

## **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. It provides a framework for the Cabinet to agree its revenue and council tax recommendations to Full Council on 12 February 2015.

Over the past few months Cabinet has received a series of reports which provided the financial forecast for the Council over the period 2015/16 to 2017/18. The Council is facing significant challenges due to the wider public finance environment, whilst at the same time the demand for its services is increasing. The Council must find further savings of £176.873m over this period. This is in addition to the £62.513m of savings agreed by Full Council in February 2014, meaning that over the period 2015/16 to 2017/18 the Council will have made a total of £239.386m savings, of which £100.846m falls into 2015/16.

This results in the Council having a net budget available of £681m in 2017/18 compared to £758m for 2014/15. The Council will have total resources available to invest in services in 2017/18 of £1.2 billion.

In the Autumn Statement the Chancellor made it clear that austerity measures will continue, to support the reduction in the deficit. 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. Furthermore, the Chancellor stated that austerity is expected to continue until 2019/20. Non-protected departments, of which local government is one, will see the same rate of funding reductions as those experienced since 2010.

The Council has met this challenge robustly – at the heart of this is the recognition that to be sustainable and deliver for our communities the Council will need to change. Management and organisational structures will need to be streamlined and the Council will have to work differently. Given the scale of the challenge it is impossible to make the level of savings required by a series of piecemeal cuts and changes; a more fundamental approach is required. The service offer proposals published for consultation by Cabinet on 8 January 2015 set out the redesign of services and the savings to be delivered

#### **2. The 2015/16 Revenue Budget**

##### *2.1 Progress on the 2015/16 Revenue Budget to date*

Table 1 below provides a summary of the progress that has been made to date to develop the Council's budget for 2015/16 and the strategy to meet the saving gap in 2016/17 and 2017/18:

|  | <b>2015/16<br/>£m</b> | <b>2016/17<br/>£m</b> | <b>2017/18<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| Savings gap reported to January 2015 Cabinet     | 79.793                | 51.560                | 45.520                | 176.873             |
| Cabinet's proposals published on 8 January 2015: |                       |                       |                       |                     |
| Savings from Cabinet's Service Offer proposals   | (68.420)              | ( 39.468)             | ( 38.321)             | (146.209)           |
| Increase in Council Tax of 1.99%                 | (7.474)               |                       |                       | (7.474)             |
| Use of One-Off Funds                             | (3.899)               | 3.899                 | -                     | -                   |
| <b>Savings gap</b>                               | <b>0</b>              | <b>15.991</b>         | <b>7.199</b>          | <b>23.190</b>       |

Table1

Annex1 of this report sets out the savings for 2015/16 to 2017/18 contained within the Cabinet's service offer proposals published on 8 January 2015.

## *2.2 Update on the Council's resource and expenditure forecast for 2015/16 and future years*

The Council's resource and expenditure forecast is under continual review during the budget process to ensure that the budget is robust. Since Cabinet met on 8 January 2015 this review has continued, and together with the information received from the City and Borough Councils has resulted in the following updated information:

- £4.050m increase in council tax income in 2015/16 due to the receipt of further updates on the tax base (i.e. the number of properties upon which council tax is paid) from the Lancashire City and Borough Councils. The final tax base position will only be confirmed by 31 January 2015. A verbal update on the final tax base figures will be provided to Cabinet at the meeting.
- A reduction in the Education Services Grant (ESG) funding of £4.864m in 2015/16, with further reductions forecast in future years, which has emerged as further challenge of the budget has shown that the ESG funding announced in the settlement was lower than that incorporated in the forecast.
- A reduction in the forecast for inflation paid to the Strategic Partnership of £0.276m in 2015/16, with further reductions in future years, reflecting the latest inflation information
- From the ongoing budget challenge it has also emerged that a contribution from reserves of £1.209m had erroneously been incorporated into the budget. The details of these changes are shown below in table 2:

|  | <b>2015/16<br/>£m</b> | <b>2016/17<br/>£m</b> | <b>2017/18<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| Additional income from forecasted increase in council tax base | (4.050)               | -                     | -                     | (4.050)             |
| Reduction to Education Services Grant funding                  | 4.864                 | 0.959                 | 1.090                 | 6.913               |
| Revised inflation forecasts                                    | (0.276)               | (0.217)               | (0.159)               | (0.652)             |
| Remove erroneous contribution from reserves                    | 1.209                 |                       |                       | 1.209               |
| <b>Impact on the overall position</b>                          | <b>1.747</b>          | <b>0.742</b>          | <b>0.931</b>          | <b>3.420</b>        |

Table 2

The impact of these changes on the savings gap is summarised below in table 3, and would require a further use of reserves, or one-off funds, of £1.747m to balance the budget in 2015/16, taking the total to £5.646m.

|   | <b>2015/16<br/>£m</b> | <b>2016/17<br/>£m</b> | <b>2017/18<br/>£m</b> | <b>Total<br/>£m</b> |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| Savings gap following Cabinet on 8 January 2015 | 0                     | 15.991                | 7.199                 | 23.190              |
| Further costs and resources identified          | 1.747                 | 0.742                 | 0.931                 | 3.420               |
| Increase in use of one-off funds                | (1.747)               | 1.747                 |                       | -                   |
| <b>Remaining gap</b>                            | <b>0</b>              | <b>18.480</b>         | <b>8.130</b>          | <b>26.610</b>       |

Table 3

### 2.3 Availability of One-Off Funds

Table 4 below provides details of further one-off resources the Council will receive in 2015/16:

| <b>Additional one off resources in 2015/16</b>         | <b>£m</b>      |
|--|----------------|
| Council Tax Collection Fund surplus in 2014/15         | (5.400)        |
| Returned New Homes Bonus                               | (0.564)        |
| Business Rates Collection Fund surplus/deficit 2014/15 | TBA            |
| <b>Total one-off resources</b>                         | <b>(5.964)</b> |

Table 4

The surplus on the Council Tax Collection Fund has been notified by the Lancashire City and Borough Councils and indicates the projected position for 2014/15. This represents an increase in the level of council tax collected above the amount forecasted at this time last year. The surplus is an additional one-off resource.

No information has yet been received in relation to either a surplus or deficit position on the business rates collection fund.

It is recommended that the one-off additional resources in 2015/16 of £5.964m be utilised in the first instance to balance the Council's 2015/16 budget. Based on Cabinet's current budget proposals, together with the updated information above, a total of £5.646m is required to balance the budget, leaving available one-off resources of £0.318m.

### 3. The 2015/16 Revenue Budget and Financial Strategy for 2016/17 and 2017/18

The Cabinet's budget proposals, together with the changes outlined in section 2 of this report, would result in the following revenue budget for 2015/16, as set out in table 5 below:

| <b>Revenue budget 2015/16</b>              | <b>Gross Budget<br/>£m</b> | <b>Income<br/>£m</b> | <b>Net Budget<br/>£m</b> |
|--|----------------------------|----------------------|--------------------------|
| <b>Cost of Being in Business</b>           | <b>103.968</b>             | <b>(51.937)</b>      | <b>52.031</b>            |
| <b>Service Offer Proposals</b>             |                            |                      |                          |
| Social Care                                | 494.685                    | (119.486)            | 375.199                  |
| Other Services We Provide To Adults        | 16.979                     | (3.698)              | 13.281                   |
| Coroners Service                           | 2.159                      | -                    | 2.159                    |
| Public Health & Wellbeing                  | 105.064                    | (75.610)             | 29.454                   |
| Other Services For Children & Young People | 115.294                    | (60.792)             | 54.502                   |
| Highway Services                           | 75.316                     | (44.498)             | 30.818                   |
| Bus & Rail Travel                          | 42.002                     | (8.864)              | 33.138                   |
| Waste Management *1                        | 104.908                    | (20.152)             | 84.756                   |
| Other Environment Services                 | 16.500                     | (10.629)             | 5.871                    |
| Cultural Services                          | 20.460                     | 95.130)              | 15.330                   |
| Economic Development and Skills            | 19.571                     | (18.913)             | 0.658                    |
| <b>Total for the Service Offers</b>        | <b>1,012.938</b>           | <b>(367.772)</b>     | <b>645.166</b>           |
| Financing Charges                          | 50.794                     | (18.400)             | 32.394                   |
| Use of one off resources                   |                            | (5.646)              | (5.646)                  |
| <b>Revenue budget 2015/16</b>              | <b>1,167.700</b>           | <b>(443.755)</b>     | <b>723.945</b>           |
| <b>Funded by</b>                           |                            |                      |                          |
| Business rates                             |                            |                      | 175.558                  |
| Council Tax                                |                            |                      | 387.099                  |
| Revenue Support Grant (RSG)                |                            |                      | 157.415                  |
| New Homes Bonus                            |                            |                      | 3.873                    |
| <b>Total Resources</b>                     |                            |                      | <b>723.945</b>           |

Table 5

\*1 – this includes £14.8m of capital financing costs which will be transferred under the process set out below

It is important to note that the service offer proposals set out clearly the level of investment within individual service offers, together with the costs of being in business. In order to ensure effective and robust financial management arrangements within the Council, the cash limits for service offers must be clearly set out in line with the new organisational structure. This work is nearing completion, but at the time of writing the report, the final steps in the assurance framework had not been completed. It is therefore recommended that in order for Full Council to consider the budget management framework of Cabinet's budget proposals, Cabinet delegate authority to the Deputy Leader, in consultation with the County Treasurer, to agree the translation of the service offer proposals into the financial management framework (which reflects the management structure) and for this to be incorporated within Cabinet's budget proposals to Full Council.

The indicative cash limits on a service offer basis for 2016/17 and 2017/18 arising from the Cabinet's proposals are set out in annex 2 to the report.

#### **4. Risks and Uncertainties which impact upon the 2015/16 Revenue Budget Proposals**

At the time of writing this report there are a number of financial issues which may impact upon the revenue budget for 2015/16.

##### *4.1 The Final Local Government Settlement for 2015/16*

The information provided in the Provisional Local Government Finance Settlement for 2015/16 that was announced on 18 December 2014 has formed the basis of the budget proposals published for consultation by Cabinet on 8 January 2015, and contained within this report. There still remains the possibility of further changes to the level of resource allocated to the Council in the final settlement, although any such changes would be expected to be small. The Final Settlement is expected to be announced on 4 February 2015 and will then be debated in the House of Commons by 12 February 2015. A verbal update on the final settlement will be provided to Cabinet at the meeting on the 5 February 2015.

##### *4.2 Council Tax base*

As set out earlier, the Council has received provisional forecasts for the level of the council tax base (i.e. the number of properties upon which council tax is paid) for 2015/16 from City and Borough Councils. The statutory deadline for the provision of final tax base figures to the County Council is the 31 January, after the publication of this report. Previous experience has shown that this forecast may change, although any impact is expected to be small. A verbal update of the impact of the final tax base figures will be provided to Cabinet at the meeting on 5 February.

##### *4.3 Business Rates Income*

City and Borough Councils are currently preparing their forecasts of the amount of business rates income they expect to collect in 2015/16. The County Council will receive a 9% share of the growth over the previous year. The level of resources received in the year will reflect the actual level of business rates income rather than

the amount forecasted. City and Borough Councils must provide this forecast information to the County Council by 31 January 2015, therefore a verbal update on the formal forecast of income from business rates will be provided to Cabinet at the meeting on 5 February.

There remains a risk that the formal forecasts received from the City and Borough Councils by 31 January may differ, potentially significantly, from the forecast, although it has been prepared on a prudent basis.

In addition, there remains a risk that with this, a deficit on the business rates collection fund may be advised, which would impact on the level of one-off resources available to the Council.

#### *4.4. Deprivation of Liberty Safeguards*

As set out in previous reports, the Supreme Court judgement related to Deprivation of Liberty Safeguards (DOLS) presents a £2.9m risk to the Council. The level of financial risk, and the potential mitigating factors are being explored. However, at this point, no funding has been received for this, and it is recommended that resources be earmarked within a risk management reserve to address this risk in 2015/16 if it crystallises.

#### *4.5. Waste Infrastructure 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.

#### *4.6. Inflation*

As inflation rates remain relatively low, this represents a minimal risk in the forecast of spending to 2017/18.

#### *4.7. Pay*

It has previously been reported to Cabinet that forecasts include the pay award of 2.20% from 1 January 2015 to 31 March 2016, and then an assumed increase of 2% each year thereafter. Also, that forecasts included the Living Wage of 2.7% in September 2014. The Chancellor has announced that restraint in public sector will continue, this could result pay increases of less than 2%. If this is the position the impact will be reflected in future updates to the financial forecast.

#### *4.8. Adult Social Care Consultation*

The formal consultation on the Adult Social Care proposals contained within the service offers will end on the 31 March 2015, when the results of the consultation will

be formally considered by the Cabinet Member. Clearly, this date falls after the consideration of the Council's budget proposals for 2015/16, and therefore in order to ensure a full and proper consideration of the results of the consultation, the Council must earmark resources to cover the savings identified within these proposals for 2015/16. This amounts to £13.8m.

#### *4.9 Delivery of Property Savings*

The Council's current budget plans include the delivery of property savings of £1.1m, with further savings of £5m planned for 2017/18. The achievement of these savings is predicated on the implementation of the property strategy, which covers in the order of 500 Council buildings (excluding schools), with a clear view of the condition information and running costs of each building, together with the accommodation requirements contained within the service offer proposals published on 8 January 2015.

This work is ongoing, and as set out below, will require investment to deliver. Whilst it is clear that property savings will be achieved, the delivery of property savings in 2015/16 must be considered to be at risk, and as such, provision should be made in 2015/16 to offset this risk.

### **5. Budget Consultation 2015/16**

Consultation on the Cabinet's service offer proposals has been undertaken with a range of organisations as set out below:

- The County Council's Budget Scrutiny Working Group
- The Office of the Police and Crime Commissioner
- The Lancashire Combined Fire Authority
- Recognised Trade Unions
- Borough, City and Unitary Councils in Lancashire
- Lancashire Members of Parliament
- Third Sector Lancashire
- Parish Councils and the Lancashire Association of Local Councils
- Lancashire Safeguarding Children's Board
- Lancashire Care Association
- The Older People's Forums
- The Chamber of Commerce
- The Lancashire Enterprise Partnership
- Healthwatch Lancashire
- The Clinical Commissioning Groups
- Young People's Engagement Forums

The feedback received from these groups to date is shown in annexes 3 to 6, and in addition, responses have been received from individual members of the public, which have been shared with the Leader and Deputy Leader. As the deadline for the receipt

of responses was 4 February, those responses received between the publication of the report, and the Cabinet meeting will be circulated 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 12 February 2015.

## **6. Management of Risk and 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.

Over the next few years, the Council is facing significant level of risk, which requires careful consideration, management and mitigation to ensure ongoing financial and service stability, and to prevent the Council being exposed to financial shocks. This section sets out the risks facing the Council, and the resources that the Council has available to assist in the management and mitigation of these risks.

### **6.1 Overview of the Risk Environment**

#### *6.1.1 Level of Future Resources from Central Government and On-going Austerity*

The Finance Settlement provided provisional funding arrangements for 2015/16, and there is no clarity on the level of support from central government for future years. In the Autumn Statement the Chancellor stated that austerity measures will continue up to 2019/20. The Office for Budget Responsibility (OBR) stated within the Economic and Fiscal Outlook that roughly 40% of the total cut in day to day public services spending between 2009/10 and 2019/20 will have taken place in this parliament. This means there is roughly 60% of spending cuts still to be made in the next parliament. The potential impact on the wider Local Government is not known at present.

The Council's forecast of government resources in 2016/17 reflects the continuation of the average reductions the Council had experienced since 2010 at 7.0% (after taking into consideration the potential impact of local growth in business rates). However, both the LGA and commercial consultancies have produced forecasts which indicate this may be a risk position to take. The mid-point of the LGA and other forecasts is a reduction of 9% in both 2016/17 and 2017/18. A 2% change in this assumption makes a difference of about £6.6m to the forecast resources available in 2016/17 and £6.1m in 2017/18. A 2% change over both years would amount to £12.7m in total.

#### *6.1.2 Instability of Business Rate resources*

The Council must also be able 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 is triggered, potentially exposing the Council to a level of resource volatility not covered by the reserve. Although this risk lessens as information becomes available over a longer period on the operation of the scheme, given the potential impact of the appeal in relation to Heysham Power Station, this remains a prudent approach.

### *6.1.3 Demand*

There is continued pressure on the Council's budget, and the most up to date demand forecasts have been included. However, any increases in demand will add pressure to future budgets. The Council continues to face significant budget pressures due to demands for Adults Social Care and Learning Disability Services. In addition, the impact of national changes relating to Ordinary Residence, the Winterbourne Concordat and Deprivation of Liberty Safeguards, will add further pressure on the Council's resources and this has been reported in previous Cabinet reports.

Children's Social Care agency placement costs is a further area affected by financial pressures. The Council is in the process of developing a 'brokerage' model to source and commission suitable placement and support services. There is also a strong focus recruiting and retaining foster carers, and development of a peer-network to provide support to new carers. In order to achieve efficiency improvements Children's Social Care is to be commissioned, to work with a partner who has a track record of successfully working with other local authorities in this area. The Council is currently benchmarking its costs against other local authorities to ensure this is in line with the wider local government sector performance. These collective measures will assist in addressing this area of ongoing financial pressure.

However, it is important to recognise that this remains an area of ongoing risk that requires careful ongoing management and monitoring to ensure it is captured and recognised and that appropriate action is taken.

### *6.1.4 The Care Act*

It has previously been reported that under the Care Act local authorities have a responsibility 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

With effect 1 April 2015 local authorities will also need to cover costs for care once residents have reached a lifetime care cost limit of £72,000. This could lead to additional pressures on the Council's budget.

The final allocations for the implementation of the Care Act in 2015/16 were announced in December 2014, with up to £10.5m revenue and £1.1m capital funding available to Lancashire County Council. The main areas of spending will include the implementation of the:

- New national eligibility criteria for Adult Social Care;
- Additional entitlements for Carer assessment and support;
- New Deferred Payment policy;
- Delivery of Social care in prisons; and the
- Delivery of early social care assessments in preparation for the introduction of the cap in care costs regulations to be introduced from April 2016.

The Department of Health has not yet announced funding allocations for the reforms due to be implemented from April 2016, in particular relating to the introduction of the cap on care costs and the changes to the financial means-test thresholds for Adult Social Care. Local authority allocations for these reforms are not expected to be received until later in 2015, but there continues to be concern that the total resource provided will be insufficient and that the distribution mechanism used will fail to match the incidence of increased costs. This represents an area of high risk, not just for the Council, but for upper tier authorities nationally.

#### *6.1.5 Availability of Capital Resources and Delivery of the Masterplans*

As set out in the capital investment programme report elsewhere on the Cabinet's agenda, the level of resources for capital investment in highways and transport is lower than anticipated, resulting in a shortfall of resources in relation to the delivery of the Masterplans, and the investment available for highways maintenance.

In addition, the current market conditions has meant that not only is the generation of capital receipts not in line with expectations, but that the Council has no flexibility in terms of available capital resources to ensure appropriate planned investment in the maintenance of assets, particularly in relation to property and other assets.

Included within this is the maintenance of ICT assets. There are a number of potential projects which require investment to maintain the ongoing stability of ICT assets, and bring applications up to date in order to ensure that software is supported.

#### *6.1.6 Delivery risk*

The Council has a good reputation for the delivery of savings, and the implementation of change programmes which deliver both savings and redesigned services. However, the Council is facing an unprecedented level of savings, with £100m of savings to be delivered in 2015/16, and longer term service redesign which will deliver savings in 2016/17, 2017/18 and future years. Maintaining momentum and ensuring robust and rigorous change management arrangements will be critical in ensuring the Council remains on track. There are a significant number of factors, both internal and external which may impact upon delivery. Access to resources to mitigate financial risk should delivery not run according to plan is critical to maintain financial health and stability over the next few years.

### *6.1.7 Downsizing Effectively*

The Council has set aside significant resources to enable the effective downsizing of the organisation, including resources to fund voluntary severance, but also to invest in ICT and other service developments which will enable the Council to deliver its savings programme.

As the council downsizes, over the period to 2017/18, but also potentially beyond, access to one-off resources will play a fundamental role in enabling the Council to not only deliver savings, but also to ensure the maintenance of sustainable services which deliver for Lancashire's communities.

The reshaped County Council will require a reshaped property estate which is fit for purpose, which supports service delivery but also maximises the use of property assets, thereby reducing the number of buildings and the costs of property.

The solutions to deliver this will be particular to each locality depending on both the nature of the current asset stock and the availability of possible alternatives. Whilst it is reasonable to expect this programme to be self-financing from capital receipts, given the current position with regards to the generation of capital receipts, this is unlikely. At this stage there is no clear view on the level of resources required to deliver the property strategy, and significant further work is required. However, delivery of the strategy is key to unlocking a significant part of the savings included in the revenue budget.

### *6.1.8 Insurance Risk*

The County Council's insurance arrangements, like those for the majority of larger local authorities involve the self-insurance of a range of risks up to a given total value of claims, with certain risks being entirely externally insured. The premiums charged to the revenue budget reflects these arrangements. The significant changes in the scale and nature of the organisation that will take place over the coming three years will require a fundamental reassessment both of the scale of insurable risk that the Council is facing (e.g. there will be fewer properties to insure) but also the balance between external and self-insurance. In the meantime it will be necessary to ensure that the various insurance provisions which relate to historic claims are sufficient to meet the potential calls on them.

In particular the provision made in relation to the Council's potential share of the costs of the winding up of Municipal Mutual Insurance (MMI) needs to be kept under review to ensure Council's potential liability can be met without impacting on the revenue budget.

The County Council has also faced an exceptional and particularly complex series of claims in relation to the fire at Leyland Business Park which have now been settled. Given the exceptional scale and nature of these claims the self-insured element of them would potentially present a risk of a shortfall in the insurance provision unless there was an increase in charges to services which would be a revenue pressure. Again prudence would indicate a need to make specific provision to deal with this exceptional issue reducing the risk of pressure within the revenue budget.

## 6.2 *Assessment of reserves and the availability of one-off resources*

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, and 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 £76.1m 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 it is important the Council maintains a level of reserves which enables the Council effectively manage the risk environment within which it operates.

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 the ability to be flexible in terms of managing the balance between holding reserves and managing budget reductions in 2015/16. However, the longer-term management of the risk environment the council is operating in, and the financial resources available to support that risk requires careful consideration.

The Council is in an almost unique position of having significant one off resources available to assist in managing the level of risk it is facing. The resources available are as follows:

### 6.2.1 The Downsizing Reserve

The Council is undergoing a major transformation to streamline processes and re-design the way in which services are delivered with a reduced workforce. In order to downsize the organisation and its services safely, and provide resources to enable investment to undertake this successfully, the Council's downsizing reserve was established to provide funds to support the cost of voluntary severance, together with investment to pump prime the delivery of the service offers, particularly where investment is required to deliver savings.

At the end of 2014/15, it is forecast that the Council will have £76.1m funds within the downsizing reserve, which enables sufficient flexibility to meet the costs of voluntary severance to March 2017, and provide investment support for ICT development and other pump priming required to deliver the service offers as published. This level of balances within the Downsizing reserve is considered to be adequate to meet the ongoing costs of reshaping the Council. However, this will be reviewed on a regular basis as the Council is likely to require funds, particularly invest to save resources, to support the reshaping process and service offer proposals.

### 6.3 One-Off Resources Available and Calls on the funds

#### 6.3.1 Availability of one-off resources

The following one off resources available are set out in table 6 below:

| <b>One-Off Resource</b>   | <b>£m</b>   |
|---|-------------|
| 2014/15 Capital financing position (as set out elsewhere on Cabinet's agenda) | 52.0        |
| Release of Strategic Investment Reserve                                       | 1.7         |
| One-off resources from within the 2015/16 budget, as set out in paragraph 2.3 | 0.3         |
| Review of earmarked reserves (see below)                                      | 10.7        |
| <b>Total</b>  | <b>64.7</b> |

Table 6

#### 6.3.2 Review of Earmarked Reserves

The opportunity has been taken to conduct a mid-year review of other earmarked reserves to ensure that the Council sets resources aside for appropriate commitments and priorities, and complements the ongoing work which has been reported to Cabinet throughout the year within the Money Matters reports. This has identified a total of £10.736m which can be released from the following reserves, as set out in Table 7 below.

|   | <b>Sum Available</b> |
|---|----------------------|
|   | <b>£m</b>            |
| Local Welfare Reserve (no identified commitments)     | 1.000                |
| Community Support Reserve (no identified commitments) | 0.250                |

|   |               |
|---|---------------|
| Adult Learning Reserve (redundancy costs now to be borne centrally as with other services)        | 1.000         |
| Corporate DFM Balance (no commitments identified)   | 1.746         |
| OCE DFM Balance (no identified commitments)   | 0.117         |
| Property DFM Balance (no identified commitments)  | 0.114         |
| Speed Awareness Reserve (no longer required and no commitments identified)                        | 0.492         |
| Occupational Health (no commitments identified)   | 0.084         |
| LCCG Vehicle Excess Reserve (change of accounting policy means the reserve is no longer required) | 1.428         |
| CYP Reserves (various small sums no commitments identified)                                       | 0.684         |
| Adults - Grant Funded Projects Reserve (sum not required)   | 2.000         |
| Adults LD Remodelling Reserve (sum not required)  | 1.821         |
| <b>Total</b>  | <b>10.736</b> |

Table 7

### 6.3.3 Calls against One-Off Resources

| <b>Issue to be Addressed</b>  | <b>£m</b>     |
|---|---------------|
| Provision for the Waste Infrastructure Grant  | 5.990         |
| Adult Social Care Budget Consultation   | 13.819        |
| Provision to mitigate against the risk re Property Savings in 2015/16 and Deprivation of Liberty Safeguards | 4.000         |
| Insurance Provision   | 1.000         |
| <b>Total</b>  | <b>24.809</b> |

Table 8

This leaves available one-off resources of £39.9m. Cabinet is asked to consider the use of these funds for risk management purposes within the budget proposals to Full Council.

## 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 have been updated to reflect the outcome of consultation and provided with this report to Cabinet for it to be considered before making recommendations to Full Council.

The Equality Analyses documents can be viewed at the following link:

<http://council.lancashire.gov.uk/documents/s54867/Equality%20Analysis%20for%20Service%20Offers.docx?CT=2>

## **8. Conclusion**

The Council continues to face significant financial challenges in the period 2015/16 to 2017/18 and beyond. Austerity is set to continue and alongside this there is considerable legislative, operational and delivery risk. It is vital that the Council maintains robust financial and operational monitoring to oversee the delivery of savings, and is able to take action to respond to the changing environment.

The Council is in an almost unique position with the availability of significant one-off resources to support the effective downsizing over 2015/16 to 2017/18 and beyond, and to provide risk management resources to ensure financial and service sustainability.