Full Council

Thursday, 17th February, 2011, at 1.30 pm in the Council Chamber - County Hall, Preston.

Agenda

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1. **Apologies and Announcements**

2. **Disclosure of Personal/Prejudicial Interests**

A. Matters for Decision

3. **Report of the Cabinet (Part A)** (Pages 1 - 36)

   i. Revenue Budget 2011/12 to 2013/14
   ii. Council Tax and Precept 2011/12
   iii. **Capital Investment Strategy 2011/12 to 2014/15**

B. Matters for Information

There are no matters for report at this meeting.

C. Notices of Motion

To consider any Notices of Motion submitted under Standing Order No. 14.2.1

Phil Halsall
Chief Executive

County Hall
Preston

09 February 2011

Lancashire County Council

Meeting of the County Council
Meeting to be held on 17 February 2011

Report submitted by the Cabinet

Electoral Division affected: All

Revenue Budget 2011/12 to 2013/14
Council Tax and Precept 2011/12
Capital Investment Strategy 2011/12 to 2014/15
(Appendices 'A' and 'B' refer)

Contact for further information:
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Executive Summary

To consider the recommendations of the Cabinet on 3 February 2011 regarding:

i. The Revenue Budget 2011/12 to 2013/14: section 1 of this report and Appendix 'A';

ii. The Council Tax and Precept 2011/12: section 2 of this report; and

iii. The Capital Investment Strategy 2011/12 to 2014/15: section 3 of this report and Appendix 'B'.

Please note: the Capital Programme and Revenue Budget reports from the Cabinet meetings on 9 September 2010, 4 November 2010, 6 January 2011 and 3 February 2011 form part of the background to the reports attached at Appendices 'A' and 'B': the detailed information from those reports is not repeated in this report. Those reports are available via the following links to the Cabinet Agenda on the County Council's website:

http://www3.lancashire.gov.uk/council/meetings/cabinet/theCabinet.asp (2010)

http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122 (2011)

Recommendation

The Full Council is asked to consider the proposals of the Cabinet on 3 February 2011 and then approve:

i. The Revenue Budget for 2011/12 and cash limits for 2012/13 and 2013/14, which incorporate the savings proposals set out in Annex B to Appendix A of this report and,

ii. That, in relation to the level of savings required for Adult Social Care

provision, the Cabinet Member for Adult and Community Services, following consultation with the Leader, the County Treasurer, and the Executive Director for Adult and Community Services, be authorised to:

a. consider the responses to the ongoing consultation, 'Making Difficult Decisions about Funding Adult Social Care Services in Lancashire', due to end on 28 February 2011;

b. determine the future provision of Adult Social Care Services for 2011/12 – 2013/14 in the light of the consultation responses at a) above and within the Revenue Budget cash limits agreed above.

iii. The Council Tax and Precept for 2011/12;

iv. The Capital Investment Strategy 2011/12 to 2014/15.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
Grant Settlement and Budget working papers	January 2011	George Graham/County Treasurer's Department / ext 38102

Report of the Cabinet

The Cabinet **recommends** the adoption of the proposals set out below for the three year budget strategy for 2011/12 to 2013/14, the council tax and precept for 2011/12, and the capital investment strategy.

1. Revenue Budget 2011/12 to 2013/14

The Cabinet **recommends** the adoption of the revenue budget proposals as set out in Appendix A and in the table below, which sets out the proposed budget allocations to directorates and other budget areas.

	2011/12 Budget Requirement £m	**2012/13 Cash Limit £m**	**2013/14 Cash Limit £m**
Adult & Community Services	333.253	326.926	322.224
Children & Young People	164.321	157.865	155.013
Environment	191.971	182.965	187.462
Office of the Chief Executive	26.782	23.635	22.113
County Treasurer's Department	11.323	9.211	5.866
Corporate	6.856	8.604	8.642
Financing Charges	37.125	38.125	36.625
Balances and reserves	-1.500		
Impact of Equal Pay Review to be allocated to services		1.680	7.394
Use of Dedicated Schools Grant	-0.695	-0.695	-0.695
LCCG	-3.483	-2.445	-1.646
Additional Investment in Highways Maintenance	2.136	6.367	-
LSPs	1.028	1.028	1.028
Additional efficiency savings to be identified			-7.245
Budget Requirement	**769.117**	**753.266**	**736.781**

2. Council Tax and Precept 2011/12

The Cabinet **recommends** the Full Council to agree that there be no increase in Council Tax for 2011/12, and to authorise, in pursuance of the provisions of the Local Government Finance Act 1992, and in order to meet the general expenses of the County Council for the financial year 2011/12:

a) Budget Requirement and Precept for 2011/12:

	£m
Budget Requirement	769.117
Less: Formula Grant	-333.682
Initial Precept for 2011/12	435.435
Less: Council Tax Freeze grant	-10.606
Less: County Council share for 2010/11 of estimated net surpluses on district council collection funds	-0.099
Net total raised from the Council Tax	424.730

b) Council Taxes (on the basis of a budget requirement and precept for 2011/12 as set out above and the Council Tax base now calculated of 383,227) for each property valuation band:

	£
Band A	738.87
Band B	862.01
Band C	985.16
Band D (basic)	**1,108.30**
Band E	1,354.59
Band F	1,600.88
Band G	1,847.17
Band H	2,216.60

c) The share for each District Council of the net total raised from the Council Tax of £424.730m:

	£
Burnley	28,489,933
Chorley	39,417,539
Fylde	33,430,729
Hyndburn	26,060,541
Lancaster	48,155,589
Pendle	29,064,142
Preston	44,597,950
Ribble Valley	24,785,998
Rossendale	24,064,495
South Ribble	41,378,640
West Lancashire	41,806,289
Wyre	43,477,826
Total raised from the council tax	424,729,671

3. Capital Investment Strategy 2011/12 to 2014/15

The Cabinet **recommends** the adoption of the proposals for the Capital Investment Strategy 2011/12 to 2014/15 as set out at Appendix B.

Geoff Driver
Leader of the Council

County Hall, Preston

Appendix A

Revenue Budget 2011/12 to 2013/14

1. Introduction

The Cabinet's recommendations to the County Council are set out in sections 1 and 2 of the main report. The recommendations result in a budget requirement of £769.117m with a nil increase in the council tax in 2011/12; the Band D Council Tax would remain at £1,108.30. The County Council's revenue budget for 2011/12 at £769.117m is a 4.11% decrease upon the previous year on a like for like basis.

Annex A sets out:
- the proposed budget for 2011/12
- the proposed cash limits for 2012/13 and 2013/14, and
- details how each one is built up by each directorate

The proposed revenue budget includes savings proposals of £179.1m in the three years from 2011/12 to 2013/14, with a summary of the proposals set out in Annex B.

This Appendix sets out:

- the 2011/12 budget process followed up to Cabinet on 3 February (section 2 below); and
- the view of the County Treasurer on the robustness of the estimates and balances and reserves (section 3 below).

2. 2011/12 Budget process

The decisions made by the County Council in relation to the delivery of a three year revenue budget strategy and the setting of council tax for 2011/12 have taken place within the development of a financial strategy that is reviewed and updated throughout the year. The Cabinet's recommendations result from consideration of the budget at meetings on 9 September, 4 November, 6 January and 3 February. At these meetings, Cabinet considered a number of issues, including the financial challenge facing the County Council in 2011/12 and future years, financial risks and uncertainties, details of efficiency savings, options for savings and the views of stakeholders consulted upon the Cabinet's budget proposals.

The stages in compiling the budget are set out below.

Cabinet 9 September 2010

The Cabinet agreed the actions required to meet the in-year budget reduction of £22.9m which formed part of the Government's emergency budget to reduce public spending by £6.2bn in 2010/11. A number of the proposals had a subsequent additional saving in future years which have fed into the Medium Term Financial Strategy.

The Cabinet report can be accessed in full through the following link
http://www3.lancashire.gov.uk/council/meetings/cabinet/theCabinet.asp

Cabinet 4 November 2010

It was reported at the meeting on 4 November 2010 that the potential impact of the Comprehensive Spending review (announced on 20 October 2010) on the Council's financial strategy could be a savings requirement of up to £186m over the three years from 2011/12 to 2013/14.

Cabinet approved the proposed 'Below the Line savings' of £55m over the three years from 2011/12 to 2013/14 with proposals to be provided by the Directorates to identify up to £131m of service savings over the same period.

It was agreed that a Strategy be developed, as outlined in the report, to ensure resources are targeted to the greatest priorities over the next three years.

The Cabinet report can be accessed in full through the following link

http://www3.lancashire.gov.uk/council/meetings/cabinet/theCabinet.asp

Cabinet 6 January 2011

At the meeting on 6 January 2011, Cabinet considered the County Council's financial position for the next three years, i.e. 2011/12 – 2013/14.

The report set out the impact of the local government settlement, announced on the 13th December 2010, on the County Council's financial position, and introduced the new term of “Spending Power” which describes the level of overall resources available to a local authority and includes:-

- *General Formula Grant*
- *Early Intervention Grant*
- *Learning Disability Grant*
- *NHS funding to support social care and benefit health*
- *Council tax revenue*
- *Council tax freeze grant*

The government has capped the loss in “spending power” of an authority to 8.9% in each year. Any authority with grant losses in excess of 8.9% will receive a transitional grant to limit the loss, thereby enabling authorities to adjust to the reduced level of funding over a longer time period.

In overall terms, the County Council's "spending power" will reduce by £32.514m in 2011/12 (a reduction of 3.63% from 2010/11) and a further £24.088m in 2012/13 (a reduction of 2.8%)

In addition to its "spending power" the County Council is estimated to continue to receive £19.6m of specific grants in 2011/12 and 2012/13. However, there remains some uncertainty regarding the level of specific grants, with no further information having yet been received.

In addition to a reduction in resources, the County Council is also facing increased spending pressures. It is worth reflecting that in 2011/12 alone, the County Council's costs will increase by over £71m as a result of inflation, demographic pressures (particularly in both adult and children's social care) and the impact of the waste PFI, which adds £42m to the cost base.

As a result of the impact of the reduction in resources, together with the increasing cost base, the County Council will need to make the following savings over the next three years:

2011/12	£71.666m
2012/13	£50.047m
2013/14	£57.363m
Total	**£179.076m**

There is significant uncertainty remaining in 2013/14 due to the forthcoming Local Government Resource Review.

At the meeting Cabinet:

- Confirmed the commitment to a three year council tax strategy, of a council tax freeze in 2011/12, with a maximum council tax increase of 2½% in 2012/13 and 2013/14.

- Agreed to maximise the "below the line" savings (which will reduce the management and administration costs of the County Council, without impacting on services) over the next three years, thereby minimising savings needed from services. This will reduce costs by £31.200m in 2011/12, a further £15.000m in 2012/13 and a further £9.100m in 2013/14. (These are summarised at Annex B)

- Agreed to maximise the level of efficiencies to reduce costs but maintain service provision; approving service efficiencies of £3.350m in 2011/12, a further £6.610m in 2012/13 and a further £2.000m in 2013/14. (These are summarised at Annex B)

- Proposed for consultation, proposals for service reductions totalling £34.654m, in 2011/12 (with an impact of £30.892m in 2012/13 and £31.476m in 2013/14). (These are summarised at Annex B)

- Agreed to invest in Lancashire's highways network in 2011/12 by £2.038m and a further £6.223m in 2012/13

- Proposed for consultation, proposals to increase income through charges totalling £4.500m in 2011/12 (with an impact of £1.730m in 2012/13 and £1.100m in 2013/14). (These are summarised at Annex B)

- Charged the Chief Executive, Executive Directors and the County Treasurer with identifying further efficiency savings and/or "below the line" savings in 2013/14 of £7.464m in order to present a balanced, sustainable three year budget for the County Council for 2011/12 to 2013/14.

- Asked Executive Directors to maintain an ongoing review of costs.

The Cabinet report can be accessed in full through the following link

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

Cabinet 3 February 2011

The report to this meeting provides Cabinet with an update on budget issues, and covered the consultation responses received from the following:

- Overview and Scrutiny Committees
- Lancashire District and Unitary Councils
- Youth Council
- Trade Unions, and
- The Business Community.

Cabinet noted that, in relation to the level of savings required for Adult Social Care provision, the ongoing statutory consultation, 'Making Difficult Decisions about Funding Adult Social Care Services in Lancashire' is due to end on 28 February 2011.

Cabinet recommended to Full Council that the Cabinet Member for Adult and Community Services, following consultation with the Leader, the County Treasurer, and the Executive Director for Adult and Community Services, be authorised to determine the future provision of Adult Social Care Services for 2011/12 – 2013/14 in the light of the consultation responses received and within the Revenue Budget cash limits agreed by Full Council on 17 February 2011.

Since the previous meeting on 6 January 2011, District Councils have confirmed the information on council tax resources for 2011/12. There is a further increase in the tax base which provides additional ongoing resources of £0.137m in 2011/12, a further £0.028m in 2012/13, and £0.054m in 2013/14.

In addition, there is a small surplus on the 2010/11 council tax collection fund which will provide additional, one-off resources of £0.099m in 2011/12.

The government announced the final settlement for Local Authorities on 31 January 2011 which confirmed small reductions in the grant funding for the County Council of £0.139m in 2011/12 and £0.022m in 2012/13.

Although the two year government settlement provides certainty over the next two years, there remains a level of financial risk within the budget, given the level of budget reductions to be achieved over the next three years.

It was therefore proposed that the net additional resources set out above be incorporated within the proposal for additional investment in highways maintenance in 2011/12 and 2012/13, enabling the level of savings required in 2013/14 to be reduced.

This proposal would have no impact on the commitment not to increase council tax in 2011/12; it results in a budget estimate of £769.117m in 2011/12, which is a reduction in expenditure of 4.11% over 2010/11, when compared on a like for like basis.

3. Financial Risks and Uncertainties in 2011/12 to 2013/14

Uncertainty remains within the 2011/12 position; caused by the current economic climate and potential legislative changes which may impact upon the County Council's financial position.

Ordinary Residence

In July 2010, the potential risk to the County Council's financial strategy as a result of the clarification in the guidance which relates to "Ordinary Residence" was highlighted. In essence, once a person establishes permanent residence in an area (other than in a registered care or nursing home) they are deemed to have become the responsibility of the authority in whose area they now live (the host authority) and no longer the financial responsibility of the authority who made the original placement (the placing authority). Some authorities, such as Lancashire, which had a number of large long stay hospitals for adults with learning disability, have significant numbers of residents who have now settled in their area. Because of this the County Council will assume financial responsibility for around 180 placements made by other authorities (this number is still rising as further placements are identified) but will only lose responsibility for around 60 placements which will transfer to other local authorities. In July 2010 the potential impact on the County Council was estimated at £4m in 2011/12, but was highly uncertain.

Work was undertaken with other authorities to seek agreement to a regional approach, which would mitigate the risk. This agreement was secured, but the challenging financial settlement received by local authorities has put this agreement under pressure. Requests for transfer of financial responsibility are also now coming in from authorities outside of the North West. As yet financial responsibility has only transferred in a small number of cases with an additional cost of £380k in 2010/11 and £570k in a full year. The situation remains uncertain, and will be closely monitored over the next 12 months.

Local Government Resource Review

The Government is committed to undertaking from January 2011 a Local Government Resource Review.

Included in the review are outline proposals for some form of retention or localisation of business rates as well as changes to the overall distribution formula. The recent settlement has demonstrated that the current formula system has difficulty coping with the present financial scenario of declining resources. However, any fundamental change to the grant system creates significant uncertainty beyond the announced 2 year settlement. Whilst the budget strategy for 2013/14 is in line with the outcome of the settlement; changes in the distribution formula may result in significant change for Lancashire. At this stage the timings of the various stages of the review are not known but further information will be provided as the timing becomes clearer.

Level of Specific Grant

As previously set out to Cabinet in January, within the financial strategy for 2011/12 and future years, some £19.6m of funding is expected to be maintained from specific grants. Some grants have been confirmed. However, announcements in relation to others, in particular, the previously ring fenced Learning Skills Council grant which supports Adult Learning, were due in January 2011 but remain outstanding. The expectation is that if the funding is reduced, the services will look to reduce costs and manage the reduction in funding. No further announcements have been made by the governments. A verbal update will be provided at the meeting.

New Homes Bonus

The Government proposes to pay a "New Homes Bonus" for six years to local authorities equivalent to the average Council Tax for each new home constructed or long term empty home brought back in to use. It is intended that the scheme will begin from 2011/12 and £200m has been top sliced from the overall settlement. Consultation on the design of the scheme closed on Christmas Eve 2010 and included a number of key questions including the split between County and District Councils in two tier areas. At this stage it is impossible to estimate what might flow to the Council from this source. Updates will be provided as further information becomes available.

The Cabinet report can be accessed in full through the following link

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

4. The Revenue Budget 2011/12 to 2013/14

The Cabinet is recommending a three year budget strategy for 2011/12 to 2013/14 which will provide a sustainable and stable budget in a challenging financial environment, providing service users, the wider community and partners longer term clarity and certainty.

The proposed revenue budget of £769.117m for 2011/12 is set out in Annex A which sets out the County Council's gross expenditure budget of £1,859.562m, of which £1,090.455m is funded by grant (including £805m of funding for schools), income and other fees and charges.

Annex A also sets out the proposed cash limits for 2012/13 and 2013/14.

Cabinet Member Budget Allocations

Since the Cabinet on 3 February, cabinet members have approved allocations to individual Devolved Financial Management (DFM) schemes within the overall proposals made by the Cabinet. The reports setting out these details can be found through the following link

http://council.lancashire.gov.uk/mgDelegatedDecisions.aspx?bcr=1

5. Robustness of the estimates and balances and reserves

The County Treasurer's opinion is that the budget for 2011/12 to 2013/14 is robust, and the process has taken all practical steps to identify and make appropriate provision for the commitments, and risks, to which the County Council will be exposed in these years.

However, the County Council must deliver £179.1m of savings over this period. Although the County Council has a strong and proven ability to deliver change and effectively manage its resources, the level of challenge facing the County Council is unprecedented and as such, contains significant risks that must be effectively managed over the next three years and beyond. Access to an appropriate level of balances is a fundamental tool in managing this level of risk.

It is also clear that as the County Council downsizes, there will be a significant call upon the County Council's reserves to support voluntary severance. It is vital that the County Council has adequate provision to meet such costs over the next three years. However, it should be noted that this potential cost will be mitigated by the robust management of vacancies, which will maximise the opportunity for staff to be redeployed into available posts, rather than leave the authority on severance terms.

It is likely that pressure on local government finance will be maintained beyond this period, and as such, a robust level of balances and reserves will be a vital element of maintaining a sustainable and stable financial strategy over the coming years.

Given the level of financial risk the County Council remains exposed to over the next three years, together with the uncertainty surrounding the impact of the Local Government Resource Review on future funding levels; it is the view of the County Treasurer that the levels of reserves and provisions held are appropriate.

Comments on specific areas of balances and reserves are set out below:

County Fund Balance

The 2010/11 budget monitoring reported to Cabinet on 3 January 2011 set out that the County Fund balance was expected to be £50.9m on 31 March 2011.

This level of balances needs to be considered in the context of the remaining level of risk within the budget over the next three years (and beyond). The economic recovery, together with the need to deliver significant savings results in the County Council facing a high level of financial risk over the next three years. Over this period, access to one-off funds through the County Fund balance will be essential. In addition, access to one-off funds which deliver invest to save proposals will be key to reducing the County Council's costs. Such investment must secure the County Council's ongoing financial health and stability, in addition to safeguarding service levels during the period of service transition.

Equal Pay Reserve

The Equal Pay reserve was established to enable the County Council to meet any one-off costs arising from the equal pay review, including for example, the compensation payments previously made to staff at risk of an equal pay claim. The equal pay review is almost complete, and as a result, it is appropriate to review the level of the provision.

There will remain some call on the provision over the next two to three years as the final elements of the review are concluded. The outstanding areas include the finalisation of the remaining equal pay claims, the Chief Officer and Special Grades review, and the review of staff within the Soulbury pay and grading structure.

After reviewing the commitments which have arisen and the potential future costs, it is appropriate that the reserve remains, but at a lower level in order that the County Council is well placed to be able to effectively manage the outcome of the equal pay review without exposing itself to additional financial risk.

As such, £30m of the Equal Pay Reserve will be released, and made available to support voluntary severance costs over the next three years.

These resources will also support the investment in the Service Improvement Plans agreed as part of the development of the Strategic Partnership with BT.

The level of balances will be kept under close review by the County Treasurer, in order to ensure the County Council keeps an appropriate balance between the need for a robust level of reserves and balances and the need to invest in priority areas.

2011/12 Proposed Revenue Budget
Gross Spend, Grants, Income and Net Budget

	Gross spend £m	**Grants** £m	**Fees and Charges** £m	**Other income** £m	**Net 2011/12 Budget Proposed by Cabinet 3 February** £m
Adult & Community Services	470.301	-9.875	-67.469	-59.704	333.253
Children & Young People	1,028.307	-853.274	-7.670	-3.042	164.321
Environment	235.474	-7.065	-34.690	-1.748	191.971
Office of the Chief Executive	43.060	-0.240	-12.146	-3.892	26.782
County Treasurer's Department	40.850		-29.527		11.323
Corporate	6.959			-0.103	6.856
Financing Charges	37.125				37.125
Balances & Reserves	-1.500				-1.500
Additional Investment in Highways Maintenance	2.136				2.136
Use of Dedicated Schools Grant	-0.695				-0.695
LSPs	1.028				1.028
Lancashire County Commercial Group	-3.483				-3.483
Budget Total	**1,859.562**	**-870.454**	**-151.502**	**-68.489**	**769.117**

Proposed Revenue Budget 2011/12

2010/11 adjusted base budget (Re-based) £m	Budget	Net 2011/12 Budget Proposed by Cabinet 3 February £m	Change over 2010/11 £m	Change over 2010/11 %
	Adult & Community Services			
322.665	*Adult Social Care*	*307.430*	*-15.235*	*-4.72*
28.385	*Community Services*	*25.823*	*-2.562*	*-8.89*
351.050	Total Adult & Community Services	333.253	-17.797	-5.07
174.711	Children & Young People	164.321	-10.390	-5.95
	Environment			
13.447	*Waste PFI*	*54.297*	*40.850*	*303.79*
141.882	*Environmental Services*	*137.674*	*-4.208*	*-2.97*
155.329	Total Environment	191.971	36.642	23.59
25.837	Office of the Chief Executive	26.782	0.945	3.66
14.351	County Treasurer's Department	11.323	-3.028	-21.10
9.102	Corporate	6.856	-2.246	-24.68
46.753	Financing Charges	37.125	-9.628	-20.59
19.221	Balances & Reserves	-1.500	-20.721	-107.80
7.914	Invest to Save	-	-7.914	-100.00
-	Additional Investment in Highways Maintenance	2.136	2.136	100.00
-0.695	Use of Dedicated Schools Grant	-0.695	-	-
1.028	LSPs	1.028	-	-
-2.522	Lancashire County Commercial Group	-3.483	-0.961	-38.10
802.079	**Total**	**769.117**	**-32.962**	**-4.11**

Proposed Cash Limit 2012/13

2011/12 Proposed Budget £m	Budget	2012/13 Proposed Cash Limit £m	Change over 2011/12 £m	Change over 2011/12 %
333.253	Adult & Community Services	326.926	-6.327	-1.90
164.321	Children & Young People	157.865	-6.456	-3.93
191.971	Environment	182.965	-9.006	-4.69
26.782	Office of the Chief Executive	23.635	-3.147	-11.75
11.323	County Treasurer's Department	9.211	-2.112	-18.65
6.856	Corporate	8.604	1.748	25.50
37.125	Financing Charges	38.125	1.000	2.69
-1.500	Balances & Reserves	-	1.500	100.00
-	Impact of Equal Pay Review to be allocated to services	1.680	1.680	100.00
2.136	Additional Investment in Highways Maintenance	6.367	4.231	198.08
-0.695	Use of Dedicated Schools Grant	-0.695	-	-
1.028	LSPs	1.028	-	-
-3.483	Lancashire County Commercial Group	-2.445	1.038	29.80
769.117	**Total**	**753.266**	**-15.851**	**-2.06**

Proposed Cash Limit 2013/14

2012/13 Proposed Cash Limit £m	Budget	2013/14 Proposed Cash Limit £m	Change over 2012/13 £m	Change over 2012/13 %
326.926	Adult & Community Services	322.224	-4.702	-1.44
157.865	Children & Young People	155.013	-2.852	-1.81
182.965	Environment	187.462	4.497	2.46
23.635	Office of the Chief Executive	22.113	-1.522	-6.44
9.211	County Treasurer's Department	5.866	-3.345	-36.32
8.604	Corporate	8.642	0.038	0.44
38.125	Financing Charges	36.625	-1.500	-3.93
-	Balances & Reserves	-	-	-
1.680	Impact of Equal Pay Review to be allocated to services	7.394	5.714	340.12
6.367	Additional Investment in Highways Maintenance	-	-6.367	-100.00
-0.695	Use of Dedicated Schools Grant	-0.695	-	-
1.028	LSPs	1.028	-	-
-2.445	Lancashire County Commercial Group	-1.646	0.799	32.68
-	Additional efficiency savings to be identified	-7.245	-7.245	-
753.266	**Total**	**736.781**	**-16.485**	**-2.19**

Below the Line Savings

	2011/12 £m	2012/13 £m	2013/14 £m
Savings from the strategic partnership	7.0	2.5	4.5
Treasury Management strategy	9.0	0.5	0.5
Review of insurance	2.0	-	-
Impact of pension valuation	0.6	0.7	0.6
Improvement in the tax base from that previously forecast	1.0	1.0	1.0
Reduction in policy, performance management, administration and related costs	3.5	3.5	-
Consolidation of Property functions and Accommodation savings	1.0	1.0	1.0
Reduction in management costs by reducing the number of earners >£50k	2.5	2.5	-
Reduce travel and conference costs	1.0	1.0	-
Reduction in use of agency staff	1.0	1.0	-
Reduction in the use of consultants	1.0	-	-
Review of financial transactions	0.5	0.5	-
Transport Review	1.1	0.8	1.5
Total Below the Line Savings	**31.2**	**15.0**	**9.1**

Service Efficiencies

	2011/12 £m	2012/13 £m	2013/14 £m
Adult and Community Services			
Reduce spend on Older people's day care and related transport	0.375	0.375	-
Reduction in mobile library service	0.035	0.035	-
	0.410	**0.410**	**0.000**
Children and Young People			
SEN Transport	0.100	-	-
	0.100	**-**	**-**
Environment			
"One Team" working (Highway Services review)	2.180	4.000	-
Maximising efficiencies of the PFI contract	0.430	2.000	2.000
Further rationalisation of County Analyst and Trading Standards	0.200	0.200	-
Improved efficiency in development control activities	0.030	-	-
	2.840	**6.200**	**2.000**
Total Efficiency Savings proposals	**3.350**	**6.610**	**2.000**

Service Policy Proposals

	2011/12 £m	2012/13 £m	2013/14 £m
Adult and Community Services			
Social Care fee reductions	7.000	8.736	9.208
Fair Access to Care eligibility	2.500	2.500	-
Reduce training budget	1.500	-	-
Reduction in Resources Fund	0.300	-	-
Reduce overall level of non-residential social care services	1.500	3.000	7.500
Reduce provision of transport and introduce charges for service users	0.500	0.500	-
Reduce cost of in-house service provision	0.500	0.500	1.600
Reduce expenditure on supporting people programme	1.500	1.000	0.500
Remodel of Learning Disability Supported Living Services	0.500	1.500	4.000
Reduce Social Care Assessment and Care Management staff	1.850	1.350	-
Libraries staff and service rationalisation	1.000	0.500	0.400
Reduce level of grant support to the Arts	0.100	-	0.100
	18.750	**19.586**	**23.308**
Children and Young People			
Transforming Care Services for Children and Young People	0.500	1.000	3.000
Transforming Care Services - reducing the number of authority residential places and the number of adolescents accommodated in children's home provision	0.680	0.700	0.320
Review of reshaping respite provision and direct payments for children with disabilities	0.700	0.900	0.900
Specialist Special Educational Needs and Disability (SEND) transport	0.200	1.200	1.400
Statutory responsibility for schools	0.500	0.800	0.700
Restructuring the young people's service	1.008	1.508	1.104
Early Years / Family Support	0.500	-	-
Interest on School balances	0.400	-	-
Full year effect savings proposals to meet the budget reductions in 2010/11	3.172	0.008	0.004
Reduction in Area Based Grant funded services:			
• Connexions grant	1.547	2.106	0.740
• Prevention Fund	0.841	0.601	-
• School facing activities	1.370	0.979	-
• Teenage Pregnancy	0.382	-	-
	11.800	**9.802**	**8.168**

Service Policy Proposals (continued)

	2011/12 £m	2012/13 £m	2013/14 £m
Environment			
Closure of Household Waste Recycling Centres (HWRC's)	0.730	0.800	-
Reduction in Waste Minimisation activities	0.430		-
Reduce level of street lighting in appropriate areas (which does not compromise either road safety or community safety)	0.500	0.500	-
Review and retender existing bus services	0.625	0.204	-
Reduction in public transport information	0.100	-	-
Removal of Real Time information service	0.175	-	-
Reduced ability to progress new public transport and sustainable travel initiatives	0.180	-	-
Rationalisation of Public Rights of Way (PROW) and Countryside maintenance	0.204	-	-
Reduced support for environmental and community projects	0.180	-	-
More efficient spending on road safety educational resources, road safety initiatives and the Pre-pass support scheme	0.270	-	-
Cease entirely the tree planting programme within the Waste PFI Contract	0.500	-	-
Minor increase in response times to enquiries from members of the public on Trading Standards issues	0.120	-	-
Rationalise response to new requirements for traffic light installations and urban traffic control systems	0.090	-	-
	4.104	**1.504**	**0.000**
Total Service Policy Proposals	**34.654**	**30.892**	**31.476**

Service Charging Proposals

	2011/12 £m	2012/13 £m	2013/14 £m
Adult and Community Services			
Revised charging policy for non residential care services	4.100	0.775	0.350
	4.100	**0.775**	**0.350**
Children and Young People			
Revised charging policy for Children's Social Care services	0.200	0.300	0.250
Charge for denominational transport	0.100	0.500	0.400
Increased income from Lancashire outdoor education service	-	0.100	0.100
	0.300	**0.900**	**0.750**
Environment			
Income generation through the introduction of car parking charges in country parks and picnic sites (six sites)	0.010	0.055	-
Increase in on-street parking charges in Preston and Lancaster	0.090	-	-
	0.100	**0.055**	**0.000**
Total Charging Proposals	**4.500**	**1.730**	**1.100**

Further details of the savings proposals can be seen in the report to Cabinet 06.01.11 at item 3b – Revenue Budget Resolutions, accessible via the following link:

http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=311&Ver=4

Appendix B

Capital Investment Strategy 2011/12 to 2014/15

1. Introduction

This report sets out Cabinet's proposals for a four year capital investment strategy for 2011/12 to 2014/15, and provides a summary of the information considered by the Cabinet at its meeting on the 3 February 2011.

The reports to that meeting are available on the County Council's website and form part of the background to the discussions on the budget at that meeting. This report is a summary of the process and of the current position, and does not repeat the detailed content of those reports.

The reports to Cabinet can be accessed via the following link:

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

The Cabinet is recommending that the Council maintain its commitment to significant investment in the County's infrastructure, targeting resources at activity which will support the growth of the County's economy going forward.

This report sets out the Cabinet's proposals for additional investment in priority areas over the next four years of £303m. This is in addition to the investment contained within the existing capital programme of £197m over the next four years.

Statutory information relating to the County Council's policy on the Minimum Revenue Provision is also included together with the Prudential Indicators flowing from the revised programme; both of which must be reviewed each year as part of the budget process.

2. The Four Year Capital Investment Strategy 2011/12 to 2014/15

At its meeting on 3 February 2011 the Cabinet, as part of the development of its budget proposals considered a report on the Council's four year Capital Investment Strategy. The Cabinet has considered capital investment priorities over the next four years taking account of:

- The capital investment previously approved;
- Changes in the forecast level of resources available as a result of the Local Government Finance Settlement;
- Changes in the level of local resources available as a result of the changes to the cost of the Waste Infrastructure Scheme.

While the level of resources available following the Comprehensive Spending Review and the Local Government Finance Settlement is greater than previously forecast, the level of resources does represent a significant reduction on previous levels, although this is mitigated to some extent by the release of County Council resources from the Waste Infrastructure Scheme.

The Cabinet's proposals are based on the criteria that the priority is investment which will have a positive impact on the growth prospects for the County's economy, while continuing to passport resources allocated to the Council for schools and transport.

Given the degree of uncertainty over the level of resources in 2014/15 the Cabinet is recommending a firm (committed) three year programme with an indicative fourth year. This allows effective planning of investment to continue while appropriate strategies to address the financing of the programme are developed.

In addition to making proposals for the use of the additional resources received as a result of the capital settlement being more favourable than anticipated, together with the resources released from the Waste Infrastructure Project, the Cabinet's proposals confirm the schemes already approved which includes schemes focussed on the delivery of ongoing strategies such as that for Learning Disability Day Care and the Libraries Regenerate Programme, as well as the need for repairs and renewals across the buildings portfolio.

Details of the existing programme can be accessed through the following link:

http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=330&Ver=4

The Cabinet's proposals result in an increase in the level of over programming within the firm programme. However, this is considered acceptable by the County Treasurer given the prudent assumptions about resource levels that have been made in constructing the overall programme. In particular it is likely that the number of surplus assets which can be disposed of will increase over the coming years and no account has been taken of additional potential capital receipts in the firm programme.

3. The Overall Capital Programme and Financing

The table below summarises the overall capital programme and its financing while Annex 1 sets out the additional investment proposed by the Cabinet.

Total Capital Investment 2011/12 – 2014/15

	2011/12 £m	2012/13 £m	2013/14 £m	Total £m	2014/15 indicative £m
Investment Proposals:					
Schools	104.504	51.882	26.104	182.490	23.117
Transport	44.844	47.585	52.453	144.882	47.808
Other	54.731	16.595	18.911	90.237	11.100
Total investment	**204.079**	**116.062**	**97.468**	**417.609**	**82.025**
Funded by:					
Single capital pot grants	66.583	54.694	51.963	173.240	53.962
Unsupported Borrowing	42.089	22.624	0.000	64.713	
Other General Grants	9.169	0.000	5.303	14.472	4.371
Internal Loan	4.500	4.500	5.000	14.000	5.000
Revenue and Reserves	18.091	6.449	0.000	24.540	
Capital receipts	14.568	5.394	19.515	39.477	2.100
Specific Grants	49.079	22.401	2.987	74.467	
Total Resources	**204.079**	**116.062**	**84.768**	**404.909**	**65.433**
Over programming	**-**	**-**	**(12.700)**	**(12.700)**	**(16.592)**

The level of over programming in the three year firm programme represents 3% of the total programme, and as indicated above is considered to be manageable within a programme of this size and given the prudent assumptions made about resource levels.

The indicative fourth year of the programme is not fully financed at this stage and the Cabinet have instructed the County Treasurer to bring forward proposals for bridging this gap over time.

As previously agreed by the Cabinet, any uncommitted resources identified at the end of the year will be transparently recycled within the overall capital programme to support key priorities rather than being held within directorate programmes.

The most significant risks within the future programme remain around the potential level of central government support for the schools programme following the completion of the current review. However, prudent assumptions of a lower level of resources than received for 2011/12 have been made which it is felt should mitigate this risk

4. Prudential Indicators

It is vital that consideration of the Capital Programme over the next four years is based on its affordability, prudence and sustainability. In order to do this, a statutory framework exists which requires the County Council to consider the Prudential Indicators which demonstrate the affordability of the capital programme and its financing. Annex 2 sets out the indicators which flow from the Capital Investment Strategy proposed by the Cabinet. These will be incorporated in the Treasury Management Strategy to be considered at the next meeting of the County Council.

5. Minimum Revenue Provision Statement

Under statute the County Council has to make a prudent charge to revenue for the repayment of debt. As part of this approach the County Council is now required to approve a Minimum Revenue Provision (MRP) Statement which outlines the approach to be taken in calculating the MRP. The statement is set out in Annex 3. The statement is unchanged from previous years with the exception of technical changes in relation to PFI schemes which have no effect on the Council's underlying financial position.

6. Recommendations

The Cabinet recommends to the County Council that:

i. The proposals for additional capital investment as set out in Annex 1 to this report, be approved;

ii. That the firm three year capital programme (covering 2011/12 to 2013/14) of £417.609m and the indicative programme of £82.025m for 2014/15 summarised in the table at section three of this report be approved.

iii. The Prudential Indicators arising as a consequence of the investment strategy as set out in Annex 2 be incorporated in the Treasury Management Strategy for consideration at the next meeting of the County Council, and

iv. The Minimum Revenue Provision Statement be approved.

Annex 1

Proposed Revisions to the Forward Capital Programme

	Committed				Indicative
	2011/12	2012/13	2013/14	Total	2014/15
	£m	£m	£m	£m	£m
Schools Block					
Increase in Resources Passported to Schools	26.186	17.544	17.544	61.274	23.117
Transport Block					
Maintenance of Assets	25.887	29.816	25.650	81.353	25.650
Improving Safety on our Streets	2.500	4.100	4.100	10.700	0.500
Public Transport Infrastructure Schemes	2.900	5.400	2.900	11.200	6.000
Major Schemes					
Blackpool to Fleetwood Tramway	2.965	2.000	2.000	6.965	2.000
Heysham M6 Link	2.200	4.044	5.153	11.397	4.228
Broughton By-Pass	0.215	0.375	10.800	11.390	7.580
Priorities Arising from the LTP Implementation Programme	2.130	1.850	1.850	5.830	1.850
Total Transport Programme	38.797	47.585	52.453	138.835	47.808
Economic Development Initiatives	3.000	3.000	3.000	9.000	3.000
Strategic Partnership Service Improvement Plans	7.655			7.655	
Other Schemes					
Tower Wood Centre Improvements	1.000	0.700		1.700	
Investment to Secure the Future Of Houshold Waste Recycling Centres	2.750			2.750	
Libraries Regenerate - Phase 7					1.000
2014/15 Core Programme of Repairs and Renewals					7.100
Total	**79.388**	**68.829**	**72.997**	**221.214**	**82.025**

Existing Programme	Committed				Indicative
	2011/12 £m	2012/13 £m	2013/14 £m	Total £m	2014/15 £m
Schools Block	78.318	34.338	8.560	121.216	0.000
Transport Block	6.047	0.000	0.000	6.047	0.000
Other Schemes	40.326	12.895	15.911	69.132	0.000
Total Existing Programme	**124.691**	**47.233**	**24.471**	**196.395**	**0.000**
Total Investment	**204.079**	**116.062**	**97.468**	**417.609**	**82.025**

Annex 2

PRUDENTIAL INDICATORS

Indicators on Capital Expenditure and Financing

The total capital expenditure in each year, irrespective of the method of financing estimated to be incurred by the County Council is as follows:

2009/10	2010/11	2011/12	2012/13	2013/14
Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
£000	**£000**	**£000**	**£000**	**£000**
160,070	201,400	204,100	116,100	97,500

The estimated capital expenditure stated above will be financed by a mixture of borrowing, capital receipts, revenue contributions, grants and other contributions. A key control of the Prudential system is the underlying need to borrow for capital purposes, which is represented by the cumulative effect of past borrowing decisions and future plans. This is shown as the capital financing requirement. This is not the same as the actual borrowing on any one day, as it is impossible to distinguish between cash flow movements relating to capital and revenue purposes. The estimate of the capital financing requirement for each year is as follows:

2009/10	2010/11	2011/12	2012/13	2013/14
Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
£000	**£000**	**£000**	**£000**	**£000**
711,139	784,469	792,979	781,684	760,917

Prudence and Affordability

CIPFA's Prudential Code for Capital Finance in Local Authorities states the following as a key indicator of prudence:

"In order to ensure that, over the medium term, net borrowing will only be used for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years."

The County Treasurer does not envisage any difficulties in meeting this requirement, based on the existing plans and proposals.

It is important to ensure that the plans for capital expenditure and borrowing are affordable in the long term. To this purpose the code requires an indicator which estimates the ratio of financing costs to net revenue stream.

The financing costs are the interest payable on borrowing, finance lease or other long term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of the County Council's borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The net revenue stream is defined as the amount required to be funded from Government Grants and local taxpayers, in effect the budget requirement.

Estimates of the ratio of financing costs to net revenue (or budget requirement) are as follows:

2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
%	**%**	**%**	**%**	**%**
4.8	6.51	7.17	7.42	6.87

The Prudential Code requires the estimated revenue impact of capital investment decisions in Band D Council Tax terms to be calculated. These are as follows:

2011/12	**2012/13**	**2013/14**
£	**£**	**£**
62.92	41.23	27.19

The above figures exclude the borrowing costs required to meet commitments from 2010/11 and earlier years' programmes. The focus is, therefore, on the costs of future years Capital Programmes. The above figures are after deducting the estimated support received from the Government via the Revenue Support Grant.

It is important to note that the figures do not represent annual increases in Council Tax. Both the 2009/10 and 2010/11 figures will include the full year effects of decisions taken in 2008/09. Similarly, all three years include the effect of financing capital expenditure from revenue or internal loans. Provision for these already exists within the revenue budget. The estimated effect in Band D Council Tax terms of the net cost of the supported borrowing (i.e. after deducting government support) and the unsupported borrowing is:

	£
2010/11	3.93
2011/12	12.65
2012/13	14.13

External Debt

The County Council is required to approve an “authorised limit” and an “operational boundary” for external debt. The limits proposed are consistent with the proposals for capital investment and with the approved treasury management policy statement and practices. The indicators are split between borrowing and other long term liabilities, such as PFI projects and finance leases. Currently, it is anticipated that the waste PFI project will be signed and the assets and liabilities will come within the scope of the indicators in 2011/12. There are no proposals to fund new capital expenditure by finance leases in the Capital Programme, although it is possible that some finance leases may be entered into during the year. It is, therefore, proposed to set a limit for the County Treasurer to work within.

The authorised limit is a prudent estimate of external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash flow movements. After taking into account the capital plans and estimates of cashflow and its risks, the proposed authorised limits for external debt are:

	2011/12	**2012/13**	**2013/14**
	£000	**£000**	**£000**
Borrowing	1,000,000	1,000,000	1,000,000
Other long term liabilities	400,000	400,000	400,000

The proposed operational boundary for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the County Council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational boundary for external debt is:

	2011/12	**2012/13**	**2013/14**
	£000	**£000**	**£000**
Borrowing	950,000	950,000	950,000
Other long term liabilities	390,000	390,000	390,000

The debt figures include transferred debt which is managed by the County Council on behalf of other authorities. These do not form part of the comparison with the capital financing requirement. The estimated level of transferred debt included within the debt indicators is:

2011/12	£45.294m
2012/13	£43.579m
2013/14	£41.547m

The actual level of transferred debt at 31.03.11 is £47.967m.

Treasury Management

The Prudential Code requires authorities to adopt the CIPFA Code of Practice for Treasury Management in the Public Services. The County Council has followed this Code for several years and will continue to do so. Consistent with the County Council's Treasury Management Strategy, the Treasury Management Indicators set out below are recommended to the County Council. (A full report on the County Council's Treasury Management Strategy will be presented to the Full Council on the 24 February 2011).

It is recommended that the upper limit on fixed interest rate exposure (borrowing net of investment) should be set at:

2010/11	£ 1,000 m
2011/12	£ 1,000m
2012/13	£ 1,000m

The upper limit on variable interest rate exposure should be set at:

2010/11	£ 800 m
2011/12	£800m
2012/13	£800 m

It is recommended that the County Council sets upper and lower limits for the maturity structure of its borrowings as follows:

	Lower Limit %	Upper Limit %
under 12 months	-	75
12 months and within 24 months	-	75
24 months and within 5 years	-	75
5 years and within 10 years	-	75
10 years and above	25	100

At any time it is proposed that the County Council will invest a maximum of £500m for periods in excess of 364 days, but not exceeding 5 years. The upper limit for total principal sums invested for over 364 days at any time are:

	£000
Invested over 364 days	500,000
Invested for 1 year to 2 years and 364 days	500,000
Invested for 5 years	500,000

Minimum Revenue Provision Statement 2011/12

1. Introduction

This annual statement needs to be approved by the Full Council. It arises from statutory guidance initially issued by the Department of Communities and Local Government (DCLG) in 2008 and updated in 2010. Local Authorities are required to make a prudent charge to the revenue account in respect of provision to repay debt and other credit liabilities (mainly finance leases or PFI contracts). This is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by the DCLG provides four options which can be used for the purpose of calculating the MRP.

2. The Four Options explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing supported by government via Revenue Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

- Regulatory Method

Before the Prudential system of capital finance was introduced in 2004 the MRP was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance fixed assets. However, to avoid changes in the charge to revenue in 2004/5 an adjustment figure was calculated which would then remain constant over time. For technical accounting reasons this methodology would have led to an increase in the MRP, and would therefore have had an impact upon the County Council's budget, so this method has not been used and is not recommended for future use.

- Capital Financing Requirement (CFR) method

This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the County Council since the introduction of the MRP in 2004

- Asset Life Method

Guidelines for this method allow for a MRP to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways as shown below;

A straightforward calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset or,

By the use of an annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

- Depreciation method

This requires a charge to be made of depreciation in line with normal accounting conventions. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

3. Finance Leases and PFI

With changes in accounting regulations to adopt International Financial Reporting Standards assets held under a PFI contract now form part of the Balance Sheet. This has increased the capital financing requirement and on a 4% basis the potential charge to revenue. To prevent such an increase impacting on the revenue budget the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

4. Application at Lancashire County Council

It is proposed that the Capital Financing Requirement option is applied to all supported borrowing.

It is proposed that the Asset Life method (Equal Charge approach) is to be applied to capital expenditure financed by unsupported borrowing.

It is proposed that PFI payments will be made in line with the amounts due to repay the liability under the contract.