

The County Council's Revenue Budget and Council Tax for 2015/16 and Capital Investment Programme for 2015/16 and future years

1 Introduction

The Council has faced an unprecedented period of financial challenge since austerity began in 2010. The funding provided by government to the Council has fallen by 37.3% from 2011/12 to 2014/15, with a further 24.7% reduction in funding forecast over the period 2015/16 to 2017/18. In total, government funding is forecast to have fallen by 62% between 2011/12 and 2017/18. The government has stated that the period of austerity will continue until at least 2020 and that non-protected departments, of which local government is one, will see the same rate of funding reductions in future years as those experienced since 2010.

In addition to the wider public finance environment, the Council continues to face significant challenges from rising costs, from inflation, and from demand for its services. The overall impact is that by 2017/18, the Council will have a net budget available of £684m in 2017/18, compared to £758m in 2014/15. Over the three years 2015/16 to 2017/18 the Council needs to make savings of £241m, which after taking into account the savings agreed by Full Council in February 2014, means that further savings of £178m need to be made.

This report sets out the Cabinet's proposals to Full Council to meet the financial challenges the Council faces through a redesign of the services it provides. The proposals recognise the financial climate in which the budget is being set and the scale of the financial challenge over the next three years. This is more than simply setting a budget for 2015/16; it is also about recognising the scale of the challenge to come.

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

- The revenue budget for 2015/16;
- A revised capital investment programme for 2015/16 and future years
- The Council Tax for 2015/16;

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 three years of the financial strategy is to deliver a balanced budget in 2015/16 and develop budgets for the two years 2016/17 and 2017/18.

The Cabinet has considered aspects of the 2015/16 and future years budgets at a number of its meetings and the reports considered can be found at:

<http://council.lancashire.gov.uk/ieListMeetings.aspx?Committeeld=122>

3 The Context for Setting the 2015/16 Budget

The Cabinet's recommendations for the 2015/16 revenue budget and capital investment programme are framed within the context of the on-going environment of austerity across the public sector.

The challenge facing the County Council is unprecedented. Over the period 2015/16 to 2017/18 the Council needs to make further savings of £178m, which is in addition to the savings agreed by Full Council in February 2014 of £63m. Of the total of £241m of savings to be delivered by 2017/18 £100m falls in 2015/16. Delivering this level of saving whilst seeking to deliver effective services for our communities cannot be achieved without a radically different approach which focuses on service delivery within a reducing budget envelope.

Reshaping public services across Lancashire will require innovative thinking and leadership to secure effective services for our communities and ensure a sustainable future.

The 2015/16 budget is being set within a framework that will deliver a financial strategy for the whole of the period from 2015/16 to 2017/18. The Council will set a balanced budget for 2015/16 and then a budget for the period 2016/17 to 2017/18 that delivers the reshaping of the Council and its operations that will result in a considerable reduction in the scope and scale of the organisation.

The Council has identified a series of cost pressures and reductions in funding for the period 2015/16 to 2017/18 and Cabinet is recommending to Full Council a number of proposals to achieve a balanced budget in 2015/16 and meet a significant proportion of the funding gap identified for 2016/17 and 2017/18.

The pressures identified for this 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 Council's reduction in government funding has been confirmed for 2015/16 in the local government finance settlement announced on 3 February 2015. It is clear

austerity will continue, and the forecast of resources for 2016/17 to 2017/18 reflects the pattern of reductions seen from 2011/12 to 2015/16. However, the level of future resources will be tied to the next Spending Review, the precise timing of which will not be known until after the 2015 general election. The level of government resources in 2016/17 and 2017/18 remains a risk.

A report will be provided to Cabinet in 2015/16 on the results of the Spending Review 2015, which will be published by the Government following the General Election, and in the meantime, alternative funding scenarios will be prepared and considered to take forward longer term financial planning for the Council.

4 The Revenue Budget 2015/16 to 2017/18

4.1 *The financial challenge*

The report to Full Council in February 2014 identified a spending gap (Shown in table 1) for the period 2015/16 to 2017/18 of £161.488m that reflected the forecast spending requirements and the expected level of resources at that time.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Spending Gap as reported to Full Council February 2014	72.946	44.794	43.748	161.488

Table 1

During 2014/15 Cabinet has received a number of reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period.

The pressures identified relate to changes in demand for services and inflation on costs and reflect the significant challenge the Council faces where the demand for the services provided to the public is increasing, for example in areas of adult social care and child protection services at the same time that the resources received are reducing at an unprecedented rate.

The reports to Cabinet during 2014/15 have identified the following further cost pressures and changes in the level of resources available for the period 2015/16 to 2017/18, giving a revised spending gap of £177.563m.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £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	8.186	0.670	0.501	9.357
Inflation and Cost Changes	-1.296	-1.900	-1.469	-4.665
Legacy Financial Pressures	6.031	7.254	2.447	15.732
Total Change to Forecast of Spending	12.921	6.024	1.479	20.424
Less change to forecast of resources:				
Business Rates Top Up grant and RSG	-6.216	1.583	0.134	-4.499
New Homes Bonus	0.557	-1.058	-	-0.501
Additional income from increase in Council Tax base	-3.548	-	-	-3.548
Reduction to Education Service Grant funding	4.864	0.959	1.090	6.913
Increase in business rates income	-1.166			-1.166
Impact of the final settlement - increase funding for Care and Urgent Needs	-1.548			-1.548
Total Change to Forecast of Resources	-7.057	1.484	1.224	-4.349
Revised Spending Gap	78.810	52.302	46.451	177.563

Table 2

4.2 Meeting the challenge - The Service Offer for the Future

In conjunction with the identification of cost and resource changes the Cabinet has consulted upon service offer proposals to deliver the council's services through a re-shaped organisation within the reduced funding envelope in each of the years from 2015/16 to 2017/18.

By 2017/18, the Council will have £684m of net resources (i.e. Council Tax, Government Formula Grant, and New Homes Bonus) to invest in services which deliver the Council's ambitions for the future. However, the Council's overall resources will be more than this, as it receives income from grants and charges for services. By 2017/18 total resources will be £1.2bn.

The Cabinet's set out recommendations for investment in services, whilst being clear on the service offer to communities, and on the savings which this will achieve.

It is clear that given the scale of the financial challenge, this cannot be achieved without impacting upon services. However, the Cabinet has sought to minimise the impact on services by maximising the financial savings delivered from the Council's costs of being in business, whilst ensuring that these reductions enable key support services to be provided at appropriate levels. None of these proposals impact upon services, and all will ensure the Council is effectively supported, albeit at reduced levels.

In terms of our services, the Service Offer proposals for consideration by Full Council reflect the need to manage demand more effectively, particularly in relation to social care, offering earlier help for those who need it and ensuring that preventative services are effective. Helping people earlier in life will build resilience and promote self-help as communities take a greater role in delivering support and improving outcomes. Central to the new Service Offer is the need for the Council to work more closely with communities and partners to develop new ways of delivering services, targeting and combining public services where they can be the most effective.

The proposed service offer sets out what the Council will deliver in terms of services, and the offer to our communities. It describes how the new organisation will work, and where resources will be targeted to deliver against the Council's priorities. The service offer represents the Cabinet's recommendations as to how resources should be invested to maximise the use of reduced funding to deliver priorities.

However, it is recognised that in setting out proposals for investment, the service offer to our communities will change. The Service Offer proposals are set out in detail as Annex 1 to this report.

If we take no action, total spending will be £178m higher than our resources by 2017/18. The service offer proposals, set out both the proposed level of investment in services by 2017/18, and also how the service offers will deliver savings over the next three years.

The total value of the savings from the service offers is set out in Table 3 below, and this shows that over the three year period to 2017/18, the service offer will deliver savings of £146.209m. Further details on the level, and phasing of savings from the service offers is set out in Annex 2 to this report.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Savings from Cabinet's Service Offer proposals	(68.420)	(39.468)	(38.321)	(146.209)

Table 3

Given the increase in funding provided in the final local government finance settlement of £1.548m "to recognise that Councils have asked for additional support, including to help them respond to local welfare needs and to improve social care provision", the Cabinet proposes that this funding be used to provide additional investment in the provision of the Care and Urgent Needs scheme.

5 The level of Resources Available to support the 2015/16 Revenue Budget

The revenue resources which support the County Council's 2015/16 budget are:

- Revenue Support Grant
- Business Rates
- Council Tax
- New Homes Bonus, and
- Specific grants

The level of resources available to the Council in 2015/16 and the forecast for future years is as follows:

Funding:	2015/16 £m	<i>Projected Resource</i>	
		<i>2016/17</i> <i>£m</i>	<i>2017/18</i> <i>£m</i>
Revenue Support Grant	158.963	130.484	102.887
Business Rates	176.724	180.727	185.319
Council Tax	379.630	388.839	391.018
Impact of 1.99% increase in Council Tax	7.474	-	-
New Homes Bonus	3.884	4.990	4.990
Total	726.675	705.040	684.214

Table 4

5.1 *The resources received through the Local Government Finance Settlement.*

The final settlement of £158.963m was announced on 3 February 2015 and identified a level of resource that was greater than previously forecast by £1.548m in 2015/16 due to additional funding being provided to upper tier authorities to provide support in responding to local welfare needs and to improve social care provision.

The final local government settlement has also confirmed the New Homes Bonus grant allocations for 2015/16 of £3.884m which is £0.011m higher than the provisional allocation provided by government.

5.2 *Council Tax Resources*

The level of resource that will be raised through Council Tax has increased considerably in 2015/16 due to an increase in the County's tax base. The main

reasons for the increase in tax base are the number of new houses built during 2014/15, the number of empty properties brought back into occupied use and an increase in the anticipated collection rate reported by the City and Borough Councils.

A surplus on the Collection Fund in 2014/15 in respect of Council Tax has been identified realising one-off resource available in 2015/16 of £5.4m. This is a one-off resource.

5.2.1 Options for Council Tax in 2015/16

The Cabinet recommends that Council Tax be increased in 2015/16 by 1.99% and realise £7.474m of additional income and provide a total Council Tax receipt of £387.104m.

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 £7.474m.

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 an 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 in its calculation.

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
Freeze	4.373
0.50% increase	1.878
1.00% increase	3.756
1.50% increase	5.634
1.99% increase	7.474

Table 5

5.3 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 City and Borough Councils. Following the receipt of the forecast for this income for 2015/16 from the City and Borough Councils, it is estimated the Council will receive funding of £176.724m from business rates and Small Business Rates Relief in 2015/16. In total, this is an increase of £1.166m above the level originally forecast.

Information received from the City and Borough Councils has confirmed a surplus on collection in 2014/15 of £0.426m in respect of Business Rates. 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.

5.4 Specific Grants to be received by the County Council in 2015/16

The following table summarises the more significant specific grants to be received by the Council in 2015/16:

	Allocation 2015/16 £m	
Better Care Fund	79.492	The Better Care Fund is a pooled budget to help local places improve the integration of health and care services. It is designed to enable local places to integrate health and care services that are currently commissioned by the NHS and local authorities. This funding has associated spend tied into various agreements that are required with the NHS
Public Health	59.801	Ring fenced funding only able to be spent in accordance with the conditions of the grant
Transfer of 0-5 children's public health commissioning to Local Authorities	9.034	Ring fenced funding only able to be spent in accordance with the conditions of the grant. The allocation relates to the period October 2015 – March 2016.
Adult Social Care New Burdens	6.885	Related to additional costs identified following the implementation of the Care Act.

Table 6

5.5 Additional one-off resources

In addition to the on-going revenue resources in respect of council tax, business rates, Revenue Support Grant and New Homes Bonus grant, the following one-off revenue resources are available in 2015/16:

Additional one off revenue resources in 2015/16	£m
Council Tax Collection Fund surplus in 2014/15	5.400
Returned New Homes Bonus	0.564
Business Rates Collection Fund surplus 2014/15	0.426
Total one-off revenue resources	6.390

Table 7

In order to balance the 2015/16 revenue budget, Cabinet recommends that the first call on these additional one-off resources is a contribution to the revenue budget of £4.464m. This leaves £1.926m of one-off resources available.

Further one-off resources have been identified in reports to Cabinet during 2014/15:

Additional One-Off Resource	£m
2014/15 Capital financing position	52.000
Release of Strategic Investment Reserve	1.700
Review of earmarked reserves	10.736
Total	64.436

Table 8

This gives a total of one-off resources of £66.362m. A number of calls against this additional one-off resource have also been identified as follows:

Issue to be Addressed	£m
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
Total	24.809

Table 9

5.5.1 Provision for 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.

5.5.2 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.

5.5.3 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.

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.

5.5.4 Deprivation of Liberty Safeguards (DOLS)

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.

5.5.5 Insurance

The County Council has 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 presents a risk of a shortfall in the insurance provision. 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.

Cabinet also proposes that the following be set aside from this one-off resource to support the Capital Investment Programme:

Capital Investment Programme	£m
To provide funding for the shortfall of capital receipts	5.000
To provide funding for the Highways and Transport Masterplans	4.044
Total	9.044

Table 10

Cabinet recommends that, in having regard for the assessment of future risk, the remaining one-off resources of £32.509m be set aside in a reserve for risk management purposes.

6 The Overall Revenue Budget Position for 2015/16

6.1 Summary of Cabinet's Revenue Budget Proposals

The overall impact of the Cabinet's recommendations to Full Council for the 2015/16 revenue budget is set out in the table below. The table reflects the impact of further cost pressures, changes in the level of resources, the Cabinet's recommendation of a council tax increase of 1.99% in 2015/16, its recommendation on the use of one-off resources in 2015/16, the provision of final figures by the City and Borough Councils in respect of Council Tax base and Business Rates income and the impact of the service offer proposals that have been recommended to the Council following consultation with the Council's key stakeholders.

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Spending Gap as set out in para 4.1 above	78.810	52.302	46.451	177.563
(i) Savings from Cabinet's Service Offer proposals	-68.420	-39.468	-38.321	-146.209
(ii) Care and Urgent Needs Scheme	1.548			1.548
(iii) Increase in Council Tax of 1.99%	-7.474			-7.474
(iv) Use of One-off resources	-4.464	4.464		-
Remaining Savings gap	0	17.298	8.130	25.428

Table 11

While the County Council now has certainty over the level of resources available in 2015/16 the scale of the challenge to deliver further savings of £177.6m in 2015/16 to 2017/18 will require resources to be set aside to fund the costs of downsizing and reshaping the organisation.

6.2 Revenue Budgets for Services in 2015/16

The Cabinet has identified service offer proposals (shown at Annex 1) to invest the 2015/16 revenue budget as set out in table 12. This table summarises the revenue budget by service offer. Indicative service revenue budgets for 2016/17 and 2017/18 are shown at Annex 3 of this report.

Revenue budget 2015/16	Gross Budget £m	Income £m	Net Budget £m
Cost of Being in Business	103.968	(51.937)	52.031

Service Offer Proposals			
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	104.908	(20.152)	84.756
Other Environment Services	16.500	(10.629)	5.871
Cultural Services	20.460	(5.130)	15.330
Economic Development and Skills	19.571	(18.913)	0.658
Care and Urgent Needs	1.548	-	1.548
Total for the Service Offers	1,014.486	(367.772)	646.714
Financing Charges	50.794	(18.400)	32.394
Use of one off resources		(4.464)	(4.464)
Revenue budget 2015/16	1,169.248	(442.573)	726.675
Funded by			
Business rates			176.724
Council Tax			387.104
Revenue Support Grant (RSG)			158.963
New Homes Bonus			3.884
Total Resources			726.675

Table 12

Since the meeting of the Cabinet on 5th February 2015 the translation of the allocations of resources to services into cash limits which reflect the new organisational structure have been approved by the Deputy Leader and the County Treasurer under delegated powers approved at the Cabinet meeting on 5th February 2015. The report, and resulting cash limits, are set out at Annex 4.

Given the significant change to the new organisational structure, further minor adjustments between Head of Service budgets may be required in 2015/16.

As part of this work @ 17,500 budget lines have been reviewed to ensure that all budgets are mapped to both the service offer and the new Head of Service management structure and that all income and expenditure are properly identified, avoiding inappropriate "netting off" in accordance with the relevant accounting standards.

As part of this detailed review undertaken, the analysis has identified areas where expenditure and income had indeed been "netted off" and it is appropriate accounting for both income and expenditure to be shown separately, thereby providing a full transparent view of the councils spending and resources. This has a

£30m impact and is largely in relation to the Schools PFI, Public Transport and financing charges.

The resulting restatement of the proposed investment in services, is set out below:

Revenue budget 2015/16	Gross Budget £m	Income £m	Net Budget £m
Cost of Being in Business	105.937	(53.906)	52.031
Service Offer Proposals			
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	133.614	(79.112)	54.502
Highway Services	75.316	(44.498)	30.818
Bus & Rail Travel	48.671	(15.533)	33.138
Waste Management	104.908	(20.152)	84.756
Other Environment Services	16.500	(10.629)	5.871
Cultural Services	20.460	(5.130)	15.330
Economic Development and Skills	19.571	(18.913)	0.658
Care and Urgent Needs	1.548	-	1.548
Total for the Service Offers	1,039.475	(392.761)	646.714
Financing Charges	50.794	(18.400)	32.394
Use of one off resources		(4.464)	(4.464)
Revenue budget 2015/16	1,196.206	(469.531)	726.675
Funded by			
Business rates			176.724
Council Tax			387.104
Revenue Support Grant (RSG)			158.963
New Homes Bonus			3.884
Total Resources			726.675

Table 13

7 The Capital Investment Programme

This section of the report sets out the level of additional capital resources made available to the County Council through the Local Government Finance Settlement and other sources together with the Cabinet's proposals for the 2015/16 Capital Investment Programme.

7.1 Resources Available to the Council

Resources available to the Council to support capital investment are from a number of sources:

- Central government support
- Capital receipts
- The Council's revenue resources

7.1.1 Central Government Support for Capital Spending

The Cabinet proposes that the central government support for capital spending is passported directly for the purposes it was intended, on the basis these areas represent key priorities, and in addition, government statements over the years have highlighted the risk that such diversion of resources *could* result in lower allocations in future years.

7.1.2 Schools and Early Years (both the improvement of existing schools and the provision of new places)

The grant for 2015/16 has not yet been announced by the government, but indicative figures received earlier in the financial year were £21.168m for 2015/16, of which c£8m was for basic need (i.e. new school places), which is likely to leave a demand pressure in terms of resources for new places. The remaining £13.168m is to fund maintenance and minor improvements.

7.1.3 Integrated Transport Funding

This resource transfers to the Lancashire Enterprise Partnership as part of the Local Growth Fund allocation.

The recent round of announcements have provided £6.054m each year from 2015/16 to 2020/21, which will provide matched funding for masterplan schemes included within the Growth Deal. However, given the scale of resources required for delivery of the masterplans there is a shortfall of £4.044m over the period to 2017/18 between the resources available and the intentions set out in the various masterplans. Cabinet propose that this shortfall be met from within the one-off resources available within the revenue budget.

7.1.4 Highway Maintenance Funding

The recently announced allocations for highways maintenance are:

Total allocation (£m) 2015/16	Total allocation (£m) 2016/17	Total allocation (£m) 2017/18	Indicative allocation (£m) 2018/19	Indicative allocation (£m) 2019/20	Indicative allocation (£m) 2020/21
23,075	21,154	20,514	18,567	18,567	18,567

Table 14

Allocations over a longer term are welcome, and enable greater certainty in financial and operational planning. However, given the level of annual spending requirement outlined in the Transport Asset Management Plan there is inadequate funding of c£29m over the six year period. Of this, £10.257m falls over the period 2015/16 to 2017/18.

7.1.5 Better Care Fund (BCF)

A further ring fenced category has emerged with the introduction of the Better Care Fund (BCF) which will include both the General Social Care Capital Grant and the Capital Grant for Disabled Facilities Grants.

- The general social care capital grant allocation of £3.073m in 2015/16 will form part of the overall BCF and must be spent on delivering the overall objectives of the Fund with sign off by the Health and Well Being Board. The County Council has already agreed to commit the 2015/16 allocation of £3.073m to the delivery of the Extra Care strategy.
- The capital grant for disabled facilities grants of £6.365m must be passported to the City and Borough councils, and it is proposed that these be passported in line with the grant conditions.

7.1.6 Capital Receipts

The current capital programme requires capital receipts of £29m to support existing commitments in 2015/16 and later years, with £21m required in 2014/15. This includes both earmarked receipts (where the sale of a specific asset has been earmarked to fund a specific scheme) and general receipts which support the overall programme.

The forecast for capital receipts has been reviewed in light of current market conditions. Taking the position on earmarked receipts and general receipts together there is a potential shortfall over the next 2 years of between £4m-£5m, on the assumption that all disposals scheduled in 2015/16 take place and deliver the estimated receipts. Given the current market conditions, it is likely that major receipts such as the Building Schools for the Future sites will take much longer to deliver receipts than previously anticipated due to the need to do significant work to achieve development schemes for the sites which maximise the receipt for the Council.

Given the financial uncertainty surrounding these resources, Cabinet has proposed that £5m of the extra-ordinary position in relation to capital financing in be set aside to provide alternative funding for the capital programme. When the receipts are realised, the funding will be available to support the Council's capital investment priorities.

7.1.7 Revenue Resources

The Council can use revenue resources whether from the revenue budget or available one off resources to finance capital expenditure. Currently, revenue resources of £3.2m per annum are included within the service offer going forward to fund the vehicle replacement programme across a range of operational services including Highways, Countryside and Travelcare.

7.2 Capital Investment Issues

As ever, there are competing priorities for the use of capital resources. One key issue is the requirement to invest in the repairs and renewals needed to maintain our assets, in order to reduce the risk of the deterioration of the asset.

A potential overall requirement for repairs and renewals is set out below and is based on either current spending levels or initial estimates in relation to areas where it is known that there are ongoing requirements which are not currently provided for.

	Starts Per Annum £m
Repairs and Renewals	
Structural Maintenance of Buildings <i>(More significant planned maintenance spend such as roof and boiler replacements)</i>	1.500
Minor Improvement Works <i>(Small alteration schemes to buildings to adapt to changing user requirement and issues such as disability adaptations)</i>	0.750
Maintenance of Non Highway Structures <i>(There is currently no provision for structures like the Crook O' Lune bridge where a planned approach rather than crisis response would be beneficial)</i>	0.500
Energy and Water Conservation Measures <i>(Very few schemes met the criteria for the previous revolving fund arrangement and in future direct investment based on an appropriate business case allowing the taking of the full relevant revenue saving would be appropriate.)</i>	0.500
Total Repairs and Renewals	3.250

Table 15

7.3 A Capital Starts Programme for 2015/16 and Beyond

Cabinet has proposed:

- That all central government resources announced for all years are passported to the relevant programmes to support equivalent amounts of spending, as shown in the draft programme at Annex 5. For the Highways and Transport

Programme a proposed allocation of these resources is at Annex 6. As the Schools resource remains provisional it is proposed that the detailed allocation is determined by the relevant Cabinet Member(s) as in previous years and that any adjustments to phasing as a consequence of this are delegated to the s151 Officer.

- The Disabled Facilities Grant be passported to the City and Borough Councils in line with the relevant grant conditions.
- The programme incorporates a vehicle replacement programme to 2017/18 set at a level in line with the resources currently available within the revenue budget, but subject to the agreement of the detailed overall replacement programme by the relevant Cabinet Member(s).
- That the identified shortfall of capital receipts be addressed by setting aside £5m of the one-off resources available in 2015/16 to provide funding for the capital investment programme.
- That funding for capital investment of £4.044m is set aside from the additional one-off resources available in 2015/16 in relation to the identified shortfall on resources for the Highways and Transport masterplans.

The Capital Investment Programme for 2015/16 and beyond incorporating the above recommendations is summarised in the table below, with further detail provided in Annex 5, with details of the Highways and Transport programme set out in Annex 6.

Capital Investment Programme	2015/16	2016/17	2017/18	Later years	Total
	£m	£m	£m	£m	£m
Schools	44.661	4.346	3.580		52.587
Highways Maintenance	32.733	20.454	19.964		73.151
Transport Improvement schemes	70.861	5.695	5.870		82.426
Adult Social Care	16.454	6.787	0.213		23.454
Children and Young People's services	11.733	3.225	0.002		14.960
Waste and other projects	1.339	0.500	7.307		9.146
Corporate Programmes	15.777	12.962	0		28.739
Vehicle replacement programme	5.900	3.200	3.200		12.300
City Deal	42.094	75.128	26.974	177.646	321.842
Total Programme	241.552	132.297	67.110	177.646	618.605

Table 16

Financed by:	2015/16	2016/17	2017/18	Later years	Total
	£m	£m	£m	£m	£m
Borrowing	41.262	21.207	0	0	62.469
Capital Receipts	11.085	4.289	8.638	0	24.012
Revenue contributions	8.738	1.725	1.766	0	12.229

Internal Loan	5.905	3.200	3.200	0	12.305
Single Capital Pot grant	71.944	28.886	22.390	14.999	138.219
Other grants and contributions	68.381	29.236	41.058	212.680	351.355
City Deal temporary resources	25.520	43.754	(16.584)	(50.033)	2.657
Total Income	232.835	132.297	60.468	177.646	603.246
Over-programming	8.717	0	6.642	0	15.359

Table 17

In addition this programme incorporates changes in phasing to reflect the latest budget monitoring position, and:

- The various changes to the programme already agreed to support the delivery of the Preston Bus Station scheme (incorporating the Youth Zone). Specifically this involves a change in the level of provision for Short Break Units for Children with Disabilities to match the resources within the revenue service offer and the level of demand. This follows the review of commitments against the capital programme for Children and Young People's Services which was requested by Cabinet when the revised bus station scheme was approved.
- Incorporates the expenditure that will be incurred by the County Council (on behalf of the LEP) on all City Deal schemes as separately identified programmes. It will be necessary to incorporate the detail of the various Growth Deal Schemes for which the County Council will be accountable body when that Deal is signed.

This programme reflects over programming of £15.4m (4.3%). This excludes the City Deal where the cash flow impact is dealt with through a separately agreed mechanism and is reflected within the revenue budget for 2015/16 and the financial strategy for future years.

8 Council Tax for 2015/16

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

Budget Requirement	726.675
Less formula grant	158.963
Less Retained Business Rates	176.724
Less New Homes Bonus grant	3.884
Equals council tax cash	387.104
Divided by tax base	342,636.38
Gives Band D council tax for 2015/16	1,129.78
2014/15 council tax	1,107.74
Percentage increase	1.99%

Table 18

9 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 Annex 7.

The various stakeholders consulted were:

- The County Council's Budget Scrutiny Committee
- 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
- Lancashire Safeguarding Children's Board
- Lancashire Care Association
- The Older people's Forum
- The Chamber of Commerce
- The Lancashire Enterprise Partnership
- Healthwatch Lancashire
- The Clinical Commissioning Groups
- Young people's engagement forums

10 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.

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.

The Impact assessment documents are at Annex 8

11 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.

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.

11.1 Overview of the Risk Environment

11.1.1 Level of Future Resources from Central Government and On-going Austerity

The final Local Government Finance Settlement published on 3 February 2015 sets out the resources available for the Council in 2015/16, however 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.

11.1.2 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.

11.1.3 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.

11.1.4 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 2016 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.

11.1.5 The Capital Investment programme

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 as follows:
- *Expenditure Side Risks*

There are two key risks on the expenditure side. The first is the clarity of specification where the Council has a reasonably good record and where the nature of the schemes being undertaken which tend to mirror schemes previously undertaken means that the risk is fairly well contained. In addition there is a tradition within the Council of using prudent estimating assumptions including optimism bias which mitigate against this risk. The second relates to tender prices which are largely driven by the state of the construction market. As the economy grows this risk increases, however, the Council has a good record of engineering costs down and the various partnering frameworks with contractors provide some mitigation against this risk.
- *Resource Side Risk*

The key risks in terms of capital resources are firstly the generation of sufficient capital receipts, It appears that the market is improving somewhat and simpler disposals are being achieved. However, there are a number of more major disposals where the nature of the eventual disposal is more complex and may involve the County Council having to wait longer to receive a receipt. In these cases the ultimate receipt (and the nature of the eventual development) may well be better than might otherwise be expected. Generally there is sufficient slippage in the programme to cover this risk, however, as one of the objectives of the new organisational structure is to improve capital programme delivery the risk in this area is likely to increase, although as indicated above this is a timing issue and not an issue that will increase the underlying need to borrow in the longer term.
- *Demand Risk*

Capital resources remain scarce and the level of demand for capital investment is likely to continue to be greater than the resources available to fund it for some considerable time into the future. Consequently the commissioning process that lies at the heart of the new organisational design will need to provide a prioritisation process that allows demand for and supply of resources to be matched. Even so there are service areas where demand, for example for school places, seem likely to consistently exceed resources going forward and consideration will need to be given to innovative ways of meeting these areas of demand.

- 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.

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.

11.1.6 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.

11.1.7 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.

11.1.8 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.

11.2 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:

11.2.1 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.

12 Conclusion

The Cabinet's recommendations to Full Council present a balanced budget for 2015/16 with the use of £4.464m of one-off resources. However 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.