

The 2011/12 to 2013/14 Revenue Budget

Background

On 6th January 2011, Cabinet considered a report detailing the County Council's financial position for the next three years, i.e. 2011/12 – 2013/14.

The report set out the impact of the local government settlement (announced on the 13th December 2010) on the County Council's financial position. The settlement introduced the new term of "Spending Power" which describes the level of overall resources and includes:-

- *General Formula Grant*
- *Early Intervention Grant*
- *Learning Disability Grant*
- *NHS funding to support social care and benefit health*
- *Council tax revenue*
- *Council tax freeze grant*

In overall terms, the County Council's "spending power" will reduce by £32.514m in 2011/12 (a reduction of 3.63% from 2010/11) and a further £24.088m in 2012/13 (a reduction of 2.8%). In addition, the County Council is facing significant increased spending pressures. It is worth reflecting that in 2011/12 the implementation of the waste PFI adds £42m to the cost base. Overall, the County Council's costs will increase by over £71m as a result of inflation and demographic pressures (particularly in both adult and children's social care).

In addition to its "spending power" the County Council is estimated to continue to receive £19.6m of specific grants in 2011/12 and 2012/13. However, there remains some uncertainty regarding the level of specific grants, with further announcements originally scheduled during January 2011 still awaited, and a verbal update will be provided at the meeting.

As a result, the County Council will need to make the following savings over the next three years:

2011/12	£71.666m
2012/13	£50.047m
2013/14	£57.363m
Total	£179.076m

It should also be noted that whilst the settlement provided certainty for the next two years, uncertainty remains in 2013/14 due to the forthcoming Local Government Resource Review.

At the January meeting Cabinet:

- Confirmed the commitment to a three year council tax strategy of a freeze in 2011/12, and a maximum council tax increase of 2½% in 2012/13 and 2013/14.
- Agreed to maximise the "below the line" savings (which will reduce the management and administration costs of the County Council, without impacting on services) over the next three years, thereby minimising savings needed from services. This will reduce costs by £31.2m in 2011/12, a further £15m in 2012/13 and a further £9.1m in 2013/14.
- Agreed to maximise the level of efficiencies to reduce costs but maintain service provision; approving service efficiencies of £3.35m in 2011/12, a further £6.61m in 2012/13 and a further £2m in 2013/14.
- Proposed for consultation, proposals for service reductions totalling £34.654m, in 2011/12 (with an impact of £30.892m in 2012/13 and £31.476m in 2013/14).
- Agreed to further invest in Lancashire's highways network by £2.038m in 2011/12 and £6.223m in 2012/13
- Proposed for consultation, increasing income through charges totalling £4.5m in 2011/12 (with an impact of £1.73m in 2012/13 and £1.1m in 2013/14)
- Charged the Chief Executive, Executive Directors and the County Treasurer (Designate) with identifying further efficiency savings and/or "below the line" savings in 2013/14 of £7.464m in order to present a balanced, sustainable three year budget for the County Council for 2011/12 to 2013/14.
- Asked Executive Directors to maintain an ongoing review of costs.

Investment in Lancashire Community Strategies

Within the three year budget strategy 2011/12 – 2013/14, the commitment previously given to Lancashire District Councils that the additional council tax raised from a reduction in the second homes council tax discount (amounting to just over £1m), is maintained.

This provides stability to the Local Strategic Partnerships at a time when public sector finance is under great pressure, thereby enabling LSPs to continue to work to deliver real benefits for local communities.

Update on the Financial Position

Since January, there have been a small change to the financial position for 2011/12 and future years with the provision of final information. This relates to an increase in the level of council tax income and a reduction in future costs.

Confirmation of the 2011/12 and 2012/13 Grant Settlement

The two year grant settlement for 2011/12 and 2012/13 remains provisional, with the final settlement originally expected to be received at the end of January or early February. Latest indications are that the earliest it will be received is the 10th February. Upper tier authorities are facing the very real possibility of having to set the 2011/12 budget without confirmation of the final settlement. Indeed, Lancashire Police Authority's budget meeting is on the 9th February.

Council Tax Income

District councils have now supplied final figures for the position on the council tax collection fund and the tax base to be used for the calculation of the 2011/12 council tax.

District council treasurers had been previously indicating a balanced position on the council tax collection fund, however, the final position is a small surplus of £0.099m which means the County Council will receive marginally more revenue than previously factored into the budget proposals.

Previously, the budget included an increase in the council tax base of £1m. District council treasurers have now notified the County Council of a 0.27% increase in the tax base. This increases the council tax income in 2011/12 of £0.137m above that previously factored (rising to an increase in additional council tax income of £0.165m in 2012/13, and £0.219m in 2013/14).

Financial Risks and Uncertainties in 2011/12 to 2012/13

Uncertainty remains within the 2010/11 position caused by the current economic climate and potential legislative changes which may impact upon the County Council's financial position.

Ordinary Residence

In July 2010, the potential risk to the County Council's financial strategy as a result of the clarification in the guidance which relates to "Ordinary Residence" was highlighted. In essence, once a person establishes permanent residence in an area (other than in a registered care or nursing home) they are deemed to have become the responsibility of the authority in whose area they now live (the host authority) and no longer the financial responsibility of the authority which made the original placement (the placing authority). Some authorities, such as Lancashire, which had a number of large long stay hospitals for adults with learning disability, have significant numbers of residents who have now settled in their area. Because of this the County Council will assume financial responsibility for around 180 placements made by other authorities (this number is still rising as further placements are identified) but will only lose responsibility for around 60 placements which will transfer to other local authorities. In July 2010 the potential impact on the County Council was estimated at £4m in 2011/12, but was highly uncertain.

Work was undertaken with other authorities to seek agreement to a regional approach, which would mitigate the risk. This agreement was secured, but the challenging financial settlement received by local authorities has put this agreement under pressure. Requests for transfer of financial responsibility are also now coming in from authorities outside of the North West. As yet financial responsibility has only transferred in a small number of cases with an additional cost of £380k in 2010/11 and £570k in a full year. The situation remains uncertain, and will be closely monitored over the next 12 months.

Local Government Resource Review

The Government is committed to undertaking from January 2011 a Local Government Resource Review.

Included in the review are outline proposals for some form of retention or localisation of business rates as well as changes to the overall distribution formula. The recent settlement has demonstrated that the current formula system has difficulty coping with the present financial scenario of declining resources. However, any fundamental change to the grant system creates significant uncertainty beyond the announced 2 year settlement. Whilst the budget strategy for 2013/14 is in line with the outcome of the settlement, changes in the distribution formula may result in significant change for Lancashire. At this stage the timings of the various stages of the review are not known but further information will be provided as the timing becomes clearer.

Level of Specific Grant

As previously set out to Cabinet in January, within the financial strategy for 2011/12 and future years, some £19.6m of funding is expected to be maintained from specific grants. Some grants have been confirmed. However, announcements in relation to others, in particular the previously ring fenced Learning Skills Council grant which supports Adult Learning, are due in January 2011. The expectation is that if the funding is reduced, the services will look to reduce costs and manage the reduction in funding. No further announcements have been made by the governments. A verbal update will be provided at the meeting.

New Homes Bonus

The Government proposes to pay a "New Homes Bonus" for six years to local authorities' equivalent to the average Council Tax for each new home constructed or long term empty home brought back in to use. It is intended that the scheme will begin from 2011/12 and £200m has been top sliced from the overall settlement. Consultation on the design of the scheme closed on Christmas Eve 2010 and included a number of key questions including the split between County and District Councils in two tier areas. At this stage it is impossible to estimate what might flow to the Council from this source. Updates will be provided as further information becomes available.

Impact on the Budget Proposals

The combination of increased council tax income, and reductions in costs provides additional resources of £0.236m in 2011/12 (of which £0.99m is one-off), a further £0.028m in 2012/13 and a further £0.054m in 2013/14.

It is proposed that the additional resources be incorporated within the proposal for additional investment in highways maintenance in 2011/12 and 2012/13, and the full year effect of £0.219m be used to reduce the level of further savings required in 2013/14.

This proposal would have no impact on the proposed level of council tax in 2011/12 to 2013/14. The proposal results in a budget estimate of £769.256m in 2011/12, a reduction of 4.09% over 2010/11 (when compared on a like for like basis); which if agreed, would produce no increase in council tax in 2011/12. The detailed council tax calculations are set out in section 8 below.

Consultation Responses

As a result of the limited time for completion and reporting of the Stage 2 consultation between the Cabinet meeting on 6th January and the finalisation of this report for 3rd February, it has not been possible to include a complete set of consultation responses with this report.

Instead the various consultation responses will be included in a separate Annex 2, to be circulated, as set out below:

- Overview and Scrutiny: a written response will be included in the Annex, also to be reported orally to Cabinet by the Chairs of the Overview and Scrutiny Committees;
- Lancashire District and Unitary Councils, trade unions and business representatives: written responses will be included in the Annex;
- Youth Council: representatives from the Youth Council will make an oral report to the Cabinet at the meeting.

As part of the approach to budget consultation, an interactive 'budget calculator' has been available through the county council website. This allowed visitors to the website to identify how they would balance the budget over the next two years, without increasing council tax. The results of this exercise are set out in Annex 3.

Robustness of the Estimates and Balances and Reserves

The opinion of the County Treasurer (Designate) is that the budget for 2011/12 to 2013/14 is robust, and the process has taken all practical steps to identify and make appropriate provision for the commitments, and risks, to which the County Council will be exposed in these years.

However, the County Council must deliver £179.1m of savings over this period. Although we have a strong and proven ability to deliver change and effectively

manage the County Council's resources, the level of challenge facing the County Council is unprecedented and as such, contains significant risks that must be effectively managed over the next three years and beyond. Access to an appropriate level of balances is a fundamental tool in managing this level of risk.

It is also clear that as the County Council downsizes, there will be a significant call upon the County Council's reserves to support voluntary severance. It is vital that the County Council has adequate provision to meet such costs over the next three years. However, it should be noted that this potential cost will be mitigated by the robust management of vacancies, which will maximise the opportunity for staff to be redeployed into available posts, rather than leave the authority on severance terms.

It is likely that pressure on local government finance will be maintained beyond this period, and as such, a robust level of balances and reserves will be a vital element of maintaining a sustainable and stable financial strategy over the coming years.

Given the level of financial risk the County Council remains exposed to over the next three years, together with the uncertainty surrounding the impact of the Local Government Resource Review on future funding levels; it is the view of the County Treasurer (Designate) that the levels of reserves and provisions held are appropriate.

Comments on specific areas of balances and reserves are set out below:

County Fund balance

The 2010/11 budget monitoring reported to Cabinet on 6 January 2011 set out that the County Fund balance was expected to be £50.9m on 31 March 2011.

This level of balances needs to be considered in the context of the remaining level of risk within the budget over the next three years (and beyond). The economic recovery, together with the need to deliver significant savings results in the County Council facing a high level of financial risk over the next three years. Over this period, access to one-off funds through the County Fund balance will be essential. In addition, access to one-off funds which deliver invest to save proposals will be key to reducing the County Council's costs. Such investment must secure the County Council's ongoing financial health and stability, in addition to safeguarding service levels during the period of service transition.

Equal Pay Reserve

The Equal Pay reserve was established to enable the County Council to meet any one-off costs arising from the equal pay review, including for example, the compensation payments previously made to staff at risk of an equal pay claim. The equal pay review is almost complete, and as a result, it is appropriate to review the level of the provision.

There will remain some call on the provision over the next two to three years as the final elements of the review are concluded. The outstanding areas include the

finalisation of the remaining equal pay claims, the Chief Officer and Special Grades review, and the review of staff within the Soulbury pay and grading structure.

After reviewing the commitments which have arisen and the potential future costs, it is appropriate that the reserve remains, but at a lower level in order that the County Council is well placed to be able to effectively manage the outcome of the equal pay review without exposing itself to additional financial risk.

As such, £30m of the Equal Pay Reserve will be released, and made available to support voluntary severance costs over the next three years. These resources will also support the investment in the Service Improvement Plans agreed as part of the development of the Strategic Partnership with BT.

The level of balances will be kept under close review by the County Treasurer (Designate), in order to ensure the County Council keeps an appropriate balance between the need for a robust level of reserves and balances and the need to invest in priority areas.

Council Tax Calculations

The exact council tax calculations are set out in the tables below. A budget set using the latest figures for:

- The updated cash limits set out in Annex 1, which takes into consideration the budget proposals for 2011/12 and subsequent years;
- the associated budget requirement of £769.256m in 2011/12;
- the government grant settlement
- the council tax net surplus for 2010/11 and the tax base for 2011/12

as set out in the preceding paragraphs of the report would result in a Band D council tax for 2011/12 of £1,108.30, which is a nil increase over the current year.

The calculation is as follows:

Budget requirement	769.256
Less formula grant	<u>-333.821</u>
Equals council tax requirement	435.435
Less Council Tax Freeze grant	-10.606
Less prior year council tax net surplus	<u>-0.099</u>
Equals council tax cash	424.730
Divided by tax base	383,227
Gives Band D council tax	£1,108.30

2010/11 council tax	£1,108.30
Percentage increase	0%

The Cabinet is requested to make recommendations to the Full Council on 17 February 2011 on the County Council's budget requirement for 2011/12, the proposed allocations to Directorates, and the associated Band D Council Tax for 2011/12.

Appendix 'A' - Annex 1

2011/12 Revenue Budget

Budget	2010/11 Budget (see note below)	2011/12 Proposed Cash Limit	Change over 2010/11	Change over 2010/11
	£m	£m	£m	%
Adult & Community Services	399.093	333.253	-65.840	-16.50
Children & Young People	199.890	164.321	-35.569	-17.79
Environment	160.829	191.971	31.142	19.36
Office of the Chief Executive	25.901	26.782	0.881	3.40
County Treasurer's Department	14.351	11.323	-3.028	-21.10
Corporate	10.282	6.856	-3.426	-33.32
Financing Charges	46.753	37.125	-9.628	-20.59
Balances & Reserves	26.110	-2.525	-28.635	-109.67
Additional Investment in Highways Maintenance	-	2.275	2.275	100.00
ABG	-79.966	-	79.966	-100.00
LSPs	1.028	1.028	-	-
DSOs	-2.192	-3.153	-0.961	-43.84
Total	802.079	769.256	-32.823	-4.09%

Note:

As set out in the report, in 2011/12, a number of specific grants have been rolled into the County Council's formula grant. In order to be able to compare 2010/11 and 2011/12 on a like for like basis, 2010/11 has been adjusted to show the spend funded by specific grant now funded through formula grant, and also reflects £22m in respect of the additional responsibility related to Concessionary Fares.

Revenue Budget 2012/13 and 2013/14

2011/12 Proposed Budget £m	Budget	2012/13 Budget £m	Change over 2011/12 £m	Change over 2011/12 %	2013/14 Budget £m	Change over 2012/13 £m	Change over 2012/13 %
333.253	Adult & Community Services	326.926	-6.327	-1.90	322.224	-4.702	-1.44
164.321	Children & Young People	157.865	-6.456	-3.93	155.013	-2.852	-1.81
191.971	Environment	182.965	-9.006	-4.69	187.462	4.497	2.46
26.782	Office of the Chief Executive	23.635	-3.147	-11.75	22.113	-1.522	-6.44
11.323	County Treasurer's Department	9.211	-2.112	-18.65	5.866	-3.345	-36.32
6.856	Corporate	8.604	1.748	25.50	8.642	0.038	0.44
37.125	Financing Charges	38.125	1.000	2.69	36.625	-1.500	-3.93
-2.525	Balances & Reserves	0.655	3.180	125.94	6.369	5.714	872.37
2.275	Additional Investment in Highways Maintenance	6.389	4.114	180.84	-	-6.389	-100.00
0	ABG	-	-	-	-	-	-
1.028	LSPs	1.028	-	-	1.028	-	-
-3.153	DSOs	-2.115	1.038	32.92	-1.316	0.799	37.78
769.256	Total	753.288	-15.968	-2.08	744.026	-9.262	-1.23