

Appendix 'A'

Money Matters - Update on the County Council's Revenue Budget for 2015/16 - 2017/18

1. Introduction

At its last meeting on 6 November 2014 the Cabinet resolved:

- To consult on a revised service offer to the County's communities developed by the Council's Management Team;
- To request the Council's Management Team to bring forward further proposals for changes to the Council's service offer that achieve financial balance over the three year period of 2015/16 to 2017/18.
- To request the Budget Scrutiny Working Group to provide feedback on the initial service offer proposals to the Cabinet at this meeting.

This report as well as dealing with the above issues provides an update for the Cabinet on some of the areas of risk and uncertainty highlighted in the previous report.

2. The Local Government Financial Settlement

The Chancellor of the Exchequer is due to make his Autumn Statement to Parliament on 3 December 2014 and an oral update will be provided at this meeting of the Cabinet should there be any announcements of significance for local government. The more important announcement of the detailed Local Government Finance Settlement for 2015/16 by the Secretary of State for Communities and Local Government is expected in the week commencing 15 December 2014. This announcement is expected to cover in detail:

- The level of central government funding the Council will receive;
- The conditions of any Council Tax freeze grant scheme;
- The threshold at which Council Tax increases trigger a referendum;
- Decisions around specific grants and particularly the Government's final decisions in relation to funding Local Welfare assistance.

The detail of the settlement will be presented to Cabinet at the meeting of 8 January 2015. However, as the headline figures for 2015/16 were provisionally announced in December 2014, significant change is not expected.

3. Local Sources of Resources

While the Borough and City Councils are not required to notify the County Council of the final levels of tax base and surplus or deficit on the Collection Fund until the end of January 2015 informal discussion with relevant officers indicate the following picture:

Council Tax

- In year collection rates are ahead of target due to both a smaller than anticipated cost of Local Council Tax Support, and the impact of new housing being greater than anticipated. This would seem likely to generate a surplus on the Collection Fund. While any surplus is a one off resource this does give some indication of longer term trends.
- The impact of greater than anticipated new housing coming on stream will impact on the tax base. However, there is insufficient information to indicate whether this will be in excess of current projections.
- What both these factors indicate is that there can be increased confidence in the forecast currently made around both Council Tax resources and around New Homes Bonus the level of which is largely dependent upon housing completions.
- At this stage the information available on council tax freeze grant is that a Council Tax freeze would result in a grant equivalent to a 1% Council Tax increase (£3.8m). Similarly, pending further announcements, the threshold at which a Council Tax referendum would be required is 2%.

National Non Domestic Rates (NNDR)

- This area is more difficult due to the considerable uncertainties around the level of appeals, however, informal indications are that in year collection is on target and that growth in the rate base is taking place. Given the relatively small share of any growth retained by the County Council (9%) the impact is not likely to be material but could be seen as an indication of future trends.
- Progress is being made by the Valuation Office in clearing the backlog of appeals, and the District Councils have made appropriate provision in the various Collection Funds against appeals being allowed. However, it is not clear whether this might result, as it did last year, in an overall deficit on the NNDR Collection Fund. The most significant appeal is a series of appeals in relation to Heysham Power Station will not be settled prior to the end of the financial year. Given the scale of Heysham Power Station within the rate base in Lancaster this presents a significant risk for both the City and County Councils. This is however, contained within the forecast of the Council's business rate resources going forward.
- The information currently available provides increased confidence in the forecast of NNDR resources. However, there is the potential for the government to announce further one off measures in relation to NNDR in the Autumn Statement, as was the case last year.

The final tax base and Collection Fund position will only be available when the Cabinet frames its budget recommendations to Full Council in February 2015.

4. Balancing the Budget

The Cabinet requested the Council's Management Team to provide further proposals for amendments to the service offer to the County's communities which bring the budget into balance, at least in 2015/16 and preferably over all three years. The results of this work will be reported at the meeting.

5. Feedback from the Budget Scrutiny Working Group

The Budget Scrutiny Working Group has met on a number of occasions since the last meeting of the Cabinet to give initial consideration to the proposals set out within the Service Offers. The Chair of the Working Group will be present to report orally to the Cabinet on this work.

6. Risks and Uncertainties

As is always the case there remain a range of risks and uncertainties around the financial position which need to form part of the overall consideration of a final balanced budget package. These will be considered by the County Treasurer (as the s.151 officer) in her formal s. 25 advice which will be published within future reports to Cabinet. However, the key areas of risk and uncertainty at this stage are:

- Demand – The level of demand for social care services continues to put pressure on the Council's budget in the current year. While the service offers provide for some increase in demand there are also very significant savings included based on being able to change the way in which services are delivered in order to either keep demand out of the system entirely or to mean it has to be met for a reduced period. While the budget incorporates the most up to date demand forecasts available there is clearly still a risk that further increases in demand work their way through putting pressure on future budgets.
- Legislative Change – As previously reported the proposals being considered provide no additional funding in relation to the Supreme Court judgement related to Deprivation of Liberty Safeguards (DOLS) this is a £2.9m risk. In addition while the resources available for the Care Act in 2015/16 and forecast expenditure are broadly in balance (on the assumption that the Better Care Fund Plan is signed off) there is considerably less clarity in future years and at this point no provision is included in the proposals beyond the specific resources of which the Council has been informed coming either through the Better Care Fund or specific grant.
- Inflation – The overall inflation environment and the underlying factors which drive price inflation continue for various reasons to be in line with forecasts with key leading indicators such as oil prices actually falling over the course of the year. However, whether these factors will impact on key areas such as energy prices going forward to any material degree is doubtful. However, what

this does indicate is that the provision made for these issues within the proposals currently being considered might be a worst case.

- Pay - Assumptions around future pay awards continue to be for increases broadly in line with inflation assumptions. However, it is likely that public sector pay restraint will continue as part of the government's measures to reduce public spending going forward. If future pay awards are less than 2% whilst there might be a beneficial financial impact, the scale of this will reduce as an increasing proportion of staff fall within the Living Wage part of the pay spine (as the Living Wage increases with RPI).
- Resources – As indicated above there remain some uncertainties around local resources although there is reason to place an increased level of confidence on these forecasts. More importantly though there is no clarity on the level of support from central government beyond 2015/16. As indicated in previous reports there are a wide range of forecasts available. Clearly this is a risk which will only be resolved following the General Election when the Spending Review is published.

The Council's approach to building its budget mitigates a number of these risks through a process of continuous updating of assumptions to take account of the evolving picture and actual demand reflected in budget monitoring processes. Where risks cannot be mitigated through this process then the holding of appropriate levels of reserves is the key means of providing mitigation. A full analysis of reserves and their potential deployment will be provided to Cabinet later in the budget process. However the basic approach of providing for the underlying level of County Fund Balance to be maintained at around £36m over the medium term is considered to remain appropriate, given the existence of a significant level of earmarked funding to manage the process of reducing the size of the Council.

7. Conclusion

Information regarding the level of resources available to the Council in 2015/16 and beyond, together with information on spending pressures, continues to develop. Whilst there is information emerging that enables greater confidence in the forecast levels of local resources, there remains uncertainty regarding the future impact of the Care Act, and the future level of government resources. The Autumn Statement is due to be made on the 3 December 2014 and a verbal update will be provided to Cabinet at the meeting on 4 December 2014.