portfolio holder.

This programme reflects over programming of £15.4m (4.3%), excluding the highways issues referred to above which is within the tolerances previously established. This excludes the City Deal where the cash flow impact is dealt with through a separately agreed mechanism and is reflected within the revenue budget for 2015/16 and the financial strategy for future years.

5 Financial Risks within the Capital Programme

The following are the key risks within the overall programme:

5.1 Expenditure Side Risks

There are two key risks on the expenditure side. The first is the clarity of specification where the Council has a reasonably good record and where the nature of the schemes being undertaken which tend to mirror schemes previously undertaken means that other than the usual risk of site abnormals the risk is fairly well contained. In addition there is a tradition within the Council of using prudent estimating assumptions including optimism bias which mitigate against this risk. The second relates to tender prices which are largely driven by the state of the construction market. As the economy grows this risk increases, however, the Council has a good record of engineering costs down and the various partnering frameworks with contractors provide some mitigation against this risk.

5.2 Resource Side Risk

The key risks in terms of capital resources are firstly the generation of sufficient capital receipts, It appears that the market is improving somewhat and simpler disposals are being achieved. However, there are a number of more major disposals where the nature of the eventual disposal is more complex and may involve the County Council having to wait longer to receive a receipt. In these cases the ultimate receipt (and the nature of the eventual development) may well be better than might otherwise be expected. Generally there is sufficient slippage in the programme to cover this risk, however, as one of the objectives of the new organisational structure is to improve capital programme delivery the risk in this area is likely to increase, although as indicated above this is a timing issue and not an issue that will increase the underlying need to borrow in the longer term.

5.3 Demand Risk

Capital resources remain scarce and the level of demand for capital investment is likely to continue to be greater than the resources available to fund it for some considerable time into the future. Consequently the commissioning process that lies at the heart of the new organisational design will need to provide a prioritisation process that allows demand for and supply of resources to be matched. Even so there are service areas where demand, for example for school places, seem likely to consistently exceed resources going forward and consideration will need to be given to innovative ways of meeting these areas of demand.

6 Conclusion

The Capital Investment Programme at Annex 1 incorporates the additional resources made available from both the Local Government Finance Settlement and the revenue service offer and it is open to members to consider whether and how to address further investment needs over the life of the financial strategy particularly taking account of the potential impact on the revenue budget of any decision to finance capital spending through prudential borrowing.

Annex 1

Proposed Capital Investment Programme 2015/16 and Beyond

	2015-16 £m	2016-17 £m	2017-18 £m	Later £m	Total £m
Schools					
Pre 2015/16 starts	23.493	4.346	3.580	0.000	31.419
2015/16 starts	21.168				21.168
Highways Maintenance					
Pre 2015/16 starts	9.858				9.858
2015/16 and beyond starts	22.875	20.454	19.964		63.293
Transport Improvement Schemes					
Pre 2015/16 starts	66.061	0.000	0.000		66.061
2015/16 and beyond starts	4.800	5.695	5.870		16.365
Adult Social Care					
Pre 2015/16 starts	7.016	6.787	0.213		14.016
2015/16 starts	9.438				9.438
Children and Young People's Services					
Pre 2015/16 starts	11.733	3.225	0.002		14.960
Waste and Other Projects					
Pre 2015/16 starts	1.339	0.500	7.307		9.146
Corporate Programmes					
Economic Development Pre 2015/16	12.327	12.833	0.000		25.160
Repair and Renewal of Property Assets pre 2015/16	3.450	0.129	0.000		3.579
Vehicle replacement Programme					
Pre 2015/16 startts	2.700	0.000	0.000		2.700
2015/16 and beyond starts	3.200	3.200	3.200		9.600
City Deal	42.094	75.128	26.974	177.646	321.842
Total Programme	**241.552**	**132.297**	**67.110**	**177.646**	**618.605**

Annex 1

Proposed Capital Investment Programme 2015/16 and Beyond

Financed By:	2015-16 £m	2016-17 £m	2017-18 £m	Later £m	Total £m
Borrowing	41.262	21.207	0.000	0.000	62.469
Capital receipts	16.085	4.289	8.638	0.000	29.012
Revenue	2.901	0.284	0.000	0.000	3.185
Internal loan	5.905	3.200	3.200	0.000	12.305
Single capital pot Grant	71.944	28.886	22.390	14.999	138.219
Other grants and contributions	68.381	29.236	41.058	212.680	351.355
City Deal temporary resources	25.520	43.754	-16.584	-50.033	2.657
Total Income	**231.998**	**130.856**	**58.702**	**177.646**	**599.202**
Highways and Transport Masterplans Shortfall	0.837	1.441	1.766	0.000	4.044
Overprogramming	8.717	0.000	6.642	0.000	15.359

Highways and Transport - New Starts Programme 2015/16 to 2017/18

	Total £m	2015/16 £m	2016/17 £m	2017/18 £m
SUMMARY				
2015/16 New Starts Programme	39.850	30.175	4.875	4.800
2016/17 New Starts Programme	25.024	0.000	23.774	1.250
2017/18 New Starts Programme	22.284	0.000	0.000	22.284
Totals	87.158	30.175	28.649	28.334
2015/16 New Starts Programme				
Maintenance of Assets				
A, B and C Roads	8.000	8.000		
Footways	3.000	3.000		
Bridges	3.000	3.000		
Street Lighting	1.000	1.000		
Drainage	1.000	1.000		
Rural/ Unclassified (includes pre patching)	1.340	1.340		
Residential/ Urban Unclassified (includes pre patching)	1.775	1.775		
Traffic Signals	0.100	0.100		
M65 Crash Barriers (Additional Resource)	1.660	1.660		
Structural Defects	2.000	2.000		
Transport/Highway Improvements				
Burnley Town Centre	1.450	0.200	0.700	0.550
Transport Heritage Improvements - Bacup	0.100	0.100		
Transport Heritage Improvements - Accrington	0.200	0.200		
Clitheroe to Manchester Road Corridor	0.100	0.100		
Contribution to City Deal	7.500	2.500	2.500	2.500
Bus Stop Compliance	0.020	0.020		
Pennine Reach - Final Contribution	0.230	0.230		
Blackpool Tramway - Final Contribution	2.000	2.000		
East Lancs Strategic Cycle Network	1.400	0.100	0.800	0.500
East Lancs Masterplan				
North Valley Road traffic model & business case	1.700	0.700	0.500	0.500
West Lancashire Masterplan				
Ormskirk Town Centre - Movement Strategy	1.025	0.150	0.375	0.500
Improving the Safety of our Streets for Vulnerable People				
Road Safety Projects	0.500	0.500		
Cycling Safety	0.500	0.500		
Other				
Public Rights of Way	0.250			0.250
	39.850	30.175	4.875	4.800
2016/17 New Starts Programme				
Maintenance of Assets				
A, B and C Roads	8.000		8.000	
Footways	3.000		3.000	
Bridges	3.000		3.000	
Street Lighting	1.000		1.000	
Drainage	1.000		1.000	
Rural/ Unclassified (includes pre patching)	1.050		1.050	
Residential/ Urban Unclassified (includes pre patching)	1.304		1.304	
Traffic Signals	0.100		0.100	
Structural Defects	2.000		2.000	
Transport/Highway Improvements				

Highways and Transport - New Starts Programme 2015/16 to 2017/18

	Total £m	2015/16 £m	2016/17 £m	2017/18 £m
Bus Stop Compliance	0.020		0.020	
Lancaster Masterplan				
Hala Road Junction Lancaster	0.700		0.700	
Heysham to Lancaster loop	0.400		0.400	
Morecambe placemaking	0.200		0.200	
West Lancashire Masterplan				
Skelmersdale Rail Link	1.000		0.500	0.500
East Lancashire Masterplan				
Ribble Valley Growth Corridor	1.000		0.500	0.500
Improving the Safety of our Streets for Vulnerable People				
Road Safety Projects	0.500		0.500	
Cycling Safety	0.500		0.500	
Other				
Public Rights of Way	0.250			0.250
	25.024	0.000	23.774	1.250
2017/18 New Starts Programme				
Maintenance of Assets				
A, B and C Roads	8.000			8.000
Footways	3.000			3.000
Bridges	2.500			2.500
Street Lighting	1.000			1.000
Drainage	1.000			1.000
Rural/ Unclassified (includes pre patching)	1.050			1.050
Residential/ Urban Unclassified (includes pre patching)	1.314			1.314
Traffic Signals	0.100			0.100
Structural Defects	2.000			2.000
Transport/Highway Improvements				
Bus Stop Compliance	0.020			0.020
Lancaster Masterplan				
Lancaster Town Centre - Movement Strategy	0.250			0.250
West Lancashire Masterplan				
Skelmersdale Town Centre - Movement Strategy	0.300			0.300
Improving the Safety of our Streets for Vulnerable People				
Road Safety Projects	0.500			0.500
Cycling Safety	0.500			0.500
Highway Improvements				
Tarleton Bridge (Support to a Growth Deal bid)	0.500			0.500
Other				
Public Rights of Way	0.250			0.250
	22.284	0.000	0.000	22.284

Cabinet - 5 February 2015

Report of the County Treasurer

Electoral Division affected:

Lancashire County Council Treasury Management Policy and Strategy 2015/16
(Appendices 'A' - 'C' refer)

Contact for further information:
Mike Jensen, (01772) 534742, County Treasurers Directorate,
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Executive Summary

This report outlines the proposed Treasury Management Policy Framework for 2015/16 as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice. It includes the County Council's borrowing and investment strategies and the proposed Minimum Revenue Provision policy, together with the treasury management prudential indicators which seek to ensure that the Council's borrowing levels remain both sustainable and affordable.

Approval of the Treasury Management Policy Framework is a matter reserved to the Full Council.

Recommendation

Cabinet is asked to:

(i) Recommend the Treasury Management Policy as set out at Appendix 'A' to the Full Council for approval;
(ii) Recommend the Treasury Management Strategy for 2015/16 as set out at Appendix 'B' to Full Council for approval;
(iii) In respect of the Minimum Revenue Provision Statement for 2015/16, set out at Appendix 'C', recommend that Full Council:

   a. Approves the Capital Financing Requirement method and the Asset Life method (Equal Charge approach) for expenditure funded from borrowing incurred in 2015/16 and future years.
   b. Charges to revenue a sum equal to the repayment of any credit liability.
   c. Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal and Homes and Community Agency Local Infrastructure Fund, subject to annual review.

Lancashire County Council

d. Approve the basis for repaying the debt incurred as a result of the refinancing of the Waste PFI contract.

Background and Advice

Treasury management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; it also includes the effective control and management of the risks associated with these activities, ensuring that the Council gets the best performance for the least risk.

The Treasury Management Strategy sets out the Council's policies for ensuring the security and liquidity of its investments, whilst having regard to investment returns in order to protect the value of the funds. It also outlines the Council's strategy for financing existing borrowing and future capital borrowing requirements, with the aim of securing the required funds at the lowest possible rate.

The Minimum Revenue Provision (MRP) is a prudent charge Local Authorities are required to make to the revenue account to provide for the repayment of debt and other credit liabilities (mainly finance leases or PFI contracts).

Consultations

Arlingclose who are the Council's external Treasury Management advisers

Implications:

This item has the following implications, as indicated:

Risk management

The Council having adopted the "Prudential Code" is required to prudently manage the investments of the Council. The current situation exposes the Council to heightened counterparty concentration risk inconsistent with its duty. As the process of managing the Council's investments is intrinsic to its continuing operations a prudent yet workable policy is necessary.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
CIPFA Treasury Management Code of Practice	2011	Andrew Ormerod, County Treasurer's Directorate, (01772) 534740
Arlingclose Ltd Credit Risk Report	December 2014	Andrew Ormerod, County Treasurer's Directorate, (01772) 534740

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Treasury Management Policy Statement

The county council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition
The county council defines its treasury management activities as:

- the management of the authority's investments and cash flows,
- its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities; and
- the pursuit of optimum performance consistent with those risks.

Risk Appetite
The county council's appetite for risk in terms of its treasury management activities is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

Risk management
The county council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus how the actions taken and the financial instruments entered into result in reduced risk exposure for the county council.

Value for money
The county council acknowledges that effective treasury management provides support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy
The county council greatly values revenue budget stability and therefore, all other things being equal, will borrow the majority of its long-term funding needs at long-term fixed rates of interest. However, short-term and variable rate loans may be borrowed to either offset short-term and variable rate investments or to provide value for money. The county council will also constantly evaluate debt restructuring opportunities of the existing portfolio.

The county council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Cash Backing of Reserves
The county council is committed to the prudent management of its finances. In pursuit of this objective the county council should ensure that it holds investment balances sufficient to meet the value of those balance sheet items such as reserves and provisions which will be drawn down as cash. These investment balances will have due regard to the anticipated timing for the drawdown of the cash backed reserves and provisions.

Investment policy
The county council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The county council will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Appendix 'B'

The County Council's Treasury Management Strategy 2015/16

1. Introduction and Legislative Framework

Under the Local Government Act 2003, local authorities must have regard to Statutory Proper Practices in their Treasury Management activities. In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code.)
These together require the county council on an annual basis to set out its strategy in relation to key aspects of its treasury management operations over the coming year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the county council to approve an investment strategy before the start of each financial year. The strategy also has regard to other CIPFA treasury management publications such as 'Treasury Management Toolkit for Local Authorities' (2012) and 'Using Financial Instruments to Manage Risk' (2013)

In line with these various requirements this strategy includes:

- The Annual Borrowing Strategy
- The Council's Policy on Borrowing in Advance of Need
- The Annual Investment Strategy
- Policy on Use of Financial Derivatives
- The Prudential Indicators (Annex A to this Appendix)
- The Annual MRP statement (Appendix C to this report.)

In conjunction with the Treasury Management Policy Statement and the detailed Treasury Management Practices approved by the section 151 officer, these provide the policy framework for the engagement of the county council with the financial markets in order to fund its capital investment programme and maintain the security of its cash balances.

2. Strategic Objectives of the Treasury Management Strategy

The county council's Treasury Management Strategy is designed to achieve the following objectives:

a) To ensure the security of the principal sums invested which represent the county council's various reserves and balances
b) To ensure that the county council has access to cash resources as and when required
c) To minimise the cost of the borrowing required to finance the county council's Capital Investment programme, and

d) To maximise investment returns commensurate with the county council's policy of minimising risks to the security of capital and its liquidity position.

In the context of these objectives it will be the county council's policy to hold as investments a sum as close to the cash value of its balance sheet as possible, matching both value and duration as closely as possible.

3. Setting the Treasury Management Strategy for 2015/16

In setting the treasury management strategy, the county council must have regard to the following factors which will have a strong influence over the strategy adopted:

- economic forecasts – the economic and legislative context
- the level of the approved Capital Programme which generates the borrowing requirement,
- the current structure of the county council's investment and debt portfolio
- prospects for interest rates and market liquidity

3.1 Economic Forecast

Economic context

There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, there are no signs of inflationary pressure and this is likely to remain the case at least for the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The Bank of England's Monetary Policy Committee's (MPC) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate in the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings from August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

The MPC's guidance on the expected path for the Bank Rate continues to apply. When the Bank Rate does begin to rise, the pace of rate increases is expected to be gradual, with rates probably remaining below average historical levels for some time.

Legislative Context

In the past governments had only two options to resolve failing banks: insolvency, that is ceasing essential services immediately with a strong possibility of financial instability, or alternatively to conduct a taxpayer funded bail-out, either by buying new shares in the bank, or by subsidising a takeover. However recent banking reform legislation introduces a third option, which allows customers to retain access to their bank accounts, but passes the banks losses onto its investors instead of taxpayers. This is known as a "bail in".

The first piece of legislation concerned with the concept of 'bail-in' was the Financial Service (Banking Reform) Act 2013. This introduced bail-in as a tool for banking regulators to recapitalise failing banks by applying a percentage reduction in the amount to be paid to investors.

A bail-in can be conducted before a bank becomes insolvent, and importantly, 7 day interbank loans, covered bonds, repurchase agreements and derivatives are exempt from bail-in. Insured deposits are classed as a preferred creditor, ranking above others in the event of insolvency.

The Financial Service (Banking Reform) Act 2013 was followed by the Bank Recovery and Resolution Directive 2014/59/EU which in addition to the above added that large deposits (over £85,000 or €100,000) from depositors (individuals and SMEs) are to rank above other uninsured deposits in both insolvency and bail-in situations. This was incorporated into UK law with effect from 1st January 2015.

Finally the Deposit Guarantee Schemes Directive 2014/49/EU will be implemented in the UK by 3rd July 2015, whereby deposit insurance schemes (e.g. Financial Services Compensation Scheme) are to be extended to include large companies and charities, so that by July 2015 all non-financial private sector organisations will be eligible for compensation, however public sector and financial organisations, including pension funds and money market funds, will remain ineligible for compensation, the rationale being that:

— “Public authorities have much better access to credit than citizens, so should not be eligible for protection.”

Although these changes will probably not increase the risk of any bank defaulting, they will definitely increase the loss given default. Losses from either a bail-in or an insolvency process will be larger than they would otherwise have been, since there will be fewer creditors among which to share the losses.

The impact of a bail-in depends on, the size of loss incurred by the bank, the amount of equity capital and junior bonds that can absorb losses first, and the proportion of insured deposits, covered bonds and other liabilities that are exempt from bail-in.

Taking these factors into account, the chart below produced by the Council's treasury management advisers, Arlingclose Ltd., shows how the bail in would be financed for various levels of loss incurred under a theoretical bank default.

IMPACT OF A % LOSS OF RISK WEIGHTED ASSETS ON UNSECURED UNINSURED CREDITORS AFTER JULY 2015

LOSS	Barclays	Close Bros	Clydesdale	Co-op Bank	HSBC Bank	Lloyds ex TSB	RBS Group	Santander UK	Stan Chart	Svenska Hand	TSB	Virgin Money
1%	E	E	E	E	E	E	E	E	E	E	E	E
2%	E	E	E	E	E	E	E	E	E	E	E	E
3%	E	E	E	E	E	E	E	E	E	E	E	E
4%	E	E	E	E	J	E	E	E	E	E	E	E
5%	J	E	E	E	J	E	J	E	E	E	E	E
6%	J	E	E	56%	H	J	J	J	J	E	E	E
7%	2%	E	E	80%	H	J	J	J	J	E	E	E
8%	5%	E	E	100%	H	J	J	J	J	E	E	E
9%	8%	H	J	100%	H	J	J	3%	J	E	E	E
10%	11%	H	J	100%	2%	J	J	6%	J	E	E	100%
11%	15%	4%	1%	100%	6%	J	7%	10%	H	E	E	100%
12%	18%	9%	11%	100%	11%	J	15%	14%	H	0%	E	100%
13%	21%	13%	22%	100%	15%	J	23%	18%	H	1%	E	100%
14%	24%	18%	32%	100%	20%	4%	32%	21%	H	2%	E	100%
15%	27%	23%	42%	100%	24%	10%	40%	25%	H	4%	E	100%
16%	30%	23%	53%	100%	29%	15%	48%	29%	0%	5%	E	100%
17%	33%	23%	63%	100%	33%	21%	57%	33%	6%	6%	E	100%
18%	36%	23%	74%	100%	38%	27%	63%	36%	6%	7%	E	100%
19%	39%	23%	84%	100%	42%	32%	63%	40%	6%	8%	J	100%
20%	41%	23%	86%	100%	47%	38%	63%	44%	6%	9%	J	100%

RBS 2008

Co-op 2013

Anglo Irish 2008/9

E - Loss is covered by equity

J - Loss is covered by a bail-in of junior debt

H - Loss is covered by a bail-in of holding company senior debt or conversion of loan from parent

% - Loss to be covered by a bail-in of senior unsecured debt and uninsured deposits

Balance sheet data as at June 2014 except Close Bros (July), Clydesdale (March), Svenska (September) and Virgin (December 2013)

Shown alongside the table are the level of recent bank losses for RBS, Co-op and Anglo Irish Bank. From this can be seen the level of bail in that would have been required had the legislation been in place at the time, and it therefore indicates the possible level of bail in that may be required in the future.

In addition given that bail-in exempt assets are clearly defined within the banking reform directives, this picture is likely to deteriorate further from the perspective of the potential impact on the Council, as there is an incentive for banks to issue instruments held in exempt categories so increasing the proportionate bail in risk for uninsurable deposits.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council.

3.3 The Current Structure of the Portfolio

The Council's treasury portfolio (net of transferred debt) as at 31st December 2014 was as follows.

	Principal Amount £m	Current Interest Rate %
Call accounts	43.66	0.49
Short-term deposits	74.00	2.94
Long-term deposits	56.50	1.63
Bond Portfolio	514.47	2.54
Total Investments	**688.64**	**2.38**
Short-term loans*	531.52	0.61
Long-term loans (Local Authorities)	116.50	1.46
Shared Investment Scheme**	78.12	0.67
Long-term PWLB loans	338.85	3.06
Long-term market loans (LOBOs)	51.89	4.75
Total Borrowing	**1,116.88**	**1.64**
Net Borrowing	**428.24**	

*Short terms loans includes £284 million in relation to the waste PFI agreement between the county council and Global renewables Lancashire Limited being brought to an end. Previously the liability for the waste PFI was included in other long term liabilities.

** Please refer to the Glossary for further information.

3.4 Prospects for Interest Rates and Market Liquidity

In planning the treasury management strategy, the Council will consider the prevailing and forecast interest rate situation. Regular forecasts of interest rates are provided by Arlingclose Ltd, treasury management advisers to the county council. The Chief Investment Officer for the Council also provides a view on interest rate forecasts based on current and future market data.

Arlingclose's first rise in official interest rates is forecast for September 2015 with a gradual pace of increases thereafter, the average rate for 2015/16 being around 0.75%. They believe the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. In the near term gilt yields (long term interest rates) are not expected to move very much from current levels, however, Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Average
Official Bank Rate														
Upside risk				0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	1.17
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	
3-month LIBID rate														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Arlingclose Central Case	0.60	0.75	0.90	1.05	1.20	1.35	1.50	1.60	1.70	1.80	1.90	2.00	2.10	1.42
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-0.95	-1.00	
1-yr LIBID rate														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
Arlingclose Central Case	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.30	2.40	2.50	1.77
Downside risk	-0.15	-0.20	-0.30	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80	-0.80	
5-yr gilt yield														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55	
Arlingclose Central Case	1.45	1.60	1.75	1.90	2.00	2.15	2.25	2.35	2.45	2.50	2.55	2.60	2.60	2.17
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70	-0.70	
10-yr gilt yield														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55	
Arlingclose Central Case	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.75	2.80	2.85	2.90	2.95	2.54
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	
20-yr gilt yield														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55	
Arlingclose Central Case	2.55	2.65	2.75	2.85	2.95	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.30	3.01
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	
50-yr gilt yield														
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55	
Arlingclose Central Case	2.65	2.70	2.80	2.90	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.55	3.60	3.10
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	

Arlingclose have based this forecast on the following underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP in 2015.
- Arlingclose expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low (annual CPI is currently 1.3%) and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment. This is likely to be because the levels of part-time, self-

employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- Employment growth is expected to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure .In addition policymakers are evidently concerned about the bleak prospects for the Eurozone, and the generally subdued global environment suggests there is little prospect of significant contribution from external demand

These factors will maintain the current direction of the MPC in the medium term.

3.5 Impact of these factors on the Borrowing Strategy

- In view of the above assessment of the economic context within which the Council is operating in, where despite the gradually improving economic outlook, the UK still remains in a relatively low growth situation, with a continuing tight fiscal and loose monetary policy approach; it could be 2016 before there is a rise in official UK interest rates and the UK's safe haven status and minimal prospect of rate rises are expected to keep gilt yields in check through the near term. However, If it became apparent that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term instead. By doing so, the council is able to reduce net borrowing costs and reduce overall treasury risk.

The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the council with this 'cost of carry' and breakeven analysis. Its output may determine whether the council borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Whilst it is expected that the current low rate environment will continue for a further period, it is prudent for the council to prepare for a further change in capital financing strategy to ensure that the council is protected from the impact of rate rises when they occur; in support of this strategy full council have approved in principle the following options:-

- the establishment of a Lancashire County Council Euro Medium Term Note (EMTN) programme to facilitate access to secure long term debt in readiness for interest rate rises, as this option provides the best prices for the county council and

- An equity investment in the proposed Local Government Bond Agency to cement the county council's founder member status, and to enable access to an alternative economic funding source

- The necessary changes to the Council's Prudential Indicators to facilitate the switch from a programme of rolling short term debt to longer term debt financing in 2014/15

In addition, the council may borrow short-term (normally for up to one month) to cover unexpected cash flow shortages.

3.6 Impact of these factors on the Investment Strategy

In view of the above assessment of the economic context within which the Council is operating in the county council's investment strategy will be based upon the following information:

- The continuing concerns in the financial markets over sovereign debt, particularly in the Eurozone are impacting negatively on the credit quality of bank counterparties, and the county council will therefore continue to reduce the duration of its exposure to those bank counterparties which continue to meet tightened credit quality criteria.

- Given the level of risk involved in dealing with bank counterparties the county council will continue to diversify its portfolio further away from such counterparties while maintaining the highest credit quality of counterparties. Banking legislation reforms effective from 1st January 2015 rule out unsecured term deposits with banks as an appropriate investment vehicle for the county council.

4. Borrowing Strategy

4.1 The Level of the Approved Capital Programme – the Borrowing Requirement

The county council's estimated borrowing requirement for financing the capital programme in the current and the next three years is as follows:

	2014/15 Revised £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Capital Programme Expenditure	**205.903**	**217.919**	**172.647**	**79.206**
Financed by:				
Capital Receipts	8.171	29.531	9.132	2.232
Grants and Contributions	187.450	117.633	97.343	76.974
Revenue Contributions	8.999	12.806	0.284	0.000
Borrowing	**1.283**	**57.949**	**65.888**	**0.000**
Add Maturing Debt to be replaced:				
Long Term PWLB	0.000	0.000	0.000	0.000
Long term fixed Borrowing	0.000	250.000	250.000	250.000
Short Term Market Borrowing	579.950	329.950	329.950	329.950
Less Transferred Debt	1.967	1.899	1.687	1.629
Less Statutory Charge to Revenue	30.157	28.873	29.907	31.216
Total Borrowing Requirement	**549.109**	**607.127**	**614.244**	**547.105**

At 31st March 2014 the county council held £814.8million of short and long-term loans as part of its strategy for funding previous years' capital programmes. The county council's borrowing requirement as at 31st March 2015 is expected to be £549.11million, and is forecast to rise to £614.24million by March 2017 as capital expenditure is incurred. In addition, the county council may borrow for short periods of time to cover unexpected cash flow shortages.

The county council's borrowing position over the coming years is affected by a number of specific factors:

- The need to provide cash flow support for the Preston, South Ribble and Lancashire City Deal to cover the gap between the construction of infrastructure and the payment over of contributions from other organisations including the Government and developers. This borrowing is temporary.

- There is likely to be a similar need to provide even shorter term financial support in relation to the construction of the Heysham – M6 Link Road which is largely funded by government grant payable in arrears.

- An increase in underlying borrowing as the result of the refinancing of the long term liabilities associated with the Waste PFI project

It can be seen from the above table that the borrowing requirement for 2015/16 is £607.13million, largely as a result of needing to refinance maturing short term borrowing. There are a range of options available for the borrowing strategy in 2015/16.

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to bank rates.
- Under 10 years rates are expected to be substantially lower than long term rates, so this opens up a range of choices that may allow the county council to spread maturities away from concentration on long dated debt.
- The establishment of a Lancashire County council Euro Medium Term Note Programme (EMTN); and also participation in the Local Government Bond Agency led by the LGA's Municipal Bond Agency are both prudent approaches which will afford the council some protection from future interest rate increases.

Against this background, the section 151 officer will, in conjunction with the county council's advisors, monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances, Arlingclose forecast the first rise in official interest rates in Q4 2015 carefully monitoring will ensure that borrowing is taken at the most appropriate time. The table above reflects this forecasted rise and the fixing of £250m of the short term debt in 2015/16.

Given the increased cost of PWLB borrowing relative to other market services the county council is likely to undertake future borrowing activity within the financial markets, taking advantage of the benefits of its AA+ credit rating.

All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, whether a borrowing requirement to fund the capital programme or previous capital investment exists;
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;

c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost, including a comparison between internal and externally financed borrowing.
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.

All long term decisions will be documented reflecting the assessment of these criteria.

The table below is an estimate of the relationship between the borrowing capital financing requirement and total borrowing during the current year and over the next three years. The shared investment scheme is assumed to contribute £150m to the borrowing total. The operation of the scheme is reviewed annually, but this table assumes it will operate for the next three years and shows the position if take-up reaches the limits of the scheme.

	31 Mar 2015 £m	**31 Mar 2016 £m**	**31 Mar 2017 £m**	**31 Mar 2018 £m**
Capital Financing Requirement	1,007	1,033	1,066	1031
Less PFI liability	177	172	168	164
Borrowing CFR	**830**	**861**	**898**	**867**
Loans Borrowed (31March estimate)	1,010	1,041	1,078	1,047
Borrowing Above CFR	**180**	**180**	**180**	**180**
Comprising:				
Liquidity Buffer	30	30	30	30
Shared Investment Scheme	150	150	150	150
Total	**180**	**170**	**170**	**170**

4.2 Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- LGA Municipal Bond Agency

- Special purpose companies created to enable joint local authority bond issues, using the format of a Euro Medium Term Note programme

- UK Local Authorities
- any institution approved for investments
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors

4.3 Borrowing Instruments

The county council may only borrow money by use of the following instruments:

- bank overdrafts
- fixed term loans
- callable loans or revolving credit facilities where the county council may repay at any time (with or without notice)
- callable loans where the lender may repay at any time, but subject to a maximum of £150 million in total
- lender's option borrower's option (LOBO) loans, but subject to a maximum of £50 million in total
- bonds, notes, bills, commercial paper and other marketable instruments
- sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate risk approved each year in the *Treasury Management Strategy*.

4.4 Debt Restructuring

The county council continuously monitors both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

5. Policy on Borrowing in Advance of Need

The county council will not borrow more than or in advance of need with the objective of profiting from the investment of the additional sums borrowed.

However, borrowing in advance of need is appropriate in the following circumstances:

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of 2 years or less; and

b) Where the most advantageous method of raising capital finance requires the county council to raise funds in a quantity greater than would be required in any one year, or

c) Where in the view of the section 151 officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the 2 year horizon.

Having satisfied these criteria any proposal to borrow in advance of need would also need to be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, and the value for money of the proposal has been fully evaluated.

b) The merits and demerits of alternative forms of funding.

c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

6. Investment Strategy

In making any investments of the reserves and other cash items held within its balance sheet the county council must have regard to the relevant regulations under the Local Government Act 2003, the CLG Guidance on Local Government Investments, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the latest revision of the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The council's investment priorities are: -

(a) The security of capital, and
(b) The liquidity of its investments.

The county council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the county council is low in order to give priority to security of its investments.

The counterparty credit matrix is at the heart of Lancashire County Council's Treasury Management Policy and Strategy and has always been conservatively constructed to protect the county council against credit risk whilst allowing for efficient and prudent investment activity.

However, the county council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap (CDS) market and any press releases in general, thus ensuring the council transacts with only the highest quality counter-parties.

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. Despite a number of downgrades within the financial sector the county council has not reduced the credit ratings required by its counterparties, but has maintained the existing very high ratings required for short, medium and long term investments. These are set out below:

- **For short term lending of up to 1 year** that the short term ratings from the ratings agencies be used and that a counter-party must have a minimum of the following:

  Moody's. P1
  S&P A1
  Fitch. F1

  Short term ratings were specifically created by the agencies for money market investors placing deposits for up to one year as they reflect specifically the liquidity positions of the institutions concerned.

- **For medium term investments** in the form of tradeable bonds or certificates of deposit (1yr to 5yrs, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings) , with a minimum of:

  - Long term AA3/AA-, and
  - Short term P1/F1+/A1+

- **For longer term investments (5yrs and above)** in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

  - Long term AA2/AA
  - Short term P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the Treasury Management Practices.

The limits for scale and duration of investment in specific categories which form the 2014/15 investment strategy are set out in the table below.

Should an existing investment, due to a change in credit rating after a fixed deposit has been made, fall outside the policy, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated in order to protect the county council.

The minimum sovereign rating for investment is AA-.

The table below shows the approved investment Counterparties and Limits

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills & bodies guaranteed by UK Govt	UK Government	500	unlimited	50 yrs
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	500	50 yrs
Term Deposits with UK and Overseas Banks (domiciled in UK) and Building Societies, Certificates of Deposit up to 1yr	P1/A1/F1	40	100	1yr
Corporate Bonds (Medium term)	AA- P1/A1/F1	100	500	5yrs
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	250	50yrs
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government AA	500	750	1yr
Repurchase Agreements (Repo/ Reverse Repo)	Other AA+	200	200	1yr
Bond Funds with weighted average maturity maximum 3 yrs	AA Rated weighted average maturity 3yrs	100	250	These investments do not have a defined maturity date.
Bond Funds with weighted average maturity maximum 5 yrs	AAA Rated	100	250	These investments do not have a defined maturity date.
UK Local Authorities (incl	Implied Government	100	500	50yrs

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
Transport for London)	support			
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities.	AA- with cash or AA- for any collateral	250	500	25yrs
Call accounts with UK and Overseas Banks (domiciled in UK) and Nationalised UK Banks	P1/A1/F1 Long term A Government support	100	100	Overnight in line with clearing system guarantee (currently 4 years.)

Emergency overnight deposits may be placed with the county council's bank, National Westminster. These will not count against the above individual limits but in practice are minimised on a daily basis to typically around £1million.

6.1 Types of Investment

The CLG Guidance defines two types of investment, firstly specified investments which are those:

- denominated in pound sterling,
- due to be repaid within 12 months of the arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

Any investment not meeting the definition of a specified investment is classed as non-specified. The county council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The operational total limit on long-term investments is £600 million. This reflects the portfolio structure adopted by the county council in order to reduce credit risk by holding a proportion of the portfolio in government and supranational securities, which although highly liquid have maturities in excess of 364 days. In practice they can be liquidated at one day's notice and are therefore central to achieving the county council's liquidity objective.

In recent times, a wider range of investment instruments within the area of sterling deposits has been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The section 151 officer will, in liaison with the county council's external advisers, consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the County council. Because of their relative complexity compared to straightforward term deposits, most of them would fall within the definition of non-specified investments. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the Council's objectives in terms of reduction in overall risk exposure as part of a balanced portfolio.

7. Policy on Use of Financial Derivatives

The county council will only use financial derivatives (such as swaps, forwards, futures and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the county council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

At all times the county council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management.

8. Performance Measurement

With base rates at exceptionally low levels, investment returns are likely to continue to be far lower than has been the case in recent years. However, in the knowledge that a portion of cash invested will not be required in the short term; and to protect against continued low investment rates; investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.
The performance target on investments is a return above the average rate for 7 day notice money.

9. Impact on the County Council's Revenue Budget

The table below outlines the budget for the financing charges element of the Council's revenue budget.

	Revenue Budget 2014/15 £m	Revenue Budget 2015/16 £m	Revenue Budget 2016/17 £m	Revenue Budget 2017/18 £m
Minimum Revenue Provision (MRP)*	34.29	37.09	36.79	36.33
Interest Paid	22.48	28.03	33.50	35.22
Interest Earned	-18.63	-18.43	-18.25	-18.79
Grants Received	-0.30	-0.28	-0.26	-0.24
Total	37.84	46.40	51.78	52.52

*The MRP has since been revised in-line with the capital programme requirements. Please refer to section 4 of the borrowing strategy.

The revenue budget above reflects a position which takes account of the views of both internal and external advisors, particularly in relation to interest rate movements and the potential timing to move from short term variable rates to fixed rates.

The position will be closely monitored by the S151 officer and any changes to the external view will be reflect in a revised Finance Charges forecast and taken to Cabinet.

Annex A

PRUDENTIAL INDICATORS

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management in the Public Services Code of Practice as setting the framework of principles for its Treasury Management activities. In accordance with the requirements of these codes the County council produces each year a set of prudential indicators which assist in the process of monitoring the degree of prudence with which the county council undertakes its Capital Expenditure and Treasury Management activities. Certain of these indicators also provide specific limits with regard to certain types of activity such as borrowing. These indicators are a consequence of the borrowing requirements and actions set out within the body of the Treasury Management Strategy.

Adoption of CIPFA Treasury Management Code of Practice (2011)

2014/15	2015/16	2016/17	2017/18
Adopted for all years			

Indicators on Capital Expenditure and Financing

The total capital expenditure in each year, irrespective of the method of financing estimated to be incurred by the County council is as follows:

2013/14	2014/15	2015/16	2016/17	2017/18
Actual	Estimate	Estimate	Estimate	Estimate
£m	£m	£m	£m	£m
154.600	205.903	217.919	172.647	79.206

The estimated capital expenditure stated above will be financed by a mixture of borrowing, capital receipts, revenue contributions, grants and other contributions. A key control of the prudential system is the underlying need to borrow for capital purposes, which is represented by the cumulative effect of past borrowing decisions and future plans. This is shown as the capital financing requirement. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income. The estimate of the capital financing requirement for each year is as follows, and includes the impact of PFI obligations.

2013/14	2014/15	2015/16	2016/17	2017/18
Actual	Estimate	Estimate	Estimate	Estimate
£m	£m	£m	£m	£m
1,039.230	1,007.119	1,032.958	1,065.702	1,031.249

Prudence and Affordability

CIPFA's Prudential Code for Capital Finance in Local Authorities states the following as a key indicator of prudence:

"In order to ensure that, over the medium term, net borrowing will only be used for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years."

The county council's financial plans are prepared on this basis and, indeed the policy on borrowing in advance of need explicitly references this statement as part of the decision making criteria.

It is important to ensure that the plans for capital expenditure and borrowing are affordable in the long term. To this purpose the code requires an indicator which estimates the ratio of financing costs to the net revenue stream.

The financing costs are the interest payable on borrowing, finance lease or other long term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of the county council's borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.
The net revenue stream is defined as the amount required to be funded from Government Grants and local taxpayers, in effect the budget requirement.
Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

2014/15	**2015/16**	**2016/17**	**2017/18**
Estimate	**Estimate**	**Estimate**	**Estimate**
%	**%**	**%**	**%**
4.87	5.81	6.90	7.88

The Capital Programme is still being considered by the County Council and is not yet finalised. The indicators have been calculated on the assumption that any new starts will be funded from either grants or revenue resources. Including the cost of financing the borrowing already included in the Programme to meet current commitments it is estimated that the Council Tax impact of the whole Programme will be:

2014/15	**2015/16**	**2016/17**	**2017/18**
Estimate	**Estimate**	**Estimate**	**Estimate**
£	**£**	**£**	**£**
26.78	41.05	16.33	21.20

It is important to note that the figures do not represent annual increases in Council Tax. Both the 2014/15 and 2015/16 figures will include the full year effects of decisions taken in 2013/14. Similarly, all three years include the effect of financing capital expenditure from revenue or internal loans. Provision for these already exists within the revenue budget. The Prudential Code requires the estimated revenue impact of capital investment decisions in Band D Council Tax terms to be calculated. The estimated effect in Band D Council Tax terms of the net cost of the borrowing is:

	£
2015/16	2.94
2016/17	15.48
2017/18	21.20

External Debt

The county council is required to approve an "authorised limit" and an "operational boundary" for external debt. The limits proposed are consistent with the proposals for capital investment and with the approved treasury management policy statement and practices. The limits also include provision for the £150m cap on the shared investment scheme. The indicators are split between borrowing and other long term liabilities, such as PFI projects. It is, therefore, proposed to set a limit for the section 151 to work within.

The authorised limit is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements. After taking into account the capital plans and estimates of cash flow and its risks, the proposed authorised limits for external debt are:

	2014/15 Revised	**2015/16**	**2016/17**	**2017/18**
	£m	**£m**	**£m**	**£m**
Borrowing	1,590.000	1,300.000	1,335.000	1,304.000
Other long term liabilities	250.000	250.000	250.000	250.000
TOTAL	1,840.000	1,550.000	1,585.000	1,554.000

The authorised limit boundary for external debt will be raised by £300m for a 12 month period. This allows time for our exiting variable debt to be replaced by the debt raised by the bond issue and any bridging finance constructed to be unwound efficiently.

The proposed operational boundary for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the county council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational boundary for external debt is:

	2014/15 Revised	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Borrowing	1,240.000	1,250.000	1,285.000	1,254.000
Other long term liabilities	200.000	200.000	200.000	200.000
TOTAL	1,440.000	1,450.000	1,485.000	1,454.000

The debt figures include transferred debt which is managed by the county council on behalf of other authorities. The transferred debt included within the debt indicators is estimated at the end of each year to be:

2014/15	£39.106 m
2015/16	£37.207 m
2016/17	£35.520m
2017/18	£33.891m

Gross Debt and Capital Financing Requirement

As a measure of prudence and to ensure that over the medium term debt is only used for a capital purpose, the prudential code requires a comparison of gross debt and the capital financing requirement. The comparison for the county council is shown below:

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Capital Financing Requirement	830	861	898	867
Maximum Gross Debt	1,010	1,041	1,078	1,047
Debt to CFR	122%	121%	120%	121%

The ratio of gross debt to capital financing requirement shows that gross debt is higher than the capital financing requirement. This is because the shared investment scheme and the replacement overdraft facility are currently accounted for as borrowing but not counted against the capital financing requirement.

Treasury Management Indicators

Interest rate exposure

In order to control interest rate risk the county council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the county council is exposed to. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit £m	Dec2014 £m
Net Interest Payable at Fixed Rates	50.4	5.5
Net Interest Payable at Variable Rates	5.0	0.5
One year impact of a 1% rise in rates	10.0	2.4

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk

	Lower Limit %	Upper Limit %	Dec 2014
Under 12 months		75	19
12 months and within 2 years		75	47
2 years and within 5 years		75	8
5 years and within 10 years		75	5
10 years and above	25	100	21

Investments over 364 days

Limits on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.

	Upper limit £m	**Dec 2014 £m**
Authorised Limit		
Total invested over 364 days	900	550
Operating Limit		
Total invested over 364 days	600	550

The "Investments over 364 days" indicator now includes an Authorised Limit and an Operating Limit.

The Authorised Limit for investments over 364 days includes £300m for a 12 month period; to accommodate the Treasury Management Strategy regarding the county councils EMTN programme and the county councils participation in the LGA led Municipal Bond Agency.

Minimum Average Credit Rating

To control credit risk the county council requires a very high credit rating from its treasury counterparties

	Benchmark	Dec 2014
Average counterparty credit rating	A+	AA

Appendix 'C'

Minimum Revenue Provision Statement 2015/16

1. Introduction

This annual Statement required to be approved by the County Council arises from statutory guidance initially issued by the Department of Communities and Local Government (DCLG) in 2008 and updated in 2010. Local Authorities are required to make a prudent charge to the revenue account in respect of provision to repay debt and other credit liabilities (mainly finance leases or PFI contracts). This is referred to as the Minimum Revenue Provision (MRP). Guidance issued by the DCLG provides four options which can be used for the purpose of calculating the MRP.

2. The Four Options Explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants. For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

- Regulatory Method
  Before the Prudential Code system of capital finance was introduced in 2004 the MRP was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance the fixed assets. However, to avoid changes in the charge to revenue in 2004/5 an adjustment figure was calculated which would then remain constant overtime. For technical accounting reasons this methodology would have led to an increase in the MRP, and would therefore have had an impact upon the County Council's budget, so this method has not been used and is not recommended for future use.

- Capital Financing Requirement (CFR) Method
  This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the County Council since the introduction of the MRP in 2004.

- Asset Life Method
  Guidelines for this method allow for a MRP to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways as shown below;

  A straightforward calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset or, by the use of an annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

- Depreciated Method
  This requires a charge to be made of depreciation in line with normal accounting purposes. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

3. Finance Leases and PFI

With changes in accounting regulations in 2009/10 assets held under a PFI contract now form part of the Balance Sheet. This has increased the capital financing requirement and on a 4% basis the potential charge to revenue. To prevent the increase the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

4. Application at LCC

The relevant regulations require that the Council make "prudent provision" for the repayment of debt, and departure from the options outlined above is permissible if an alternative option is considered more appropriate. From 2008/09 onwards the Capital Financing Requirement option has been applied to all supported borrowing. It is proposed to continue do this for any capital expenditure funded from supported borrowing brought forward from 2011/12 or later. For 2008/09 onwards the Asset Life method (Equal Charge approach) has been applied to capital expenditure financed by unsupported borrowing. It is proposed to continue with this methodology, except as outlined below.

PFI payments will be made in line with the amounts due to repay the liability under the contract. During 2014/15 the Waste PFI contract was terminated and the PFI liability was replaced borrowing. It is proposed that this debt will be paid on an annuity basis.

Minimum Revenue Provision will not be made in relation to the following specific circumstances:

For assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid form other capital financing sources within the life of the City Deal, this is temporary borrowing that will be repaid through sources such as the Community Infrastructure Levy and the funding from the Homes and Communities Agency when the development facilitated by the construction of the county Councils assets has taken place. Thus an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in light of the progress with the City Deal.

For borrowing associated with the Homes and Communities Agency Local Infrastructure Fund where the relevant assets and hence repayment are delivered through a Development Company which generates the income stream to ensure repayment of the liability. Again this provides an alternative prudent plan for repayment in line with the loan terms. The position will be subject to annual review.

5. Recommendations

In respect of the methodology for applying the minimum revenue provision in respect of the repayment of debt, Cabinet is asked to recommend that the Full Council:

1. Approves the Capital Financing Requirement method and the Asset Life method (Equal Charge approach) for expenditure funded from borrowing incurred in 2015/16 and future years.

2. Charges to revenue a sum equal to the repayment of any credit liability.

3. Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal and the Homes and Communities Agency Local Infrastructure Fund, subject to annual review.

4. Approve the basis for repaying the debt incurred as a result of the refinancing of the Waste PFI contract.

Glossary

The shared investment scheme: relates to funds pooled with the County Council's investments by Police and Crime Commissioner for Lancashire, Lancashire Combined Fire Authority and Lancashire District Councils. The objective of the scheme is to reduce the counterparty credit risk for those organisations by using the County Council as their investment counterparty. Although the sums invested are accounted for as borrowing by the County Council they are not included within capital financing calculations and will show as borrowing over and above the capital financing requirement. They will however be included within the authorised borrowing limit.

Bank rate refers to the policy rate of the Bank of England.

LIBID' is the London Interbank bid rate and can be used as a proxy for short term market interest rates.

PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long term interest rates. The County Council can borrow at 80 basis points above the gilt yield, so for example the fixed interest rate (at December 15) to borrow 20 year PWLB money would be 2.85% + 0.80% = 3.65%

Executive Scrutiny Committee
Meeting to be held on Tuesday 3 February 2015

Electoral Division affected: None

Individual Cabinet Member Key Decisions

Contact for further information:
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Executive Summary

The Committee is invited to consider any key decisions due to be taken by Cabinet Members.

Recommendation

That the Committee scrutinise any reports for key decisions by individual Cabinet Members and make recommendations as appropriate.

Background and Advice

Cabinet Members are due to take the key decisions listed on the agenda cover sheet in February.

The committee is invited to consider any reports listed above, and to comment as appropriate.

Any comments or recommendations made by the Committee will be reported to the Cabinet Member at the relevant Decision Making Session (DMS)

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Implications are as set out in the individual reports.

Lancashire County Council

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Document is Restricted