

Appendix 'A'

The County Council's Budget – 2012/13 and 2013/14

1. Introduction

This report provides the Cabinet with an update on the County Council's financial strategy, looking ahead to 2012/13 and 2013/14, following the publication of the Chancellor's Autumn Statement and the Local Government Settlement for 2012/13.

At its December 2011 meeting, Cabinet considered a number of issues within the three year financial strategy, including:

- The impact of accepting the one off council tax freeze grant available in 2012/13 which is equivalent to a 2.5% increase in council tax for the County Council, but falls out in 2013/14, creating a budget gap of £10.6m,
- The pressures being experienced within the waste budget,
- The reductions in costs within some budget areas, and
- The current target for further below the line savings of £7.2m in 2013/14.

This report sets out the proposals for meeting these pressures within the financial strategy.

2. The External Environment

The County Council does not set its budget in a vacuum - it is subject to a very wide range of external influences which impact on the Council's finances in different ways. This section of the report looks at these factors and their influence on the level of the County Council's resources over the remainder of the financial strategy and beyond.

2.1 The Autumn Statement

The Chancellor of the Exchequer's Autumn Statement was published on 29th November 2011. This set out the global economic context within which the UK is operating, and revised downwards the forecast for growth in the UK economy. The Chancellor made it clear that as a result, the level of public borrowing is not reducing as quickly as set out in the Comprehensive Spending Review, and that reductions in public spending would continue at the same level into 2015/16 and 2016/17.

Public spending will continue to fall at the same rate of 0.9% per year in real terms for the first two years of the next spending review period i.e. 2015/16 and 2016/17. Whilst the announcement did not refer to specific departmental reductions, for the current CSR a 0.9% real reduction per year translated into around a 7.5% cash reduction in local government funding, although this was not evenly distributed.

This sets the context for the Local Government Finance Settlement for 2012/13 and future years. It is anticipated that information for 2013/14 and beyond will not be available until December 2012.

2.2 The Provisional Local Government Settlement for 2012/13

The provisional Local Government Finance Settlement for 2012/13 was announced on 8th December 2011. This settlement shows little change from the figures announced as part of the 2 year figures announced in last year's settlement. The most significant change is the rolling up of the 2011/12 Council Tax Freeze Grant within the overall formula grant, and the confirmation of the Council Tax Freeze grant for 2012/13. This has no impact on the County Council's overall level of resources as previously reported to Cabinet.

The one issue remaining unresolved within the 2012/13 settlement is the level of funding for Academies' central costs. £5.3m was removed from the County Council's 2012/13 Formula Grant for this. There has been significant representation by local government as the basis for the level of funding removed was not connected to the actual number of academies.

The Department for Education has begun consultation on adjustments to the settlements for both 2011/12 and 2012/13, and acknowledges the concerns that funding removed from local government is not related to either actual costs or numbers of academies in an area. Cabinet will be updated as further information emerges. Although it is not currently known how this will be reflected in the settlement, the Consultation document does indicate that Councils that lose under any change will not be penalised while Councils that might gain will see any gains capped.

A number of further announcements have also been made with regard to specific grant funding streams, and there are two areas for which the County Council will receive funding above that previously expected:

2.3 Early Intervention Grant

The County Council will receive a further £1.384m of Early Intervention Grant to fund additional responsibilities for child care for 2 year olds announced by the Chancellor in the Autumn Statement. It is proposed that this funding goes directly to the Directorate for Children and Young People for this purpose.

2.4 New Homes Bonus

A confirmation of the level of New Homes Bonus for 2012/13 was also announced. For the County Council, this amounts to £0.561m, and it is suggested that this be used to support economic development in line with previous decisions on the New Homes Bonus.

3 The County Council's Three Year Financial Strategy

This part of the report sets out an update for Cabinet on the achievement of the three year financial strategy. As set out in the [budget monitoring](#) report to Cabinet in December 2011, good progress is being made in delivering the 2011/12 savings.

However, there are a number of budget pressures which have arisen which are summarised below:

Budget Pressures

3.1 Waste Costs

It was reported to the Cabinet in December 2011 that pressures were arising in the waste budget due to the impact of the actual rate of diversion of waste from landfill being experienced within the PFI contract now that the waste plants are fully operational on the contract pricing mechanism. Cabinet requested that the Executive Director for Environment bring forward savings proposals to enable the Directorate to live within its cash limits for 2012/13 and 2013/14.

3.2 Council Tax Freeze Grant 2012/13

The Council Tax freeze grant for 2012/13 is a one year only grant, and as such, will fall out in 2013/14, resulting in a funding gap of £10.6m.

3.3 Below the Line Savings within the three year financial strategy

A target for achieving £7.25 of further below the line savings is contained within the financial strategy for 2013/14.

In order to bridge the gap within the financial strategy, a package of measures has been identified as set out below:

Measures to Bridge the Gap

3.4 Reduction in the County Council's Costs

Close monitoring of the budget during 2011/12 has identified a number of areas where cost reductions have been achieved. These total £10.940m in a full year and are set out below:

	2012/13 £m	2013/14 £m
Children and Young People – Agency Placements	4.900	4.900
Environment – Concessionary Fares	1.700	1.700
Office of the Chief Executive – Restructuring and Running Costs	0.440	0.440
Corporate – Carbon Tax	0.900	0.900
Capital Financing and Interest	1.250	3.000
Total Changes to the Cost Base	9.190	10.940

3.5 Further below the line savings

The Management Team were charged by the Cabinet to identify further below the line savings of £7.245m in 2013/14 in order to ensure the overall budget position is

balanced. Savings totalling £6.85m in a full year have been identified and are summarised below, and set out in further detail in Annex 'B'.

	2012/13 £m	2013/14 £m
Reduction in Travel Costs	0.275	1.150
Property Rationalisation		1.000
Rationalisation of Facilities Management and Conferencing	0.500	1.000
Transforming Finance through Oracle Release 12		0.750
Reductions in Management Costs	0.375	1.250
Operating Model		1.500
Reduction in Members Costs	0.200	0.200
Total Below the Line Savings	1.350	6.850

3.6 Saving Proposals - Environment Directorate

As part of the measures identified to address the pressures arising within the waste budget, the Executive Director of Environment has identified further efficiency savings of £2.6m in 2012/13, rising to £4.85m in 2013/14. These are summarised below and set out in further detail in Annex 'C'.

In addition service proposals of £4.280m and proposals to increase charges of £0.580m are proposed. These are also summarised in the table below and set out in further detail in Annex 'C'.

Proposals	2012/13 £m	2013/14 £m
Efficiency Savings		
Reduction in number of management posts	0.250	0.750
Further efficiency achieved through "One Team" working (Highway Services Review)		1.500
Highway maintenance efficiency as a result of recent capital investment improving the condition of the highway	1.500	1.500
Reduction in the level of highways contingency by 50%	0.420	0.420
Reduction in training budgets	0.050	0.050
Reduction in cost of locality working	0.280	0.280
Reduction in production costs of policy statements	0.100	0.100
Total of Efficiency Savings for Environment	2.600	4.850
Service Proposals:		
Street Lighting Carbon reduction	3.950	3.950
Companion cards	0.130	0.130
Reduced payments into the Waste Minimisation Fund	0.200	0.200
Total Service Proposals	4.280	4.280
Proposal to increase charges for trade waste	0.040	0.580
Total Proposals – Environment Directorate	6.920	9.710

The overall impact of the budget pressures identified, and the savings identified, is set out below:

	2012/13 £m	2013/14 £m
Budget Pressures:		
Further Below the Line Savings within the three year financial strategy		7.245
Increase in waste costs	7.460	9.710
Impact of the fall out of the 2012/13 council tax freeze grant		10.633
Additional Budget Pressure	7.460	27.588
Proposals:		
Reductions in the County Council's costs	9.190	10.940
Further Below the Line savings	1.350	6.850
Efficiency savings in the Environment Directorate	2.600	4.850
Service proposals	4.280	4.280
Proposals for increased charges	0.040	0.580
Total Savings Proposals	17.460	27.500
One Off Resources Available	10.000	0.088

Note – The financial planning assumption remains that there will be a Council Tax increase of 2.5% in 2013/14. This is simply a planning assumption the decision on the level of Council Tax will be taken by County Council at its meeting in February 2013.

These measures result in one off resources being available in 2012/13 and 2013/14. However, given the level of financial risk and uncertainty in 2013/14, it is proposed that Cabinet consider the use of the one-off resources available in 2012/13 only.

It is worth noting that at the time of writing the report, final information has not been received from the District Councils in relation to the position on the council tax collection fund and the tax base to be used for the calculation of the 2012/13 council tax. Any changes to the assumptions within the financial strategy are not expected to be material, and will be contained within the report to Cabinet on the 2 February 2012.

4 Schools Budget

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 consider what recommendation it wishes to make on these matters for the determination of the 2012/13 and future years' Schools Budget.

5 Budget Consultation 2012/13

The budget consultation process, as in previous years, has been split into two stages. The first stage involves consultation on service priorities and council tax levels with the Life in Lancashire Panel. The full survey report is at Annex 'D'.

In summary the survey was sent to all 2,794 members of the panel. In total 1,619 questionnaires were returned, giving an overall response rate of 58% (49% in 2011/12).

Highest priority services for spending in the coming years

- **Services for older people (57%), primary and secondary education (46%) and repairing roads and bridges (39%)** are seen as the highest priorities for spending in the next year.

Lowest spending priorities in the coming years

- As in the previous three years **museums** are the lowest spending priority (52%).
- **Country parks, open spaces and picnic sites (31%) and adult education (28%)** are seen as the next lowest priorities.

Level of council tax increase

- The majority of respondents feel that they could not support an increase in council tax (87%).
- Just under one in twenty of respondents feel they could support an increase in council tax of 3% or more (6%).

After the publication of the Cabinet's budget proposals for 2012/13 and future years, the second stage of the consultation process comprises of consultation with:

- The 12 Borough and City Councils within Lancashire,
- The Lancashire Police Authority and Lancashire Constabulary,
- The Lancashire Combined Fire Authority

- The unitary councils of Blackburn with Darwen and Blackpool
- The recognised Trades Unions,
- The Lancashire Youth Council,
- The Lancashire Enterprise Partnership
- Other representative bodies of Lancashire business

The consultation will run until the Cabinet meeting on 2 February 2012.

Consultation on specific service proposals and further below the line savings will also be undertaken as required.

6 Equality and Diversity

The consideration of service proposals and further below the line savings will also take full account of the Council's duty under s.149 of the Equality Act 2010 to have due regard to the need: to eliminate discrimination, harassment, victimisation or other unlawful conduct under the Act; to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and to foster good relations between persons who share a relevant protected characteristic and persons who do not share it. Where necessary this consideration will involve consultation with those people who may be adversely affected by the proposals.

Having due regard means analysing at each step of formulating, deciding upon and implementing policy what the effect of that policy is or may be upon groups who share protected characteristics defined by the Act. The protected characteristics are: age, disability, gender reassignment, race, sex, religion or belief, sexual orientation or pregnancy and maternity, and, in some circumstances, marriage and civil partnership status.

Where analysis shows that there may be a possible negative impact it will then be necessary to consider whether any steps can be taken to mitigate or reduce the potential adverse effects. This may involve an amendment to the original proposals. The analysis and negative impacts must then be balanced against the reasons for the proposals, that is to say the need for budget savings.

7 Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires the County Treasurer to advise members as they are making budgetary decisions on the robustness of the assumptions underlying the budget and the adequacy of the Council's various reserves in the context of the financial risks to which the organisation is exposed.

The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecasts of demand and other activity prepared by service

directorates, and the impact of changes in policy previously agreed by the Council. These forecasts are kept under review as part of the budget monitoring process and actions identified, as in the case of the Environment Directorate, to address financial risks arising from changes in the forecast as they occur. A number of specific risks remain within the budget as follows:

7.1 Pay costs

National negotiations regarding the Unions' claim for a pay award from 1 April 2012 are currently underway. Each 1% increase in pay will add in the order of £3m to the County Council's costs. As part of the 3 year budget, there is the equivalent of a 0.6% increase set aside for pay in 2012/13, and a 2% increase in 2013/14. In the Autumn Statement the Chancellor announced a cap on public sector pay awards of 1% from 2013/14 onwards. If this was agreed for local government staff for 2012/13 and 2013/14, this could be managed within the resources set aside over the two years.

7.2 Ordinary Residence

A key risk highlighted when the budget was approved was the change in the rules relating to ordinary residence which define which local authority is responsible for meeting the costs of care for specific individuals. At present this is being managed within the overall cash limit of the Adult and Community Services Directorate. At this stage given the slow rate of change in this area no further action is required, although the situation is being kept under review.

7.3 Pace of Schools Converting to Academies

As indicated above the Government is consulting on changes to the method they have used to adjust Councils' funding to reflect the conversion of schools to academy status, which may impact on the level of the County Council's resources in 2012/13.

As indicated above there are also a range of resource risks facing the County Council, although these will impact on 2013/14. In particular these arise from

- Localisation of business rates
- Localisation of Council Tax Benefit which, for the first time, will have a direct financial impact on the County Council.
- The results of the current consultation on technical changes to the Council Tax system.
- Transfer of responsibility for Public Health to the County Council.
- Transfer of responsibility for certain payments currently made by the DWP to the County Council.

The concentration of these risks in 2013/14 creates a significant risk that the County Council's resource forecast may need to be revised quite significantly. The position is

being kept under review and as information becomes available updates provided to Cabinet.

The resources available to the Council to manage these risks consist of the various reserves held by the Council, principally County Fund Balance. At this stage it is anticipated that the County Fund Balance will be maintained at around 5.5% of the Council's budget requirement reflecting the level of financial risk that the combination of significant ongoing spending reductions and resource uncertainty creates. This should allow the Council to respond to changes in the level of resources in a planned way which provides stability to services and certainty to communities.

In addition to County Fund Balance the County Council maintains a range of earmarked reserves and specific provisions which are intended for specific purposes. The level and appropriateness of these is kept under ongoing review to ensure that sums are only held if required, and released when not.

These issues will be kept under review by the County Treasurer throughout the budget process. Her final conclusions will be included in the budget report which will be considered by the Cabinet in early February.

The conclusion of the County Treasurer's review of the robustness of the estimates and adequacy of reserves is that at this stage in the budget process all practical steps have been taken to ensure a robust budget supported by a level of reserves adequate to address the financial risks facing the Council.

8 Resources Available for One-Off Investment in Priorities

As set out above, the proposals create one off headroom of £10.0m in 2012/13. In addition, the impact of the County Council's treasury management activity which is reported elsewhere on the Cabinet's agenda creates the opportunity for either additional one-off investment in priorities, or is available to add to the County Council's reserves in order to assist the County Council in managing further spending reductions beyond the current financial strategy.

The total resource estimated to be available is set out in the table below:

	Available Resource £m
2012/13 One-Off Resources	10.000
Treasury Management Extra-ordinary savings	40.000
Less: Funding for the 2014/15 Capital Programme as agreed at Cabinet in December 2011	-15.000
Total Resources Available	35.000

The Cabinet are asked to consider the use of these resources on a one-off basis.

9 Capital Investment Programme

In setting the three year budget in February 2011 the County Council approved a firm capital programme for the period up to 2013/14 and an indicative programme of new starts for 2014/15. At the time an element of the 2014/15 programme was unfinanced, however, in December 2011 Cabinet agreed that £15m of the Treasury Management extra-ordinary savings would be used to provide this funding. This enables planning for the 2014/15 new starts already agreed to continue.

As part of the Local Government Settlement, announcements will also be made on capital allocations. These will be reported to Cabinet at the meeting on 2 February 2012.