

Appendix 'A'

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

1. Introduction

This report provides the Cabinet with an update on the County Council's budget for 2015/16 and future years following the publication of the Chancellor's Autumn Statement on 3 December 2014, the Local Government Finance Settlement for 2015/16 on 18 December 2014, and the impact of the savings identified by the County Council's Management Team in developing the service offer proposals.

The Council continues to face significant challenges as a result both of the demand for its services and the wider public finance environment. This results in the Council having a net budget available of £669m in 2017/18 compared to £758m for 2014/15. At the same time the Council faces the continuing increase in demand for services. Taking into account income from fees, charges and other sources, the Council will have a total resources available to invest in services in 2017/18 of £1.1 billion.

2. The External Environment

The County Council is subject to a wide range of external influences which impact on the Council's finances in different ways. This section of the report considers these factors and their influence on the level of the County Council's resources.

2.1 The Autumn Statement

The Chancellor of the Exchequer's Autumn Statement was published on 3 December 2014. This set out the global economic context within which the UK is operating and revised upwards the forecast for UK growth in 2014 from 2.7% to 3% and from 2.3% to 2.45% in 2015. The Chancellor made it clear that austerity measures will continue, in order to support the reduction in the deficit. Public spending control is central to the government's commitment to reducing the deficit, and a further £10 billion of efficiency savings are expected to be achieved by 2017/18. The government has to date delivered £67 billion of the £99 billion planned reductions in spending by the end of 2015/16.

The Chancellor stated that austerity is expected to continue until 2019/20. The government's fiscal assumption is that Total Managed Expenditure (TME) in 2016/17 and 2017/18 will fall in real terms at the same rate as between 2010/11 and 2014/15, and will remain flat in real terms in 2018/19 and 2019/20. Therefore non-protected departments, of which local government is one, will see the same rate of funding reductions as those experienced since 2010.

This represents further risk to the resources received by the Council in the form of Revenue Support Grant from the government. The existing forecast and projections reflects the continuation of the average reductions the Council had experienced since 2010 at 7%. However, the Local Government Association (LGA) and other commercial consultancies have forecast higher reductions in funding, and using a mid-point of their projections this refers to a reduction of 9% in 2016/17 and 2017/18. This represents a

further risk to the Council as a 2% reduction in funding will reduce available resources by £6.6m in 2016/17 and £6.1m in 2017/18. A 2% change over both years would amount to £12.7m in total.

2.2 *The Provisional Local Government Settlement for 2015/16*

The provisional Local Government Finance Settlement for 2015/16 was announced on 18 December 2014.

The government continues to present the allocation of government resources through the concept of spending power. Spending power measures the overall revenue funding available for local authority services, including Council Tax, locally retained business rates and government grants.

The paragraphs below set out for Cabinet the impact of the settlement on the level of resources the Council will receive from the government, in order to understand the impact on the Council's financial position.

The Council's support received through the settlement for 2015/16 broadly in line with the current forecast with a slight reduction in resources of £0.202m. This is made up as follows:

- Revenue Support Grant has increased by £0.833m from £156.582m to £157.415m.
- The Business Rates Top-Up funding has reduced by £1.157m from £140.072m to £138.915m.
- The amount the Council will receive in compensation for the business rate cap for small businesses has increased by £0.168m from £2.340m to £2.508m.
- The New Homes Bonus funding has reduced by £0.046m from £3.921m to £3.875m.

In addition, confirmation of specific grant funding has been received as part of the settlement for 2015/16.

- Department of Health revenue grant funding of £1.235m to cover a range of spending including continuing funding for the deprivation of liberty safeguards and healthwatch. This also includes £0.490m new burdens funding for the transfer of responsibility for social care in prisons.
- Educational Services Grant funding of £16.126m.
- Additional grant of £0.659m to support the Special Educational Needs and Disabilities (SEND) reforms. These additional resources are one-off and will enable the Council to mitigate the risks associated with the SEND reforms.
- Adults Social Care New Burdens grant funding of £6.885 for the Care Act which is currently anticipated to cover expenditure in 2015/16. The Council is exposed to considerable risks in relation to this in 2016/17 and beyond.

Within the Council's provisional settlement is an amount indicated to be for the local welfare provision of £2.6m. However, it must be emphasised that no additional resources have been allocated to local government for this, and this appears to only presentational.

2.3 *New Homes Bonus – Additional One-Off Resources*

As part of the settlement, the government has reduced the level of the national topslice of local government resources set aside to fund the new homes bonus. Nationally £1bn was previously held back in 2015/16 for New Homes bonus, now this is reduced to £950m with the £50m returned to local government. The provisional impact on the County Council is a one-off benefit in 2015/16 of £0.564m.

2.4 *Council Taxbase*

The City and Borough Councils must confirm the final figures in relation to taxbase (i.e. the number of properties upon which council tax is paid) by 31 January 2015. The Council has received provisional forecasts for the level of council taxbase in 2015/16 from most City and Borough Councils. This information indicates that taxbase may have increased above the forecast. However, given a only a proportion have been received from City and Borough Councils, and experience as shown this forecast to be volatile the information will be formally reported to Cabinet once figures are confirmed and reliance can be placed upon them.

2.5 *Council Tax Levels*

The council tax referendum limit was announced within the Provisional Local Government Settlement for 2015/16. Any council tax increase of 2% or above will require a referendum.

In addition, the arrangements for a 2015/16 council tax freeze grant were announced within the settlement. If a decision to freeze council tax is made, a council would receive an on-going grant to the equivalent of a 1% council tax rise. The government has announced a provisional allocation for the Council of £4.373m, which is slightly higher than a 1% increase in council tax, due to a higher council tax base being used to calculate.

The table below shows the impact of council tax increases in increments of 0.5% ranging from a freeze to an increase of 1.99%.

Impact of an Increase in Council Tax	2015/16 £m
A Freeze	4.373
0.50% increase	1.878
1.00% increase	3.756
1.50% increase	5.634
1.99% increase	7.474

Table 1

2.6 *The Better Care Fund*

The Better Care Fund is utilised to form a joint plan between the Council and the 6 Lancashire Clinical Commissioning Groups. Subject to the agreement of the Better Care Fund plan in 2015/16 the value of the pooled fund is £79.5m of which £25.3m has been allocated to the Council and is incorporated within the forecast for 2015/16. The final allocation for 2015/16 will be dependent upon planning and performance in 2014/15 and achieving specified goals in 2015/16.

2.7 *Business Rates income*

The Council's resource forecast for 2015/16 includes a share of the locally retained business rates. City and Borough Councils are currently calculating their respective forecasts in respect of the level of business rates income they expect to collect in 2015/16 of which the County Council will receive a share. The Council's resources will always reflect the actual level of business rates income collected by City and Borough Councils rather than the forecast allocation made by central government. Therefore resources available to the Council will be affected by any variation from the forecast. City and Borough Councils are required to provide this information to County Councils by 31 January 2015, and no forecasts have been received at present. We have been able to base initial projections on the National Non Domestic Rates returns from City and Borough Councils during the year, with allowances for growth in rateable value and the impact of business rates appeals. The formal notifications are required for budget setting.

2.8 *Public Health Grant*

The Council took responsibility for some Public Health services from 1 April 2013 and receives a specific earmarked grant to deliver these services. The allocation for 2015/16 is, in line with forecast, £59.8m. This is a ring-fenced grant and must be used to support public health activities.

From 1 October 2015 local authorities will become responsible for commissioning the age 0 to 5 Healthy Child Programme. Funding for this responsibility will sit within the overall ring-fenced Public Health budget. The transfer of age 0 to 5 Healthy Child Programme services will include:

- Health visiting services
- Family Nurse Partnership services (targeted service for teenage mothers)

Negotiations are currently underway with the NHS with regard to finalising the funding for this transfer of responsibility and the Council has received an indicative allocation of £9m in funding covering the six month period from 1 October 2015 to 31 March 2016. It is anticipated that the full-year allocation will rise to £18m in 2016/17, however, this has yet to be confirmed. It is important to note that the Council will also receive spending obligations, and at this stage, should not assume savings arising from the transfer in 2015/16.

3. Delivering the 2015/16 to 2017/18 Budget

3.1 The Starting Point

The 2014/15 revenue budget was set at Full Council in February 2014. At that time the Council identified a 'Spending gap' between expenditure and resources of £161.488m by 2017/18 as follows:

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Spending Gap	72.946	44.794	43.748	161.488

Table 2

3.2 Changes to the Forecast of Spending and Resources

A detailed review of costs and resources was undertaken over the summer and the details reported to Cabinet in November. The Council's future costs are driven by both demand and inflation. In addition there are "legacy" pressures which have arisen from savings falling out of the current financial strategy.

The Council's forecast of resources was revised during the same period and reported to Cabinet in November, details are shown below in table 3. The overall impact of these changes that result in a revised spending gap of £176.671m by 2017/18. The November Cabinet report can be found at the following link

<http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=3015>

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Spending Gap as reported to Full Council February 2014	72.946	44.794	43.748	161.488
Add change to forecast of spending:				
Service Demand Pressures	8.185	0.671	0.501	9.357
Inflation and Cost Changes	-1.020	-1.683	-1.310	-4.013

Legacy Financial Pressures	4.822	7.254	2.448	14.524
Total Change to Forecast of Spending	11.988	6.241	1.638	19.867
Less change to forecast of resources:				
Business Rates Top Up and Local Share	-6.418	1.583	0.134	-4.701
Council Tax Base	0.507	nil	nil	0.507
New Homes Bonus	0.568	-1.058	nil	-0.490
Total Change to Forecast of Resources	-5.343	0.525	0.134	-4.684
Impact of 2015/16 Settlement	0.202	-	-	0.202
Revised Spending Gap	79.793	51.560	45.520	176.873

Table 3

3.3 Meeting the Spending Gap

The Chief Executive and her Management Team have prepared a number of service offer proposals to re-design the way services are delivered within a reduced spending envelope. Cabinet requested that these proposals were the subject to consultation, in order that Cabinet could consider the views of stakeholders before formally publishing their budget proposals for 2015/16 and later years.

The results of the consultation are set out later in Appendices 'B' to 'M' of this report. The service offers developed by the Chief Executive and her Management Team to deliver investment in services within a gross budget of £1.1 billion, income of £445.569m and a net budget of £699m. The service offers proposals have also delivered savings of £155.948m.

	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m
Savings arising from the Service Offer proposals developed by the Chief Executive and her Management Team, published for consultation in November 2014	66.170	38.726	37.052	141.948

Savings arising from the Service Offer proposals developed by the Chief Executive and her Management Team, published for consultation in December 2014	6.250	5.250	2.500	14.000
Total Savings arising from the Service Offer Proposals developed by the Chief Executive and her Management Team, published for consultation in December 2014	72.420	43.976	39.552	155.948

Table 4

3.4 Overall Impact

The impact of the changes to spending and resources and the savings identified above on the Council's budget position is therefore:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
The Gap between spending and resources after impact of 2015/16 Finance Settlement	79.793	51.560	45.520	176.873
Less: The savings from the service offer proposals developed by the Chief Executive and her Management Team, published for consultation	72.420	43.976	39.552	155.948
Updated Position after impact of 2015/16 Finance Settlement and Service Offer Proposals	7.373	7.584	5.968	20.925

Table 5

4. Risks and Uncertainties for 2015/16

The strategy to achieve a balanced budget package includes consideration of the risks and uncertainties around the Council's financial position. The key areas for consideration are as follows:

Legislative Change

It has previously been reported to Cabinet that the Supreme Court judgement related to Deprivation of Liberty Safeguards (DOLS) presents a £2.9m risk, as proposals being considered do not provide any additional funding. Further analysis is being undertaken and a further update will be provided to Cabinet in the future.

Resources

There is no clarity on the level of support from central government beyond 2015/16. Furthermore the Chancellor has announced in his Autumn Statement on 3 December 2014 that austerity measures will continue up to 2019/20 and a further £10 billion of efficiency savings will need to be achieved. In the Economic and Fiscal Outlook, the Office for Budget Responsibility (OBR) stated the Treasury's figures imply that 'roughly 40% of the total implied cut in day-to-day public services spending between 2009/10 and 2019/20 will have taken place over this Parliament, with roughly 60 per cent to come in the next Parliament. At present it is not known how this will impact on Local Government.

- The Councils projections include funding reductions of 7% and further analysis illustrates that if funding from the government was reduced by a further 2% this would reduce the resources available by £6.6m in 2016/17 and 2017/18. A 2% change over both years would amount to £12.7m in total.
- There is a potential risk to future income from locally collected business rates as a result of appeals against the rate they are charged. The Council's forecast of resources incorporates the estimated potential impact of such appeals.

Waste PFI Grant

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

Demand

The level of demand for social care services continues to put pressure on the Council's budget in the current year and presents a continual pressure for future years. The services offers include significant savings based on being able to change the way services are delivered. The budget includes the most up to date demand forecasts but any future increases in demand will add pressure to the future budgets.

Inflation

Actual inflation remains relatively low and therefore represents minimal risk in the forecast of spending to 2017/18.

Pay

The forecasts include the pay award of 2.20% from 1 January 2015 to March 2016, and then an assumed increase of 2% each year thereafter. The forecasts also include the latest increases to the Living Wage of 2.7% in September 2014.

The Chancellor announced that restraint in public pay is expected to continue which could produce pay award increases less than the 2% provided for in the forecast, if this is the reality any impact will be reflected in future updates to the financial forecast.

The Care Act

Care Act – The Care Bill became the Care Act on 14 May 2014. Under the Care Act local authorities will need to ensure that residents

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

The Care Act also includes measures to allow deferred payments and to introduce a lifetime care limit of £72,000 for elderly care users. Under the reforms, with effect from 1 April 2015 local authorities will be expected to cover the costs for care once eligible users have reached their lifetime contribution limit. This additional responsibility will lead to additional pressures on the Council's budget.

Some additional resource (of c £3m) for set up costs has been allocated to local authorities through the Better Care Fund arrangements but at this stage the ongoing additional cost is not clear. In addition an indicative specific grant figure of £6.885m for 2015/16 has been provided. While these costs will be funded through the "new burdens" mechanism there is a significant risk, particularly in 2016/17, that the total resource provided will be insufficient and that the distribution mechanism used will fail to match the incidence of increased costs. A significant level of work is ongoing on this area, and further reports will be provided to members as information emerges.

5. Schools Budget

In line with the school funding arrangements introduced in November 2007, Cabinet has agreed since 2008/09 in respect of the Schools Budget that:

- a) The County Council's allocation of Dedicated Schools Grant (DSG) is applied in its entirety to the Authority's Schools Budget and not to supplement the Schools Budget from other resources available to the Authority; and
- b) The detailed allocation of resources within the Schools Budget is determined at a later date by the Cabinet Member for Children, Young People and Schools in consultation with the Interim Executive Director for Children and Young People and the County Treasurer and in conjunction with the Lancashire Schools Forum.

The provisional Dedicated Schools Grant allocation is £839.957m in 2015/16, and currently supports the following:

Establishment type	Number
LEA maintained Primary Schools	476
LEA maintained Secondary Schools	62
LEA maintained Special Schools	30
Nursery Schools	24
Short Stay Schools	10
Primary Academy Schools	6
Secondary Academy Schools	20
Secondary Free Schools	1
All-through Free Schools	1
FE Colleges	23
Private, Voluntary and Independent Early Year Providers	925
Total	1,578

The Cabinet is asked to confirm the continuation of this approach in relation to the determination of the 2015/16 and future years' Schools Budget.

6. Budget Consultation 2015/16

Consultation on the service offer proposals developed by the Chief Executive and her Management Team has been undertaken with a range of organisation with the following responses received:

- The Clinical Commissioning Groups (Appendix 'B' refers)
- The Life in Lancashire Panel (Appendix 'C' refers)
- Young people's engagement forums (Appendix 'D' refers)
- Responses from the public (Appendix 'E' refers)
- Borough, District and Unitary Councils in Lancashire (Appendix 'F' refers)
- Budget Calculator – YouChoose Budget Report (Appendix 'G' refers)
- Third Sector Lancashire (Appendix 'H' refers)
- Association of Parish Councils and individual parish responses (Appendix 'I' refers)
- Lancashire Safeguarding Children's Board (Appendix 'J' refers)
- The Lancashire Care Association (Appendix 'K' refers)
- The Budget Scrutiny Committee (Appendix 'L' refers)
- Miscellaneous responses (Appendix 'M' refers)
- The Older People's Forum (no response received)
- The Chamber of Commerce (no response received)
- The Lancashire Economic Partnership (no response received)
- The Office of the Police and Crime Commissioner (no response received)

- The Lancashire Fire Authority (no response received)
- Health Watch (no response received)
- Trade Unions (no response received)

The feedback received from these groups is shown in Appendices 'B' to 'M'.

The formal budget consultation will begin upon the publication of the Cabinet's budget proposals on 8 January 2015, which will be reported to Cabinet at its meeting on 5 February 2015.

7. Equality and Diversity

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

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

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

Equality Analyses will be updated in due course to reflect the outcome of consultation and will be provided to Cabinet for them to be considered before making recommendations to Full Council.

8. Adequacy of Reserves

The Council holds reserves for a number of reasons:

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

- To adequately meet demands identified within the budget and fund specific projects.

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

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

The level of risk evident within the budget is clearly increasing as set out in the analysis above. 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.

The Council currently has earmarked reserves available of £105m to fund the costs of downsizing the Council. The Council will face significant severance costs as the number of staff reduces over the next three years.

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

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

- Effectively manage the process of downsizing and reshaping of the Council, including the payment of severance costs and the availability of reserves to give protection to those services provided to the most vulnerable members of the community.
- Changes in the welfare system could lead to potential increases in demand for the Council's services, therefore adequate reserves are required until the impact 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 2015/16, with some ability to be flexible in terms of managing the balance between holding reserves and managing budget reductions in 2015/16.

9. Capital Investment Programme

The Capital Programme is largely funded by government allocations which come in the form of grants. Although the allocations can be used for any capital purpose they are issued by the Department of Transport for Integrated Transport and maintenance and from the Department of Education for schools basic need and maintenance. To date the following 2015/16 allocations have been notified for schools basic need (£8.467m) and integrated transport (£6.054m). It is anticipated that the additional allocations, which in 2014/15 totalled some £30m, will be received in December or January. No announcements on capital formed part of the provisional local government settlement. Consequently, an update on the Capital Programme will be presented to Cabinet for consideration at the meeting on 5 February 2015. The Integrated Transport and Maintenance funding grant allocation is expected to be announced on 23 December 2014.