LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 29 JANUARY 2013**

Venue: **MORECAMBE TOWN HALL**

Time: **6.00 P.M.**

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the party whip, which is prohibited under the Lancaster City Council Constitution.

Please note that this meeting will be held in Morecambe Town Hall.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting held on 11 December 2012 (previously circulated).

3. **Items of Urgent Business authorised by the Chairman**

4. **Declaration of Interests**

   To receive declarations by members of interests in respect of items on this agenda.

   Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests (it is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 10 and in the interests of clarity and transparency, members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **Consultation on the County Council's Budget Proposals (Pages 1 - 20)**

   The County Treasurer for Lancashire County Council has been invited to discuss Lancashire County Council's Budget proposals.

6. Budget and Policy Framework proposals 2013/14

The Leader of the Council and the Cabinet member with responsibility for Financial Services have been invited to deliver a presentation on the Budget and Policy Framework proposals for 2013/14.

More information on Cabinet's specific proposals will only be available following Cabinet on 22 January.

Copies of the presentation will be made available at the meeting.

7. Lancashire Combined Fire Authority Budget Consultation (Pages 21 - 51)

Reports considered by the Lancashire Combined Fire Authority relating to Reserves and Balances Policy, Capital Budget 2013/14 – 2017/18, and the Revenue Budget 2013/14 – 2015/16 are attached for member's consideration.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Susan Sykes (Chairman), Alycia James (Vice-Chairman), Tony Anderson, Dave Brookes, Janet Hall, Roger Mace, Richard Newman-Thompson, Elizabeth Scott and Keith Sowden

(ii) Substitute Membership

Councillors Chris Coates, Mike Greenall, Richard Rollins, Roger Sherlock, Emma Smith and Paul Woodruff

(iii) Queries regarding this Agenda

Please contact Tom Silvani, Democratic Services - telephone 01524 582132 or email tsilvani@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone 582170, or alternatively email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on 21 January 2013.

Lancashire County Council

Phone: (01772) 533355
Fax: (01772) 532885
Email: geoff.driver@lancashire.gov.uk

To Leaders of
Borough, City and Unitary Councils
in Lancashire

Your ref:
Our ref: GD/AP
Date: 10 January 2013

Dear Colleague

The County Council's Budget 2013/14

On 17 February 2011, the Full Council agreed a Revenue Budget and Capital Investment Strategy for the three years 2011/12 to 2013/14. By this three year approach the County Council was able to provide our communities and stakeholders with certainty over services. However, we always recognised that over these three years things would change and the County Council would have to consider how to manage changing financial pressures. 2013/14 is no different, and we are now consulting with a range of stakeholders on their views on how we can meet the financial pressures being faced in 2013/14.

As has been widely reported all local authorities are facing significant uncertainty in terms of the funding they will have available in 2013/14 and future years and we would therefore welcome the views of colleagues in the Borough, City and Unitary Councils across Lancashire, on areas of priority for protection and/or investment within the overall budget for 2013/14.

I enclose a copy of the report considered by the County Council's Cabinet on 3 January 2013, together with the resolutions agreed at that meeting. County Council officers would be happy to arrange to attend suitable meetings with your Council before 6 February 2013 in order for any views you wish to express to be fed in to the Cabinet's deliberations at its meeting on 7 February 2013 which will consider recommendations to the Full Council. The Full Council will meet on 21 February 2013 to consider the recommendations of the Cabinet.

/Contd...

County Councillor Geoff Driver
Leader, Lancashire County Council
PO Box 78 County Hall
Preston PR1 8XJ

If you would like to either arrange a meeting or submit written comments please contact Gill Kilpatrick the County Treasurer on (01772) 534715 or by e-mail at gill.kilpatrick@lancashire.gov.uk

Written comments must be received by no later than the 6 February 2013, in order that the County Council's Cabinet can consider responses at their meeting on 7 February 2013.

Thank you for your assistance with this.

Yours sincerely

County Councillor Geoff Driver
Leader
Lancashire County Council

Cabinet - 3 January 2013

Report of the County Treasurer

Electoral Division affected: All

The County Council's Budget 2013/14
(Appendix 'A' refers)

Contacts for further information:
Gill Kilpatrick, (01772) 534715, County Treasurer's Department,
gill.kilpatrick@lancashire.gov.uk
George Graham, (01772) 538102, County Treasurer's Department,
george.graham@lancashire.gov.uk

Executive Summary

This report provides Cabinet with the details of the Local Government Finance Settlement for 2013/14 and 2014/15, which was announced on 19 December 2012. This settlement was the first under the new system of local government finance, the business rates retention scheme. The provisional settlement for 2013/14 is £0.5m less than the level forecast within the three year financial strategy. However, the further efficiency and below the line savings for 2013/14 agreed by Cabinet at its meeting on 6 December 2012 provided headroom of £1m against this possibility, and as such, the County Council's financial strategy remains on track for 2013/14.

The report also provides an update on the further uncertainties affecting the 2013/14 revenue budget including the level of grant to be received to deliver the County Council's new public health responsibilities from 1 April 2013, the impact of the local schemes for council tax support and changes to exemptions and discounts for council tax on empty properties. It is anticipated that these uncertainties will not be resolved until the end of January 2013, and the overall financial position for 2013/14 will be reported to Cabinet at the meeting on 7 February 2013.

Recommendations

The Cabinet is asked to:

(i) Note the impact of the financial settlement announced by the Government on 19 December 2012 on the County Council and the Medium Term Financial Strategy for 2013/14 and 2014/15 as set out in the report at Appendix 'A';

(ii) Note the significant level of uncertainty remaining in key areas of the revenue budget for 2013/14 which means that at this stage it is not possible to produce a finalised position, which should be available for the Cabinet's next meeting on 7 February 2013;

Lancashire County Council

(iii) Consider whether it wishes to recommend to Full Council that support be provided to billing authority schemes for discretionary hardship relief in relation to local schemes of Council Tax Support (as part of the final revenue budget for 2013/14), where the billing authority has determined to pass the full impact of the reduction in central government funding on to individual claimants.

(iv) Consider the approach to consultation on the 2013/14 revenue budget with the following stakeholders:

- The appropriate Overview and Scrutiny Committees
- The recognised Trade Unions
- The Borough, City and Unitary Councils in Lancashire
- The business community through the Chamber of Commerce and the Lancashire Enterprise Partnership
- The Youth Council.

(v) In relation to the Schools Budget, agree that:

a. The County Council's allocation of Dedicated Schools Grant (DSG) is applied in its entirety to the Authority's Schools Budget and not to supplement the Schools Budget from other resources available to the Authority, and

b. The detailed allocation of resources within the Schools Budget should be determined at a later date by the Cabinet Member for Children and Schools in consultation with the Executive Director for Children and Young People and the County Treasurer in conjunction with the Lancashire Schools Forum.

Background and Advice

See Appendix 'A'

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's overall approach to risk management continues to be to manage exposure to risk by the most appropriate means. This report is part of the risk management framework designed to manage future risks.

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

Paper	Date	Contact/Directorate/Tel
Financial Plan 2012/13	February 2012	George Graham, County Treasurer's Department, (01772) 538102

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

The County Council's Budget and Financial Settlement for 2013/14 and 2014/15

1. Introduction

This report sets out:

- The details of the provisional local government finance settlement for both 2013/14 and 2014/15.
- The impact of the settlement on the County Council's Medium Term Financial Strategy.
- An update on the remaining risks and uncertainties which may impact upon the County Council's 2013/14 budget, including the current proposals of the Borough and City Councils in relation to localised schemes for Council Tax Support and changes in council tax for empty properties.
- Details of the 2013/14 capital settlement received to support the County Council's capital investment programme.
- The steps necessary to finalise the schools budget for 2013/14.

2. The Local Government Finance Settlement – Headline Position

The Local Government Finance Settlement for 2013/14 was announced on 19 December 2012. This settlement was the first under the new system of local government finance, the business rates retention scheme. This has brought significant change to the system, and as a result, this settlement is more complex and the final position is likely to change.

The County Council's support received through the settlement has reduced from £434.845m in 2012/13 to £414.341m in 2013/14, a reduction of 4.7% in cash resources year on year.

The provisional settlement is £0.5m less than the level forecast within the three year financial strategy. However, the further efficiency and below the line savings for 2013/14 agreed by Cabinet at its meeting on 6 December 2012 provided headroom of £1m against this possibility, and as such, the County Council's financial strategy remains on track for 2013/14.

The government has also set out the County Council's overall "spending power". Spending power sets out the overall resources available to the County Council, and includes:

- The government settlement
- Council tax

- New Homes Bonus
- Social Care funding from Health
- Council Tax Freeze grant
- Funding for the County Council's new social fund responsibilities
- New specific funding for Healthwatch.

The County Council's spending power has reduced by 2.2% when compared to 2012/13. This compares to:

- 1.7% for all Councils
- 1.6% for Shire Counties without Fire as a group
- 1.9% for councils in shire areas
- 2.1% for North West Councils
- 2.3% for Councils in Lancashire.

In broad terms this leaves the County Council in very much the same position as forecast. However, it is important to note that this settlement may be subject to change as a key part of the calculation of the level of support is the level of business rates within Lancashire, and as a result the final settlement will be affected by the Business Rate Base returns to be approved by billing authorities (the Borough and City Councils) in the next few weeks.

Further information, particularly on the nature of some of the changes around specific grants will continue to emerge over the coming weeks.

3. Specific Grants Announced within the Settlement

A number of specific grants for 2013/14 have also been announced within the settlement.

- *Health Funding for Adult Social Care*

The Department for Health has announced the allocations to be passed to local authorities by Clinical Commissioning Groups subject to agreement on the use of these resources taking account of the Joint Strategic Needs Assessment. This allocation rolls in the previous winter pressures funding of £3.5m which until now has been paid separately late in the year. The total allocation for Lancashire is £19.75m which is an increase of £1.895m on the sum previously available.

- *Local Authority Central Services Equivalent Grant (LACSEG)*

The Government has changed the way in which councils are funded for providing central services to maintained schools, in order to make it easier to manage the transition of an increasing number of schools to academy status (academies receive this funding directly). The government has removed funds (£22.7m for the County Council) from what was previously formula grant and transferred the resources to a new specific grant. The County Council will receive this specific grant calculated on a per pupil bass in the same way as academies in the County. Based on current pupil numbers it is estimated that the Council will receive £20.8m. Although the total amount removed from settlement is less than previously anticipated following work by local authorities to demonstrate the actual costs of the services involved, the amount the County Council will receive back is also likely to be less.

It is anticipated that this change in arrangements will result in an additional budget pressure for the Council in 2013/14 in the region of £1.9m.

- *Other Specific Grant Funding*

Allocations of the other main specific grants for the County Council are as follows:

Grant	**2012/13 Allocation £m**	**2013/14 Allocation £m**	**Comment**
New Homes Bonus	1.026	1.781	To be considered within the 2013/14 budget; however the majority of this funding is within the budget strategy.
Local Enterprise Partnership Core Funding	Nil	0.250	This is subject to match funding which can be met from the County Council's existing support for the LEP provided from the Economic Development budget.
Local Reform and Community Voices Grant	Nil	0.966	A new specific grant funding for the cost of Deprivation of Liberty Safeguards in Hospital, Local Healthwatch, Independent Advocacy for Complaints and Mental Health and Guaranteed Income Payments for veterans.
Council Tax Freeze Grant 2013/14	Nil	4.260	Provisional allocation should the Council determine to freeze Council Tax in 2013/14 – and is @ £0.5m higher than anticipated as the DCLG has amended the basis of calculation.
Local Replacement for the Social Fund – Funding for the scheme – Admin Costs – Set Up Costs	Nil	2.937 0.569 0.052	Funding for the County Council's new responsibilities at the previously announced levels.

4. Risks and Uncertainties for 2013/14

There remain a range of uncertainties facing the County Council, in particular, the actual impact on the Council of the localised council tax support arrangements agreed by District Councils and some elements of the settlement which will only be clear when the final settlement is announced in late January 2013.

4.1 Public Health Funding

The allocation of a ring fenced grant to fund the Council's new public health responsibilities will now be announced at some point in January 2013.

The baseline figure being used for planning as advised by the Department of Health is £45.9m. The Department for Communities and Local Government (DCLG) has announced a £400m increase in the national total for the grant. While some increase was expected due to changes in the functions passing to local authorities it cannot be estimated how this will impact in Lancashire.

4.2 Localisation of Council Tax Support

As previously reported, from April 2013 the current national scheme for council tax benefit will cease. This is to be replaced by a localised scheme for council tax support funded by a specific grant. As part of the government's deficit recovery programme, the grant will be reduced by 10%.

The grant paid to the Council in 2013/14 to support this scheme is £59.577m and forms part of the overall settlement. The allowance made for the costs of localised Council Tax Support is 1% greater than the initial estimates made by DCLG which were published over the summer. However, this new responsibility introduces a further source of volatility within the Council's budget in both the volume and cost of claims will need to be managed.

Responsibility for determining the scheme lies with the district councils; however any gap between the cost of the scheme and the grant received is shared with all precepting authorities. The County Council will have to fund approximately 85% of any such gap.

As previously reported, the government announced a £100m one off national pot to provide support for councils to ensure that claimants on 100% support under current arrangements pay no more than 8.5% of their council tax liability. It is important to note that this one-off grant **would not cover the additional costs of introducing schemes which meet these criteria in 2013/14,** and would result in further costs falling on the County Council.

The funding is for 2013/14 only, and if taken by the District Councils would add a further financial pressure in 2014/15 when both the County Council and District Councils are facing significant financial challenges due to further reductions in funding levels.

The table below summarises the position as currently known. The impact will be confirmed upon receipt of the Borough and City Council's agreed council tax base in mid January 2013.

It remains a possibility that some Borough and City Councils may not make a formal decision on these issues until their own budget meeting, which may be after the County Council has set its precept and provision may need to be made for this eventuality.

	Accepting Council Tax Support Transitional Grant	**Net Impact in 2013/14** *[1] **£m**	**Further Impact in 2014/15***[2] **£m**	**Total Budget Impact £m**
Burnley	**Yes**	0.167	0.162	0.329
Chorley	Decision due 08/01/2013	0.162	0.114	0.276
Fylde	Decision due 28/01/2013			
Hyndburn	Decision due 24/01/2013			
Lancaster	Decision due 16/01/2013			
Pendle	**No**	Nil	Nil	Nil
Preston	Decision due 31/01/2013			
Ribble Valley	**Yes**	0.073	0.040	0.113
Rossendale	**Yes**	0.117	0.101	0.218
South Ribble	Decision due 21/01/2013			
West Lancashire	**No**	Nil	Nil	Nil
Wyre	**Yes**	0.258	0.157	0.415
Total (to date)		**0.777**	**0.574**	**1.351**

*[1] Sets out the net financial impact after receipt of the County Council's share of the council tax support transitional grant. This is a one-off grant which will fall out in 2014/15.

*[2] Sets out the additional impact in 2014/15 as a result of the loss of the transitional grant.

4.3 Hardship Relief Schemes

It is recognised that there a number of both current and new Working Age Claimants who, as a consequence of the localisation of council tax support, will be liable to pay Council Tax when previously they will have been entitled to full Council Tax Benefit. As a result, there may be some claimants who may suffer financial hardship and may not be able to pay their Council Tax in full. It is recognised that this is more likely to apply where the full reduction in funding has been passed to claimants, some of whom will move from previously receiving full benefit, to being liable for 20% of their council tax bill.

In view of this, Pendle Borough Council has approved a draft Hardship Relief Scheme, of which the estimated cost to the County Council would be in the order of £80,000 per annum should the County Council choose to support this. A copy of the draft scheme is attached at Annex 'A'. As part of the overall 2013/14 revenue budget considerations, Cabinet will need to consider whether support is provided for such Hardship Relief Schemes and whether this be limited to where Borough and City Councils have passed the funding reduction on in full.

4.4 Changes to Council Tax Exemptions and Discounts

The Government has also introduced new powers for billing authorities to vary council tax discounts and exemptions in relation to empty and second homes. These measures potentially generate additional revenue through Council Tax, and may have policy benefits through encouraging the bringing of empty properties back into use. A number of billing authorities are proposing to take advantage of such changes and the initial assessment of the additional revenue is set out below. The impact will be confirmed upon receipt of the Borough and City Council's agreed council tax base in mid January 2013.

	Changes made to Council Tax	**Additional Council Tax 2013/14 £m**
Burnley	Yes	1.049
Chorley	Decision due 08/01/2013	0.500
Fylde	Decision due 28/01/2013	
Hyndburn	Decision due 09/01/2013	
Lancaster	Yes	0.518
Pendle	Yes	0.508
Preston	Decision due 31/01/2013	
Ribble Valley	No	Nil
Rossendale	No	Nil
South Ribble	No	Nil
West Lancashire	Yes	0.441
Wyre	Yes	0.416
Total (to date)		**3.432**

4.4 Impact of Business Rate Growth

The County Council will retain every 9 pence of each £1 of business rate growth generated in 2013/14 (with the exception of business rate growth in relation to the Enterprise Zones, as these are recycled through the Lancashire Enterprise Partnership for investment to generate business growth across Lancashire). Given the uncertainty of forecasting such business rate growth, no growth has been assumed within the 2013/14 revenue budget.

4.5 Treasury Management Savings in 2012/13

In November, the County Treasurer reported that the continuation of the Council's policy of actively managing elements of its' bond portfolio together with the continuation of measures to take advantage of the current low interest rate environment had resulted in a forecast of additional investment income, and lower borrowing costs of between £10 - £15m. At the time, it was reported that this was highly dependent on the prices of government gilts, and whilst £10m of this gain was secured, the continuing instability in the financial markets means that further savings may not be secured. An update for this meeting was requested by Cabinet.

The price of government gilts has remained volatile, and as a result, the position remains as stated above. A further update will be provided to Cabinet on 7 February 2013.

5. Impact on the Council's 2013/14 Revenue Budget

The County Council's three year financial strategy remains on track, with £0.5m of revenue funding headroom available as a contingency against the remaining risks and uncertainties facing the County Council's budget for 2013/14.

It is anticipated that the majority of remaining uncertainties will become clear by the meeting of Cabinet on 7 February 2013, which will enable Cabinet to make their recommendations to Full Council on the revenue budget and council tax for 2013/14 at this meeting.

Within the County Council's constitution, Cabinet is required to consult with appropriate Scrutiny Committees and interested parties (commonly referred to as stakeholders) when drawing up their budget proposals. However, in light of the continued uncertainty surrounding the 2013/14 budget, Cabinet is asked to consider the approach to consultation on the 2013/14 revenue budget with the following stakeholders:

- The appropriate Overview and Scrutiny Committees
- The recognised Trade Unions
- Borough, City and Unitary Councils in Lancashire
- The business community through the Chamber of Commerce and the Lancashire Enterprise Partnership
- The Youth Council

6. Resources for Capital Investment in 2013/14

Central Government funding for local authority capital investment now comes in the form of specific grant, rather than support for borrowing. As yet, not all capital allocations for 2013/14 have been announced.

We have received notification of two capital allocations for 2013/14 which were not anticipated, and are therefore additional capital resources in 2013/14. These are:

- Additional funding for highways maintenance of £3.632m in 2013/14, and a further £1.904m in 2014/15. This funding is ring-fenced to highways maintenance, and must be additional to current levels of spending.
- Funding of £2.967m in 2013/14 for adult social care – however, this funding is **not** ring-fenced and is available to support the County Council's overall capital priorities.

The main capital settlement for Transport for 2013/14 has been received and is as forecast at the time of setting the capital programme last year, and therefore no action is required.

Details of the County Council's capital funding for 2013/14 for schools is not expected until the end of January 2013 at the earliest.

The impact of the capital allocations on the County Council's capital investment programme will be considered by Cabinet at its meeting on 7 February 2013, when all the allocations will have been received.

7. The 2013/14 Schools Budget

The provisional details of the Dedicated Schools Grant and other school specific funding streams have been announced, and is as anticipated.

In line with the school funding arrangements introduced in November 2007, Cabinet agreed in respect of the 2008/09 Schools Budget that:

a) The County Council's allocation of Dedicated Schools Grant (DSG) is applied in its entirety to the Authority's Schools Budget and not to supplement the Schools Budget from other resources available to the Authority; and

b) The detailed allocation of resources within the Schools Budget is determined at a later date by the Cabinet Member for Children and Schools in consultation with the Executive Director for Children and Young People and the County Treasurer and in conjunction with the Lancashire Schools Forum.

The Cabinet is asked to confirm these arrangements for the determination of the 2013/14 Schools Budget.

8. The Provisional Settlement for 2014/15

The provisional information on the support the County Council will receive in 2014/15 through the settlement is that support will reduce by 7.2% in 2014/15 - a reduction of **£31.8m** in cash resources from 2013/14.

In terms of the County Council's overall "spending power" – this will reduce by 3.7% when compared to 2013/14. This compares to:

- 3.8% for all Councils
- 4.0% for Shire Counties without Fire as a group
- 3.3% for councils in shire areas
- 4.7% for North West Councils
- 4.5% for Councils in Lancashire.

It is important to stress that this figure is provisional, and is expected to change. However, in line with the Chancellor's Autumn Statement it heralds the continuation of austerity measures for local government and the wider public sector into 2017/18.

In addition to managing the fall out of these cash resources, as part of its next three year financial strategy the County Council will have to consider both the impact of increased demand for services and the increasing cost of services as a result of inflation. The impact on the County Council of the localised council tax support arrangements agreed by District Councils will also change as the one-off grant offered for 2013/14 will end.

Preparatory work is currently underway to develop and refine the forecast of the County Council's costs and resources for 2014/15 to 2016/17. The next Comprehensive Spending Review is expected to be published in spring 2013.

Work will continue over the winter and will be reported to members in the spring. However, a number of government announcements have made it clear that local government can expect to see the same level of reductions over the next CSR period as the current – an average reduction of 7.25% each year. The continuation of austerity measures over the next financial strategy at these levels is likely to result in the County Council having to reduce its spending from that forecast by up to a further 25%.

A fundamental principle of the current three year financial strategy has been to maintain stability, and to protect services to the most vulnerable members of the community. To deliver this within the next strategy, it is likely that one-off funding will be key in order to drive costs down through invest to save developments and also to fund further severance costs.

Borough of Pendle

REPORT OF:	**CENTRAL SERVICES HEAD OF CENTRAL SERVICES**
TO:	**THE EXECUTIVE**
DATES:	**13th DECEMBER 2012**

Report Author:	Dean Langton
Tel. No:	01282 661866
E-mail:	dean.langton@pendle.gov.uk

LOCALISATION OF SUPPORT FOR COUNCIL TAX DRAFT HARDSHIP RELIEF SCHEME

PURPOSE OF REPORT

1. The purpose of this report is to seek the Executive's approval to a draft Hardship Relief Scheme for Council Tax to coincide with the introduction of a localised scheme of Council Support from April 2013.

RECOMMENDATIONS

2. That the Executive recommends to Council that:-

   a) Subject to confirmation of funding arrangements from the Major Preceptors, the Council Tax Hardship Relief Scheme provided at ***Appendix A*** is approved for 2013/14;

   b) a budget of £30,000 is set aside to meet the cost to the Council of granting relief in 2013/14;

   c) subsequent revisions of the Scheme are agreed by the Executive within the Council's budget and policy framework;

   d) the operation of the Scheme is reviewed during 2013/14 and the outcome of that review used to inform a revision of the Scheme where it is considered necessary prior to approval of the Executive.

REASONS FOR RECOMMENDATION

3. To provide hardship relief for those in need of assistance with the payment of their Council Tax liability.

ISSUE

Background

4. The Executive will be aware from a report elsewhere on the Agenda for this meeting of the Government's proposals to abolish Council Tax Benefit at the end of March 2013. In its place, the Council will be required to introduce a localised scheme of support for Council Tax. At the same time, the Government will reduce the funding available for local support schemes by 10% and will also prescribe that those of state pension age should remain unaffected by any changes.

5. The draft Council Tax Support Scheme is based on various principles which, in summary, will mean that, for working-age claimants, support will be calculated broadly as now using existing Council Tax Benefit parameters but each award will be reduced by 20%.

6. As the Council has c4,500 working age claimants currently in receipt of between 90% to 100% benefit, it is inevitable that, in the event Councillors agree to proceed with the proposed Scheme, there will be some claimants who may suffer severe financial hardship and may not be able to pay their Council Tax in full. In view of this, a draft Hardship Relief Scheme has been developed.

Draft Hardship Relief Scheme

Key Policy Principles

7. A draft Council Tax Hardship Relief Scheme has been prepared and is provided at ***Appendix A*** for the Executive's consideration.

8. The key policy principles of the Scheme are as follows:-

   - Only persons in receipt of full Council Tax Support (and therefore liable to pay 20% of the full Council Tax liability) may apply for Hardship Relief.
   - The provision of relief is only intended as short term assistance;
   - No award of relief will exceed 6 months; within that period, those entitled to Relief under the Scheme will be expected to make an attempt to improve their financial circumstances so that they are able to pay their Council Tax;
   - Whilst there will be no limit on the number of applications for Hardship Relief, where an entitlement to relief has expired, no application will be accepted within the following 6 months;
   - Backdated claims for Hardship Relief will not be permitted;
   - The amount of Hardship Relief will depend on an individuals circumstances but will not exceed 100% of the net Council Tax liability after any exemptions or discounts;
   - Any relief awarded will be treated as a discount on the Council Tax payable; no money will be given to claimants.

Procedure for Dealing with Applications

9. In relation to dealing with applications, the following procedure will apply:-

- relief will be granted from the date the Council receives a properly completed application;

- all applications for relief will initially be considered by the Revenues and Benefit Manager (Liberata). Following a review of the application and supporting evidence, a recommendation will be made to the Client Manager for approval/refusal;

- Once a decision is made, a notification letter will be sent to the Customer. In normal circumstances, notification of decisions will sent within 14 days of receipt of a properly completed application.

Appeals

10. Under present legislation, there is no right of appeal against the Council's decision to use its discretionary powers for Council Tax Relief. However, it is proposed that, in accordance with concept of natural justice, the Council will accept a written request from a Council Taxpayer for a re-determination of its decision. In this respect, the Head of Central Services will review the decision and will provide notification of the outcome of the review within 14 days of the receipt of appeal from the Taxpayer.

Funding of Hardship Relief

11. As the Executive may be aware, as a Billing Authority, the Council collects Council Tax for Lancashire County Council, Lancashire Police Authority, Lancashire Fire and Rescue Authority (all referred to as Major Preceptors) and Town and Parish Councils (referred to as Local Preceptors). Broadly, 85% of Council Tax is collected on behalf of Major/Local Preceptors, the balance collected being for the Council.

12. Most Council Taxpayers will not distinguish between the amounts paid to the various Preceptors; the expectation is that, if Hardship Relief is awarded, it will apply to the whole Council Tax liability. However, the provision of a Hardship Relief Scheme for Council Tax will be a discretionary matter for Councils and therefore will have to be funded at their own expense.

13. Initial discussions with Major Precepting Authorities have indicated that there is a willingness to contribute towards the cost of Hardship Relief for Council Tax although only Lancashire County Council and the Police and Crime Commissioner (PCC) have confirmed support. If a Scheme is adopted and awards made, it is proposed that the level of award is scaled to provide only for the costs where Major Preceptors have agreed to provide financial support to Pendle. So, for example, if the Council, County Council and the PCC agree to provide funding, Hardship Relief will be scaled to 95% of the Council Tax liability.

14. It is not possible to estimate with any degree of accuracy what the likely financial impact of the proposed scheme will be. Assuming most claimants currently in receipt of full benefit are in a Band A property (annual Council Tax liability of £1,050) but in receipt of the maximum 80% support, the net liability would be c£210 for the year. If 30% (say, 1,800) of those claimants obtained full relief for at least 6 months, the estimated cost would be c£126k (of which the amount related to the Council's share of Council Tax would be c£28k).

15. From the Council's perspective, setting aside current budget constraints, in the context of a comparison of the cost of maintaining benefits as now (estimated to be c£130k) against a reduction in benefits combined with a hardship relief scheme, there is merit in the approach (though the latter does exclude any impact on collection rates arising from the award of lower levels of benefit). **In view of this, an amount of £30k has been assumed in the Council's budget for 2013/14 to meet the cost of hardship awards.**

IMPLICATIONS

Policy

16. There is currently no policy for the provision of hardship relief for Council and therefore the introduction of the Hardship Relief Scheme for Council Tax requires consideration and approval by Council. It is proposed to obtain this approval at the same time the Council considers approval of the Localised Scheme of Support for Council Tax.

Financial

17. The financial implications are as generally given in the report but are subject to change if the proposed Scheme is changed.

Legal

18. Section 13A of the Local Government Act 1992, as amended by Section 76 of the Local Government Act 2003, provides a Billing Authority such as Pendle with the power to reduce or remit Council Tax where it is considered that 'hardship' would otherwise be caused.

Risk Management

19. There is a risk that implementing the Localised Scheme of Council Tax with a 20% reduction in support for payment of Council Tax will mean that some residents suffer severe financial hardship. To mitigate this risk, the draft Hardship Relief Scheme for Council Tax has been developed.

20. Demand for the draft Scheme is difficult to predict and therefore quantify in financial terms. It is proposed to cap the budget provision at £30k to mitigate this risk.

Health and Safety

21. There are no Health and Safety implications arising from this report.

Climate Change

22. As with health and safety implications, there are no climate change implications arising directly form this report.

Community Safety

23. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

24. A Full Equality Impact Assessment has not been undertaken on the Scheme as it is intended to mitigate the impact of any equalities issues that might arise out of the implementation of the Localised Council Tax Support Scheme.

APPENDICES

Appendix A – Draft Council Tax Hardship Scheme for 2013/14

LIST OF BACKGROUND PAPERS

Papers held in Financial Services

Cabinet - 3 January 2013

The County Council's Budget and Financial Settlement for 2013/14 and 2014/15 - Resolutions

The Cabinet resolves:

1. To note the impact of the financial settlement announced by the Government on 19 December 2012 on the County Council and the Medium Term Financial Strategy for 2013/14 and 2014/15 as set out in the report of the County Treasurer.

2. To note the significant level of uncertainty remaining in key areas of the revenue budget for 2013/14 which means that at this stage it is not possible to produce a finalised position, which should be available for the Cabinet's next meeting on 7 February 2013.

3. To consider the provision of support to billing authority schemes for discretionary hardship relief in relation to local schemes of Council Tax Support at the meeting on the 7 February 2013, when Cabinet will make its 2013/14 revenue budget and council tax recommendations to Full Council.

4. Through a consultation process running up to 6 February 2013 to seek the views of the following stakeholder groups on areas of priority for protection and/or investment within the overall budget for 2013/14.

- The County Council's Overview and Scrutiny Committees as appropriate
- The Recognised Trades Unions
- The Borough, City and Unitary Councils within Lancashire
- The business community through the Chambers of Commerce and the Lancashire Enterprise Partnership
- The Youth Council

5. In relation to the Schools Budget

a) That the County Council's allocation of Dedicated Schools Grant (DSG) is applied in its entirety to the Authority's Schools Budget and not to supplement the Schools Budget from other resources available to the Authority.
b) That the detailed allocation of resources within the Schools Budget should be determined at a later date by the Cabinet Member for Children and Schools in consultation with the Executive Director for Children and Young People and the County Treasurer in conjunction with the Lancashire Schools Forum.

Lancashire Fire and Rescue Service

Mr Mark Cullinan
Chief Executive
Lancaster City Council
Town Hall
Dalton Square
LANCASTER
LA1 1PJ

Please ask for: Chris Keely
Telephone: 01772 866908
Email: chriskeely@lancsfirerescue.org.uk
Your Ref:
Our Ref: Democratic Services
Date: 15th January 2013

Dear Mr Cullinan

LANCASHIRE COMBINED FIRE AUTHORITY
BUDGET CONSULTATION

At a Meeting of the Lancashire Combined Fire Authority held on the 14th January 2013, the Authority gave initial consideration to a report on the Reserves and Balances Policy (attached for information only), Capital Budget 2013/14-2017/18 and the Revenue Budget 2013/14-2015/16. Copies of the reports considered by the Authority are enclosed. The Authority having given consideration to its Budget has resolved as follows:

i) Given initial consideration to the draft capital and revenue budgets as presented.

ii) Approved consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals.

iii) To give further consideration to the capital and revenue budgets at their next meeting on 11th February 2013, in light of the consultation process.

During consideration of the item, members discussed the impact of a potential 2.0% increase in Council Tax for 2013/14. Whilst the Budget Setting meeting is not until the 11th February 2013, members felt that it was important to point out that in real terms an increase of 2% would equate to an additional cost per household of £1.27 per year on a Band D property. Whilst this information is not detailed in the report, I would ask you to take this into account in responding to the consultation.

In this regard it would be helpful if you could let me have any comments you wish to make on the Lancashire Combined Fire Authority budget proposals by no later than 31st January 2013. This will enable your views to be tabled for consideration by the Lancashire Combined Fire Authority at its budget setting meeting on 11th February 2013.

Yours sincerely

M. B. Winterbottom

MAX WINTERBOTTOM
CLERK TO THE AUTHORITY

Encs

PART 1 ITEM No 5

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 14th January 2013

RESERVES AND BALANCES POLICY

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

The Fire Authority needs to hold reserves to meet potential future expenditure requirements.

The reserves policy is based on guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The policy explains the difference between general reserves (those held to meet unforeseen circumstances) and earmarked reserves (those held for a specific purpose). In addition, the policy identifies how the Authority determined the appropriate level of reserves and what these are.

The policy confirms that the level of and the appropriateness of reserves will be reported on as part of the annual budget setting process and as part of the year end accounting process.

Recommendation

The Authority is requested to approve the policy and the level of reserves included within it.

Reserves and Balances Policy

General Reserves

These are non-specific reserves which are kept to meet short/medium term unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed in the medium term.

The Authority needs to hold an adequate level of general reserves in order to provide:-

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events;
- A means of smoothing out large fluctuations in spending requirements and/or funding available

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	General Fund
Purpose	This covers uncertainties in future years budgets, such as: • future grant settlements being lower than forecast • higher levels of inflation than budgeted • service demands increasing, putting additional pressure on demand led budgets • changes in legislation impacting on future service provision • potential cost of industrial action
Utilisation	This is utilised to offset any in-year overspend that would occur when comparing budget requirement to the level of funding generated
Controls	The utilisation of this is agreed as part of the annual budget setting process. Any further utilisation requires the approval of the Resources Committee
Review	The adequacy of this is reviewed annually, as part of the budget setting process

Review of Level of Reserves

In determining the appropriate level of general reserves required by the Authority, the Treasurer is required to form a professional judgement on this, taking account of the strategic, operational and financial risk facing the Authority. This is completed based on guidance issued by CIPFA, and includes an assessment of the financial assumptions underpinning the budget, the adequacy of insurance arrangements and consideration of the Authority's financial management arrangements. In addition the assessment should focus on both medium and long-term requirements, taking account of the Medium Term Financial Strategy (as set out in the draft budget report elsewhere on this agenda).

For Lancashire Combined Fire Authority this covers issues such as: uncertainty surrounding future funding settlements and the potential impact of this on the revenue and capital budget; uncertainty surrounding future pay awards and inflation rates; the impact of proposed changes to pension schemes; demand led pressures etc.

The draft Local Government Finance Settlement for 2013/14 was published in December alongside a provisional settlement for 2014/15. However there remains a huge amount of uncertainty surrounding the full impact of the new Business Rates Retention Scheme and the Localisation of Council Tax Support will not be known for at least another 12 months, furthermore there also remains a great deal of uncertainty surrounding funding beyond the current Spending Review period, i.e. from 2015/16 onwards.

Given this level of uncertainty, and the unprecedented scale of potential funding reductions the Treasurer considers it prudent to maintain the minimum target reserves level at £4.0m, 6.5% of the 2013/14 net revenue budget.

Should reserves fall below this minimum level the following financial year's budget will contain options for increasing reserves back up to this level. (Note, this may take several years to achieve.)

Whilst this exercise sets a minimum level of reserves it does not consider what, if any, maximum level of reserves is appropriate. In order to do this the level of reserves held should be compared with the opportunity cost of holding these, which in simple terms means that if you hold reserves that are too high you are foregoing the opportunity to lower council tax or invest in further service improvements.

However, given the limited scope to increase council tax without holding a local referendum the ability to restore depleted reserves in future years is severely limited. Hence any maximum reserve limit must take account of future anticipated financial pressures and must look at the long term impact of these on the budget and hence the reserve requirement. Furthermore as stated earlier the Authority has never faced more uncertainty regarding future funding levels, with the next Spending Review due in two years' time, with both the Business Rates Retention Scheme and the Localisation of Council Tax Support Scheme only going live in April 2013, and with the final scheme for council tax support not due to be agreed until the end of January. All of this means it is virtually impossible to identify a reasonable maximum level of reserves, however based on professional judgement, the Treasurer feels that this should be maintained at £10.0m, until such time as more certainty on future funding is available.

Should this be exceeded the following financial years budget will contain options for applying the excess balance in the medium term.

Current level of General Reserves

The overall level of the general fund balance, i.e. uncommitted reserves, at the 31st March 2012 was £8.6m. The 2012/13 budget allowed for a marginal usage of just £12k, however this is more than offset by an anticipated year-end revenue underspend which will transfer to the general reserve, currently estimated at £1.0m. Therefore based on this the £9.6m reserve is within its target range. This will be reported on further as part of the final budget submission in February.

This reserve will continue to be utilised in future years in order to balance revenue budgets and facilitate changes arising from future funding reductions, and hence we anticipate the reserve reducing to £4.0m by 31st March 2016, our current minimum level.

Earmarked Reserves

These are reserves created for specific purposes to meet known or anticipated future liabilities and as such are not available to meet other budget pressures. They can only be used for that specific purpose, for which they were established, and as such it is not appropriate to set any specific limits on their level, but as part of the annual accounts process their adequacy will be reviewed and reported on.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Earmarked
Purpose	This covers monies set aside for specific purposes
Utilisation	Once set up these reserves can only be used for the specific purpose for which they were established
Controls	The utilisation of these are discussed at quarterly DFM meetings between the budget holder, relevant Executive Board member, and the Director of Finance
Review	The level of earmarked reserves is reviewed each year as part of the revenue outturn/annual accounts process to ensure these are reasonable and remain relevant

The Director of Corporate Services has delegated authority to create new earmarked reserves valued at up to £100,000; any request which exceeds this must be reported to the Resources Committee for approval.

Specific earmarked reserves will be closed when there is no longer a requirement to hold them, at which point they will either hold a nil balance or when any outstanding balance will be transferred into the general reserve.

Current level of Earmarked Reserves

The following table provides details of the individual earmarked reserves, including the balance as at 31st March 2012, as previously agreed by Resources Committee:-

	Balance at 31 March 2012	
	£m	
DFM Reserve	0.696	Devolved Financial Management Reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, within prescribed limits, giving greater flexibility and optimising the use of resources. This is utilised by the individual budget holder, as required. The levels of individual DFM reserves are reviewed each year as part of the revenue outturn/annual accounts process, to ensure that they are reasonable and that budget holders are not building up excessive reserves.
PFI Reserves	2.137	Private Finance Initiative Reserve, which is used to smooth out the annual net cost to the Authority of the existing PFI scheme, and will be required to meet future contract payments. The utilisation of this is set out in the budget agreed at the start of the year, any variance in requirements from this are agreed by the Treasurer as part of the revenue outturn/annual accounts process. The level of reserve required to meet future contract payments is assessed on an annual basis by the Treasurer.
New Dimensions Funding	1.489	To fund further training / expenditure in respect of the New Dimensions and the provision of accommodation for the USAR team.
Retained Bounties	0.078	Following the introduction of the New Fire-fighters Pension Scheme in April 2006 all accrued liabilities in respect of retained bounties were frozen at that point in time, with the amounts being set aside in this earmarked reserve. As these bounties become payable the reserve is used to offset the revenue cost of this, with the final payment due in 2016/17.
Mobile data capture project	0.055	This project will review the feasibility of utilising mobile data capture technology during Home Fire Safety Checks to capture the required information. It is expected that a pilot will be carried out prior to any roll out of the technology.

Community Risk Management	0.038	This is a new earmarked reserve designed to fund the development of interactive Childsafe educational materials to replace the use of DVD's and ensure that the most recent material is available for delivery.
Insurance Aggregate Stop Loss (ASL)	1.068	The Authority's current insurance policies have a combined aggregate stop loss of £0.835m (the self-insured loss liability for vehicles standing at £0.235m and the combined insurance liability standing at £0.600m). In order to reduce the future burden on the revenue budget, it is proposed to increase the level held in earmarked reserves to meet 2 years' worth of claims, which will allow the revenue budget to be reduced from 13/14 budget setting onwards.
Backlog Maintenance	0.449	As approved by Resources Committee in November, to tackle backlog maintenance identified in the stock condition survey carried forwards to 12/13.
PFI Joint Bid	0.162	This is to provide a contingency fund to meet any unexpected events that may occur before completion of buildings, such as decanting costs etc.
Innovation Fund	0.250	This reserve has been established to provide the Authority with pump priming monies to trial any new initiatives that are identified in year.
Training Centre improvements	0.098	This reserve will be utilised to fund works required to make good the Training Centre site following the cessation of commercial activity.
ICT	0.232	This earmarked reserve is required to fund the remaining projects from 2011/12 which have been delayed until the completion of the WAN (Wide Area Network) capital project, and also to fund the improvements to the SAN (Storage Area Network) again following completion of the WAN project.
RDS Pensions national case	0.302	This reserve has been created to meet potential costs arising from the Retained Duty System staff on-going national tribunal in respect of less favourable treatment.
	7.055	

Whilst it is hard to be specific on the timing of the use of these, the latest budget forecast shows this increasing by £1.7m in respect of the PFI Reserves and the creation of a new Restructuring earmarked reserve funded from the current revenue budget, this latter reserve will be used to fund future costs in respect of the restructuring of services in order to meet future efficiency targets. As such the forecast year end position is total earmarked reserves of £8.8m.

We currently anticipate utilising approx. £1.5m of these to fund the capital programme in 2013/14, in respect of the provision of new accommodation for the Urban Search and Rescue team, and other Property related projects, and anticipate a further drawdown of £0.5m to meet other revenue costs such as further restructuring costs. Hence we anticipate holding balance at 31 March 2014 of £6.8m.

Other commitments are likely to reduce this balance to £6.0m by 31 March 2016, with over half of this relating to the PFI reserve required to meet future contractual commitments.

Capital Reserves and Receipts

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years; as such they cannot be used to offset any deficit on the revenue budget, without having a significant impact on the level of capital programme that the Authority can support.

Capital Receipts are generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme. Under current regulations these receipts can only be used to fund the capital programme and cannot be used to offset any deficit on the revenue budget.

The following table sets out the purpose of this reserve, how it is utilised, controlled and reviewed.

Name	Capital reserves and receipts
Purpose	This covers monies set aside to fund the future capital programme
Utilisation	Once set up these reserves can only be used to fund capital expenditure
Controls	The proposed utilisation of these are reported to the Authority as part of the capital programme setting and monitoring arrangements
Review	These are reviewed on an annual basis as part of the year end outturn, reported to Resources Committee and as part of the capital budget setting report to the Authority

At 31 March 2012 the Authority held £9.7m of capital reserves and receipts. We anticipate utilising £1.7m of this in 2012/13, leaving a year-end balance of £8.0m which will be used to fund the relocation of SHQ.

The sale of surplus sites, such as Chorley or SHQ will generate additional funds for these reserves. However based on the draft capital programme presented elsewhere we will utilise all of these reserves by 31 March 2016.

Provisions

The Authority has two provisions to meet future estimated liabilities:-

<u>Insurance Provision</u>
This covers potential liabilities associated with outstanding insurance claims. The precise costs of these are uncertain but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits. This provision fully covers all estimated costs associated with outstanding claims. Until such time as the year-end position is known it is not possible to estimate, with any accuracy, the likely changes to this provision. As such this is not available to meet other budget pressures.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Insurance Provision
Purpose	This covers monies set aside to meet future insurance claims
Utilisation	Once set up the provision can only be utilised to meet insurance claims
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee
Review	The level of the provision is reviewed annually based on existing and anticipated outstanding insurance claims to ensure these are reasonable and remain relevant

At 31 March 2012 this provision stood at £1.1m to cover anticipated costs of outstanding insurance claims. Whilst a significant element of this will be utilised in the current financial year, reflecting the settlement of outstanding claims, it is impossible to accurately predict the extent of this usage or the need for any additional provision to meet claims that arise in year, until such time as a full review is undertaken as part of the financial year end process. Therefore for the purpose of this report we have assumed that the level of insurance provision remains unchanged.

Retained Fire-fighters' Provision

This covers potential liabilities associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms and eligibility to be part of the Fire-fighters' Pension Scheme, which is subject to negotiation at a national level. As such this is not available to meet other budget pressures.

The following table sets out the purpose of this provision, how it is utilised, controlled and reviewed.

Name	Retained Fire-fighters' Provision
Purpose	This covers monies set aside to meet future costs associated with the Retained Fire-fighters' claim
Utilisation	Once set up the provision can only be utilised to meet costs associated with settlement of such claims
Controls	The utilisation of these are reported on an annual basis as part of the year end outturn report presented to Resources Committee
Review	The level of the provision is reviewed annually based on national guidance to ensure the level of the provision is appropriate and is still required

At 31 March 2012 this provision stood at £0.3m, which is in line with the latest estimated cost and we anticipate utilising all of this in the current financial year.

Summary Reserve Position

The following table sets out the summary anticipated position in terms of reserves and balances showing the overall level reducing to approx. £12.3m by 31 March 2016:-

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Provisions	Total Reserves & Balances
	£m	£m	£m	£m	£m
Balance 31/3/12	8.6	7.1	9.7	1.4	26.8
Change in year	1.0	1.7	(1.7)	(0.3)	0.7
Balance 31/3/13	9.6	8.8	8.0	1.1	27.5
Change in year	(0.9)	(2.0)	-	-	(2.9)
Balance 31/3/14	8.7	6.8	8.0	1.1	24.6
Change in year	(1.1)	(0.4)	(6.8)	-	(8.3)
Balance 31/3/15	7.6	6.4	1.2	1.1	16.3
Change in year	(3.6)	(0.4)	(1.2)	-	(5.2)
Balance 31/3/16	4.0	6.0	-	1.1	11.1

Financial Risk

There is a risk that the level of reserves will not be sufficient to meet future requirements, this policy and the subsequent reporting mechanism is designed to mitigate this.

HR Risk

None.

Equality and Diversity Implications

None.

Environmental Impact

None.

Business Risk Implications

The management of reserves forms a key element of our budget strategy. Having an agreed policy, within which we are able to manage our reserves, provides clearer accountability, and reduces the risk of the Authority maintaining an inappropriate level of reserves, either too high or too low.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	**Date**	**Contact**
CIPFA Guidance	Various	Keith Mattinson
Local Government Finance settlement	December 2012	Keith Mattinson
Revenue and Capital Budget Reports to CFA	January 2013	Keith Mattinson
Reason for inclusion in Part II, if appropriate:		

PART 1 ITEM No 6

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 14th January 2013

CAPITAL BUDGET 2013/14-2017/18

Contact for further information:
Keith Mattinson - Director of Corporate Services Tel No: 01772 866804

Executive Summary

The report sets out the draft capital programme for 2013/14-2017/18.

The draft programme allows for items included within various asset management plans, some of which still need to be finalised, such as the potential relocation of Service Headquarters (SHQ).

At the time of writing the report, the capital funding for 2013/14-2014/15 had been announced, however there is still a great deal of uncertainty surrounding the level of funding available to the Authority after the current Spending Review ends, 2015/16-2017/18 and in particular the level of capital grant that will be available.

A final capital programme will be presented to the Authority in February, for formal approval.

Recommendation

The Combined Fire Authority is requested to: -

(i) Give initial consideration to the draft capital budget as presented;
(ii) Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
(iii) Give further consideration to the capital budget at their next meeting on 11 February 2013, in light of the consultation process.

Capital Budget Strategy

The Authority's capital strategy is designed to ensure that the Authority's capital investment:

- Assists in delivering the corporate objectives;
- Supports priorities identified in asset management plans;
- Ensures statutory requirements are met, i.e. Health and Safety issues;
- Supports the Medium Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets;
- Represents value for money.

Capital Requirements

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

A summary of all capital requirements is set out in the table below.

	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
	£m	£m	£m	£m	£m	£m
Vehicles	1.136	2.086	1.771	1.833	1.508	**8.333**
Buildings	4.300	8.750	1.750	-	-	**14.800**
IT Equipment	0.260	0.300	0.110	1.200	1.015	**2.885**
Total	**5.696**	**11.136**	**3.631**	**3.033**	**2.523**	**26.018**

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives:-

	No of Vehicles				
Type of Vehicle	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pumping Appliance	5	5	5	5	6
Aerial Ladder Platform (ALP)	-	1	1	1	-
Driver Training	-	2	-	-	-
Pod	-	1	-	-	1
Operational Support Vehicles	11	12	10	13	14
	16	21	16	19	21

The replacement programme has been adjusted to remove peaks in the number of vehicle replacements in any one year. This ‘smoothing’ inevitably results in some vehicles being replaced marginally ahead of or behind schedule, but provides a better basis for longer term replacement strategies. As a result of this 5 support vehicles, which are due replacement in the period of the programme will be delayed by 1 year. Had this not been the case the replacement programme would cost a further £0.1m.

In addition, Fleet Services continue to review future requirements for the replacement of operational support vehicles; hence there may be some scope to modify requirements as these reviews are completed.

Operational Equipment

No new items of operational equipment have been identified as required in the term of the programme.

Buildings

The budget allows for the following projects:-

Conversion/development of facilities at Nelson and Morecambe Fire Stations in line with the anticipated implementation of Day Crewing Plus in 2013/14, at an estimated cost of £1.0m. In line with successful capital grant bids referred to later in the report an additional sum of £1.0m has been set aside in 2014/15 for two further Day Crewing Plus stations; however this is dependent upon the outcome of the next Emergency Cover Review.

The provision of a new USAR (Urban Search and Rescue) facility at Service Training Centre (STC), together with access road changes to meet planning restrictions, at an estimated cost of £1.0m.

The business case for the provision of a new HQ facility at STC was approved by the Authority in September. Further work to develop the proposals and report the outcome of this and the procurement process to members next year. As such an allowance of £10m, in line with the business case, has been including in the draft budget. This will be subject to amendment pending the outcome of the procurement exercise.

The latest stock condition survey was completed last year and the Authority's Property Asset Management plan is currently being updated. The level of backlog maintenance has reduced significantly, reflecting the investments the Authority has made in its building stock and the latest draft Asset Management Plan has only identified 3 stations which are classed as in poor condition:-

- Carnforth
- Barnoldswick
- Preston

Refurbishment schemes for Carnforth and Barnoldswick have been identified in the sum of £200k and £100k respectively. Furthermore we are continuing to explore opportunities to share these facilities with the Police, and have agreed a one off capital contribution in respect of the Carnforth refurbishment to cover the cost of converting the spare appliance bay into suitable accommodation. (In addition this will generate an annual rental income.)

Pending the outcome of the emergency cover review we have not identified any further station based capital schemes, although a sum of £1.5m has been included in the draft programme to provide some scope to address any issues which are identified.

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Nelson and Morecambe Fire Station DCP accommodation	1.000	-	-	-	-
2 x DCP accommodation	-	1.000	-	-	-
USAR facility/access road	1.000	-	-	-	-
SHQ Relocation	2.000	7.000	1.000	-	-
Carnforth Refurbishment	0.200	-	-	-	-
Barnoldswick Refurbishment	0.100	-	-	-	-
Unidentified	-	0.750	0.750	-	-
	4.300	**8.750**	**1.750**	**-**	**-**

ICT

The sums identified for the replacement of various ICT systems are in line with the software replacement lifecycle schedule incorporated into the ICT Asset Management Plan.

Next year's programme allows for:

> The potential interface costs associated with our move to Regional Control. Actual costs are still being finalised, but it is likely we will incur some costs to ensure we can continue to access mobilising data for use within other systems.

The introduction of a mobile data working solution to input data onto the Community Fire Risk Management Information System (CFRMIS), which should result in administration staff savings as information gathered during Home Fire Safety Checks is input onto the system immediately, rather than paper copies being completed and passed back to administration staff for input.

All other replacements identified will be subject to review prior to replacement, with both the requirement for the potential upgrade/replacement and the cost of such will be revisited prior to any expenditure being incurred.

Of particular note are the anticipated replacements for assets which were provided by CLG for the North West Fire Control project. These replacements are subject to less certainty regarding the timing of the potential need, and the associated replacement costs, and therefore will be revised in forthcoming budget revisions as the situation becomes clearer.

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Asset Management system		0.100			
Geographic Information System (GIS) Risk Information		0.050			
Performance Management		0.100			
Incident Recording System (IRS)		0.050			
Clocking/door entry system			0.050		
Training database			0.060		
Gazetteer/location hub				0.040	
Incident Command system				0.060	
Microsoft Office upgrade				0.100	
CFRMIS replacement system					0.045
Storage Area Network					0.120
	-	**0.300**	**0.110**	**0.200**	**0.165**
New Systems					
Interface costs associated with the implementation of the NW Fire Control Project	0.200				
Community Fire Risk Management Information System (CFRMIS) Mobile Data Working	0.060				
	0.260	**-**	**-**	**-**	**-**
North West Fire Control assets					
Wide Area Radio network (Airwave) replacement (estimated)				1.000	
Vehicle Mounted Data Systems (VMDS)					0.450
Station end mobilising system					0.400
	-	**-**	**-**	**1.000**	**0.850**
	0.260	**0.300**	**0.110**	**1.200**	**1.015**

Capital Funding

Capital expenditure can be funded from the following sources:

Prudential Borrowing
The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. In determining the level of borrowing, the Authority must prepare and take account of a number of prudential indicators aimed at demonstrating that the level and method of financing capital expenditure is affordable, prudent and sustainable. However, the Government has maintained reserve powers to limit any such borrowing if it believes the proposals to be unaffordable or in terms of national public spending constraint.

Historically this has resulted in Central Government continuing to support the revenue costs of borrowing, on the basis of a specified amount of capital expenditure, known as Supported Capital Expenditure (Revenue). With any borrowing in excess of this limit, i.e. unsupported borrowing, incurring additional revenue charges for which no additional funding will be provided will impact on the Authority's revenue budget/council tax.

The Government announced in the Spending Review 2010 that no further Supported Capital Expenditure (Revenue) would be allocated to the Fire Service, meaning that all borrowing would be 'unsupported' with the full costs having to be met by council tax payers. The funding of £1.239m shown in the 5 year programme represents outstanding borrowing from previous years which has not yet been utilised but which may still be taken. (Note, revenue support for this is already built into revenue grant settlements and the costs associated with this are already built into the draft revenue budget.)

Capital Grant
Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

The Government allocated an annual sum of £70m of capital grant to Fire Authorities throughout the Spending Review (2011/12 to 2014/15). In 2011/12 and 2012/13 this was allocated to each Authority based on a fixed amount per Authority, plus a top up based on population to the Fire Service, resulting in the Authority receiving £1.8m of funding each year. For 2013/14 and 2014/15 the Government amended this to a process a fixed proportion of the total grant is allocated based on the existing criteria, with the balance being allocated based on a bidding process.

As part of this process the Authority submitted 3 bids:

SHQ	£4.0m
Day Crewing Plus (DCP)	£1.6m
Mobile data Working	£0.1m

The final allocation was announced as part of the Local Government Finance Settlement with £38m of the £140m capital grant available being allocated based on funding bids submitted, with successful bids having a cost benefit ratio of one or above, and priority being given to bids showing the best return on investment. Lancashire was one of only 15 Authorities that submitted successful bids, receiving the seventh highest allocation of £1.7m which related to the bids in respect of DCP accommodation and Mobile Data Working. The bid for SHQ was not successful as it did not meet the required cost benefit ratio.

The remainder of the funding was allocated based on a population basis as in previous years, with Lancashire receiving a further £2.5m of grant, bringing the total over the next two years to £4.2m.

Whilst it is possible there may be a further capital grant allocated to the fire Sector in 2015/16 onwards, no allowance has been made for this as it is dependent upon the outcome of the next Spending Review.

Capital Receipts

Capital receipts are generated from the sale of surplus land and buildings, with any monies generated being utilised to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The Authority currently holds £1.2m of capital receipts. In addition to this, we are anticipating capital receipts of £2.0m from the sale of surplus sites at Chorley and at Fulwood (subject to the completion of the PFI scheme and the relocation of SHQ).

Note at the end of the five year programme capital receipts will have been fully utilised.

Capital Reserves

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. Following completion of the 2012/13 capital programme, the Authority expects to hold £6.8m of capital reserves. Over the life of the programme this will be fully utilised to part fund the relocation of SHQ.

Earmarked Reserves

Earmarked reserves of £1.5m will be utilised in the programme, predominantly to fund the USAR garaging provision and STC access road changes.

Contributions from Revenue Resources

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The current revenue budget includes an allowance of £1.5m per annum as a contribution towards the capital programme. This contribution is subject to affordability and in particular the outcome of future funding settlements and will be reviewed each year.

Total Capital Funding

The following table details available capital funding over the five year period:

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Supported Capital Expenditure	0.569	0.670	-	-	-	**1.239**
Capital Grant	2.127	2.127	-	-	-	**4.254**
Capital Receipts	-	0.014	1.573	1.533	0.047	**3.167**
Capital Reserves	-	6.825				**6.825**
Earmarked Reserves	1.500	-	-	-	-	**1.500**
Revenue Contributions	1.500	1.500	1.500	1.500	1.500	**7.500**
	5.696	**11.136**	**3.073**	**3.033**	**1.547**	**24.485**

Summary Programme

Therefore the summary of the programme, in terms of requirements and available funding, is set out below:

	2013/14	2014/15	2015/16	2016/17	2017/18	TOTAL
	£m	£m	£m	£m	£m	£m
Capital Requirements	5.696	11.136	3.631	3.033	2.523	26.018
Capital Funding	5.696	11.136	3.073	3.033	1.547	24.485
Surplus/(Shortfall)	-	-	(0.558)	-	(0.976)	(1.533)

Despite utilising all capital receipts and reserves and receiving £4.2m of capital grant the capital programme as drafted still exceeds available resources. In order to balance this we would either need to reduce the level of the capital programme, or take out unsupported borrowing to fund the programme as outlined above. Dependent upon the length of time any loans are taken out for this would increase the capital financing costs included in the draft revenue budget by up to £250k.

However the shortfall does not occur until 2015/16, which is the first year of the next Spending Review, and which coincides with any future announcement relating to further capital grant allocations.

Prudential Indicators

The Authority is required to calculate various prudential indicators to demonstrate that the proposed capital programme is affordable, prudent and sustainable. These have not yet been calculated, but will be included in the Authority report in February.

Financial Implications

The financial implications are set out in the report.

Human Resources Implications

None

Equality and Diversity Implications

The capital programme in respect of replacement/refurbishment of existing property will include some element of adaptations to ensure compliance with the Disability Discrimination Act.

Environmental Impact

The environmental impact of decisions relating to the capital programme will be considered as part of the project planning process, and where possible we will look to minimise the environmental impact of this where it is considered practical and cost effective to do so.

Business Risk Implications

The capital programme is designed to ensure that the Service has the appropriate assets in order to deliver its services; as such it forms a key element in controlling the risk to which the Authority is exposed.

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

Paper	Date	Contact
Spending Review 2010	October 2010	Keith Mattinson Director of Corporate Services
Local Government Finance Settlement	December 2012	Keith Mattinson Director of Corporate Services
Capital grant settlement	December 2012	Keith Mattinson Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

PART 1 ITEM No 7

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 14th January 2013

REVENUE BUDGET 2013/14-2015/16

Contact for further information:
Keith Mattinson - Director of Corporate Services - Telephone Number 01772 866804

Executive Summary

The report sets out the draft revenue budget for 2013/14-2015/16 and the resultant council tax implications.

Funding levels are based on the draft Local Government Finance Settlement announced in December, and estimated tax base figures.

In terms of council tax the report identifies the impact of a council tax freeze and the impact of the council tax referendum levels.

Whatever option is chosen we will face a significant financial challenge going forward with the draft funding gap of between £9m and £10m by 2015/16. A significant element of this can be offset by £4m of savings already identified/targeted in respect of both admin reviews and non-pay savings, but this still leaves a significant shortfall which still needs to be identified. A combination of the utilisation of reserves and potential savings in the whole time staffing budget can be utilised to offset the majority of this in the budget period. However these are very much dependent upon the outcome of the next Emergency Cover Review and do not address some of the recurring deficit that we will face.

All figures are estimates at the moment as final funding will not be known until the final Local Government Finance Settlement announcement, anticipated at the end of January and until all billing authorities have provided final tax base figures.

A final revenue budget will be presented to the Authority in February, for formal approval.

Recommendation

The Authority is requested to: -

(i) Give initial consideration to the draft revenue budget as presented;
(ii) Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
(iii) Give further consideration to the revenue budget at their next meeting on 11 February 2013, in light of the consultation process.

Information

In line with the Authority's objective to deliver affordable, value for money services the Authority's Budget Strategy remains one of:-

- Maintaining future council tax increases at reasonable levels, reducing if possible;
- Continuing to deliver efficiencies in line with targets;
- Continuing to invest in improvements in service delivery;
- Continuing to invest in improving facilities;
- Setting a robust budget;
- Maintaining an adequate level of reserves.

Draft Budget

In order to determine the future budget requirement, the Authority has used the approved 2012/13 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Preceding Years Budget Requirement	62.900	62.396	62.747
Removal of drawdown from reserves in previous years	0.011	-	-
Inflation	0.817	1.307	1.467
Other Pay Pressures	(0.015)	0.099	0.762
Committed Variations	(0.703)	0.009	0.187
Growth Items	-	-	-
Efficiency Savings	(0.409)	(1.553)	0.098
Draft Budget Requirement	62.601	62.463	64.977

Removal of 2012/13 drawdown from reserves

Included within the 2012/13 budget was the drawdown of £0.011m of reserves in order to freeze council tax. This was a one-off measure to balance the position and as such needs to be added back into the start position to provide a true reflection of budgeted costs in 2012/13.

Inflation

The following amounts have been added to the budget in respect of inflationary pressures, in line with current estimates:-

	2013/14	2014/15	2015/16
	£m	£m	£m
A 1% pay award in 2013/14 and 2.5% pay award thereafter	0.466	1.005	1.106
Non-pay inflation of 3.0% in 2013/14 and 2.50 thereafter	0.351	0.301	0.361
	0.817	1.306	1.467

Note – a 1% change in the pay award equates to £0.5m per annum.

Other Pay Pressure

	2013/14	2014/15	2015/16
	£m	£m	£m
Pay recosting, including the following:- • timing of public holidays; • mix of competent personnel in development and competent rates of pay; • mix of staff in pension schemes; • forecast vacancy/over establishment factors, based on historical levels or anticipated retirement profiles.	0.275	0.099	(0.028)
The Government Actuary Dept. has previously published a tri-annual valuation of the Fire-Fighters Pension Scheme which showed a requirement to increase contribution rates by 3.1%. There has been, and remains, a great deal of uncertainty as to how this increase would be implemented, with the latest indicator being that the full increase will be implemented with effect from 1 April 2015 and hence the budget needs to be adjusted to reflect this.	(0.290)	-	0.786
	(0.015)	0.099	0.762

Committed Variations

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions.

	2013/14	2014/15	2015/16
	£m	£m	£m
Restructuring costs	(0.500)	-	-
The increase reflects the revised costs of the PFI project based on the final agreed interest rate swap and the anticipated timing of the four new fire stations being brought into service:- • Blackburn – March 2012 • Fleetwood – July 2012 • Burnley – July 2013 • Chorley – June 2013	0.232	0.030	0.029
Capital Financing charges have been amended to reflect the latest forecast, taking account of the anticipated level of debt required to fund the draft capital programme, forecast interest rates, the anticipated Minimum Revenue Provision and the revenue contribution to capital outlay identified in eth capital programme.	(0.298)	0.187	(0.028)
A local project team was set up to implement the North West Fire Control solution. The reduction in budget reflects the completion of the project and hence the disestablishment of the team.	-	(0.150)	-

Whilst we currently receive New Burdens funding in respect of the increased costs associated with the national Fire Link project, this is only guaranteed for the period of the current Spending Review. As such the budget allows for the potential removal of New Burdens, and the resultant impact on the Authority's budget.	-	-	0.186
Removal of budget for one-off replacement of Fire-ground radios.	(0.110)		
Removal of budget for temporary implementation team for SharePoint.		(0.058)	
Balance	(0.049)	-	-
	(0.725)	0.009	0.187

Growth Items

No growth items have been identified.

Efficiency Savings

The following efficiency savings have been identified: -

	2013/14	2014/15	2015/16
	£m	£m	£m
The savings reflect the full year effect of the roll out of Day Crewing Plus system to Fleetwood and Darwen.	(0.394)	-	-
The savings reflect the anticipated timing of the roll out of Day Crewing Plus system to nelson and Morecambe.	(0.233)	(0.567)	-
This reflects the transfer to the North West Fire Control solution with the increase cost in 2013/14 due to the dual running of our own control room and that of the North West solution.	0.228	(0.969)	0.100
Balance	(0.010)	(0.017)	(0.002)
	(0.409)	(1.553)	0.098

Net Budget Requirement

As set out above the overall net budget requirement for each year is as follows:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Draft Budget Requirement	62.601	62.463	64.977
Budget (Decrease)/Increase	(0.5%)	(0.2%)	4.0%

The budget increase in 2015/16 is mainly due to the potential increase in employer pension contributions associated with the Fire-fighters pensions' scheme.

Grant Funding

Whilst the Fire Service has fared better than many public sector bodies in terms of the settlement for 2011/12 and 2012/13 the Spending Review 2010 identified an average reduction in formula grant for FRAs of 25% over the four years, stating that this would be back loaded.

The draft Local Government Finance settlement, announced on 19 December, identified an average reduction in funding for the Fire sector of 7.5% in 2013/14. Lancashire fared slightly worse than that with a funding cut of 7.96%, a reduction of £2.5m. However it is worth noting that the overall sector average is distorted by Greater London Authority who account for over 25% of the sector wide funding and who had the lowest reduction in funding within the sector, a cut of just 4%. If their funding is ignored the sector average cut was 8.7% and hence compared with this we fared better than most other authorities. It is also worth noting that within this the Authority has contributed £0.3m to floor damping. In addition the one-off council tax freeze grant of £0.9m in respect of 2012/13 has been removed from next year's funding.

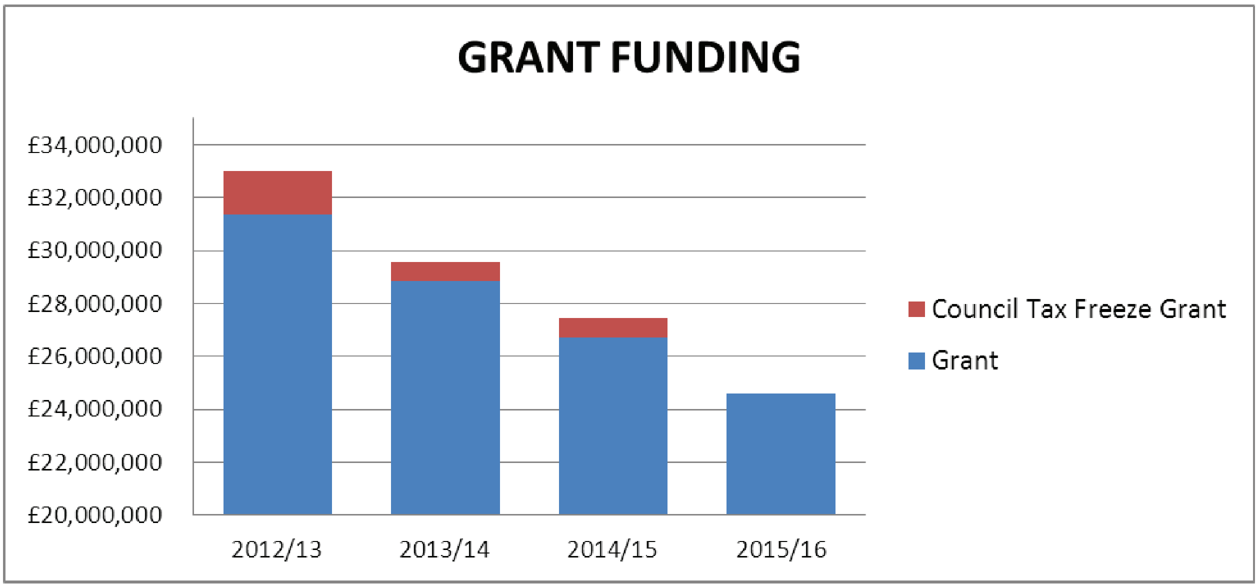
It is important to note that this settlement may change as a key part of the calculation relates to the level of local business rates within Lancashire and therefore the final settlement will be affected by the Business Rate Base returns that billing authorities provide in the next few weeks, hence until these are completed and the final settlement is announced (usually the end of January) we will not have total certainty over the level of funding for next year.

The provisional 2014/15 settlement showed a further reduction in funding of £2.1m, 7.4% which is broadly in line with the sector average.

It is also worth noting that the next Spending Review will cover the four year period from 2015/16 onwards. Obviously no details are available relating to this but given the current economic climate it is likely that this will also be a very tough settlement for the public sector with further cuts likely. Therefore for the purpose of medium term financial planning we have assumed on going cuts in total funding of 8% and 6% in 2015/16 and 2016/17, respectively. Furthermore, this will coincide with the removal of the 'council tax freeze' grant relating to 2011/12, £0.75m, in 2015/16.

Therefore our estimated total grant funding position, excluding any grant associated with the localisation of council tax support scheme, is as follows:-

	Govt. Grant	Council Tax Freeze Grant	Total Gant Funding	Reduction	
2012/13	£31.3	£1.7	£33.0m		
2013/14	£28.8	£0.8	£29.6m	£3.4m	10.3%
2014/15	£26.7	£0.8	£27.5m	£2.1m	6.4%
2015/16	£24.6	-	£24.6m	£2.9m	8.8%
Cumulative				£8.4m	25.5%

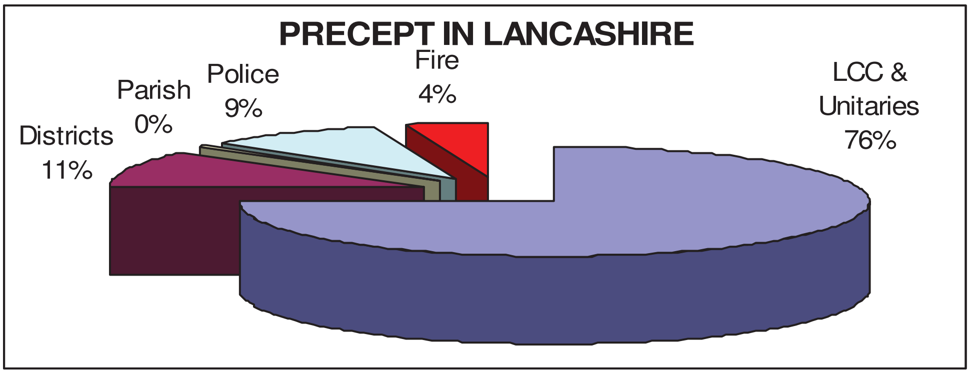


Council Tax Limits

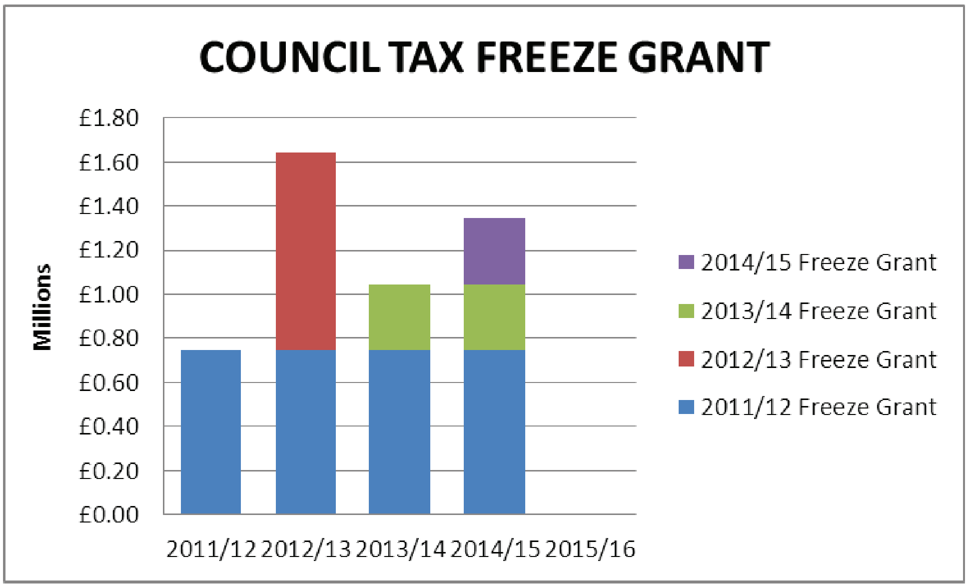
In setting the council tax, the Authority aims to balance the public's requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

The Authority became a precepting authority on 1 April 2004, which coincided with the Government re-introducing the principle of capping, (capping is where the government limits the amount of increase in council tax to a level, which it deems acceptable, resulting in any authority that exceeds this having to reduce its budget to the agreed level and stand the cost of rebilling all council tax payers). As such our council tax increases and hence budget increases have been limited as a result of the threat of capping/requirement to hold a referendum, and our desire to deliver value for money services. Culminating in a council tax freeze at £63.65 applying in the last two years.

In order to put this figure into context the following graph shows the split of average council tax within Lancashire, demonstrating that our element accounts for a relatively small proportion of the overall council tax bill, approx. 4%:-



The Government has indicated its intention to continue to minimise the impact of council tax increases on the public by again identifying additional funding to support a council tax freeze in 2013/14. In previous years this has been set at 2.5% and 3.0% however this year the Government has set this at 1.0%, equivalent to £0.3m. In 2011/12 this funding was provided throughout the Spending Review period whereas last year it was only provided as a one-off grant. The Government has indicated that this year's grant will be provided for the remaining two years of the Spending Review period, 2013/14 and 2014/15. Whilst this limit has been set for 2013/14 the government's intention to minimise council tax is likely to continue and hence for the purpose of financial planning we have assumed a further council tax freeze grant of 1% being offered in 2014/15.



In addition the scope to increase council tax in future years is no longer limited by capping but by the new legislation contained in the Localism Act which provides local residents with the right to veto excessive increases in a referendum. Last year the limit for this was set at 4.0% but this year the government has set this at 2.0%. Hence any proposed increase in excess of 2.0% will require a referendum, and given that the cost of holding a County wide referendum may exceed £1m and the likelihood of obtaining support for an increase in excess of this is considered low this is not a viable option. For the purpose of financial planning we have assumed the 2% limit on council tax increases continuing to apply in future years. (Whilst 2% has been set as the limit for the majority of authorities some exemptions have been identified covering shire district councils, fire authorities and PCCs whose 2012/13 band D council tax is in the lower quartile for their category of authority, and in these instances the authorities could increase council tax by up to £5. We do not fall into this as the cut off point for the lower quartile is £60.39 however this does create an anomaly in that a £5 increase for that authority give a revised council tax of £65.39. Whereas a 2% increase on our council tax gives a revised band D of £64.92.) Members may wish to consider whether they would like to make representation to the Government about this anomaly and the apparent arbitrary nature of this additional freedom.

Council Tax-Base

As previously reported to the Resources Committee the current national scheme for council tax benefit will cease and will be replaced with a localised scheme for council tax support, funded by specific grant. However the specific grant provided by the Government, in our case £4.7m, is 10% lower than the current scheme costs. As such each billing authority has to determine its own scheme, however any gap between the final scheme adopted and the level of grant provided is shared between billing authorities and major preceptors, as such the Fire Authority would have to fund approx. 4% of any such gap.

This issue is further complicated by a one-off transitional grant that the Government is providing for any schemes which meet set criteria, the main one being that claimants currently in receipt of 100% support pay no more than 8.5% of their council tax liability. If schemes are designed to meet these criteria there will still be a net shortfall between total funding provided and the cost of the scheme and, again, the Fire Authority would stand 4% of any such gap.

Furthermore as the funding is only for 2013/14 the gap would increase in the following year unless schemes were amended again.

Running alongside this the Government has introduced new powers allowing billing authorities to vary the level of council tax discounts and exemptions relating to empty properties and second homes, which if introduced will increase the council tax base and hence generate more funding.

As a result of these changes billing authorities are also considering whether a hardship fund needs to be set up whereby the billing authority would offer one-off support to individuals who were suffering financial hardship and therefore could not meet council tax payments. The extent of any support and the duration of this would depend on the final scheme implemented. However it is assumed that any hardship fund is likely to be a recurring requirement. This issue was discussed at the last Resources Committee who determined that they were not prepared to make a decision to support a hardship fund until such time as it was known what each billing authority was doing, the details of the scheme they would be implementing and the details of the level of contributions to such funds. As the schemes have not been finalised we are still not in a position to determine whether a contribution to a hardship fund is appropriate and hence for the purpose of the draft budget we have excluded any such requirement.

Until such time as final decisions on both the Localisation of Council Tax Support Scheme and the level of discounts and exemptions are taken by each billing authority the actual tax base will not be known, hence the tax base used is based on the latest information provided by billing authorities but is liable to change once final schemes are agreed. No allowance has been made for the one-off transitional grant, as again until each billing authority has agreed its final scheme we will not know what level of grant we will receive. However, as an indicator if all authorities implemented a compliant scheme our total one off grant would be £0.1m.

On a similar basis we have estimated that the council tax collection fund will break even in the current year but given the changes to the Council Tax Support scheme this position will not be sustained as it will become harder to collect council tax debt and hence we have allowed for a deficit of £150k in future years.

Both the tax base and collection fund deficit will be updated once final figures are received from billing authorities.

Council Tax Requirements

Taking account of the draft funding settlement and the draft budget identified, this results in a council tax increase of over 12% in 2013/14, with large increases also required in future years:-

	2013/14	2014/15	2015/16
Draft Budget Requirement	£62.601m	£62.463m	£64.977m
Less Total Grant	(£29.588m)	(£27.457m)	(£24.575m)
Less Grant re Localisation of Council Tax Support	(£4.703m)	(£4.703m)	(£4.703m)
Council Tax Collection Deficit	-	£0.150m	£0.150m
Equals Precept	£28.311m	£30.453m	£35.849m
Estimated Number of Band D equivalent properties	395,766	396,586	397,409
Equates to Council Tax Band D Property	£71.53	£76.79	£90.21
Increase in Council Tax	12.39%	7.34%	17.48%

(For information, a 1% change to the council tax equates to £0.3m.)

The draft council tax requirement of 12.39% clearly exceeds the local referendum threshold and as such the Authority will have to either identify additional reductions to the budget requirement or will need to hold a local referendum, at an estimated cost in excess of £1m, to seek agreement for the local electorate to the increase stated. As stated earlier given the cost and the likelihood of success in a referendum it is not considered worth pursuing this option.

Therefore, there appear to be two distinct scenarios that could apply:

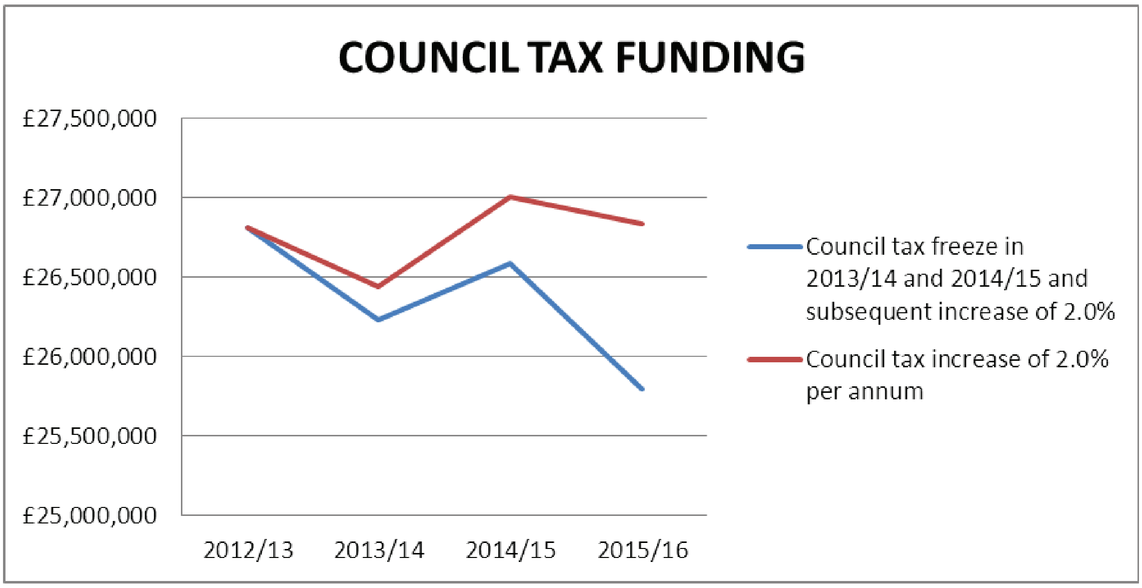
- Accepting the freeze for the next two years (and subsequently increasing council tax by 2.0% thereafter) which generates the following level of grant funding

	2013/14	2014/15	2015/16
Council Tax	£25.2m	£25.2m	£25.8m
Council Tax Freeze Grant	£1.0m	£1.3m	-
Total	£26.2m	£26.5m	£25.8m

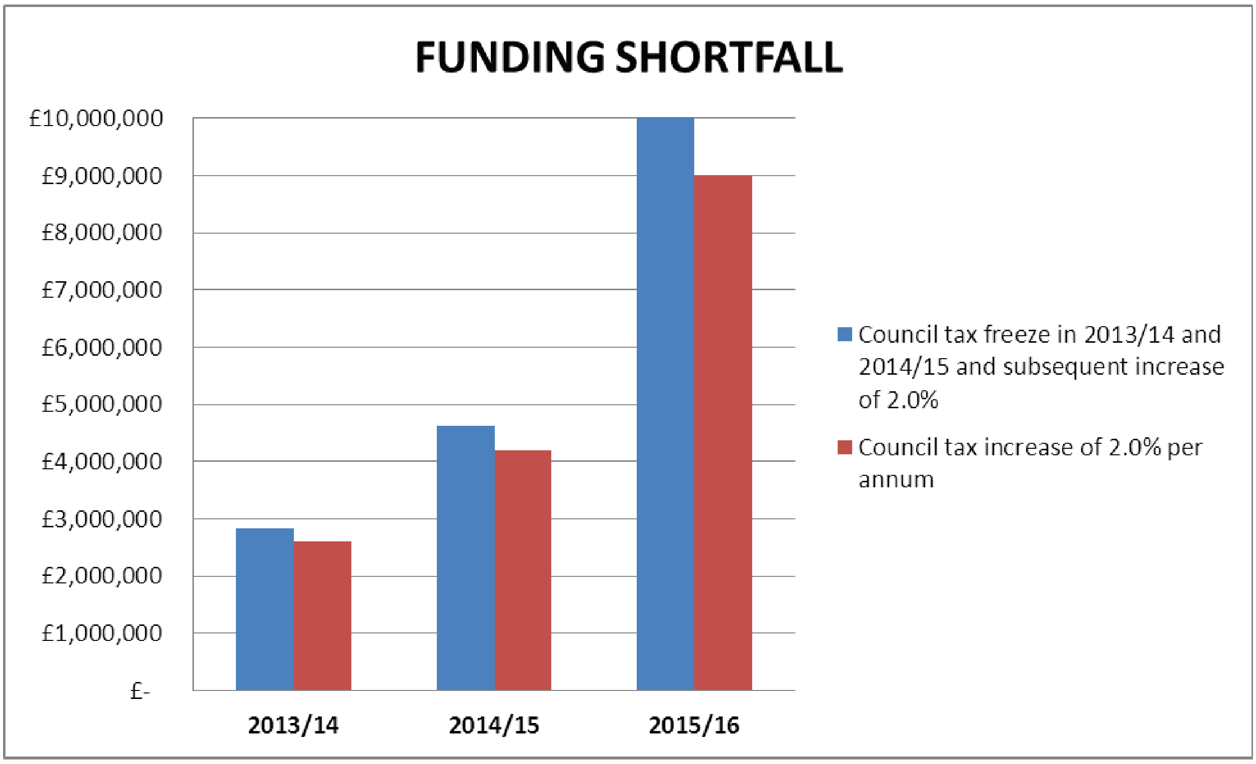
- Increasing council tax by the maximum permissible under the referendum rules, 2%, which generates the following level of grant funding

	2013/14	2014/15	2015/16
Council Tax	£25.7m	£26.3m	£26.8m
Council Tax Freeze Grant	£0.7m	£0.7m	-
Total	£26.4m	£27.0m	£26.8m

Implementing the council tax freeze in 2013/14 results in £0.2m less funding when compared with a 2% increase and if this is maintained in 2014/15 the reduction in funding becomes £0.5m. However. it must be noted that an increase in local council tax is built into the base funding levels and hence becomes recurring funding whereas council tax freeze grants are time-limited and hence once the one-off grant ends the overall loss of funding equates to a reduction of £1.0m per annum.



Regardless of which option is ultimately chosen the Authority will face a significant funding shortfall compared with the draft budget of between £2.6m and £2.8m in 2013/14 rising to £9.0m and £10.0m in 2015/16:-



These are extremely challenging savings requirements.

Additional Savings

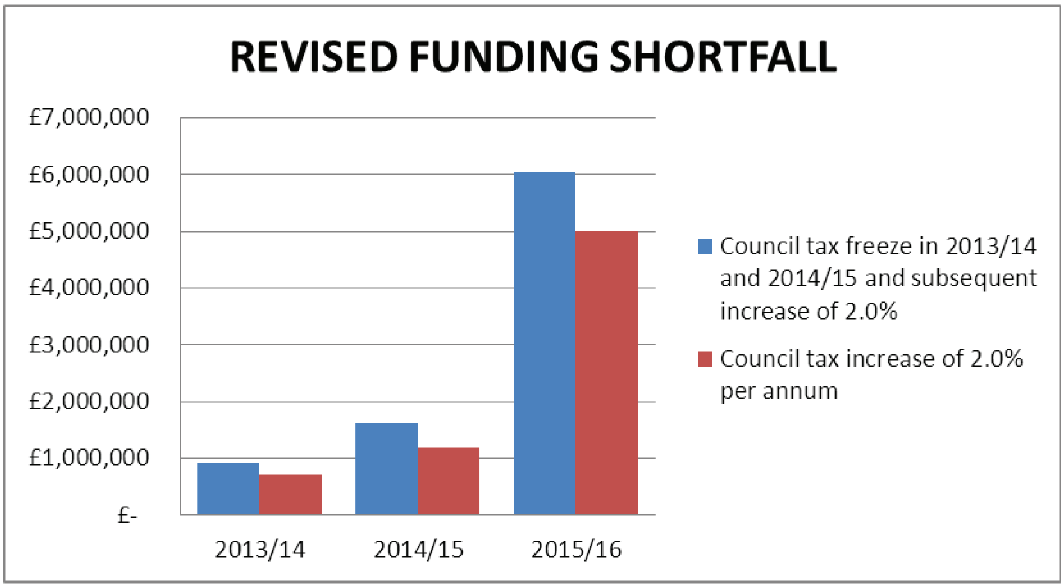
The Authority has a good track record of delivering efficiency savings. It has significantly exceeded Government targets over the last two Spending Review periods delivering cumulative savings of nearly £10m, with a further £4m of savings already identified in the current Spending Review period:-

	Target Saving	Savings achieved
Spending Review 2004	£2.8m	£5.7m
Spending Review 2007	£2.7m	£4.1m
Spending Review 2010 (identified in previous budgets and in the above draft budget)	Not Known	£3.7m

The Authority has undertaken a number of reviews looking at back-office savings, and non-pay budgets and whilst some of these are on-going we have identified target savings of £4.0m over the next three years:-

	2013/14	2014/15	2015/16	Total
	£m	£m	£m	£m
Total In-Year	(1.9)	(1.1)	(1.0)	(4.0)

After allowing for the above savings the revised funding shortfalls between £0.7m and £0.9m in 2013/14 rising to £5.0m and £6.0m in 2015/16:-



From this it is apparent that the gaps in 2013/14 and 2014/15 are relatively manageable and reserves/additional savings could be used to fund this in the short term (see section below). However the gap of between in 2015/16 is still very large and whilst reserves could be used to offset some of this it is not sustainable in the medium term. As such the process of reviews will continue to determine whether further savings can be made, however the scope to deliver savings from this is relatively limited. As such the authority will have to look to the Emergency Cover Review, which is due to report in 2013, and a further review of Prevention and Protection, which is scheduled for 2014/15, to offset the majority of the remaining funding gap on a recurring basis.

Reserves

A reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement.

As such a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this incorporates issues such as higher than anticipated pay awards, increased number of ill health retirements, etc.

As reported elsewhere on the agenda the Treasurer feels that the minimum recommended level of uncommitted reserves should remain at £4.0m, and as such we anticipate having scope to utilise £5.6m of reserves over the medium term. These can be used to:-

- smooth out some of the savings requirements, enabling time to effectively plan changes, as well as providing scope to meet any upfront costs associated with revising organisational structures over and above the allowance built into the revenue budget';
- offset the shortfall in capital funding';
- repay existing loans/offset the need to take out outstanding borrowing, however given the funding gaps that will exist in the medium term this is not considered a viable option.

Based on the assumptions set out in the report the following identifies the potential use of reserves and future savings requirements dependent upon which option is chosen in respect of future council tax increases.

Option 1 - A council tax freeze in 2013/14 and 2014/15 and a 2% increase in 2015/16

	2013/14	2014/15	2015/16
	£m	£m	£m
Original Draft Budget	62.6	62.5	65.0
Additional Savings	(1.9)	(3.0)	(4.0)
Funding (Govt and council tax)	(59.8)	(58.0)	(55.0)
Deficit	(0.9)	(1.5)	(6.0)

As already highlighted earlier despite delivering £4m more savings (£6m in total over the three years) we are still left with a potential £6m funding gap. Natural wastage within whole time personnel provide opportunities to deliver further savings over this budget period, dependent upon what options are identified as part of the Emergency Cover Review. The latest estimates indicate potential for further savings of £0.4m due to anticipated vacancies in 2014/15, if establishment remains in line with the above figures and no new recruitment takes place, with this figure rising to £1.6m in 2015/16.

Furthermore as highlighted earlier we can utilise reserves to offset some of the shortfall over the next three years, with a total of £5.6m being available for this.

Hence the revised deficits are shown below:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Deficit as above	(0.9)	(1.5)	(6.0)
Whole-time vacancy factor	-	0.4	1.6
Drawdown of Reserves	0.9	1.1	3.6
Revised Deficit	-	-	0.8

However in this scenario we will have utilised all surplus uncommitted reserves by the end of 2015/16 and will still be faced with a potential budget deficit of £0.8m.

Option 2 - A council tax increase of 2.0% each year

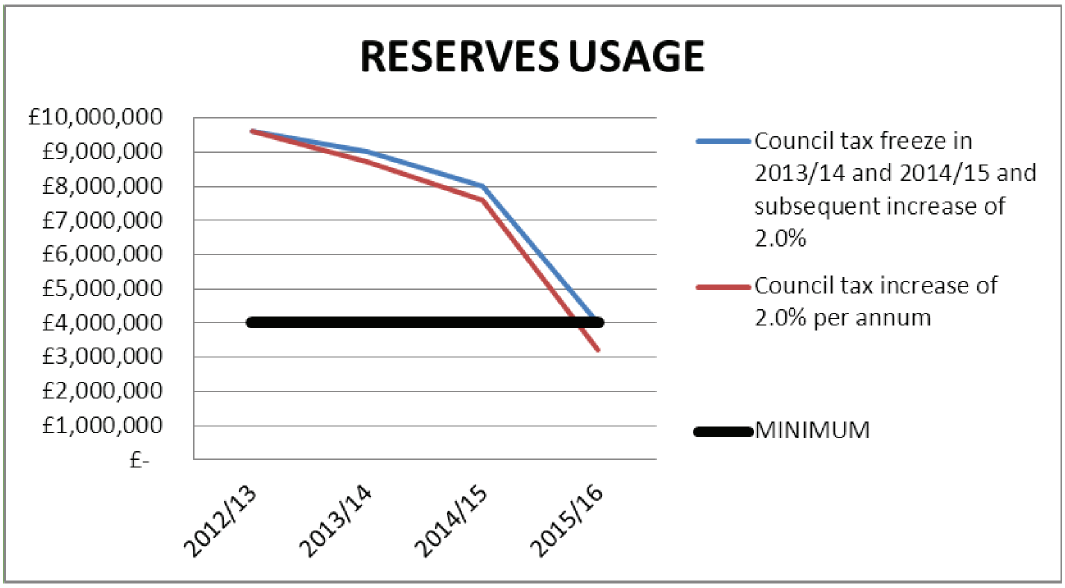
	2013/14	2014/15	2015/16
	£m	£m	£m
Original Draft Budget	62.6	62.5	65.0
Additional Savings	(1.9)	(3.0)	(4.0)
Funding (Govt and council tax)	(60.0)	(58.4)	(56.0)
Deficit	(0.7)	(1.1)	(5.0)

Again we could utilise additional savings opportunities presented by natural wastage and reserves to offset some of this deficit as set out below:-

	2013/14	2014/15	2015/16
	£m	£m	£m
Deficit as above	(0.7)	(1.1)	(5.0)
Whole-time vacancy factor	-	0.4	1.6
Drawdown of Reserves	0.7	0.7	3.4
Revised Deficit	-	-	-

In this scenario we will still have £0.6m of uncommitted reserves available to utilise in future years and will have been able to deliver a balanced budget based on current predictions.

The following graph shows the usage of reserves under these two options compared with the minimum target level a set out in the reserves and balances policy.



Summary

The draft budget is based on the funding identified in the draft Local Government Finance Settlement in December, together with estimates of future funding reductions.

Billing authorities have not yet provided final tax base information as they are still in the process of finalising their schemes in respect of localisation of support for council tax and in respect of possible changes to council tax exemptions and discounts. As such all council tax funding is predicated on estimates and with final details not being available until the end of January.

In setting the draft budget we have already identified £6m of savings over the next 3 years, as well as identifying the drawdown of up to £5.6m of reserves.

However potentially we are still left with a funding gap in 2015/16 and a recurring shortfall of up to £6m at the end of 2015/16 .

In this context the Authority needs to consider its decision re council tax increase in 2013/14, balancing the additional long term funding that a 2% increase would provide against the impact on the local council tax payer of Lancashire.

Clearly this remains an extremely challenging financial environment and one which the Authority needs to continue to plan to address in the medium term.

Financial implications

As set out in the report.

Human Resource Implications

None as a direct result of this report, although obviously any major restructuring will have significant human resource implications.

Equality & Diversity Resource Implications

The budget as set should enable the Authority to continue to make progress against its equality and diversity targets.

Environmental Implications

The budget as set takes account of the need to invest in environmental issues.

Business Risk

The final approved budget forms a key element of the Authority's risk management process, as it is designed to minimise any financial risks, which the authority may face.

The Treasurer feels that the budget has been prepared in a robust manner and that the level of reserves held is sufficient to meet any potential risks.

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

Paper	Date	Contact
Council Tax Freeze Letter	November 2011	Keith Mattinson - Director of Corporate Services
Draft Local Government Finance Settlement	December 2012	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		