Appendix A

The County Council's Revenue Budget and Council Tax for 2014/15 and Capital Investment Programme for 2014/15 and future years

1 Introduction

Over the past three years the reductions in public spending following the 2010 Comprehensive Spending Review have had a significant impact on the level of resources for local government. Over that period, the County Council saw a 28% reduction in the level of resources received from the government and by the end of 2013/14, will have delivered savings of more than £220m.

The budget for 2014/15 has been developed facing an external environment that has become even more challenging for the County Council and other local authorities.

Consequently this budget, far more than any budget previously considered by the Council needs to focus on the future, recognising the financial climate in which the budget is being set and the scale of the financial challenge over the following four years. This is more than simply setting a budget for 2014/15; it is about recognising the scale of the challenge to come, to do otherwise would severely limit the flexibility of the Council around significantly reduced budgets.

This report presents for consideration by the Council the recommendations of the Cabinet for:

- The revenue budget for 2014/15;
- The Council Tax for 2014/15;
- A revised capital investment programme for 2014/15 and future years.

In addition the report sets out the advice of the County Treasurer as the Council's statutory Chief Finance Officer on the robustness of the budget and the adequacy of reserves as required by s. 25 of the Local Government Act 2003.

2 The Budget Process

The County Council's approach over the four years of the next financial strategy is to deliver a balanced budget in 2014/15 and then develop a three year budget for the period 2015/16 to 2017/18.

The Cabinet has considered aspects of the 2014/15 budget at a number of its meetings and the reports considered can be found at:

http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122

3 The Context for Setting the 2014/15 Budget

The Cabinet's recommendations for the 2014/15 revenue budget and capital investment programme are framed within the context of the on-going environment of austerity across the public sector.

Over the three years 2011/12 to 2013/14 the County Council has successfully reduced its cost base by £220m, the equivalent of 25% of its 2010/11 budget. This has been achieved through a number of measures, but particularly by reducing the costs of management, bureaucracy, and administration, efficiency savings, the challenging of costs, re-shaping services and through increased charges. Service levels have largely been protected.

The 2014/15 budget is being set within a framework that will deliver a financial strategy for the whole of the period from 2014/15 to 2017/18. The Council will set a balanced budget for 2014/15 and then a three year budget for the period 2015/16 to 2017/18 that will also deliver a reshaping of the Council and its operations that will result in a considerable downsizing of the organisation alongside the reductions in the available budget.

The Council has identified a series of cost pressures and reductions in funding for the period 2014/15 to 2017/18 and Cabinet is recommending to Full Council a number of savings proposals that meet the identified pressures in 2014/15 in full and make a 'downpayment' on the further savings required for the following three year period.

The pressures identified for this four year period reflect the continuing increase in demand for council services, in particular those services delivering social care to both older people and children as well as increases in contract prices, pay and related costs.

The reduction in resources has been confirmed for 2014/15 and provisionally identified for 2015/16 in the local government finance settlement announced on 5 February 2014. In delivering his Autumn Statement in December the Chancellor of the Exchequer stated that the current period of austerity would last until at least 2020. In view of this statement a forecast of the reductions in resource for 2016/17 to 2017/18 has also been made reflecting the pattern of reductions seen from 2011/12 to 2015/16.

The impact of this on the County Council will be significant. This combination of rising costs and reducing resources means that the Council will be required to make savings in the order of £300m over the four years 2014/15 to 2017/18.

4 The Revenue Budget

4.1 The financial challenge

In November a report to Cabinet identified the financial challenge faced by the Council over the four year period 2014/15 to 2017/18:

Forecast increases in the Council's costs	**£m**
The starting point – the 2013/14 Revenue Budget *Add : Forecast Changes to Costs*	***776.34***
Potential impact of pay awards	18.5
Potential impact of increased employers contribution as a result of the triennial valuation of the Pension Fund	8.4
Impact of the introduction of the single tier pension	6.0
Forecast impact of conversion to academies	2.3
Impact of inflation on the prices paid to third parties	79.2
Impact on costs of Forecast Changes to Demand for Services	50.9
Total of Forecast Increases in Costs	*165.3*
Budget Requirement by 2017/18	***941.64***

Forecast reductions in the Council's resources	**£m**
The starting point – the level of resources within the 2013/14 Revenue Budget	***776.34***
Made up of:	
• Council tax	360.21
• Revenue Support Grant	248.81
• Local share of the business rates	165.53
• New Homes Bonus	1.79
Forecast Changes to Resources:	
Council Tax	+4.0
Revenue Support Grant and Local share of the business rates	-133.7
Increase in New Homes Bonus grant	+1.4
Reduction in Education Support Grant in 2015/16	-5.0
Proposed topslice to New Homes bonus	-1.0
Overall Impact on resources	*-134.3*
Forecast of resources in 2017/18	***642.04***

The combined impact of the increases in costs and reductions in resources gave a gap of £300m that set the challenge for the Council for the four year period from 2014/15 to 2017/18 as set out below:

The Overall Position	***£m***
Budget Requirement by 2017/18	*941.64*
Forecast of resources in 2017/18	*642.04*
Gap	***299.60***

This gap was profiled over the four years from 2014/15 to 2017/18 as follows:

2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
76	94	67	63	300

4.2 Meeting the Challenge

Cabinet agreed that the Council should meet the significant financial challenge it faced by setting a balanced budget for 2014/15 and developing a further three year budget for 2015/16 to 2017/18 and in doing so develop proposals that would deliver a reshaped organisation that would be reduced in size and operate within the significantly reduced resource level forecast for 2017/18.

Cabinet has considered a series of reports that identified a number of further cost pressures and changes in the level of resources available for this period as shown in the table below:

	2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Further costs:					
Impact of implementing the living wage	-3.000	-0.090	-0.093	-0.095	-3.278
Impact of revised forecast of procurement savings	-5.000				-5.000
Preston Bus Station	-0.190				-0.190
Additional cost of pension changes for LCCG	-0.525				-0.525
Planned savings in respect of the Council's Operating model that will not be achieved	-0.500	-0.500			-1.000
Revenue consequences of increased borrowing to free resources to meet the costs of Voluntary Redundancy		-3.045			-3.045
Funding reductions:					
Removal of Care and Urgent Needs funding		-3.506			-3.506

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Changes in Funding:					
Impact of the Local Government Finance Settlement compared to the forecast level of resources	0.792	1.149			1.941
Additional resources due to increase in the taxbase	3.797				3.797
Impact of Single Persons Discount review	-2.000	2.000			-
Impact of growth in Business Rates income	0.714				0.714
Total	**-5.912**	**-3.992**	**-0.093**	**-0.095**	**-10.092**

Cabinet has approved a number of proposals during the year that deliver savings in 2014/15 and future years without affecting the level of services being delivered to the public. These include the impact of the 10% Challenge a significant exercise which engaged staff across the County Council in actively identifying better and less expensive ways of delivering services with no impact on the overall quantity or quality of services delivered:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Saving Proposals					
*Review of costs	18.116	3.883	3.768	3.708	29.475
*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
Total	**48.910**	**8.461**	**6.081**	**10.437**	**73.889**

*Further detail on the saving proposals shown above is available in Annex 'A'.

Cabinet recommends that the County Council notes the savings that will be delivered with no impact on the level of service provided to the public.

Cabinet has also considered a number of savings proposals that will impact upon the services the County Council delivers to the public. Cabinet has conducted a consultation exercise with the public and other key stakeholders to take account of their views on these proposals and as a result is proposing the following savings as part of its budget recommendations to the Council for 2014/15 as shown below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
*Savings from reshaping the way services are delivered	7.460	7.970	9.960	6.960	32.350
*Savings from proposed policy options	16.567	11.292	6.258	1.950	36.067
Total	**24.027**	**19.262**	**16.218**	**8.910**	**68.417**

*Further detail on the individual savings proposals, and Equality Impact Assessments where required, is available in Annex 'A'.

As part of the overall budget package, Cabinet is recommending to Full Council additional investment of £0.500m per year for the provision of Community Transport services.

5 The level of Resources Available to support the 2014/15 Revenue Budget

The revenue resources which support the County Council's 2014/15 budget are:

- Resources received through the Local Government Finance Settlement
- Specific grants
- Business Rates, and
- Council Tax.

5.1 The resources received through the Local Government Finance Settlement.

The final settlement was announced on 5th February 2014 and identified a level of resource that was greater than previously forecast by £0.792m in 2014/15 and £1.149m greater than forecast in 2015/16.

5.2 Specific Grants to be received by the County Council in 2014/15

The following table summarises the more significant specific grants to be received by the Council in 2014/15

	Allocation 2014/15 £m	
Public Health	59.801	Ringfenced funding only able to be spent in accordance with the conditions of the grant
NHS support social Care	25.292	This reflects the initial transfer of funding through the Better Care Fund and has associated spend tied into various agreements that are required with the NHS
Social Care New Burdens	6.553	Related to additional costs identified following the implementation of the Dilnott review
Local Welfare Provision Grant	2.937	Funding for support provided to the public under the Care and Urgent Needs programme

The final local government settlement has also confirmed the New Homes Bonus grant allocations for 2014/15. For the County Council this has realised a one-off additional resource in 2014/15 of £0.238m.

5.3 Council Tax Resources

The level of resource that will be raised through Council Tax has increased considerably in 2014/15 due to an increase in the County's taxbase that will realise £3.797m of Council Tax income greater than previously forecast.

However, the impact of the Single Persons Discount review will now not be incorporated into the calculation of council tax revenue until 2015/16. 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.

A surplus on the Collection Fund in 2013/14 in respect of Council Tax has been identified realising one-off resource available in 2014/15 of £4.360m. This is a one off resource.

- *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 the County Council is an increase in Council Tax of 2% before triggering a referendum. An increase of 1.99% will not trigger the referendum limit and would raise additional resources of £7.246m.

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 £4.2m for the County Council in each year. Beyond this, government has stated that the funding for this grant will form part of the overall funding available for Local Government but offered no further detail on how it will be allocated.

It is the recommendation of the Cabinet to Full Council that a Council Tax increase of 1.99% be agreed in 2014/15.

5.4 Business Rates resources

From 2013/14 an element of the Councils funding is received from the locally retained element of Business Rates collected by the District Councils. Following the receipt of the final forecast for this income for 2014/15 from the District Councils, £0.714m of funding above the level originally forecast will be received. Following confirmation on the Small Business Rates Relief grant that the Council will receive in 2014/15, which was received on 7 February, the level of business rates is £0.577m above that previously reported to Cabinet.

Final figures received from District Councils have also confirmed a deficit on collection in 2013/14 of £2.178m in respect of Business Rates. The main driver of this figure is the assumed level of success of business rate appeals assumed by the District Councils. As with any surplus or deficit on the Council Tax collection fund, this is a one-off issue and considered alongside other one-off resources and costs.

6 The Overall Revenue Budget Position for 2014/15

6.1 Summary of Cabinet's Revenue Budget recommendations

The overall impact of the Cabinet's recommendations to Full Council for the 2014/15 revenue budget is set out in the table below. The table reflects the Cabinet's recommendation of a council tax increase of 1.99% in 2014/15 and the savings proposals that have been recommended to the Council following consultation with the Council's key stakeholders.

It is the advice of the County Treasurer that, given the level of financial challenge facing the Council over the next four years, a maximum of £5m of reserves should be used to support the 2014/15 revenue budget. Taking the recommendations of Cabinet to Full Council, together with the additional business rate income of £0.557m as identified in section 5.4 above, in order to achieve a balanced budget in 2014/15, reserves of £2.229m will be used to support the 2014/15 revenue budget.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Savings gap identified by Cabinet in November 2013	**-76.000**	**-94.000**	**-67.000**	**-63.000**	**-300.000**
Further cost and changes in funding *	-5.912	-3.992	-0.093	-0.095	-10.092
Savings that do not impact on the level of service to the public *	48.910	8.461	6.081	10.437	73.889
Savings proposals put out to consultation *	24.027	19.262	16.218	8.910	68.417
Investment in Community Transport	-0.500				-0.500
Proposal to increase Council tax by 1.99%	7.246				7.246
Contribution from County Fund	2.229	-2.229			-
Savings gap	**0**	**72.498**	**44.794**	**43.748**	**161.040**

Note * Detail provided in section 4.2

In addition to the revenue budget position shown above, the following one-off resources are available in 2014/15:

Additional one off resources in 2014/15	**£m**
Council Tax Collection Fund surplus 2013/14	4.360
Business Rates Collection Fund deficit 2013/14	-2.178
New Homes Bonus Adjustment Grant 2014/15	0.238
Total one-off resources	**2.420**

While the County Council now has certainty over the level of resources available in 2014/15 the scale of the challenge to deliver further savings of £161m in 2015/16 to 2017/18 will require resources to be set aside to fund the costs of downsizing and reshaping the organisation.

The Cabinet's recommendation to Full Council is that the one-off resource of £2.420m identified above should be transferred to the Council's Downsizing reserve.

6.2 Cash Limits for Services in 2014/15

Since the meeting of the Cabinet on 6th February 2014 individual cabinet members have approved the allocations of resources to individual devolved financial management schemes (DFMs) within the overall cash limits set out below and at Annex B. The reports setting out these details can be accessed at:

http://council.lancashire.gov.uk/mgDelegatedDecisions.aspx?bcr=1

Budget Area	*2013/14 adjusted budget	2014/15 Cash Limit	Change	
	£m	£m	£m	%
Adult Services, Health & Well-Being	335.201	325.961	-9.240	-2.76
Children & Young People	156.033	148.001	-8.032	-5.15
Environment	183.458	180.318	-3.140	-1.71
Office of Chief Executive	24.094	22.784	-1.310	-5.44
County Treasurer	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
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
Contribution from Reserves	-	-2.229	-2.229	-
Total	**780.013**	**758.310**	**-21.703**	**-2.78**

Note * - Reflects in year budget movements between directorates and changes to financing in 2014/15 to provide consistency when comparing year on year cash limit movements.
Note ** - From the 1 April 2014, the Strategic Partner budget will reflect the return of a number of services from One Connect Ltd to the County Council.

Further details of the cash limits in the table above are shown at Annex 'B' of this report.

6.4 Council Tax 2014/15

The recommendation of the Cabinet to Full Council on the budget and council tax requirement is set out below:

Budget Requirement	**£758.310m**
Less formula grant	£211.602m
Less Retained Business Rates	£171.258m
Less New Homes Bonus grant	£3.194m
Equals council tax cash	**£372.256m**
Divided by tax base	336,049.60
Gives Band D council tax	£1,107.74

2013/14 council tax	£1,086.13
Percentage increase	**1.99%**

7 The Capital Investment Programme

The capital investment programme has been updated throughout the year and reflects the following capital scheme changes that have been brought in to the programme for 2014/15:

- 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 re-phasing 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 recommended for consideration by Full Council at the January 2014 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:

Capital Investment Programme	2013/14 £m	2014/15 £m	2015/16 £m	Later Years £m	Total £m
Adult Services, Health and Wellbeing	3.009	3.602	7.917	3.974	18.502
Children and Young People	61.061	55.685	25.516	8.856	151.118
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**	**198.675**	**114.344**	**13.835**	**490.511**

Capital Investment Programme	2013/14 £m	2014/15 £m	2015/16 £m	Later Years £m	Total £m
Financed by:					
Borrowing	1.900	39.907	10.445	-	52.252
Earmarked Capital receipts	0.983	-	3.112	10.567	14.662
General Capital receipts	-	4.140	30.158	-	34.298
Revenue	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	65.490	-	-	160.512
Other grants and contributions	52.415	75.023	54.982	1.032	183.452
Total Financing	**163.657**	**198.675**	**100.238**	**11.831**	**474.401**
Overprogramming	**-**	**-**	**14.106**	**2.004**	**16.110**

More detail on the schemes included is provided at Annex '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.

8 Consultation Feedback

In framing its budget proposals the Cabinet sought feedback from various stakeholders on the options being proposed and the results are set out in Annexes 'D' to 'N'.

The various stakeholders consulted were:

- The Budget Scrutiny Working group, response shown at Annex 'D';
- The Living in Lancashire Panel, response shown at Annex 'E';
- The 50Plus Assembly, response shown at Annex 'F';
- The public, through the 'Budget Calculator' tool that has been available on the Council's website, summary of responses shown at Annex 'G';
- 3 tier forums in each District, summary of responses shown at Annex 'H';
- The 12 Borough and City Councils within Lancashire;
- The Police and Crime Commissioner for Lancashire, response shown at Annex 'I';
- Lancashire Constabulary;
- The Lancashire Combined Fire Authority, response shown at Annex 'J';
- The unitary councils of Blackburn with Darwen and Blackpool;
- The recognised Trades Unions, response shown at Annex 'K';
- The Lancashire Youth Council, response shown at Annex 'L';
- The Lancashire Enterprise Partnership;
- Other representative bodies of Lancashire business, responses shown at Annex 'M';
- The Schools Forum, response shown at Annex 'N'.

9 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 cabinet meetings.

10 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 to Full Council.

10.1 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.

- *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 continue 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 these 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 the County Council 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 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 by the District Councils when they set the tax base for 2013/14. 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, as can be seen in the collection fund deficit for business rates, a 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.

10.2 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.

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 24th 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.

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 4.2 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 6.1 of this report on the Council's Downsizing reserve are detailed below:

	£m
Forecast Downsizing reserve balance at 31.3.14	**47.863**
One-off resource from Council Tax and Business Rates collection fund surplus	2.182
Returned New Homes bonus top slice	0.238
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	**79.183**

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.

11 Conclusion

The Cabinet's recommendations to Full Council present a balanced budget for 2014/15 with the use of £2.229m 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 reduce the use of reserves in the year.

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.