

Appendix 'A'

The County Council's Revenue Budget and Council Tax for 2017/18 and Capital Investment Programme for 2017/18 and future years

1. Introduction

The Council has faced an unprecedented period of financial challenge since austerity began in 2010. The Cabinet report in December 2016 identified £12.320m of additional savings, including £8.120m relating to 2017/18, that are in addition to the c£142m of previously agreed savings to be made during 2016/17 and 2017/18. Taking account of updated resources information a funding gap of £57.106m remains and, in order to set a balanced budget, reserves of £57.106m are required to fund the gap. However, this is clearly dependent on all budget options agreed by Cabinet 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 achieved they will need to be replaced with alternative savings to avoid increasing the size of the gap. There also remains a funding gap of £88.040m in 2018/19 and an urgent need to identify proposals for additional savings early in 2017/18 that can be delivered in 2018/19.

Whilst the principle has been agreed of reviewing each and every continuing service using a zero based approach, with reference to our benchmark unit costs, and moving towards the lowest quartile of the most appropriate comparator group, this will need to make early progress during 2017/18 to meet the 2018/19 shortfall and consider whether a sustainable financial position will be achievable over a longer period. Taking everything into account, there remains a strong likelihood that the Council will, during the course of this financial strategy period (in 2018/19 at the earliest), be in the position of being unable to set a budget which will meet the cost of its statutory responsibilities, as they are currently delivered.

The Local Government Settlement on 17th December 2015 included the Government offering any council the opportunity to take up a four year funding settlement to provide greater certainty around financial planning. The offer only covers Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. These grants in 2017/18 will represent c11% of the County Council's resources and are forecast in the Medium Term Financial Strategy (MTFS) to reduce further and finish completely by the end of this Parliament when full Business Rate Retention comes in. This will be accompanied by an updated funding formula for local authorities and new responsibilities which are yet to be determined. Whilst the principle of a longer-term settlement was welcomed, the Council did not take up the offer as previous reports to Cabinet have clearly identified an impending scenario whereby the Council will have insufficient resources to meet statutory responsibilities as they are currently provided.

The County Council continues to face significant challenges from rising costs; from National Living Wage, contractual inflation and an increasing demand for its services, particularly in both adult and children's social care services and waste services.

The current Medium Term Financial Strategy estimates that in 2020/21 the County Council will have a net budget available of £762m. This compares to £725m in 2017/18. From 2017/18 to 2020/21 the County Council needs to make further savings of c£156m in addition to previously agreed savings over 2015/16 – 2017/18 of c£224m.

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

- The revenue budget for 2017/18;
- A revised capital investment programme for 2017/18 and future years;
- The Council Tax for 2017/18.

In addition the report sets out the advice of the 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 2017/18. This needs to be undertaken whilst recognising the position for future years and that there will be a requirement for a significant level of reserves to support the 2017/18 budget. The Cabinet has considered the budget for 2017/18 and future years at a number of its meetings. The reports considered can be found at:

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

3. The Context for Setting the 2017/18 Budget

The Cabinet's recommendations for the 2017/18 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 2017/18 budget includes c£51m of savings relating to 2017/18 although some of which will not be fully delivered until 2018/19 as it was agreed that these would be covered by the use of reserves. Despite these reductions, the MTFs shows that there is still a funding gap of £57.106m in 2017/18. Over the period 2017/18 to 2020/21 it is estimated that the County Council needs to make further savings of £155.953m. 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 2017/18 with the final local government finance settlement expected to be announced during February 2017. However, the provisional settlement has indicated that funding will be as expected with further reductions in 2017/18 to the Revenue Support Grant. In addition the Government announced adjustments to business rates (inflationary), New Homes Bonus and the inclusion of a one-off 2017/18 Adult Care Support Grant (£5.543m – funded nationally from changes to New Homes Bonus). The provisional settlement has been reflected in the MTFs approved by Cabinet in January 2017 and it is not anticipated that there will be a major change in the final announcement.

As part of the provisional settlement the Secretary of State announced some adjustments in relation to the referendum limit for the Adult Social Care Precept. When the precept was introduced in 2016/17 the limit was a 2% increase. However, in recognition of the pressures facing Local Authorities responsible for Adult Social Care it was announced that Local Authorities could bring forward the additional precept (with a cap of 3% rather than 2% each year) but could still only increase Council Tax by a maximum of 6% over the financial years 2017/18 – 2019/20. The settlement also announced that there would be no Adult Social Care Precept in 2020/21. The MTFs assumes a 2% increase for the Adult Care Precept in 2017/18, 2018/19 and 2019/20. In addition the MTFs also assumes a 1.99% increase in general council tax in each year from 2017/18 to 2020/21. It is important to note that the Adult Social Care Precept and the Adult Care Support Grant in 2017/18 broadly covers the cost of fee increases, but does not provide sufficient funds for increasing demand overall.

On reviewing the flexibility given by the Secretary of State the impact is minimal on the financial gap over the 4 years. The more significant impact on the MTFs was the announcement as part of the provisional settlement that it is not permitted to apply the social care precept in 2020/21 and therefore it could no longer be forecast that a 2% Adult Social Care Precept could be applied in 2020/21 and this has therefore been removed from projected income levels, this effectively removes £9.679m of resources included in the MTFs, reported and agreed, earlier in the year.

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 future funding remains a risk.

Reports will be provided to Cabinet in 2017/18 to update the financial position for the County Council based on the latest information.

4. The Revenue Budget 2017/18 to 2020/21

4.1 The financial challenge

The County Council's Medium Term Financial Strategy (MTFS) was approved by Full Council in February 2016 covering the 2016/17 budget and the forecast position for 2017/18 to 2019/20. This identified the funding gap in each year as follows:

Table 1

	Total £m
2017/18 (£m)	46.518
2018/19 (£m)	51.733
2019/20 (£m)	50.614
2020/21 (£m)	47.779
Total	196.644

During 2016/17 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 2017 showed a revised spending gap of £153.389, however with an amendment to reflect the latest information in relation to the Council Taxbase and confirmation of a reduction in Education Services Grant (ESG) the spending gap has been revised to £155.953m (by 2020/21) with details of this in each financial year shown below:

Table 2

					Total £m
2017/18 (£m)	57.106	57.106	57.106	57.106	228.424
2018/19 (£m)		30.934	30.934	30.934	92.802
2019/20 (£m)			30.037	30.037	60.074
2020/21 (£m)				37.876	37.876
Total	57.106	88.040	118.077	155.953	419.176

Although the financial gap has reduced, from the £196.644m reported last February, it is important to note that this reflects different funding assumptions to those presented previously in that the impact of a 3.99% increase (including the 2% Adult Social Care precept) for each of the next 3 financial years is included. The County Council's budget is still facing a hugely challenging future with savings of c£51m to achieve as part of the 2017/18 budget and significant additional inflation and demand pressures across Children's Social Care, Adults Social Care and Waste Service.

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 were assessed as not being 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 was prepared based upon these revenue decisions, with the outcome of any consultations being reported to Full Council. As reported to Cabinet during 2016/17, the MTFs has been adjusted to take

into account those savings, but also reflects those that have now been assessed as being non-deliverable (c£2m).

Throughout 2016/17 work has continued to identify further savings with efficiencies totalling £12.320m identified predominantly through the Zero Based Budget Review (ZBBR) and the ongoing transformation work within Adults Social Care. These have been included within the MTFS reports presented to Cabinet during 2016/17.

Delivery of the significant savings programme has been identified as a key risk area and the savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.

As part of the process of redesigning its services the County Council has previously explicitly recognised that it will need to utilise its reserves to support the transformation. Reports to Cabinet have clearly identified that the revenue budget for 2016/17, 2017/18 and potentially 2018/19 will need to 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, based on current forecasts, will not therefore be available after 2018/19 to support managing future year budget pressures.

5. The level of Resources Available to support the 2017/18 Revenue Budget

The revenue resources which support the County Council's 2017/18 budget are:

- Revenue Support Grant;
- Business Rates;
- Council Tax;
- New Homes Bonus;
- Better Care Fund;
- Adult Care Support Grant;
- Transitional Grant 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 2017/18 and future years is as follows:

Table 3

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	181.391	186.747	193.323	198.540
Council Tax	434.271	456.115	479.056	493.475
New Homes Bonus	5.244	3.679	3.530	3.530
Better Care Fund	3.210	22.656	40.014	40.014
Adult Care Support Grant	5.543	0.000	0.000	0.000
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
Total	724.821	731.176	748.817	762.487

These figures are subject to change once the final settlement is given but have been adjusted for the impact of the final Council Taxbase figures as discussed below.

5.1 The resources received through the Local Government Finance Settlement

The Secretary of State announced the Provisional Local Government Finance Settlement on 15th December 2016. This has resulted in some amendments to the MTFs in relation to council tax, adult care support grant, business rates and new homes bonus. It is important to note that the Settlement only covers the period up to 2019/20. It is currently anticipated that a new system of local government finance will be in place in 2020/21 which involves local government retaining all of the business rates and the impact of a review of the funding formula. (However, details of the scheme and the impact on Lancashire are not known.)

5.2 Council Tax and Adult Social Care Precept Resources

In the provisional settlement issued on 15th December 2016 one of the significant changes confirmed by the Secretary of State was in relation to the referendum limit for the Adult Social Care Precept. When it was introduced in 2016/17 the limit was a 2% annual increase. However, in recognition of the pressures facing Local Authorities responsible for Adult Social Care it was announced that Local Authorities could bring forward the additional precept (with a cap of 3% rather than 2% each year) but could

still only increase Council Tax by a maximum of 6% over the financial years 2017/18 – 2019/20. The settlement also announced that there would be no Adult Social Care Precept in 2020/21.

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.

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

5.2.1 Options for Council Tax in 2017/18

On 19th January 2017 Cabinet recommended to Full Council that the Band D Council Tax for 2017/18 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 2017/18 - 2019/20.

Since producing the MTFS the District Councils have confirmed both the Council Tax-base and the surplus/deficit on the Collection Fund. The confirmed tax base shows a higher increase than anticipated (1.855% compared to a forecast of 1%). The impact of the change in the tax-base gives an on-going increase in the Council Tax income received of £7.606m. This is £3.506m higher than previously forecast.

A £7.720m surplus on the Council Tax Collection Fund in 2016/17 has also been identified giving a one-off additional resource in 2017/18.

The table below shows the different council tax levels that could be generated given the flexibility that was announced by the Secretary of State. Table 4 demonstrates that the impact is minimal on the impact on the financial gap over the 4 years despite the different levels of increases available in in each year:

Table 4

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
MTFS December 2016 (2% 2017/18 - 2020/21)	434.271	456.115	479.056	503.154	1,872.596
MTFS January 2017 (2% 2017/18 - 2019/20, 0% 2020/21)	434.271	456.115	479.056	493.475	1,862.917
Increase/decrease in income	0.000	0.000	0.000	9.679	
Impact on financial gap	0.000	0.000	0.000	9.679	9.679
Scenario A (3% 2017/18 - 2018/19, 0% 2019/20 -2020/21)	438.447	464.928	478.922	493.335	1,875.632
Increase/decrease in income	-4.176	-8.813	0.134	-9.819	
Impact on Funding Gap	-4.176	-4.637	8.947	9.685	9.819

**includes a change in tax base figures as detailed above that were not included in figures provided to Cabinet in January 2017*

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. It is estimated that the County Council will receive funding of £181.391m from Business Rates (including top up grant) and Small Business Rates Relief in 2017/18.

Information received from the Districts to date has confirmed a deficit in 2016/17 on the Business Rates collection of £1.195m. This will reduce the one-off resources as shown in Table 8. It is important to note that at the time of writing this report all information had not been received from District Councils and therefore the deficit position will change from that stated above, for information the deficit in the previous year was £2.334m.

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 introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity 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, and utilised in supporting revenue expenditure, are as follows

Table 5

	2017/18 £m	2018/19 £m	Total £m
Capital receipts generated	12.500	5.000	17.500

An estimated £22.500m has previously been agreed to be applied to the revenue budget across 2016/17 – 2018/19. It should be noted that the 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 at these levels 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 in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely. However, receipts received as at 31st December 2016 totalled £7.269m with capital receipts over £5.000m (2016/17 target) being able to be carried forward to support the £12.500m target in 2017/18.

There is suitable forecast expenditure within the revenue budget to enable the estimated £17.500m to be applied. These receipts would normally be applied to the Capital Programme and therefore the impact is to effectively increase the level of borrowing required to support the approved Capital Programme.

5.5 Specific Grants and contributions to be received by the County Council in 2017/18

The following table summarises the more significant specific grants to be received by the Council in 2017/18:

Table 6

Grant	Estimated Allocation 2017/18 £m	Description
Better Care Fund	25.7	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. An additional £3.210m in relation to improved better care fund is shown in Table 3.
Public Health	70.2	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 2017/18 in the table overleaf:

Table 7

Additional one off revenue resources in 2017/18	£m
Council Tax Collection Fund surplus	7.720
Business Rates Collection Fund deficit	-1.195
Total one-off revenue resources	6.525

In order to balance the 2017/18 revenue budget a contribution from reserves is required. It is proposed that these one-off resources are transferred to the transitional reserve.

5.7 Reserves

As at 1st April 2016 the County Council had total reserves of £400.669m. Of this, £86.022m was held for schools and its use is restricted.

On a quarterly basis Cabinet has received an updated position in relation to the County Council's reserves and commitments. During 2016/17 an improved position has been reported to Cabinet due to a thorough review of commitments and significantly a reassessment of the funds set aside for voluntary redundancy commitments. The latest position agreed by Cabinet is shown in Table 8.

Table 8

Reserve Name	Opening Balance as at 1 April 2016	2016-17 Forecast Spend	2016-17 Transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund (3.1)	-36.000	0.000	0.000	-36.000	0.000	0.000	0.000	-36.000
Strategic Investment Reserve (3.2)	-10.971	2.351	5.194	-3.426	1.543	0.883	0.060	-0.940
Downsizing Reserve (3.3.1)	-64.841	14.171	28.062	-22.608	13.548	9.060	0.000	0.000
Risk Management Reserve (3.3.2)	-15.784	3.155	4.872	-7.757	7.757	0.000	0.000	0.000
Transitional Reserve (3.4.1)	-141.837	59.863	-54.712	-136.685	70.661	0.530	0.000	-65.495
To facilitate the transition of services (3.4.2)	0.000	0.000	-3.000	-3.000	0.000	0.000	0.000	-3.000
Service Reserves (3.5)	-45.214	8.893	10.800	-25.521	10.325	-0.340	-0.683	-16.219
TOTAL	-314.647	88.434	-8.784	-234.997	103.834	10.133	-0.623	-121.653
Forecast underspend 2016/17	0.000	0.000	-15.298	-15.298	0.000	0.000	0.000	-15.298
<i>MTFS Funding Gap</i>						<i>88.040</i>	<i>118.077</i>	<i>206.117</i>
Available reserves to support financial gap	0.000	0.000	0.000	0.000	0.000	86.714	0.000	86.714
TOTAL	-314.648	88.434	-24.082	-250.295	103.834	96.847	-0.623	-50.238

Note 1: the Service Reserves reflect the inclusion of the actual income and committed expenditure for the Growth Deal of £52.825m. This cannot be seen in the table above as these are funds that come into reserves and are spent during the year and therefore have a net nil impact.

Note 2: £0.415m has transferred from Service Reserves to Schools Reserves which are not included in the table above.

Table 8 demonstrates that following the application of the remaining available reserves of £86.714m to support the financial gap/shortfall within the 2018/19 budget the only remaining balance on reserves are County Fund (£36.000m), non LCC reserves (£13.898m) and 2019/20 commitments (£0.340m). This draw down from reserves in 2018/19 is not sufficient to cover the whole financial gap in this financial year and provides confirmation that there are no reserves left to support the financial gap in future years.

Full Council in February 2016 agreed the financial strategy to support the revenue position heavily from reserves. A significant number of the saving proposals were agreed that would take some lead-in time to deliver, therefore Cabinet and Full Council agreed that the cost incurred during this lead in time will be met from reserves.

However, as part of the quarterly reports to Cabinet, details have been provided to Members that indicate a reduced level of reserves are required as a result of early delivery of some savings. The table below sets out the summary of the agreed use of the Transitional Reserve in both 2016/17 and 2017/18 and the revised forecast use of reserves as at 31st December 2016 and reported to Cabinet specifically supporting agreed savings:

Table 9

	2016/17 Agreed use of reserve £m	2016/17 Forecast	2017/18 Agreed use of reserve £m	2017/18 Forecast
Reserves required to support budget proposals	46.5	34.2	24.2	16.3

6. The Overall Revenue Budget Position for 2017/18

6.1 Summary of Cabinet's Revenue Budget Proposals

The overall impact of the Cabinet's recommendations to Full Council for the 2017/18 revenue budget and the potential changes are set out in Table 10.

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 2017/18,
- The anticipated use of one-off resources in 2017/18,
- The provision of final figures by the City and Borough Councils in respect of Council Tax base and Business Rates income, and

Table 10

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Spending Gap as reported to Cabinet December 2016	60.350	26.497	31.032	28.254	146.133
Add change to forecast of spending:					
Pay and Pensions	0.000	0.000	0.000	0.000	0.000
Price Inflation and Cost Changes	0.502	0.179	0.009	0.115	0.805
Service Demand and Volume Pressures	-0.606	-0.536	-0.140	0.030	-1.252
Adjustments to Savings Programme	-0.414	0.000	0.000	0.000	-0.414
Total change to forecast of spending	-0.518	-0.357	-0.131	0.145	-0.861
Funding	-5.787	4.977	-0.671	9.598	8.117
Total change to forecast of resources	-5.787	4.977	-0.671	9.598	8.117
Revised funding gap reported to Cabinet 19th January 2017	54.045	31.117	30.230	37.997	153.389
Funding – change to Council Tax Base	-3.644	-0.183	-0.193	-0.121	-4.141
Loss of specific grant	6.705	0.000	0.000	0.000	6.705
Revised funding gap	57.106	30.934	30.037	37.876	155.953

The above table reflects the latest information available in relation to the Council Taxbase and also an updated position on the Education Services Grant (ESG), where confirmation has been received that the grant will be reduced but remaining funding

will be provided from a transitional grant allocation, retained duties funding via dedicated schools grant and a grant to support statutory intervention functions and services.

The updated position for reserves used to help meet the funding gap are shown in Table 8 demonstrating that there are insufficient reserves to fully support the 2018/19 budget.

6.2 Revenue Budgets for Services in 2017/18

The budget outlined above results in net expenditure on services of £724.821m. The budget by service is summarised below:

Table 11

Revenue Budget 2017/18	Net Budget £m
Adult Social Care	344.933
Chief Executive	1.823
Children's Services	132.788
Community Services	131.976
Corporate Commissioning	13.241
Corporate Director Operations and Delivery	3.660
Development and Corporate Services	34.611
Governance, Finance and Public Services	26.328
Corporate & Other	33.120
Public Health	22.729
Sub-Total	745.209
Financing Charges	36.718
Use of one off resources	-57.106
Revenue budget 2017/18	724.821

7. The Capital Investment Programme

This section of the report sets out the following:

- an outline of the 2017/18 – 2020/21 capital programme including known projects;
- summary of the proposed funding of the 2017/18 capital programme and the revenue implications of the increased use of prudential borrowing;

7.1 Capital Programme for 2017/18 – 2020/21

Table 11 below details the proposed provisional capital programme for the period 2017/18 to 2020/21.

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.

Table 12

	2017/18 (£m)	2018/19 (£m)	2019/20 & 2020/21 (£m)	Total (£m)
Schools (excluding Devolved Formula Capital)	29.686	28.562	2.580	60.828
Schools Devolved Formula Capital	2.634	2.634	0.000	5.268
Children and Young People	3.014	4.560	3.586	11.160
Waste and Other	2.023	0.100	1.665	3.788
Adult Social Care	0.562	7.808	6.061	14.431
Corporate	12.276	13.661	11.349	37.286
Vehicle Replacement	3.930	3.460	0.000	7.390
Transport	26.082	14.641	0.840	41.563
Highways	45.977	19.567	0.000	65.544
TOTAL	126.184	94.993	26.081	247.258

The table above does not include the impact arising from variances in expenditure and funding during 2016/17. Analysis of this impact will be undertaken as part of the year end accounting process.

Please note that an additional amount of £6.383m has been included in the capital programme compared to Cabinet in January 2017 due to confirmation of additional grant funding from the Department for Transport in relation to the Pothole Action Fund and the National Productivity Investment Fund.

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.

7.2.1 Capital Receipts

In line with Government legislation that took effect from 1st April 2016, capital receipts are included in the MTF5 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.

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;
- 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 13 provides details of funding sources for the capital programme up to 2020/21:

Table 13

	2017/18 (£m)	2018/19 (£m)	2019/20 & 2020/21 (£m)	Total (£m)
Capital Programme as per Table 12	126.184	94.993	26.081	247.258
Funded by the following:				
GRANTS RECEIVABLE (shown in year to be received)				
DfT Street Lighting Challenge Fund	-4.800	0.000	0.000	-4.800
DfT Annual Highways Maintenance Grant	-20.514	-18.567	0.000	-39.081
DfT Pothole Action Fund	-1.718	0.000	0.000	-1.718
DfT National Productivity Investment Fund	-4.655	0.000	0.000	-4.655

DfT Highways Maintenance Incentive Funding 2017/18 to be determined	TBC	TBC	TBC	TBC
DfT LTP/Integrated Transport Block annual grant	-6.054	-6.054	0.000	-12.108
DfE School Basic Need annual grant	-29.006	-2.580	0.000	-31.586
DfE Schools Condition annual grant	-11.209	0.000	0.000	-11.209
Schools Devolved Formula Capital	-2.634	-2.634	0.000	-5.268
Growing Places	0.000	0.000	-2.479	-2.479
Sub Total	-80.590	-29.835	-2.479	-112.904
GRANTS UNAPPLIED BALANCES as at 31st March 2016				
DfT Flood Damage Funding received in 2015/16	-0.911	0.000	0.000	-0.911
Adult Social Care grant	-2.386	0.000	0.000	-2.386
School DfE grants brought forward	-11.690	0.000	0.000	-11.690
Sub Total	-14.987	0.000	0.000	-14.987
GROWTH DEAL FUNDING				
Burnley Pendle Growth Corridor	-4.000	-4.000	0.000	-8.000
East Lancs Cycle Network	0.000	-1.550	0.000	-1.550
Sub Total	-4.000	-5.550	0.000	-9.550
DISTRICT CONTRIBUTIONS				
Burnley Town Centre	-0.550	0.000	0.000	-0.550
Burnley Pendle Growth Corridor	0.000	-0.485	0.000	-0.485
Blackpool Borough Council contribution to Waste projects (held in designated reserve)	-0.194	0.000	0.000	-0.194
Sub Total	-0.744	-0.485	0.000	-1.229
CONTRIBUTIONS FROM OTHER EXTERNAL BODIES				
BDUK re SFBB Phase 2	-0.965	0.000	0.000	-0.965
Sub Total	-0.965	0.000	0.000	-0.965
USE OF RESERVES				
Asset maintenance earmarked reserve	-0.727	0.000	0.000	-0.727

Sub Total	-0.727	0.000	0.000	-0.727
CAPITAL RECEIPTS				
Funding for School Playing Field programme from sale of school approved via Cabinet report	-1.036	0.000	0.000	-1.036
Sub Total	-1.036	0.000	0.000	-1.036
TOTAL FUNDING	-103.049	-35.870	-2.479	-141.398
NET BORROWING REQUIREMENT	23.135	59.123	23.602	105.860

Table 14 identifies the revenue implications of the changes in the borrowing requirements (excluding City Deal cash flow support):

Table 14

Borrowing costs of existing and new re-profiled capital programme	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
MRP				
Current Debt	19.986	19.788	20.188	20.603
New Capital Programme	1.397	2.040	3.683	4.431
Interest				
Current Debt	18.135	17.809	17.458	17.076
New Capital Programme	0.953	1.565	2.186	2.363
Total				
Current Debt	38.121	37.597	37.646	37.679
New Capital Programme	2.350	3.605	5.869	6.794
Grand total borrowing costs old and new programmes	40.471	41.202	43.515	44.473

The interest calculations are based upon an interest rate of 1.5%. 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 broadly based on the life of an asset. The revenue implications of this borrowing have been included within the MTFS.

8. Council Tax for 2017/18

The recommendation of the Cabinet to Full Council on the council tax requirement is that the Band D Council Tax for 2017/18 be increased by 3.99% which includes the 2% social care precept. The impact of these increases are:

Table 15

	Band D Council Tax	Council Tax income
Adult Social Care Precept at 2%	£23.50	£8.353m
General Council Tax increase at 1.99%	£23.38	£8.310m

The overall position is summarized as follows:

Table 16

	£m
Budget Requirement	724.821
Less RSG	81.508
Less Retained Business Rates	181.391
Less New Homes Bonus grant	5.244
Less Better Care Fund	3.210
Less Adult Care Support Grant	5.543
Less Transitional Grant	1.154
Less Capital Receipts	12.500
Equals council tax cash	434.271
Divided by tax base	355,452.51
Gives Band D council tax for 2017/18	£1,221.74
2016/17 council tax	£1,174.86
Percentage increase	3.99%

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

Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the 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 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:

- **Government Funding**

The Local Government Settlement on 17th December 2015 included the Government offering any council the opportunity to take up a four year funding settlement to provide greater certainty around financial planning. The offer only covers Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. These grants in 2017/18 will represent c11% of our resources and are forecast in the MTFS to reduce further and finish completely by the end of this Parliament when full Business Rate Retention comes in, which will be accompanied by an updated funding formula for local authorities and new responsibilities which are yet to be determined.

Whilst the principle of a longer-term settlement is welcome, the Council has not taken up the offer as previous reports to Cabinet have clearly identified an impending scenario whereby the Council will have insufficient resources to meet statutory responsibilities as they are currently provided. Not accepting the multi-year settlement will mean the level of Revenue Support Grant being confirmed on an annual basis and therefore may be subject to change from the assumptions included within the MTFS, although 2017/18 RSG has been confirmed as being in line with the level forecast within the MTFS.

The Statutory Services Budget Review undertaken by PwC and reported to Cabinet in October validated the financial position as reported through the MTFS and confirmed that even should the County Council reduce its expenditure to the median of lowest quartile by 2020/21 an in-year deficit of £79m would remain. One of the considerations raised within the report was whether the current funding model of the Council is disproportionately contributing to the funding gap. The County Council has continued to lobby Central Government and relevant stakeholders regarding the extreme challenges being faced as a result of the local government finance system.

The most significant financial challenge facing upper tier Local Authorities is Adult Social Care. Additional funding has been provided via the Adult Care Support Grant (£5.543m) in 2017/18 and the flexibility to raise an additional Adult Social Care

precept. Whilst these are a welcome recognition of the significant cost pressures being faced, the Grant is only for one year and together they do not meet the full cost of additional demographic demand and cost pressures within the Care Sector particularly impacted by the National Living Wage.

- **Service Demand**

This is a key risk facing the 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 and waste services continues to see increases despite the impact of demand management measures.

Over the period 2017/18 to 2020/21 £91m has been provided in the MTFs for demand pressures of which c58% relates to adult social care, c24% children's social care and c15% waste services. These have been identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of Adult Social Care). Whilst for Adult Social Care the estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year significant and unanticipated increased costs in relation to Children's Social care and Waste have been reported to Cabinet in revenue monitoring reports.

Detailed work is being undertaken in all three areas focused on a better understanding of the causes of the increased demand and what steps can be taken to mitigate the financial impact, which, along with funding reductions, is a major contributing factor towards the funding gap reported in the MTFs.

- **Pay**

The MTFs makes provision for pay of a 1% increase each year. Most of the pay bill will continue to be driven by the national pay agreement and this assumption will be kept under ongoing review. The County Council is committed to paying its employees as an accredited member of the Living Wage Foundation who have announced a 5% increase in the Living Wage. The impact of this initial increase and further 5% increases in subsequent years for those staff directly impacted has been factored into the MTFs. This does not address maintaining current differentials in pay grades which will need to be considered in future years.

- **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 Council has no choice but to pay increased prices e.g. 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 than the methodology previously used. 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.

A particular issue concerns care markets, primarily residential and homecare, the funding of which is recognised as being a significant issue regionally and nationally. Whilst a significant amount of resource has been included within the MTFS to fund price increases and the estimated impact of the national living wage on care providers, there remains capacity and sustainability issues within the market which the Adult Social Care Precept and Adult Care Support Grant will only partly help mitigate given the scale.

• **Savings Programmes Delivery**

The Council is already committed to the delivery of a significant savings delivery programme (c£156m over the period 2016/17- 2020/21) including £12m of new savings agreed at Cabinet in December a number of which relate to the outcome of the zero based budget review of services agreed within the financial strategy. There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings will create an additional funding gap. This has been identified as one of the highest level risks in the Council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

The Level of Reserves

The Council holds reserves for a number of reasons:

- To enable the Council to deal with unexpected events such as flooding or the destruction of a major asset through fire.
- To enable the Council 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 '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.

Previous reports to Cabinet have clearly identified that the revenue budget will be heavily supported by the reserves that are currently available to the County Council. The value of the Council's reserves is currently significant but are non-recurrent and, bar the County Fund, 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.

The level of risk evident within the budget is clearly increasing as set out in the analysis above at a time when it is clear that the revenue budget will have to be supported significantly by reserves. The setting up of a transitional reserve was a recognition of this requirement and 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 are strong, however, based on the evidence of the current year and given the increased level of financial risk there is a greater risk that the processes in place would not be adequate to reduce any significant overspend over the course of the following years.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2017 remains at £36m.

Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing in 2017/18, but this is unlikely to be the case for 2018/19 and subsequent years. Within the MTFS there is a revised funding gap of £88.040m for 2018/19 and, excluding County Fund and committed reserves but including the projected revenue underspend at the end of quarter 3 of £15.298m, there is estimated to be £86.714m of uncommitted reserves remaining at 1st April 2018.

Even if the 2018/19 gap could ultimately be covered by the use of reserves the forecast funding gap increases to £118.077m in 2019/20. It is therefore critical that a significant level of additional savings are identified which can be delivered in 2018/19 to minimise the scale of reserves required to support the revenue budget. Also, utilisation of those reserves remaining should support, wherever possible, activities which reduce ongoing revenue costs. One of the priority areas for new savings will be in seeking to implement the aim within the current financial strategy of seeking to move to lower quartile cost, of the most appropriate comparator group of local authorities, for all services.

The Council has benefited significantly financially over a number of years from its Treasury Management activity including the investment portfolio, with a projected revenue benefit of £26.756m in 2016/17. It is important to note that one of the consequences of utilising reserves is that this effectively reduces the value of cash backed accounts on the balance sheet which support the investment portfolio. Therefore, based on current planned usage of reserves the size of the portfolio will reduce further significantly and it is reasonable to assume that the scope to generate future gains will also therefore reduce.

Conclusion

Following the ongoing detailed budget monitoring, zero base budget review work, identification of £12m of further budget savings proposals and a detailed review of the current reserves commitments, a balanced budget for 2017/18 with the use of £57.106m of reserves can be recommended. However, this is clearly dependent on all budget options agreed at Cabinet in December 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 also remains a funding gap of £88.040m in 2018/19 and an urgent need to identify proposals for additional savings early in 2017/18 that can be delivered in 2018/19.

Whilst the principle has been agreed of reviewing each and every continuing service using a zero based approach, with reference to our benchmark unit costs, and moving

towards the lowest quartile of the most appropriate comparator group, this will need to make early progress during 2017/18 to meet the 2018/19 shortfall and consider whether a sustainable financial position will be achievable over a longer period. Taking everything into account, there remains a strong likelihood that the Council will, during the course of this financial strategy period (in 2018/19 at the earliest), be in the position of being unable to set a budget which will meet the cost of its statutory responsibilities as they are currently delivered.