Appendix A

The County Council's Revenue Budget and Council Tax for 2016/17 and Capital Investment Programme for 2016/17 and future years

1. Introduction

The Council has faced an unprecedented period of financial challenge since austerity began in 2010. The funding provided by central government to the County Council has fallen by 50% from 2011/12 to 2015/16. The Provisional Settlement announced by the Secretary of State shows that the funding from 2015/16 (with the SFA for 2015/16 adjusted to reflect change in grants included within the SFA) to 2019/20 is showing a further reduction of £117.7m (34.7%).

In addition to the wider public finance environment, the County Council continues to face significant challenges from rising costs; from National Living Wage and contractual inflation as well as increasing demand for its services.

The current Medium Term Financial Strategy estimates that in 2020/21 the County Council will have a net budget available of £682m. This compares to £727m in 2015/16. From 2016/17 to 2020/21 the County Council needs to make a further £200.507m in addition to the £64.864m savings agreed Cabinet in November 2015.

This report sets out the Cabinet's proposals to Full Council to meet the financial challenges the County 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 four years.

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

- The revenue budget for 2016/17;
- A revised capital investment programme for 2016/17 and future years
- The Council Tax for 2016/17.

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

2. The Budget Process

The County Council's approach is driven by a formal requirement to deliver a balanced budget in 2016/17. This needs to be undertaken whilst recognising the position for future years. The Cabinet has considered the budget for 2016/17 and future years at a number of its meetings. The reports considered can be found at:

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

3. The Context for Setting the 2016/17 Budget

The Cabinet's recommendations for the 2016/17 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. The current 2016/17 budget includes £20.252m of savings identified in February 2015 and a further £64.864m identified by Cabinet in November 2015 which need to be met. Despite these reductions, the last reported MTFS showed that there is still a funding gap of £23.257m in 2016/17. Over the period 2016/17 to 2020/21 it is estimated that the County Council needs to make further savings of £200.507m. 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.

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 contractual prices, pay and the impact of the National Living Wage.

The County Council's reduction in government funding has yet to be confirmed for 2016/17 with the final local government finance settlement expected to be announced during February 2016. However, the provisional settlement has indicated significant reductions in 2016/17 and it is not anticipated that there will be a major change in the final announcement. The provisional settlement gives indicative figures for future years and it is clear that austerity will continue. The forecast of resources for 2017/18 to 2020/21 reflects the reductions indicated in the provisional settlement. However, the level of future resources is subject to change and therefore the level of funding remains at risk.

Reports will be provided to Cabinet in 2016/17 to update the financial position for the County Council based on the latest information.

4. The Revenue Budget 2016/17 to 2020/21

4.1 The financial challenge

The County Council's Medium Term Financial Strategy (MTFS) was approved by Full Council in February 2015 covering the 2015/16 budget and the forecast position for 2016/17 to 2017/18. This identified a funding gap of £18.3m in 2016/17 and £8.1m in 2017/18 (£26.4m in total). The County Council also agreed that the MTFS should be reviewed following the General Election in May 2015. It was also agreed that the period of the MTFS should be extended to cover the full life of the parliamentary term (to 2020/21).

During 2015/16 Cabinet has received a number of MTFS reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period. The latest MTFS report to Cabinet in January 2016 showed a revised spending gap of £200.5m (by 2020/21) after £64.864m of savings had already been agreed in November 2015.

4.2 Meeting the challenge

In February 2015 the County Council considered a set of proposed service offers which set out what the County Council will deliver in terms of services and the offer to our communities. The service offer represented Cabinet's agreement as to how resources should be invested to maximise the use of reduced funding to deliver priorities. Savings made from these proposals formed part of the 2016/17 and 2017/18 budget. As reported to Cabinet during 2015/16, the MTFS was adjusted to take into account those savings that are not deemed to be achievable.

In November 2015, Cabinet approved new budget reductions of £64.177m in 2016/17 and £0.687m in 2017/18. The 2016/17 budget is prepared based upon these revenue decisions, with the outcome of any consultations being reported to Full Council. The MTFS incorporates these budget reductions.

The total value of the savings proposed are shown below:

Table 1

	2016/17 £m	2017/18 £m	Total £m
Prior year Savings agreed within MTFS	-20.252	-44.434	**-64.686**
Savings agreed November 2015	-64.177	-0.687	**-64.864**

Reports to Cabinet have clearly identified that the revenue budget for 2016/17 and 2017/18 will be heavily supported by reserves. The value of the County Council's reserves is currently significant but they are non-recurrent. Except for the County Fund, all available reserves are now fully committed over the next 2 years and will not therefore be available in later years to support managing future year budget pressures.

5. The level of Resources Available to support the 2016/17 Revenue Budget

The revenue resources which support the County Council's 2016/17 budget are:

- Revenue Support Grant ;
- Business Rates ;
- Council Tax ;
- New Homes Bonus ;
- New Better Care Fund, and
- Capital receipts.

In addition to these the County Council receives a number of ring-fenced grants.

The level of resources reflected in the MTFS for 2016/17 and future years is as follows:

Table 2

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Revenue Support Grant	118.841	81.508	56.979	32.894	26.928
Business Rates	177.985	179.418	185.508	190.480	195.569
Council Tax	404.349	406.529	407.543	408.562	409.584
New Homes Bonus	5.083	5.530	3.475	3.334	3.334
Better Care Fund	0	3.210	22.656	40.014	40.014
Capital receipts	5.000	12.500	5.000	0.000	0.000
Total	**711.258**	**688.695**	**681.161**	**675.284**	**675.429**

These figures are subject to change once the final settlement is given and will be adjusted for the impact of the final Council Tax base figures as discussed below.

5.1 The resources received through the Local Government Finance Settlement

The Provisional Settlement was announced on 17th December 2015 and identified a level of resource that was less than anticipated. The provisional settlement figures are reflected in the table above and within the MTFS. The Settlement provided allocation on RSG, Business Rates baseline information and New Homes Bonus.

5.2 Council Tax and Adult Social Care Precept Resources

As part of the provisional settlement the Secretary of State confirmed that the Council Tax referendum threshold would remain at 2%. In addition to this, there is a new 2% social care precept that can be raised by authorities with adult social care responsibilities. The Secretary of State will take account of these authorities' actions when setting referendum principles in future years.

There is a requirement for Section 151 officers in those authorities levying the social care precept to provide information demonstrating that an amount equivalent to the additional Council Tax has been allocated to adult social care. This must be done within 7 days of their authority setting its budget and Council Tax for 2016/17. In subsequent years of the Parliament, Section 151 officers will be required to confirm that this additional Council Tax continues to be allocated to adult social care.

Any proposals for a Council Tax increase above these thresholds will be subject to a referendum.

5.2.1 Options for Council Tax in 2016/17

On 21st January 2016 Cabinet recommended to Full Council that the Band D Council Tax for 2016/17 has a 3.99% increase including 2% to be used for the social care precept. The Council Tax figures within the MTFS include the impact of a 3.99% increase in Council Tax in 2016/17 only.

Since producing the MTFS the District Councils have confirmed both the Council Tax-base and the surplus on the Collection Fund. The confirmed tax base shows a higher increase than anticipated. The impact of the change in the tax-base gives an on-going increase in the Council Tax income received of £7.453m. This is £5.653m higher than previously forecast.

A £7.037m surplus on the Council Tax Collection Fund in 2015/16 has been identified giving a one-off resource available in 2016/17.

The table below shows the impact of Council Tax increases in increments of 1.0% ranging from a freeze to an increase of 3.99%, which includes the 2% Adult Social Care precept:

Table 3

Impact of an Increase in Council Tax	2016/17 £m
Freeze	7.167
1.00% increase	11.110
2.0% increase	15.054
3.0% increase	18.994
3.99% increase	22.899

5.3 Business Rates resources

From 2013/14 an element of the County Council's funding is received from the locally retained element of Business Rates collected by the District Councils. Following the receipt of the forecast for this income for 2016/17 from the District Councils, it is estimated that the County Council will receive funding of £177.983m from Business Rates (including top up grant) and Small Business Rates Relief in 2016/17.

Information received from the Districts has confirmed a deficit in 2015/16 on the Business Rates collection of £2.334m. This will reduce the one-off resources as shown in Table 6.

5.4 Capital receipts

In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt. However, from 1st April 2016 the Government has proposed that capital receipts can be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to be a project which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of service reform.

The current estimates of the capital receipts to be generated are as follows:

Table 4

	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Capital receipts generated	5.0	12.5	5.0	22.5

There is suitable expenditure within the revenue budget to enable the estimated £22.5m to be applied. These receipts would normally be applied to the Capital Programme. If they are used for revenue, the Capital Programme will either have to be reduced or be funded from an increased level of borrowing.

These receipts are one-off resources and there is a possibility that the level of receipts to be generated from the sale of assets will not be maintained for a sustained period of time. The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that the receipts actually received will be less than estimated.

5.5 Specific Grants and contributions to be received by the County Council in 2016/17

The following table summarises the more significant specific grants to be received by the Council in 2016/17:

Table 5

Grant	Estimated Allocation 2016/17 £m	Description
Better Care Fund	20.7	The Better Care Fund is a pooled budget to help 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	72.0	Ring fenced funding only able to be spent in accordance with the conditions of the grant.

5.6 One-off revenue resources

As referred to in section 5.2.1 and 5.3 the following one-off revenue resources are available in 2016/17 in the table overleaf:

Table 6

Additional one off revenue resources in 2016/17	£m
Council Tax Collection Fund surplus	7.037
Business Rates Collection Fund deficit	-2.334
Total one-off revenue resources	**4.703**

In order to balance the 2016/17 revenue budget it is currently estimated that a contribution from reserves will be required. It is proposed that these one-off resources are contributed to reserves.

5.7 Reserves

Cabinet agreed a report which transferred £117.2m from existing reserves to a Transitional Reserve to support the revenue budget in 2016/17 and part way through 2017/18. This amount assumes that the change in Minimum Revenue Provision (MRP) policy is agreed at this Full Council meeting.

A significant number of the saving proposals agreed in November will take some lead-in time to deliver. The cost incurred during this lead in time will be met from reserves.

The table below sets out the summary of the proposed use of reserves to meet the budget proposals and the funding gap identified within the updated MTFS:

Table 7

	2016/17 £m	2017/18 £m
Transitional Reserve available	117.2	47.4
Reserves required to support budget proposals	46.5	24.2
Reserves required to meet funding gap	23.3	51.5
Balance of Transitional Reserve	**47.4**	**-28.3**

This table shows that there are £28.3m of reserves less than required. The Transitional Reserve is not adequate to support the full year in 2017/18 and reinforces the need to immediately commence the budget setting process for that year. This position has been updated to reflect the latest information in table 9.

6. The Overall Revenue Budget Position for 2016/17

6.1 Summary of Cabinet's Revenue Budget Proposals

The overall impact of the Cabinet's recommendations to Full Council for the 2016/17 revenue budget and the potential changes are set out in the table overleaf.

The table reflects the following:

- Impact of further cost pressures,
- Changes in the level of resources that are currently known,
- The Cabinet's recommendation of a council tax increase of 3.99% in 2016/17,
- The anticipated use of one-off resources in 2016/17,
- 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 Full Council following consultation with the County Council's key stakeholders.

In the table, the additional Council Tax-base income is applied to reducing the funding gap from £200.507m to £194.854m, and the additional one-off resources are applied to reserves.

Appendix A

Table 8

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**Total £m**
Spending Gap as reported to Full Council February 2015	**18.300**	**8.130**				**26.430**
Add change to forecast of spending:						
Service Demand and volume Pressures	28.119	4.506	16.180	17.357	18.896	**85.058**
Inflation and Cost Changes	-4.432	2.526	26.879	27.380	29.028	**81.381**
Loss of specific grant	4.000					**4.000**
Savings identified	-23.392	11.367				**-12.025**
Total Change to Forecast of Spending	**4.295**	**18.399**	**43.059**	**44.737**	**47.924**	**158.414**
Change to forecast of resources:						
Central government funding	21.577	8.849	0.020	0.877	-0.145	**31.178**
Business rate pooling	-0.400	0.400				**0**
Capital receipts	-5.000	-7.500	7.500	5.000		**0**
Council Tax increase 2016/17	-15.515					**-15.515**
Total Change to Forecast of Resources	**0.622**	**1.749**	**7.520**	**5.877**	**-0.145**	**15.663**
Revised Spending Gap as reported to 21 Jan 2016 Cabinet	**23.257**	**28.278**	**50.579**	**50.614**	**47.779**	**200.507**
Increase Council Tax income due to tax-base	-5.653					**-5.653**
Application of reserves	-17.603	17.603				**0**
Funding Gap	**0**	**45.881**	**50.579**	**50.614**	**47.779**	**194.854**

The updated position for reserves used to help meet the funding gap is as follows:

Table 9

	2016/17 £m	2017/18 £m
Transitional Reserve available	121.9	57.8
Reserves required to support budget proposals	46.5	24.2
Reserves required to meet funding gap	17.6	45.9
Balance of Transitional Reserve	**57.8**	**-12.3**

This table shows that there is currently a £12.3m reserve shortfall.

6.2 Revenue Budgets for Services in 2016/17

The budget outlined above results in net expenditure on services of £696m. The budget by service is summarised below:

Table 10

Revenue budget 2016/17	Net Budget £m
Service	
Adult Social Care	332.663
Chief Executive	1.035
Children's Services	99.594
Community Services	129.024
Corporate Commissioning	13.715
Customer Access	3.607
Development and Corporate Services	39.496
Governance, Finance and Public Services	13.992
Lancashire Pension Fund	-2.097
Corporate & Other	41.149
Public Health	24.013
Sub-Total	**696.191**

Financing Charges	33.324
Use of one off resources	-17.603
Revenue budget 2016/17	**711.912**
Funded by	
Business rates	177.985
Council Tax	410.002
Revenue Support Grant (RSG)	118.841
New Homes Bonus	5.084
Total Resources	**711.912**

7. The Capital Investment Programme

This section of the report sets out the following:

- an outline of the 2016/17 and following two years draft capital programme including known projects and the effect on the capital programme of a number of Budget Options identified as part of the Cabinet discussions on the 26th November 2015;

- summary of the proposed funding of the 2016/17 capital programme and the revenue implications of the increased use of prudential borrowing;

Minor updates have been made to the report approved by Cabinet on 21st January 2016 which has not materially impacted to borrowing requirement.

7.1 Provisional Capital Programme for 2016/17 – 2018/19

Table 11 below details the proposed provisional capital programme for the period 2016/17 to 2018/19. City Deal is included only where LCC make a direct contribution to it or where the County Council is supporting the cash flow requirements of the project in the early years.

City Deal and other Lancashire Economic Partnership activity is reported separately via the existing LEP reporting and performance framework. LCC is the accountable body for the LEP.

Appendix A

Table 11

Table 3 Provisional Capital Programme	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**Total £m**
Programme approved February 2015				
a) 2015/16 and Prior Year Starts projects forecast requirement				
East Lancs Strategic Cycle Network	0.800	0.500		**1.300**
North Valley Road traffic model and business case	0.500	0.500		**1.000**
Ormskirk Town Centre/ A570 Congestion Relief	0.375	0.500		**0.875**
Street Lighting Challenge Fund project	5.000	4.800		**9.800**
Non highways structures	0.110	0.050		**0.160**
Burnley Town Centre	0.700	0.550		**1.250**
Fire Suppression systems at Waste plants	1.500	2.000		**3.500**
Waste transfer station (East)	0.500	7.307		**7.807**
Adult (of which 5.967m in 2016/17 relates to Extra Care Strategy, only £5.573m of which has not yet been programmed)	6.787	0.213		**7.000**
Corporate	0.129	1.333		**1.462**
Vehicles	2.850	2.850		**5.700**
Schools	4.346	3.580		**7.926**
CYP non schools	3.225	0.002		**3.227**
b) Removal of unprogrammed budgets				
Waste transfer station (East)		(7.307)		**(7.307)**
c) 2016/17 and 2017/18 Starts approved in Feb 2015 programme to spend Single Capital Pot grants confirmed by DfT as available in that year				
Highways Maintenance	20.454	19.964		**40.418**
Transport	3.570	3.320		**6.890**
LCC contribution to City Deal from Local Transport Plan	2.500	2.500		**5.000**

Appendix A

New for inclusion in February 2016 programme				
a) The following amounts have already received Cabinet approval and are now being listed for inclusion in the draft Capital Programme				
Schools Playing Fields programme	0.783	0.253		**1.036**
Local Priorities Response Fund	2.500			**2.500**
Schools Single Capital Pot grant from DfE for Basic Need per Schools Capital Strategy Cabinet Report-allocations for 16/17 £8.891m plus 17/18 £29.006m (7/18 phased over 2 years)	8.891	9.006	20.000	**37.897**
Property Portfolio Rationalisation-Neighbourhood Centres suitability investment	10.000	5.000	5.000	**20.000**
Property Portfolio Rationalisation-Neighbourhood Centres dilapidations on terminated or surrendered leases	0.750	0.750		**1.500**
Additional Heysham funding required not previously in Capital Programme	3.772			**3.772**
Green Energy Fund to enable research and development to support and develop green energy businesses, develop energy solutions for the County Council and the communities of Lancashire including the use of the County Council`s buildings to generate energy, as approved at Full Council 12th February 2015.	2.500	2.500		**5.000**
b) The following amounts have NOT previously received Cabinet approval. Each year DfT and DfE provide Single Capital Pot grants for Highways, Transport and Schools capital programmes. The figures below represent the value of those programmes that are equivalent to the amount indicated as being available by DfT and DfE, but not yet confirmed. Historically these amounts have been "passported" to be spent as indicated by DfT and DfE, but this principle could now be reconsidered. The only restrictions attached to these grants are that they are to be spent on capital.				
Highways Maintenance equivalent to indicative allocation			18.567	**18.567**
Transport equivalent to indicative (£6.054m less City Deal contribution £2.5m)			3.554	**3.554**

Contribution to City Deal			2.500	**2.500**
Single Capital Pot Schools indicative Condition allocations	11.319	11.319		**22.638**
c) Economic Development schemes				
SFBB Phase 2	5.400			**5.400**
Phase 2 Skelmersdale Rail Link study	0.500	3.200		**3.700**
d) The following were Budget Options approved at Cabinet on 26th November 2015.				
County Hall refurbishment (£1.4m training/ conference centre plus £2.2m for office refurbishment)	3.600			3.600
Parish Buses	0.500	0.500		1.000
Street Lighting Energy Contract Invest to save to convert 50% of remaining non LED lanterns not currently being replaced via DfT Challenge Fund programme	2.000	3.000		5.000
Total Programme	**99.761**	**74.690**	**49.621**	**224.072**

The table above does not include the impact arising from variances in expenditure and funding during 2015/16. Analysis of this impact will be undertaken as part of the year end accounting process.

It should be noted that the above is based upon the principle agreed with the Budget Scrutiny Working Group that prudential borrowing should take place wherever possible, rather than utilisation of capital reserves. Capitalisation of activity is subject to regulatory control and a review is undertaken prior to capitalisation to ensure compliance. In particular, within the CIPFA code, site selection is not regarded as eligible capital expenditure.

7.2 Funding Implications

The capital programme is currently funded by a variety of funding streams including specific government capital grants, capital receipts, LCC revenue funds and prudential borrowing. A number of actions are being recommended within this report including ceasing to fund the capital programme from the use of revenue and revenue reserves and utilise more prudential borrowing. The total borrowing is £61.281m.

7.2.1 Capital Receipts

In line with new Government legislation taking effect from 1st April 2016, capital receipts are included in the MTFS Strategy to support revenue. Capital receipts are excluded from Table 13 below with the exception of those specifically earmarked for a scheme included in the capital programme. There are two anticipated sources of capital receipts:

- The Property Portfolio Rationalisation Strategy regarding Neighbourhood Centres includes expected capital receipts from the sale of surplus properties of approximately £11m; and
- Expected capital receipts from property other than Neighbourhood Centres of approximately £11.5m.

The estimated figures for capital receipts detailed above could change as a result of:

- Open market conditions at the point of sale of individual properties;
- The outcome of the exercise currently ongoing by officers in Asset Management to apply the principles of the Property rationalisation strategy approved by Cabinet on 26th November 2015; and
- Proposals to transfer surplus properties to third party organisations at a nominal sum as an alternative to sale on the open market.

7.2.2 Proposed funding

Table 12 overleaf summarises the funding sources for the capital programme up to 2018/19:

Table 12

Capital Programme Funding	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**Total £m**
Capital Programme per table 3	**99.761**	**74.690**	**49.621**	**224.072**
less				
Capital receipts earmarked for School Playing Fields programme	(1.036)			**(1.036)**
Single Capital Pot Grants confirmed by DfE and currently on DfE website:				
SCP Schools Basic Need	(8.891)	(14.484)	(14.522)	**(37.897)**
SCP Highway maintenance	(20.514)	(18.567)		**(39.081)**

SCP Transport (Local Transport Plan)	(6.054)	(6.054)		**(12.108)**
Single Capital Pot Grants indicative:				
Schools Condition	(11.319)	(11.319)		**(22.638)**
Highway maintenance			(18.567)	**(18.567)**
Transport (Local Transport Plan)			(6.054)	**(6.054)**
Other Grants and Contributions:				
Allocated in Feb 15 programme	(0.362)	0.000	0.000	**(0.362)**
DfT challenge fund Street Lighting	(5.000)	(4.800)	0.000	**(9.800)**
Burnley BC contribution to Burnley Town Centre	(0.700)	(0.550)		**(1.250)**
BDUK match funding re SFBB Phase 2	(2.700)			**(2.700)**
Contribution from existing capital programme Economic Development block re Skelmersdale Rail Link	(0.500	(3.200)		**(3.700)**
Contribution from existing capital programme Highways block re Local Priorities Response Fund	(2.500)			**(2.500)**
Set aside from Reserves:				
Set aside from Waste PFI Reserve for Fire Suppression Systems at Thornton & Farington (total £4m less £0.5m for 15/16)	(1.500)	(2.000)		**(3.500)**
Set aside for Green Energy Fund	(2.500)	(2.500)		**(5.000)**
Net Prudential Borrowing Requirement excluding City Deal	**36.185**	**11.216**	**10.478**	**57.879**
City Deal - cash flow support	28.024	18.373	7.333	**53.730**
Total borrowing requirement	**64.209**	**29.589**	**17.811**	**111.609**

Table 13 identifies the revenue implications of the changes in the borrowing requirements (excluding City Deal cash flow support):

Table 13

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Net Prudential Borrowing Requirement excluding City Deal per Table 13	36.185	11.216	10.478	57.879
Interest Cost	0.666	1.536	1.897	2.054
Minimum Revenue Provision (Principal)	0	0.559	0.748	0.944
Total cost to revenue (interest and principal)	**0.666**	**2.905**	**2.645**	**2.998**

The interest calculations are based upon an interest rate of 3%. This is based on the current average rate used by the Public Works Loan Board (PWLB), with 6 months interest being calculated in the first year of borrowing and a full 12 months in the following year. The minimum revenue provision is one fortieth of the prior year's debt. The revenue implications of this borrowing have been included within the MTFS.

8. Council Tax for 2016/17

The recommendation of the Cabinet to Full Council on the council tax requirement is that the Band D Council Tax for 2016/17 be increased 3.99% increase which includes the 2% social care precept. The impact of these increases are:

Table 14

	Band D Council Tax	Council Tax income
Adult Social Care Precept at 2%	£22.60	£7.887m
General Council Tax increase at 1.99%	£22.48	£7.845m

The overall position is summarized as follows:

Table 15

	£m
Budget Requirement	**711.912**
Less Revenue Support Grant	118.841
Less Retained Business Rates	177.985
Less New Homes Bonus grant	5.084
Equals council tax cash	**410.002**
Divided by tax base	348,980.09
Gives Band D council tax for 2016/17	£1,174.86
2015/16 council tax	£1,129.78
Percentage increase	**3.99%**

9. Consultation Feedback

In framing its budget proposals on 26th November 2015, the Cabinet resolved that the budget proposals be approved, officers be authorised to proceed with their implementation subject to consultation where appropriate and that the 2016/17 budget be prepared based upon these revenue decisions be agreed. The outcome of any consultations will be reported to Full Council.

For the consultation, a letter from the leader outlining the financial situation, a link to the full list of proposals and a link to an electronic questionnaire were sent on 10 December. Alternatively, respondents could email their reply. They were asked to include their thoughts on actions that could be taken to mitigate the impact of the policy decisions and budget reductions. The closing date for the consultation was 18 January 2016.

The letter was sent by email to 334 partners and stakeholders by email and was also published on the County Council's "Have Your Say" webpage, where it is available for anyone to complete.

There were a limited number of respondents who agreed with the budget proposals but the majority of respondents were opposed to the proposals.
Respondents felt that the County Council should consider:

- the future impacts of the budget proposal on other services, and other organisations and their services;
- the cumulative impact of some of the proposals on groups, communities and areas; and

- the impact of the budget proposals on those no longer receiving services, particularly those who are seen as vulnerable people.

Some respondents asked for the opportunity to explore other options prior to budgets being reduced, further detailed information on costs and mitigations, and for the council to better to communicate the reasons for the cuts.

A report on the results of the Consultation was presented to Cabinet on 21st January 2016.

10. Equality and Diversity

The consideration of savings proposals will also take full account of the County Council's duty under Section 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.

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 proposals members have regard to the advice of the Council's Chief Finance Officer (in the case of the County Council the Interim Director of Financial Resources) on the robustness of the estimates and the adequacy of the Council's reserves.

11.1 Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the County Council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the Full Council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur. A number of specific risks remain within the budget as follows:

11.1.1 Government Funding

The Provisional Local Government Settlement on 17th December 2015 included the Government offer of a four year funding settlement to provide greater certainty around financial planning to any authority that wishes to take it. The County Council has declined to take up the offer of a four year settlement.

The settlement reflects a significantly worsening position with greater reliance on locally raised funding. There is still the possibility of further reductions in future years should, for example, new responsibilities be given to councils which are not fully funded. Previous reports to Cabinet have clearly identified an impending scenario whereby the County Council will have insufficient resources to meet statutory responsibilities as they are currently provided. It has been recognised previously that the County Council will need to quickly assess and make fundamental changes to the current business model to deliver further savings given the significant funding gap that remains.

There is no guarantee that the changes to the business model, which will need to be focused on reducing costs, will be sufficient to deliver balanced budgets over the period of this financial strategy. Therefore the County Council will need to continuously lobby Central Government and relevant stakeholders regarding the extreme challenges being faced as a result of the local government finance system.

There are future changes to the funding of local government being proposed by the Government. Details of the proposals are not yet known but there is a risk of potential volatility in resources which may impact on the required level of reserves.

11.1.2 Service Demand

This is a key risk facing the County Council in both preparing future budgets and managing budgets during the year. As reported in the budget monitoring reports presented to Cabinet over the year, demand for both adult and children's social care services continues to see increases despite the impact of demand management measures.

Over the period 2016/17 to 2020/21, £97.4m has been provided for demand pressures of which approximately 70% relates to adult social care and approximately 14% to children's social care. This has been based on current and historical trends and population projections (particularly linked to the ageing population).

There are further risks that could impact on demand. These include the developing relationship with the NHS (including the impact of the Better Care Fund) and the interaction between increasingly tightening health and local authority resources. While reasonable steps have been taken to estimate future demand and ongoing work is being undertaken with health colleagues, it is still possible that demand will exceed budget. Although the Council does have a good record of managing demand pressures, the flexibility in other parts of the budget which has assisted with this has been significantly eroded in recent years following the delivery of the previous savings.

The pressure resulting from the increasing numbers and complexity of Learning Disability service users, increased demand for direct payments within Physical Disability services and increased demand for residential care within Mental Health Services continue to be significant issues. This is potentially exacerbated by the Transforming Care (Winterbourne) agenda should there be significant additional costs of moving anyone who is inappropriately in hospital to community-based support.

11.1.3 Pay Costs

The MTFS makes provision for pay of a 1% increase each year. Overall salary costs will continue to be driven by the national pay agreement and this assumption will be kept under review.

The County Council is committed to paying its employees as an accredited member of the Living Wage Foundation (LWF). The LWF have announced a 5% increase in the Living Wage. This is significantly higher than the 1% assumed for all other staff. The impact of this initial increase and further 5% increases in subsequent years has been factored into the MTFS. However, this does not address maintaining current pay differentials between grades. This will have to be addressed in future years as more grades are absorbed into the Living Wage threshold. This poses an additional risk to financial resources.

11.1.4 Inflation

Actual inflation remains relatively low but analysts are anticipating slight increases over coming years. Provision made within the budget is limited to areas where the County Council has no choice but to pay increased prices, for example due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation and the need to absorb additional inflationary costs in year.

There is particular concern regarding care markets, both residential and homecare. Care funding of is recognised as being a nationally and regionally significant issue. Whilst a significant amount of resource has been included within the MTFS to fund price increases and the estimated impact of the Government's National Living Wage on care providers, there are significant capacity and sustainability issues within the market which the social care precept will only partly help mitigate.

11.1.5 The Level of Reserves

The Council holds reserves for a number of reasons:

• To enable the organisation to deal with unexpected events such as flooding or the destruction of a major asset through fire.
• To enable the organisation to manage variations in the demand for services which cause in year budget pressures.
• To fund specific projects or identified demands on the budget.

There is no specified level of appropriate 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.

Previous reports to Cabinet have clearly identified that the revenue budget for 2016/17 and 2017/18 will be heavily supported by reserves. Except for the County Fund, all available reserves are now fully committed over the next two years and will not be available in later years to support managing future budget pressures. It is proposed that the County Fund remains set at £36m.

As shown in table 9 of this report, the Council has an appropriate level of reserves available to manage the financial risk in 2016/17, but there are not sufficient reserves available in 2017/18. It is therefore critical that the zero based budget work identifies and is able to deliver additional savings over the next two years in addition to those savings already agreed.

12. Conclusion

Following the budget risk assessment undertaken early in the year, ongoing detailed budget monitoring, base budget review work and detailed review of the current reserves commitments, a balanced budget for 2016/17 with the use of £64.1m of reserves can be recommended.

However, this is clearly dependent on all budget options agreed at Cabinet in November 2015 being delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles. Should any of these budget options ultimately not be taken forward they will need to be replaced with alternative savings to avoid increasing the size of the funding gap.

There is a further £17.603m of savings to be identified relating to the remaining funding gap in 2016/17, that will need to be delivered by 2017/18. This cannot be met from reserves as there are already insufficient reserves to meet the estimated funding gap in 2017/18.

The budget targets can only be met as a result of a careful and systematic review of services and a revised delivery model. The use of a zero based approach, moving towards the lowest quartile of the most appropriate comparator group, will need to make early progress during 2016/17 to meet the 2016/17 and 2017/18 funding gaps. Consideration will need to be given as to whether a sustainable financial position will be achievable over a longer period, as there is a strong likelihood that by 2017/18 the County Council will be unable to set a budget which will meet the cost of the statutory responsibilities.