

The County Council's Budget 2014/15 and Financial Strategy 2015/16 to 2017/18

1 Introduction

This report presents an update on the County Council's revenue budget and capital investment programme for 2014/15. It provides a framework for the Cabinet to agree its revenue budget and council tax recommendations to Full Council on 20 February 2014.

Cabinet has received a series of reports over the past few months setting out the financial forecast for the council over the period 2014/15 to 2017/18. The Council is facing a significant financial challenge – a combination of rising costs and reducing resources means that it must find £300m of savings over the next four years, the equivalent of reducing the current year's budget by almost 40%.

In order to meet this level of challenge, Cabinet has agreed to set a balanced budget for 2014/15 and then deliver a three year financial strategy for the period 2015/16 to 2017/18.

2 Delivering the 2014/15 Budget

2.1 Bridging the savings gap

The table below summarises the progress that has been made to date in the development of the Council's budget for 2014/15 and strategy to meet the saving gap in future years:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Saving gap	76.000	94.000	67.000	63.000	300.000
Savings identified:					
• Review of costs	10.116	3.793	3.675	3.613	21.197
• 10 % Challenge - efficiency savings	16.272	2.809			19.081
• Efficiency savings through reducing the cost of being in business	14.522	1.769	2.313	6.729	25.333
Proposals out to consultation:					
• Savings from reshaping the way services are delivered	7.460	7.970	9.960	6.960	32.350
• Savings from proposed policy options	17.949	11.552	6.233	1.926	37.660

Appendix 'A'

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Additional costs Preston Bus Station	-0.190				-0.190
Removal of Care and Urgent Needs funding		-3.506			-3.506
Results of the provisional Settlement announcement	0.393	1.149			1.542
Increase Council tax by 1.99%	7.246				7.246
Contribution from County Fund	2.232	-2.232			-
Savings gap	0	70.696	44.819	43.772	159.287

Further detail on the savings identified in the table above is provided in Annex 1 of this report.

Cabinet on 9 January 2013 approved that a maximum contribution of £5m could be taken from reserves into the 2014/15 revenue budget, the analysis above identifies that £2.232m was required from reserves at the time of that meeting.

There are a number of proposals included in the strategy summarised above that have gone out to consultation with the public and key Council stakeholder groups. Responses have been received from a number of these groups and are included at section 5 of this report.

Since cabinet met on 9 January further costs and additional resources have been identified that impact upon the savings gap. These are:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Additional cost of pension changes for Lancashire County Commercial Group arising as a result of the change on regulations that make additional hours worked (for example to cover leave or sickness) pensionable when previously they were not	0.525				0.525
Savings planned in respect of the Council's Operating model that will not be achieved in 2013/14 but will form part of the organisational redesign. The increased cost in 2014/15 is offset by a one-off saving in the carbon reduction tax.	0.500	0.500			1.000
Revenue consequences of increased borrowing for the funding of the capital programme in order to free resources to		3.045			3.045

Appendix 'A'

meet the costs of voluntary redundancy					
Estimated level of council tax receipts above that forecast due to increase in the taxbase. This figure is provisional and may be subject to change.	-3.557				-3.557
Impact of Single Persons Discount review – due to the timing of the review the outcome cannot be included in the calculation by the District Councils of the 2014/15 taxbase. The additional council tax received as a result of the review in 2014/15 will come through in the council tax surplus reported in January 2015 and will be included within the 2015/16 taxbase calculations	2.000	-2.000			-
Total	-0.532	1.545			1.013

The impact this has on the savings gap is summarised below

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Saving gap following cabinet on 9 th January 2014	0	70.696	44.819	43.772	159.287
Further costs and resources identified	-0.532	1.545			1.013
Reduction in contribution from reserves	0.532	-0.532			-
Remaining gap	0	71.709	44.819	43.772	160.300

The impact identified above would therefore reduce the amount of contribution required from reserves to £1.7m in 2014/15.

In addition, the County Council will receive further one-off resources in 2014/15 as set out below:

Additional one off resources in 2014/15	£m
Council Tax Collection Fund surplus 2013/14	4.360
Returned new homes bonus grant	0.224
Total one-off resources	4.584

The surplus on the Collection Fund has been advised by the District Councils, and reflects the projected position for 2013/14. It represents an increase in the level of council tax collected above that forecast at this time last year. It is important to note that the surplus is a one-off resource, however from the provisional increase seen in the taxbase shown above indicates that the surplus in 2013/14 has resulted from a general increase in the size of taxbase across Lancashire.

Appendix 'A'

It is recommended that the one-off additional resources available in 2014/15 of £4.584m be transferred to the Council's Downsizing reserve.

2.2 *Risks and uncertainties*

There are a number of financial issues which remain outstanding at the time of writing the report which may impact upon Cabinet's budget proposals for 2014/15.

- The Final Local Government Settlement for 2014/15

The budget proposals contained in this report are based upon the information provided in the Provisional Local Government Finance Settlement for 2014/15 that was announced on 18 December 2013. The Final Settlement is due to be announced on 5 February 2014 and will then be debated in the House of Commons on 12 February. There remains a possibility that the level of resource allocated to the Council could change in the final settlement which would therefore have an impact on the proposals made to the Full Council.

- Council taxbase

The final figures in relation to the council taxbase (i.e. the number of properties upon which council tax is paid) will only be confirmed by District Councils on 31 January 2014. Provisional forecasts for the level of the council taxbase in 2014/15 have been received from the District Councils and have informed the budget proposals set out in this report. However, experience shows that this forecast is volatile. An update on the final taxbase figures will be provided to Cabinet at the meeting on 6 February.

- Business Rates income

The Council's resource forecast for 2014/15 includes a share of locally retained business rates income which was allocated by central government using 2012/13 business rates data to which a set of planning assumptions were then applied. District Councils are currently calculating their respective forecasts for the level of business rates income they expect to collect in 2014/15 of which the County Council will receive a share. Local Authority resources will reflect the actual level of business rates income collected rather than the forecast allocation made by government. Any variation from the forecast will impact upon the level of resources available to councils. District Council's must provide this information to the County Council by 31 January 2014 and an update on the final business rate income figures will be provided to Cabinet at the meeting on 6 February.

2.3 *Options for Council Tax in 2014/15*

The government has introduced legislation which requires council tax increases above a certain amount to be subject to a referendum. The threshold for 2014/15 has not been announced at the time of writing this

Appendix 'A'

report. In the Spending Review announcement in June 2013 a 2% referendum limit was referenced however in the provisional Settlement announcement on 18 December no specific referendum limit was identified.

Informal feedback from government sources indicate that the referendum limit for 2014/15 will be lower than 2%, and it appears likely that the limit could be 1.5%. DCLG has confirmed that the latest point at which the referendum limit can be announced is 12 February 2014 when the final Local Government Finance Settlement is debated in the House of Commons.

In addition, the government is making available a Council Tax freeze grant, payable to those authorities which do not increase council tax. The grant is set at the equivalent of a 1% increase in council tax, and is payable over the two years of 2014/15 and 2015/16. This equates to a grant of £4.208m for the County Council in each year. The freeze grant is calculated by central government and in its calculation reverses the impact that the introduction of local council tax support schemes in 2013/14 had on council taxbases (it is therefore calculated on a 'grossed up' taxbase which gives a grant that is greater than 1% of the current council tax receipt). Beyond 2015/16 government has said that the funding provided for this grant will form part of the overall funding provided to local government but does not indicate if it will be protected from reduction.

The Cabinet's budget proposals for 2014/15 have been developed on the basis of a council tax increase of 1.99% in 2014/15. The impact on the budget proposals of a Council Tax rise of 1.49% would be an increase to the savings gap of £1.824m and if Council Tax were frozen the impact would be an increase in the gap of £3.050m.

2.4 Cash Limits for Services in 2014/15

The proposals identified in this report would result in cash limits for services as set out in the table below. Further detail is set out in Appendix 'B'.

Budget	*2013/14 Budget £m	2014/15 Proposed Cash Limit £m	Change £m	Change %
Adult Services Health & Well-being Services	335.201	325.961	-9.240	-2.76
Children & Young People	156.033	147.799	-8.234	-5.28
Environment	183.458	178.638	-4.820	-2.63
Office of Chief Executive	24.094	22.784	-1.310	-5.44
County Treasurer's Directorate	4.496	3.771	-0.725	-16.13
Strategic Partner	16.914	22.930	6.016	35.57
Corporate Expenditure	29.219	26.608	-2.611	-8.94

Appendix 'A'

Budget	*2013/14 Budget £m	2014/15 Proposed Cash Limit £m	Change £m	Change %
Financing Charges	32.349	30.834	-1.515	-4.68
Lancashire County Commercial Group	-1.751	-0.918	0.833	-47.57
Discretionary Hardship Claims	0.750	0.250	-0.500	-66.67
Strategic Investment Reserve	-10.000	-	10.000	-100.0
Balances & Reserves	-5.000	-	5.000	-100.0
Investment proposals	14.250	-	-14.250	-100.0
Contribution from Reserves	-	-1.700	-1.700	-
Total	780.013	756.957	-23.056	-2.96

** Reflects in year budget movements between directorates and changes to financing in 2014/15 to provide consistency when comparing year on year cash limit changes.*

3 The Capital Investment Programme

The table below summarises the "roll forward" capital programme as agreed at the last meeting of the Cabinet on 9 January.

Directorate	Total Programme	2014/15	2015/16 and future years
	£m	£m	£m
Adult and Community Services	14.993	3.102	11.891
Children and Young People	88.414	54.685	33.729
Environment	83.336	57.602	25.734
Corporate	25.473	20.828	4.645
Lancashire County Commercial Group	4.903	4.903	-
Total	217.119	141.120	75.999

The programme as previously presented has been adjusted to reflect the following capital schemes:

Appendix 'A'

- the full cost of the Heysham M6 link following finalisation of the financial approval of the scheme,
- the impact of including a new scheme for the delivery of improvements to kitchens and dining areas in Primary Schools as a result of the extension of free school meals to all infant pupils utilising a capital grant provided for this purpose,
- the inclusion of provision of £0.080m for Environmental and Community Projects in 2014/15 in line with the previous decision of the Cabinet.
- further rephrasing of the programme to reflect the monitoring position at December 2013 reported elsewhere on the agenda for this meeting and the changes in financing resulting from the funding of the voluntary severance scheme agreed at the recent Cabinet meeting.
- The City Deal delivery plan is being finalised and will be formally reported to future Cabinet and Council meetings along with the impact on the capital investment programme

The impact of these on the Council's Capital Investment Programme, with the exception of the City Deal delivery plan, is set out in the table below:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 and future years £m	Total £m
Adult Services, Health and Wellbeing	3.009	3.102	7.917	3.974	18.002
Children and Young People	61.061	55.685	25.516	8.993	151.255
Environment	64.625	103.463	77.271	-	245.359
Corporate	30.432	31.022	3.640	1.005	66.099
Lancashire County Commercial Group	4.530	4.903	-	-	9.433
Total Expenditure	163.657	198.175	114.344	13.972	490.148
Financed by:					
Borrowing	1.900	39.907	10.445	-	52.252
Capital Receipts:					
Earmarked	0.983	-	3.112	10.567	14.662
General	-	4.003	30.295	-	34.928
Revenue contributions	9.277	8.942	1.201	0.232	19.652
Internal loan	4.060	5.173	0.340	-	9.573
Single Capital Pot Grant	95.022	65.627	-	-	160.649
Other grants and contributions	52.415	74.523	54.982	1.032	182.952
Total Financing	163.657	198.175	100.375	11.831	474.038

Appendix 'A'

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 and future years £m	Total £m
Over programming	-	-	13.969	2.141	16.110

More detail on the schemes included is provided at Appendix 'C'. At this stage the level of over programming stands at £16.11m representing 1.97% of the overall programme which given the level of slippage which continues to be evident is regarded as appropriate.

There a range of key risks relating to the capital programme which it is important are highlighted as part of the decision making process.

The general risks around financial control and the accuracy of budgeting apply equally to the capital programme and the revenue budget. Similar arrangements to mitigate these risks are in place for the capital programme such as budgetary control processes. There are also a number of capital programme specific risks, which are largely centred on the financing of the programme.

The financing of the programme includes the estimated level of resources in respect of Schools Devolved Formula Capital and the allocations of Schools maintenance funding, the programme will be adjusted to reflect any changes to this level of funding once final allocations are confirmed.

The financing of the programme relies upon the realisation of planned capital receipts. To date it has been possible to mitigate the risks around the timing of the realisation of receipts by deferring the application of capital receipts within the programme through the impact of slippage and using other sources of funding first. While this is still possible to some extent the opportunity is much more limited as given the increased dependency of the programme on borrowing it is preferable to defer the use of borrowing given its revenue impact and also because there is less revenue financing available to substitute for capital receipts. It is therefore imperative that capital receipts continue to be realised, and if anything the rate of realisation of receipts needs to accelerate. The work of the two property partners will assist with this, but the Council will need to continue to place assets into the disposal process and move transactions to their conclusion as quickly as possible.

There is also a risk around changes to the local government finance system should for example changes be made to the New Homes Bonus arrangements. In terms of mitigation the Deal contains a commitment from the Government to enter into meaningful discussions should the financial arrangements be affected by changes to the local government finance system. Given that one government cannot bind its successors this is as much as could be secured in this regard. Current evidence is that the standard processes for securing s278 and s106 contributions are generating the level of resource anticipated in the model, and that greater cooperation

between the partners is assisting with this, but the position will need to be kept under review. The rate of building is the key risk and work is being undertaken to develop a clear mitigation strategy in relation to this issue.

4 Consultation Feedback

At its last meeting the Cabinet sought feedback from various stakeholders on the savings proposals put forward to meet the financial challenge faced over the next four years. In addition as in previous years a range of questions have been asked of the Life in Lancashire Panel and the results are set out in Annexes 'D' to 'I'.

The various stakeholders consulted were:

- The Budget Scrutiny Working Group – the Chair of the Budget Scrutiny Working Group will present the conclusions of the Group's work at the meeting;
- The Living in Lancashire Panel - the feedback from the panel to the annual budget consultation survey is attached at Appendix 'D';
- The 50Plus Assembly - the minutes from the meeting at which the budget proposals were discussed are attached at Appendix 'E';
- The public, through the 'Budget Calculator' tool that has been available on the Council's website - a report collating the responses from the public is attached at Appendix 'F';
- 3 tier forums in each District - feedback from these forums is attached at Appendix 'G';
- The 12 Borough and City Councils within Lancashire – a number of District Councils have accepted the Council's offer to discuss the budget proposals. These discussions are being held up to the 6th February and any formal responses received will be tabled at the meeting.
- The Police and Crime Commissioner for Lancashire*,
- Lancashire Constabulary*,
- The Lancashire Combined Fire Authority,*
- The unitary councils of Blackburn with Darwen and Blackpool,*
- The recognised Trades Unions, A meeting was held with the recognised Trades Unions on 13 January 2014 and a note of the discussion is attached at Appendix 'H';
- The Lancashire Youth Council – two members of the Youth Council will present to the meeting on 6 February
- The Lancashire Enterprise Partnership*,
- Other representative bodies of Lancashire business*
- The Schools Forum, the response from the Forum is attached at Appendix 'I'.

* No responses received at the time of publication of the report. Any responses received in advance of the meeting will be reported 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 20 February 2014.

5 Equality and Diversity

The consideration of savings proposals must 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 has or will involve consultation with those people who may be adversely affected by the proposals and any relevant organisations.

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 is 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.

Where it has been determined that an Equality Analysis is required in respect of a savings option these have been provided with the presentation of the various proposals to earlier cabinet meetings.

The Impact assessment documents are available at the following links:

[Meeting of Cabinet on 7 November 2013](#)

<http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=1900&Ver=4>

[Meeting of Cabinet on 5 December 2013](#)

<http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=1901>

[Meeting of Cabinet on 9 January 2014](#)

<http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=1903>

6 The Robustness of the Budget and the 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 and this will be updated as budget proposals progress through the process to Full Council.

6.1 Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the Council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity prepared by service directorates and the impact of changes in policy previously agreed by the Council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur. A number of specific risks remain within the budget as follows

- *Pay Costs*

The 2014/15 budget makes provisions for pay of 1%, while in future year's provision remains at 2%. The introduction of the living wage means that a proportion of the pay bill will increase mid-year in relation to inflation indices which are currently running ahead of the provision included in the forecast. However, the remainder of the pay bill will continue to be driven by the national pay agreement, which given announcements seem likely to be at about 1% for at least 2015/16 and probably for the remainder of the planning period. The broad assumption is that the overall provision within the forecast at 2% will cover the totality of increases in the pay bill. This assumption will be kept under ongoing review.

- *Inflation*

Actual inflation remains relatively low and has been declining, with some analysts emphasising the risk of deflation. Provision made within the budget is limited to areas where the Council has no choice but to pay increased prices e.g. due to contractual terms. The inflation forecasts used are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation and the need to absorb additional inflationary costs in year.

Appendix 'A'

- *Service Demand*

This is the key risk facing the Council in both preparing future budgets and managing budgets during the year. As reported in the budget monitoring reports presented to Cabinet over the year, demand for social care services has seen a significant increase.

In relation to Children's Social Care the budget reflects provision for this higher level of demand, although there is an assumption built into the later years that demand management measures will have some impact in stabilising costs. This is clearly a risk, but within the context of the totality of the budget, the strategies in place to deliver this demand management supports this assumption within the budget.

Over the period 2014/15 to 2017/18 a very significant level of resource (£45m) has been provided for increased demand for Adult Social Care. While this estimate is based on assumptions that have previously been a reasonable prediction of demand there remain a very significant range of risks that might impact on what actually happens. These include the developing relationship with the Clinical Commissioning Groups and the interaction between tightening health and local authority resources as well as other factors such as whether there is a hard winter. While reasonable steps have been taken to estimate future demand and constructive work is being undertaken with health colleagues it is still possible that demand will exceed budget. The Directorate does have a good record of managing demand pressures in previous years. However the flexibility in other parts of the budget which has assisted with this is now very significantly less than previously following the delivery of the savings contained in the previous financial strategy.

The pressure resulting from the increasing numbers and complexity of Learning Disability service users and increased demand for residential care within Mental Health Services continues to be a significant issue. Whilst the impact of budget growth allocated to meet demographic increases and budgets being re-aligned across services has reduced pressures in both of those areas, the position on learning disability services is exacerbated by the further net additional cost of Ordinary Residence changes and implementation of the Winterbourne Concordat whereby all current NHS and Joint funded hospital placements had to be reviewed by 1 June 2013 with plans to be put in place to move anyone who is inappropriately in hospital to community-based support, funded, at least in part, by LCC as quickly as possible, and no later than 1 June 2014. These areas remain a risk within the 2014/15 and future years' budget.

The scale of demand risk in social care services is such that the Council should retain sufficient general reserves to allow the in year management of pressures in demand.

- *Other Areas of Demand*

The other significant demand led budget is that for waste disposal costs, where demand movements tend to be less rapid than in other areas and

Appendix 'A'

where forecasts are currently providing a fairly reliable guide to actual activity. Based on past trends, the risk in this area is that of a significant pick up in the economy that significantly increases waste volumes. While there are indications of an economic recovery this currently appears "slow and steady" rather than rapid which would indicate that this risk is likely to be on a scale that can be managed in year.

- *Resource Estimates*

The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. For the County Council this manifests itself in two areas:

- Changes in the Council Tax Base as a result of the localisation of Council Tax Support.
- Growth in the business rate base and the impact of valuation appeals on the business rate product.

The Council Tax Base once set, is fixed for the year. However, the current level of surplus may indicate a more positive trend in council tax collection than anticipated. There has been some growth in the business rate base which is reflected in the budget, however, the level of appeals and their impact remains a very significant risk, which is likely to increase over time.

While these areas are important the greatest risk within the overall financial scenario remains the reduction in central government support for local authorities and the potential for further reductions to be announced as has been the case on a number of occasions in recent years.

6.2 *The Level of Reserves*

The Council holds reserves for a number of reasons:

- To enable the organisation to deal with unexpected events such as flooding or the destruction of a major asset through fire.
- To enable the organisation to manage variations in the demand for services which cause in year budget pressures.
- To fund specific projects or identified demands on the budget.

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.

Appendix 'A'

The level of risk evident within the budget is clearly increasing as set out in the analysis above. Whilst this does not indicate a need to increase reserves, it 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, however based on the evidence of the current year and given the increased level of financial risk there is a greater risk that the processes in place will not be able to bring down a significant overspend over the course of the following four years.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2014 is £36m.

The austerity environment within which the Council is operating is likely to continue to 2018, if not beyond. It is vital that the Council maintain a level of reserves which enables the Council to:

- Effectively manage the process of downsizing the Council, including the payment of severance costs and the availability of reserves to give services to the most vulnerable members of the community a "safe landing".
- To manage potential increases in demand, not only as a result of the issues highlighted above, but also as the impact of the changes to the welfare system on demand for the Council's services becomes clearer.
- 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 kicks in, potentially exposing the Council to a level of resource volatility not covered by the reserve.

In overall terms, the Council has an appropriate level of reserves available to manage the overall financial risk it is facing in 2014/15, with some ability to be flexible in terms of managing the balance between holding reserves and managing budget reductions in 2014/15.

- *Downsizing reserve*

Over the four year period 2014/15 to 2017/18, the Council will need access to significant reserves to meet the costs of downsizing without reducing reserves to a level which would expose the Council to further financial risk. It was identified in a report to Cabinet on 24 January that access to downsizing reserve of £80m was required in order to deliver the Council's approach to Voluntary Redundancy that forms an integral part to the reshaping of the organisation within a cost envelope of £642m.

Appendix 'A'

The report specifically sought the release of £38.5m of revenue funding previously set aside to support the capital investment programme. By accessing borrowing to support the capital investment programme instead, the Council is able to increase the Downsizing reserve by £38.5m.

The impact of this proposal on the Council's revenue budget is reflected in section 2 of this report as part of the overall budget proposals for 2014/15 and future years. The impact of this and the recommendations in section 2 of this report on the Council's Downsizing reserve are detailed below:

	£m
Forecast Downsizing reserve balance at 31.3.14	47.863
Anticipated one-off resource from Council Tax Surplus	4.360
Returned New Homes bonus top slice	0.224
Release from Revenue contributions to Capital	38.500
Forecast Invest to save requirements from the Council's savings strategy	-9.600
Balance available for funding Voluntary Severance in future years	81.347

A Downsizing reserve at this level is currently considered to be appropriate to meet the forecast costs of the future reshaping of the County Council. It is likely however, that the Council will require access to further funds to support the process of re-shaping, particularly invest to save resources.

7 Conclusion

The County Council is able to present a balanced budget for 2014/15 with the limited use of reserves to support ongoing spending. This will create a further pressure in 2015/16, however, the Council's Management Team have been asked to continue to seek cost reductions in 2014/15 to mitigate against the use of reserves.

However, this budget needs to be set within the context of ongoing austerity measures and the need for the Council to deliver savings of £300m over the four years of 2014/15 to 2017/18. Over the period 2011 – 2018 the County Council will have delivered savings of half a billion pounds.

As a result of the highly challenging reductions in resources for local government together with continuing growth in demand the County Council is facing the need to make savings equivalent to almost 40% of the current year's budget. It is recognised that this level of challenge is unprecedented and to ensure the County Council is able to deliver effectively for its communities, will have to reshape its services and organisation to deliver within a significantly reduced cost envelope. It is imperative that the work to achieve this continue in order to effectively deliver the three year financial strategy 2015/16 to 2017/18.

Appendix 'A'

Summary of savings proposals	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Impact of the review of costs	10.116	3.793	3.675	3.613	21.197
10% Challenge - efficiency savings	16.272	2.809	-	-	19.081
Reducing the cost of being in business – efficiency savings	14.522	1.769	2.313	6.729	25.333
Reshaping the way Services are delivered	7.460	7.970	9.960	6.960	32.350
Policy Options	17.949	11.552	6.233	1.926	37.660
	66.319	27.893	22.181	19.228	135.621

Impact from the review of costs	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Impact of the proposal to implement the Living Wage	-3.000	-0.090	-0.093	-0.095	-3.278
Impact of revised forecast of the level of procurement savings to be delivered in 2013/14	-5.000				-5.000
The full year effect of savings agreed as part of the current financial strategy but not included within the financial forecast	4.156	1.900	1.300	0.800	8.156
Review of inflation for social care providers; providing 1.75% within the 2014/15 forecast	3.245				3.245
Review of the level of demand incorporated within the forecast of costs for the concessionary travel budget	0.645	0.180	0.197	0.190	1.212
Revised forecast of the employers contribution to the local government pension fund as a result of the triennial valuation	1.500	1.553	1.541	1.538	6.132
Reflection of the government commitment to a 1% pay cap for local government in 2014/15	2.600				2.600
Revised forecast of council tax income arising from the previously approved review of the single persons discount and the impact of the City Deal	2.000	0.250	0.730	1.180	4.160
Reflect actual level of hardship claims in relation to Local Council Tax Support Schemes	0.500				0.500
Reflect actual level of depreciation charged to Lancashire County Commercial Group	2.500				2.500
Reflect actual level of demand for Mainstream Home to School transport	0.250				0.250
Reflect actual level of demand for Lancashire Break time service	0.250				0.250
Reduce Street Lighting energy budget to reflect actual level of cost	0.270				0.270
Reduce budget for added years pensions cost to reflect actual spend	0.200				0.200
Impact of the review of costs	10.116	3.793	3.675	3.613	21.197

10% Challenge	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Adult Services, Health and Well-being Directorate	6.266	2.005	0.000	0.000	8.271
Children and Young Peoples Directorate	2.931	0.000	0.000	0.000	2.931
Environment Directorate	5.156	0.779	0.000	0.000	5.935
County Treasurer's Directorate	0.307	0.025	0.000	0.000	0.332
Lancashire County Commercial Group	0.573	0.000	0.000	0.000	0.573
The Office of the Chief Executive	1.039	0.000	0.000	0.000	1.039
10% Challenge	16.272	2.809	0.000	0.000	19.081

Reducing the cost of being in Business	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Increase Public Health Contribution to Overheads	1.050				1.050
Asset management within highways and property				0.900	0.900
Printing/Postage/Council Infrastructure	1.000				1.000
Managing Business Mileage	1.000				1.000
Accommodation				5.000	5.000
Review of business intelligence	0.400	0.400	0.100	0.100	1.000
Right Sizing the County Treasurer's Directorate	0.335	0.148	0.707	0.229	1.419
Right Sizing the Corporate Expenditure Budget	0.210				0.210
Treasury Management Strategy	1.675	0.600			2.275
Reduction in the cost of waste		0.500	0.500	0.500	1.500
Energy Management (Price)	0.885	0.121	1.006	0.000	2.012
Management savings in advance of organisational restructure	5.000				5.000
Efficiencies within Social Inclusion services	0.225				0.225
Development of cross County integrated well-being service	2.000				2.000
Slimmed down partnership structure in CYP services	0.150				0.150
Merger of Early Support and Working together with Families	0.300				0.300
Allocation of 'good house keeping' target across CYP directorate	0.092				0.092
Reduce cost of running corporate centre within the council	0.200				0.200
Reducing the cost of being in business	14.522	1.769	2.313	6.729	25.333

Reshaping the way services are delivered	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Reshaping and Recommissioning of Domiciliary Care		2.000			2.000
Recommissioning Telecare		0.500	1.000	2.500	4.000
Learning Disability Remodelling Supported Living	4.000	4.000	4.000	0.000	12.000
Recommissioning of Mental Health Services	0.060	0.970	0.160	0.160	1.350
Integration of health and care services in Lancashire	2.900	0.000	3.800	4.300	11.000
Review of skills provision - using it differently and contributing to overheads	0.500	0.500	1.000	0.000	2.000
Reshaping the way Services are delivered	7.460	7.970	9.960	6.960	32.350

Policy Option	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Services within Adults Services, Health and Well-Being Directorate					
601 Supporting People	1.000	3.000	---	---	4.000
602 Fairer Charging	1.250	1.500	---	---	2.750
604 Review and re-design of residential substance misuse services	0.500	---	---	---	0.500
605 Review of the In House Adult Disability Provider Domiciliary Service		0.360	2.140	1.780	4.280
607 Arts Development service	0.020	---	---	---	0.020
609 Leisure Link (providing additional respite to Unpaid Carers)	0.275	---	---	---	0.275
610 Remodelling workforce in former NHS operated learning disability (LD) supported living schemes	3.430	0.500	0.400	---	4.330
611 Older people day time support	0.300	0.300	0.400	---	1.000
612 Self Directed Supports	0.100	0.150	0.150	0.150	0.550
	6.875	5.810	3.090	1.930	17.705
Services within the Children and Young Peoples Directorate					
702 Youth Services	0.600	1.000	1.400	---	3.000
703 Discretionary Mainstream Home to School Transport (including unsuitable routes)	0.616	0.482	0.041	0.020	1.159
704 Parent participation and engagement for children and young people with Special Educational Needs and Disability (SEND) and their families	0.078	---	---	---	0.078
705 Charging for post 16 Special Educational Needs and Disabilities (SEND) transport	0.088	0.096	0.096	---	0.280
707 Review of CYP traded services	0.063	---	---	---	0.063
708 Review of Lancashire Outdoor Education Provision	0.039	0.068	0.050	---	0.157
709 Review of Quality & Continuous Improvement - Lancashire Schools Effectiveness Service (QCI-LSES) services provided to schools	0.025	0.119	0.088	---	0.232
710 Review of school attendance responsibilities.	0.065	0.099	0.031	---	0.195
711 Virtual School Review	0.250	---	---	---	0.250

712	Review of Early Years services and responsibilities	1.507	1.451	---	---	2.958
717	Improve efficiency of Adoption Service	0.117	---	---	---	0.117
719	Increase efficiency in Fostering Service	0.150	---	---	---	0.150
722	To develop and reshape services to children, young people and families to ensure the services are aligned efficiently and effectively	2.800	0.861	---	---	3.661
723	Right-size Childrens Trust Budget	0.100	---	---	---	0.100

6.499	4.176	1.706	0.020	12.401
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Services within the Environment Directorate

803	Lancashire permit scheme	0.200	0.380	---	---	0.580
804	Street Lighting Energy	0.170	0.100	0.230	---	0.500
805	Highway infrastructure sponsorship	0.050	0.050	---	---	0.100
809	Members priority contingency	0.220	---	---	---	0.220
813	Targeted Parking Enforcement	0.050	---	---	---	0.050
814	Review of bus subsidies and an enhancement of community transport services	1.827	0.260	(0.025)	(0.024)	2.038
815	Environment & Community Projects and Forest of Bowland Area of Outstanding Natural Beauty	0.118	---	0.612	---	0.730
817	Public Rights of Way & Countryside Service Reductions	0.094	---	0.454	---	0.548
821	Winter Service	0.447	---	---	---	0.447
822	Close waste transfer stations and landfill sites on bank holidays	---	0.030	---	---	0.030
823	Sustainable Drainage Consenting & Enforcement	0.150	---	---	---	0.150
824	Joint Production of Local Transport Plan	---	0.030	---	---	0.030
825	Waste third party recycling credits	0.280	---	---	---	0.280
828	Withdrawal of Adult Cycle Training	0.014	0.015	0.006	---	0.035
829	Safer Travel Unit training	0.018	0.024	0.020	---	0.062
831	Business Travel Planning	0.003	---	0.017	---	0.020
832	Speed management provision	0.040	---	---	---	0.040

833	Operational Learning and Development within Highways Services	0.025	0.040	---	---	0.065
834	New Traffic Systems Maintenance Contract	0.100	---	---	---	0.100
836	Transfer of front line call handling into Parking Services	0.075	---	---	---	0.075
837	District/Parish Public Realm Agreements - Highway - Green Space maintenance	0.144	0.137	0.123	---	0.404
841	Bus Shelter Maintenance	0.025	---	---	---	0.025
842	Vehicle and associated checks carried out on subsidised services	0.025	---	---	---	0.025
851	Revisions to School Crossing Patrols	---	0.500	---	---	0.500

4.075	1.566	1.437	(0.024)	7.054
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Services within the Office of the Chief Executive

921	Review of Voluntary, Community and Faith Sector (VCFS) Grants	0.500	---	---	---	0.500
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0.500	---	---	---	0.500
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Total Policy Options	17.949	11.552	6.233	1.926	37.660
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