

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.