

## Appendix 'A'

# The County Council's Budget 2014/15 and Financial Strategy 2015/16 to 2017/18

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## 1. Introduction

This report provides the Cabinet with an update on the County Council's budget for 2014/15 following the publication of the Chancellor's Autumn Statement and the Local Government Finance Settlement for 2014/15.

Cabinet has received a series of reports over the past few months setting out the financial forecast for the council over the period 2014/15 to 2017/18. The Council is facing a significant financial challenge – a combination of rising costs and reducing resources means that it must find £300m of savings over the next four years, the equivalent of reducing the current year's budget by almost 40%.

In order to meet this level of challenge, Cabinet has agreed to set a balanced budget for 2014/15 and then deliver a three year financial strategy for the period 2015/16 to 2017/18.

## 2. The External Environment

The County Council is subject to a 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.

### 2.1 *The Autumn Statement*

The Chancellor of the Exchequer's Autumn Statement was published on 5 December 2013. This set out the global economic context within which the UK is operating, and revised upwards the forecast for growth in the UK economy. The Chancellor made it clear that he intends to have eradicated the deficit by 2018 and that the reductions in public spending would continue.

The Chancellor announced that Government Departments will have to deliver £1bn of further savings in 2014/15 and 2015/16 but he confirmed that local government would be exempt from this requirement.

It was also announced that the previously announced 'top-slice' to New Homes Bonus from 2015/16 will not take place, the impact of this announcement will inform the three year financial strategy for the period 2015/16 to 2017/18.

The Chancellor also announced a series of measures in respect of Business Rates:

- The increase in the Business Rates multiplier will be capped at 2%
- The Small Business Rates relief scheme will be extended to 2014/15
- Businesses with a rateable value less than £50,000 will receive a £1000 discount

- New Reoccupation relief – halving business rates for new occupants of currently empty properties.
- A reform of the Business Rates system expected in 2017 alongside the revaluation of properties

The Treasury has subsequently confirmed that the cost of these proposals will be met centrally and there will be no impact on Local Authority funding and therefore there should be no impact of these proposals on the Council's 2014/15 budget position.

## *2.2 The Provisional Local Government Settlement for 2014/15*

The provisional Local Government Finance Settlement for 2014/15 was announced on 18 December 2013.

The settlement has identified £405.932m of general support funding in 2014/15 for the Council which is £0.4m higher than forecast and £335.676m in 2015/16 which is £1.1m higher than forecast.

The significant change in general support funding is the introduction of a specific grant to meet the cost of capping the increase in the Business Rates multiplier at 2%.

In respect of specific grant funding there are increases in both the Public Health grant (in line with previous announcements) and the Better Care fund (NHS funding for Social Care) as expected as part of the new pooling arrangements. Both grants have specific conditions attached and are therefore ring-fenced to the respective services. The increase in these grants therefore has no impact on the revenue budget position in 2014/15. There is much less detail on specific grant funding provided for 2015/16 however, the provisional figure is £79m of revenue funding, although this may change following consultation on the distribution methodology.

One key area of concern for the Council is that it appears that no funding is included in 2015/16 for the Local Welfare Schemes (in Lancashire the Care and Urgent Needs Support Scheme). This is £3.5m which covers both the cost of the scheme, and the administration of the scheme. No information has been received to explain this, and at this stage it would be prudent to recognise this as a further pressure in 2015/16. Further information is being sought on this.

## *2.3 New Homes Bonus*

There are two elements of New Homes Bonus (NHB) funding that impact upon the Council's Revenue budget; the New Homes Bonus grant and refunded New Homes Bonus 'top slice'.

- New Homes Bonus grant is received for each new property and for each empty property brought back into use.

- Each year the government forecasts how much NHB will be paid out and reduces the amount of general support grant to fund it, i.e. top-slices the amount available nationally for local government. In 2014/15 the actual level of NHB paid is less than the original forecast therefore the unused element of the top slice will be passed back to local authorities.

*Provisional* allocations of both of these elements have been received. The Council's provisional allocation of New Homes Bonus grant for 2014/15 is £2.845m, which is £0.359m less than the amount included in the Council's budget for 2014/15.

The amount of refunded NHB top slice the Council is to receive is £0.583m, this is a one-off allocation in 2014/15 only and it is therefore recommended that this is placed in to the Council's downsizing reserve.

#### 2.4 *Council taxbase*

The final figures in relation to the council taxbase (i.e. the number of properties upon which council tax is paid) will only be confirmed by District Councils on 31 January 2014. However, *provisional forecasts* for the level of the council taxbase in 2014/15 have been received from most of the District Councils and indicate the taxbase may potentially have increased marginally above the forecast. However, experience shows that this forecast is volatile and therefore will be formally reported to Cabinet once figures are confirmed.

The District Councils have also provided a *forecast* of the surplus on the Council Tax collected in 2013/14 and the potential impact on the Council's 2014/15 budget is available one-off resources of £4m. As this funding is one-off only, it is recommended that this be placed in the downsizing reserve.

#### 2.5 *The 'Better Care' Fund (Health and Social Care Integration Transformation fund)*

The level of funding, together with the conditions of the Better Care fund (Health and Social Care Integration fund) is to be announced shortly. The use of this funding will form a joint plan between the Council and the 6 Lancashire Clinical Commissioning Groups, and will be signed off by the Health and Wellbeing Board. Whilst it is not anticipated that this funding will assist in bridging the gap in 2014/15, it may potentially be very significant for the County Council in relation to reducing the demand for social care, and therefore mitigating the impact of demand on future costs.

#### 2.6 *Business Rates income*

The Council's resource forecast for 2014/15 includes a share of locally retained business rates income which was allocated by central government using 2012/13 business rates data to which a set of planning assumptions were then applied. District Councils are currently calculating their respective forecasts for the level of

business rates income they expect to collect in 2014/15 of which the County Council will receive a share. Local Authority resources will reflect the actual level of business rates income collected rather than the forecast allocation made by government. Any variation from the forecast will impact upon the level of resources available to councils. District Councils must provide this information to the County Council by 31 January 2014, however no initial forecasts have yet been received.

## 2.7 Public Health grant

The specific earmarked grant that the Council receives to deliver the Public Health services it took responsibility for on 1 April 2013 will increase by £1.8m in 2014/15, which is in line with previous announcements and plans. As this is a ring-fenced grant, this must be used to support public health activities and has no overall impact on the Council's revenue budget position in 2014/15.

## 3 Delivering the 2014/15 Budget

### 3.1 The Impact of the Proposals to Date

The financial outlook for the Council was reported to Cabinet in July 2013 ([Link Here](#)) and set out the expected increase in costs and the reduction in resources that the Council faces in the period 2014/15 to 2017/18, identifying a savings gap of £300m.

The table below summarises the progress that has been made so far in the development of the Council's strategy to meet this saving gap:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Saving gap	76.000	94.000	67.000	63.000	300.000
Savings identified:					
• Reductions in costs	9.146	3.793	3.675	3.613	20.227
• 10 % Challenge - efficiency savings	16.272	2.809			19.081
• Efficiency savings through reducing the cost of being in business	11.523	1.801	2.313	6.729	22.366
Proposals out to consultation:					
• Savings from reshaping the way services are delivered	5.560	9.870	9.960	6.960	32.350
• Savings from proposed policy options	17.219	11.062	4.093	0.146	32.520
<b>Savings gap</b>	<b>16.280</b>	<b>64.665</b>	<b>46.959</b>	<b>45.552</b>	<b>173.456</b>

Further detail on the savings identified in the table above is provided in Annex 1 of this report.

### 3.2 Bridging the Savings Gap

Since Cabinet met on 5 December, further costs and additional resources have been identified that impact upon the savings gap. These are:

- An additional cost of £0.190m in respect of Preston Bus station
- The impact on general support funding of the Local Government Finance Settlement (£0.393m in 2014/15 and £1.149m in 2015/16)
- The ending of funding to support the Care and Urgent Needs support programme producing a pressure of £3.506m in 2015/16

The Council's Management Team has continued to work to identify further reductions in the Council's costs and to seek to reduce the savings gap in 2014/15. The work covers the areas of:

- Bringing Savings Forward
- Further Reductions in the Cost Base
- Efficiency Savings

This work will remain ongoing; the latest position is set out below.

### 3.3 Bringing Savings Forward

Further analysis of savings proposals which have already been considered by Cabinet and form part of the current consultation process has identified where their delivery can be brought forward. This **re-phasing of savings** has identified **£2.182m** of saving that can be brought forward into 2014/15, it must be noted that bringing these savings forward, whilst balancing 2014/15 will increase the budget gap in later years. The savings identified are shown in the table below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
<i>Adult Services Health and Wellbeing</i>					
• Substance Misuse	0.250	-0.250			-
• Health and Social Care Integration	1.900	-1.900			
<i>County Treasurer's</i>					
• Right sizing the County Treasurer's Directorate	0.032	-0.032			-
<b>Total Re-phasing of Existing Proposals</b>	<b>2.182</b>	<b>-2.182</b>			<b>-</b>

### 3.3 Reductions in the Cost Base

A number of **reductions to the cost base** have been identified delivering savings of **£0.970m** in 2014/15, these are areas where it is possible to reduce budgets to reflect current levels of spend without there being an impact on the quantity or quality of services currently being delivered. The reductions in cost base are:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
<i>Children and Young People</i>					
• Mainstream Home to School Transport – budget to match current demand.	0.250				0.250
• Lancashire Break Time – budget to match current demand	0.250				0.250
<i>Environment</i>					
• Reduce Street Lighting Energy Budget to match current spending	0.270				0.270
<i>Corporate Expenditure</i>					
• Reduce budget for Added Years Pension Costs to match current level of spend	0.200				0.200
<b>Total Reductions in the Cost Base</b>	<b>0.970</b>	-	-	-	<b>0.970</b>

### 3.4 Efficiency Savings

Further proposals have also been identified by managers which will not impact on the quantity or quality of service but which involve some degree of change in the operation in order for the same outputs and outcomes (or better) to be delivered at a lesser cost. These **efficiency savings** amount to **£2.967m** in 2014/15 and are broken down as follows:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
<i>Adult Services Health and Wellbeing</i>					
• Further efficiencies within Social Inclusion Services	0.225				0.225
• further efficiencies from the development of a cross county integrated well-being service	2.000				2.000
<i>Children and Young People</i>					
• Partnership Funding reflecting the slimmed down partnership structure	0.150				0.150
• Merger of Early Support and Working Together with Families removing duplication	0.300				0.300
• Allocation of "good housekeeping" target across services	0.092				0.092
<i>Office of the Chief Executive</i>					
• Reductions in the cost of running the corporate centre within the Council	0.200				0.200
<b>Total Further Efficiencies</b>	<b>2.967</b>	-	-	-	<b>2.967</b>

The impact of the further cost and the additional savings proposals identified since the Cabinet report on 5 December 2013 is summarised below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
<b>Savings gap following Cabinet 5 December</b>	<b>16.280</b>	<b>64.665</b>	<b>46.959</b>	<b>45.552</b>	<b>173.456</b>
<i>Additional costs:</i>					
Preston Bus Station	0.190				0.190
Removal of funding for the Care and Urgent Needs Support programme		3.506			3.506
<i>Additional Resources:</i>					
Results of Local Government Finance Settlement	-0.393	-1.149			-1.542
<b>Revised Saving gap</b>	<b>16.077</b>	<b>67.022</b>	<b>46.959</b>	<b>45.552</b>	<b>175.610</b>
<i>Further Savings proposals:</i>					
Re-phasing of savings	2.182	-2.182			-
Reductions to the cost base	0.970				0.970
Efficiency savings	2.967				2.967
<b>Total Further Savings Identified</b>	<b>6.119</b>	<b>-2.182</b>			<b>3.937</b>
<b>Remaining Gap</b>	<b>9.958</b>	<b>69.204</b>	<b>46.959</b>	<b>45.552</b>	<b>171.673</b>

In total, savings proposals of more than £130m have been identified to date, covering the four years 2014/15 to 2017/18. These are summarised below:

	£m	%
Reductions in costs	21.197	16.2
10% Challenge efficiency savings	19.081	14.6
Efficiency savings through the reducing the cost of being in business	25.333	19.4
Reshaping the way services are delivered	32.350	24.8
Policy options	32.520	24.9
<b>Total</b>	<b>130.481</b>	<b>100.0</b>

#### 4 Council Tax

A fundamental consideration remaining for Cabinet in relation to the 2014/15 revenue budget is the recommendation to Full Council on the level of Council Tax.

As announced in Spending Review 2013 the Government has made available resources equivalent to a 1% increase in Council Tax should the Council choose to freeze the level of Council Tax. In addition any increase in Council Tax of 2% or more will be subject to a referendum which will need to be held after the beginning of the financial year, creating additional risk and uncertainty over the level of resources available for service delivery.

The table below illustrates the resources available to the County Council in a range of Council Tax scenarios:

		Increase in Council Tax					
<b>Options for Council Tax</b>		0%	0.5%	1.0%	1.5%	2.0%	2.5%
Increase in Council Tax income	£m	0.0	1.8	3.6	5.4	7.3	9.0
Council Tax Freeze Grant	£m	4.2					
<b>Additional Resources Available</b>	<b>£m</b>	<b>4.2</b>	<b>1.8</b>	<b>3.6</b>	<b>5.4</b>	<b>7.3</b>	<b>9.0</b>

It is important to note that while the availability of the council tax freeze grant has been announced for 2014/15 and 2015/16 there is no certainty on its availability beyond this which could lead to an increase in the savings requirement towards the end of the planning period if the option to freeze the Council Tax is taken.

Within the regulations placed upon local authorities in respect of council tax, a referendum is required to be held if the increase to the band D charge is greater than the referendum limit that will be set in early 2014, this limit was 2% in 2013/14. Any referendum would have to be held in May 2014 alongside the local elections and therefore should the Council choose to set a level of Council Tax in excess of the referendum threshold it would need to have in place plans to reduce expenditure in year to meet the referendum threshold as well as meet the costs of rebilling and of the referendum itself should any referendum be lost. The Cabinet is asked to consider its proposals on the level of Council Tax to form part of the next stage of consultation on the budget for 2014/15.

## 5 Schools Budget

In line with the school funding arrangements introduced in November 2007, Cabinet has agreed since 2008/09 in respect of the 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, Young People and Schools in consultation with the Interim Executive Director for Children and Young People and the County Treasurer and in conjunction with the Lancashire Schools Forum.

The Dedicated Schools Grant allocation currently supports the following:

Establishment type	Number
LEA maintained Primary Schools	478
LEA maintained Secondary Schools	63
LEA maintained Special Schools	30



Nursery Schools	24
Short Stay Schools	10
Primary Academy Schools	6
Secondary Academy Schools	20
Private, Voluntary and Independent Early Year Providers	759
<b>Total</b>	<b>1390</b>

The Cabinet is asked to confirm the continuation of this approach in relation to the determination of the 2014/15 and future years' Schools Budget.

## **6 Budget Consultation 2014/15**

The budget consultation process is undertaken in a series of stages which includes consideration of the saving proposals by the Council's Budget Scrutiny Working Group presented to Cabinet during the year.

To date, consultation has been undertaken with the following:

- The Life in Lancashire Panel
- The 50Plus Assembly
- The public, through the 'Budget Calculator' tool that has been available on the Council's website, and
- 3 tier forums in each District.

The feedback from these groups will be reported to Cabinet at its meeting in February 2014.

Following the Cabinet meeting on 9 January 2014 a further stage of consultation will take place with:

- The 12 Borough and City Councils within Lancashire,
- The Police and Crime Commissioner for Lancashire,
- 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 6 February 2014 to which the responses received will be reported.

## **7 Equality and Diversity**

The consideration of savings proposals 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.

Where it has been determined that an Equality Analysis is required in respect of a savings option these are provided at Appendix 'B'. Equality Analyses will be updated in due course to reflect the outcome of consultation and will be provided to Cabinet for them to be considered before making recommendations to Full Council.

## **8 Robustness of the Budget and the Adequacy of Reserves**

Section 25 of the Local Government Act 2003 requires that in giving consideration to budget proposal members have regard to the advice of the Council's Chief Finance Officer (in the case of the County Council the County Treasurer) on the robustness at the estimates and the adequacy of the Council's reserves. This section of the report provides the County Treasurer's initial advice on these matters and this will be updated as budget proposals progress through the process to Full Council.

### **8.1 Robustness of the Estimates**

This section is concerned with the scale of financial risks faced by the Council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity 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 to address financial risks arising from changes in the forecast as they occur. A number of specific risks remain within the budget as follows

- *Pay Costs*

The 2014/15 budget makes provisions for pay of 1%, while in future year's provision remains at 2%. The introduction of the living wage means that a proportion of the pay bill will increase mid-year in relation to inflation indices which are currently running ahead of the provision included in the forecast. However, the remainder of the pay bill will continue to be driven by the national pay agreement, which given announcements seem likely to be at about 1% for at least 2015/16 and probably for the remainder of the planning period. The broad assumption is that the overall provision within the forecast at 2% will cover the totality of increases in the pay bill. This assumption will be kept under ongoing review.

- *Inflation*

Actual inflation remains relatively low and has been declining, with some analysts emphasising the risk of deflation. Provision made within the budget is limited to areas where the Council has no choice but to pay increased prices e.g. due to contractual terms. The inflation forecasts used are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation and the need to absorb additional inflationary costs in year.

- *Service Demand*

This is the key risk facing the Council in both preparing future budgets and managing budgets during the year. As reported in the budget monitoring reports presented to Cabinet over the year, demand for social care services has seen a significant increase.

In relation to Children's Social Care the budget reflects provision for this higher level of demand, although there is an assumption built into the later years that demand management measures will have some impact in stabilising costs. This is clearly a risk, but within the context of the totality of the budget, the strategies in place to deliver this demand management supports this assumption within the budget.

Over the period 2014/15 to 2017/18 a very significant level of resource (£45m) has been provided for increased demand for Adult Social Care. While this estimate is based on assumptions that have previously been a reasonable prediction of demand there remain a very significant range of risks that might impact on what actually happens. These include the developing relationship with the Clinical Commissioning Groups and the interaction between tightening health and local authority resources

as well as other factors such as whether there is a hard winter. While reasonable steps have been taken to estimate future demand and constructive work is being undertaken with health colleagues it is still possible that demand will exceed budget. The Directorate does have a good record of managing demand pressures in previous years. However the flexibility in other parts of the budget which has assisted with this is now very significantly less than previously following the delivery of the savings contained in the previous financial strategy.

The scale of demand risk in social care services is such that the Council should retain sufficient general reserves to allow the in year management of pressures in demand.

- *Other Areas of Demand*

The other risk areas of demand led spending are those concerned with welfare reform in terms of the Care and Urgent Needs Support Scheme. The current level of spending in 2013/14 in this area is below budget. However, demand has picked up in recent months and the forecast level of spending is broadly in line with that in other larger authorities. Given this fluctuation in demand, and the uncertainty regarding the future provision of the specific grant it is not proposed to make any changes to the level of budget until the position regarding funding for 2015/16 and beyond is clarified.

The other significant demand led budget is that for waste disposal costs, where demand movements tend to be less rapid than in other areas and where forecasts are currently providing a fairly reliable guide to actual activity. Based on past trends, the risk in this area is that of a significant pick up in the economy that significantly increases waste volumes. While there are indications of an economic recovery this currently appears "slow and steady" rather than rapid which would indicate that this risk is likely to be on a scale that can be managed in year.

- *Resource Estimates*

The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. For the County Council this manifests itself in two areas:

- Changes in the Council Tax Base as a result of the localisation of Council Tax Support.
- Growth in the business rate base and the impact of valuation appeals on the business rate product.

The Council Tax Base once set, is fixed for the year. However, the current level of surplus may indicate a more positive trend in council tax collection than anticipated, and this will be considered in future updates to the financial forecast.

There has been some growth in the business rate base which is reflected in the budget, however, the level of appeals and their impact remains a very significant risk, which is likely to increase over time.

While these areas are important the greatest risk within the overall financial scenario remains the reduction in central government support for local authorities and the potential for further reductions to be announced as has been the case on a number of occasions in recent years.

## **8.2 The Level of Reserves**

The Council holds reserves for a number of reasons:

- To enable the organisation to deal with unexpected events such as flooding or the destruction of a major asset through fire.
- To enable the organisation to manage variations in the demand for services which cause in year budget pressures.
- To fund specific projects or identified demands on the budget.

There is no right answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- The level of risk evident within the budget as set out above.
- A judgement on the effectiveness of budgetary control within the organisation.
- The degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

The level of risk evident within the budget is clearly increasing as set out in the analysis above. Whilst this does not indicate a need to increase reserves, it sets the context within which the Council needs to consider the level of reserves it holds.

The effectiveness of budgetary control is a combination of both systems and processes and the risk environment within which the Council is operating. Budgetary control procedures remain strong, however based on the evidence of the current year . given the increased level of financial risk there is a greater risk that the processes in place will not be able to bring down a significant overspend over the course of the following four years.

The Council currently has earmarked reserves available of £49m to fund the costs of downsizing the Council. Within the budget proposals presented for consultation are a number of calls for invest to save resources to support the delivery of savings. In addition, the Council will face significant severance costs as the number of staff reduces over the next four years. The current level of the downsizing reserve is not sufficient to meet these demands.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2014 is £36m.

The austerity environment within which the Council is operating is likely to continue to 2018, if not beyond. It is vital that the Council maintain a level of reserves which enables the Council to:

- Effectively manage the process of downsizing the Council, including the payment of severance costs and the availability of reserves to give services to the most vulnerable members of the community a "safe landing".
- To manage potential increases in demand, not only as a result of the issues highlighted above, but also as the impact of the changes to the welfare system on demand for the Council's services becomes clearer.
- To manage potential instability in the Business Rates retention system. Whilst the Council has set aside £5m within a volatility reserve, in reality, business rate income would have to reduce by £12.4m before the safety net mechanism within the system kicks in, potentially exposing the Council to a level of resource volatility not covered by the reserve.

In overall terms, the Council has an appropriate level of reserves available to manage the overall financial risk it is facing in 2014/15, with some ability to be flexible in terms of managing the balance between holding reserves and managing budget reductions in 2014/15.

However, it is likely that over the three year period of the financial strategy 2015/16 to 2017/18, that the Council will need access to significant reserves to meet the costs of downsizing without reducing reserves to a level which would expose the Council to further financial risk. This will be addressed within the process of developing the financial strategy for 2015/16 to 2017/18, as a reserves strategy will be crucial in order to ensure that appropriate resources are available to support the downsizing of the Council.

## **9 Capital Investment Programme**

The Council has already approved a programme of capital starts for 2014/15 which reflects the level of resources already announced by the relevant government departments and which is largely focussed on delivering a number of ongoing programmes of activity, specifically:

- Improving the school estate and providing new school places in areas of growth;
- Maintaining highway assets;
- Delivering transport improvements identified in the Local Transport Plan;
- Completing modernisation programmes for disability day services and children's residential services (both mainstream and SEN);
- Strategic investment to support economic growth;
- Completing rationalisation of key elements of the office estate, particularly in Central Preston.

A summary of the programme for 2014/15 and beyond is shown in the table below:

	2014/15	2015/16	Future years	Total
	£m	£m	£m	£m
Adult Services, Health and Wellbeing	3.102	7.917	3.974	<b>14.993</b>
Children and Young People	54.685	24.736	8.993	<b>88.414</b>
Environment	57.602	25.734	0.000	<b>83.336</b>
Corporate	20.828	3.640	1.005	<b>25.473</b>
Lancashire County Commercial Group	4.903	0.000	0.000	<b>4.903</b>
<b>Total Expenditure</b>	<b>141.120</b>	<b>62.027</b>	<b>13.972</b>	<b>217.119</b>
Financed by:				
Borrowing	4.601	7.807	0.000	<b>12.408</b>
Capital receipts	13.171	24.239	10.567	<b>47.977</b>
Revenue	48.078	1.201	0.232	<b>49.511</b>
Internal loan	5.173	0.340	0.000	<b>5.513</b>
Single Capital Pot Grant	54.525	0.000	0.000	<b>54.525</b>
Other grants and contributions	15.572	14.551	1.032	<b>31.155</b>
<b>Total Financing</b>	<b>141.120</b>	<b>48.138</b>	<b>11.831</b>	<b>201.089</b>
<b>Overprogramming</b>	<b>0.000</b>	<b>13.889</b>	<b>2.141</b>	<b>16.030</b>

The level of over programming remains appropriate in the context of the totality of the programme and the overall scale of financial risks facing the County Council.

There are a significant number of future changes to the way in which capital resources are allocated which will impact on the County Council in setting its capital investment programme from 2015/16 onwards. In particular a significant proportion of the capital resources currently received directly by the County Council will have to be secured by the Local Enterprise Partnership (LEP) as part of its bid to the Local Growth Fund, and will no longer come automatically to the Council.

Also in 2015/16 capital resources which currently support district council capital expenditure will pass to the County Council as part of the Better Care Fund. Currently these resources amount to some £5.2m across Lancashire which while not ring fenced is intended for use in the delivery of Disabled Facilities Grants. The District Councils have topped up this resource both with their own funds and funds from stock transfer housing associations in order to go some way to meet demand. Thus change in this area will need to be managed sensitively in order not to destabilise the system.

Given these significant changes to resource allocation and the fact that the County Council is currently beginning the process of a very significant organisational reshaping which is likely to place differing, and as yet unknown, demands on the

asset base it would be appropriate to consider future capital priorities (beyond those already identified) in conjunction with the reshaping of the Council to ensure that the capital programme supports the delivery of the Council's future objectives.

The proposed exception to this is in relation to the £0.080m annual allocation for Environmental and Community Projects which is used through the Council's contract with the landfill site operator to retain within the county around £0.900m of resources which would otherwise flow to the government. This allocation was previously omitted from the 2014/15 starts programme and it is proposed that it is reinstated, which will have the impact of marginally increasing the level of over-programming which is considered manageable.

The Capital Investment Programme will also need to be revised, prior to the Cabinet meeting in February 2014 in order to incorporate the following specific issues:

- The impact of delivery of the City Deal on the spending and resource profile, and ensure that appropriate approvals are in place to allow schemes to begin to be delivered in 2014/15. This cannot currently be provided as it depends on the agreement of the Annual Infrastructure Delivery Plan later in January 2014.
- The incorporation of the full cost (as opposed to just the Council's contribution) of the Heysham/M6 Link following final approval of the scheme. Work is currently underway to establish a more detailed phasing of expenditure following the various delays due to legal proceedings.

The full programme, together with the section 25 assessment of financial risk and associated technical statements, in particular the Minimum Revenue Provision Policy Statement, which is crucial to the financing of the City Deal Programme, will form part of the report to be considered by Cabinet in February 2014.

## **10 Financial Strategy 2015/16 to 2017/18**

At its meeting on 5 December 2013, Cabinet resolved that the Council's approach to delivering its financial strategy should be to set a balanced budget for 2014/15 and then set a three year balanced budget for the period 2015/16 to 2017/18. The interim Chief Executive is tasked with providing a report to Cabinet on the process that will be followed to deliver the three year budget for 2015/16 to 2017/18.



**Reduction in costs**

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Impact of the proposal to implement the Living Wage	-3.000	-0.090	-0.093	-0.095	-3.278
Impact of revised forecast of the level of procurement savings to be delivered in 2013/14	-5.000				-5.000
The full year effect of savings agreed as part of the current financial strategy but not included within the financial forecast	4.156	1.900	1.300	0.800	8.156
Review of inflation for social care providers; providing 1.75% within the 2014/15 forecast	3.245				3.245
Review of the level of demand incorporated within the forecast of costs for the concessionary travel budget	0.645	0.180	0.197	0.190	1.212
Revised forecast of the employers contribution to the local government pension fund as a result of the triennial valuation	1.500	1.553	1.541	1.538	6.132
Reflection of the government commitment to a 1% pay cap for local government in 2014/15	2.600				2.600
Revised forecast of council tax income arising from the previously approved review of the single persons discount and the impact of the City Deal	2.000	0.250	0.730	1.180	4.160
Reflect actual level of hardship claims in relation to Local Council Tax Support Schemes	0.500				0.500
Reflect actual level of depreciation charged to Lancashire County Commercial Group	2.500				2.500
<b>Reduction in costs</b>	<b>9.146</b>	<b>3.793</b>	<b>3.675</b>	<b>3.613</b>	<b>20.227</b>

## Efficiency Savings from the 10% Challenge

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	2014/15 £m	2015/16 £m	Total £m
Adult Services, Health and Well-being Directorate	6.266	2.005	8.271
Children and Young Peoples Directorate	2.931	-	2.931
Environment Directorate	5.156	0.779	5.935
County Treasurer's Directorate	0.307	0.025	0.332
Lancashire County Commercial Group	0.573	-	0.573
The Office of the Chief Executive	1.039	-	1.039
<b>Efficiency savings from 10% Challenge</b>	<b>16.272</b>	<b>2.809</b>	<b>19.081</b>

**Efficiency savings from reducing the cost of being in business**

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Increase Public Health Contribution to Overheads	1.050	---	---	---	<b>1.050</b>
Asset management within highways and property	---	---	---	0.900	<b>0.900</b>
Printing/Postage/Council Infrastructure	1.000	---	---	---	<b>1.000</b>
Managing Business Mileage	1.000	---	---	---	<b>1.000</b>
Accommodation	---	---	---	5.000	<b>5.000</b>
Review of business intelligence	0.400	0.400	0.100	0.100	<b>1.000</b>
Right Sizing the County Treasurer's Directorate	0.303	0.180	0.707	0.229	<b>1.419</b>
Right Sizing the Corporate Expenditure Budget	0.210	---	---	---	<b>0.210</b>
Treasury Management Strategy	1.675	0.600	---	---	<b>2.275</b>
Reduction in the cost of waste	---	0.500	0.500	0.500	<b>1.500</b>
Energy Management (Price)	0.885	0.121	1.006	---	<b>2.012</b>
Management savings in advance of organisational restructure	5.000	---	---	---	<b>5.000</b>
<b>Total</b>	<b>11.523</b>	<b>1.801</b>	<b>2.313</b>	<b>6.729</b>	<b>22.366</b>

**Reshaping the Way Services are delivered**

<b>No.</b>	<b>Proposal</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>Total £m</b>
401	Reshaping and Recommissioning of Domiciliary Care	---	2.000	---	---	<b>2.000</b>
403	Recommissioning Telecare	---	0.500	1.000	2.500	<b>4.000</b>
404	Learning Disability Remodelling Supported Living	4.000	4.000	4.000	---	<b>12.000</b>
405	Recommissioning of Mental Health Services	0.060	0.970	0.160	0.160	<b>1.350</b>
407	Integration of health and care services in Lancashire	1.000	1.900	3.800	4.300	<b>11.000</b>
409	Review of skills provision - using it differently and contributing to overheads	0.500	0.500	1.000	---	<b>2.000</b>
<b>Total</b>		<b>5.560</b>	<b>9.870</b>	<b>9.960</b>	<b>6.960</b>	<b>32.350</b>

*Further detail for each of the options above is provided in the report to Cabinet on 7 November 2013 available [HERE](#) at item 7.*

**Policy Options – Cabinet 7 November 2013**

<b>No.</b>	<b>Policy Option</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>Total £m</b>
<b>Adults Services, Health and Well-Being Directorate</b>						
601	Supporting People	1.000	3.000	---	---	<b>4.000</b>
602	Fairer Charging	1.250	1.500	---	---	<b>2.750</b>
604	Review and re-design of residential substance misuse services	0.250	0.250	---	---	<b>0.500</b>
607	Arts Development service	0.020	---	---	---	<b>0.020</b>
609	Leisure Link (providing additional respite to Unpaid Carers)	0.275	---	---	---	<b>0.275</b>
610	Remodelling workforce in former NHS operated learning disability (LD) supported living schemes	3.430	0.500	0.400	---	<b>4.330</b>
611	Older people day time support	0.300	0.300	0.400	---	<b>1.000</b>
612	Self Directed Supports	0.100	0.150	0.150	0.150	<b>0.550</b>
<b>Total</b>		<b>6.625</b>	<b>5.700</b>	<b>0.950</b>	<b>0.150</b>	<b>13.425</b>
<b>Children and Young Peoples Directorate</b>						
702	Youth Services	0.600	1.000	1.400	---	<b>3.000</b>
703	Discretionary Mainstream Home to School Transport (including unsuitable routes)	0.616	0.482	0.041	0.020	<b>1.159</b>
704	Parent participation and engagement for children and young people with Special Educational Needs and Disability (SEND) and their families	0.078	---	---	---	<b>0.078</b>
705	Charging for post 16 Special Educational Needs and Disabilities (SEND) transport	0.088	0.096	0.096	---	<b>0.280</b>
707	Review of CYP traded services	0.063	---	---	---	<b>0.063</b>
708	Review of Lancashire Outdoor Education Provision	0.039	0.068	0.050	---	<b>0.157</b>

<b>No.</b>	<b>Policy Option</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>Total £m</b>
709	Review of Quality & Continuous Improvement - Lancashire Schools Effectiveness Service (QCI-LSES) services provided to schools	0.025	0.119	0.088	---	<b>0.232</b>
710	Review of school attendance responsibilities.	0.065	0.099	0.031	---	<b>0.195</b>
711	Virtual School Review	0.250	---	---	---	<b>0.250</b>
712	Review of Early Years services and responsibilities	1.507	1.451	---	---	<b>2.958</b>
717	Improve efficiency of Adoption Service	0.117	---	---	---	<b>0.117</b>
719	Increase efficiency in Fostering Service	0.150	---	---	---	<b>0.150</b>
722	To develop and reshape services to children, young people and families to ensure the services are aligned efficiently and effectively	2.800	0.861	---	---	<b>3.661</b>
723	Right-size Children's Trust Budget	0.100	---	---	---	<b>0.100</b>
<b>Total</b>		<b>6.499</b>	<b>4.176</b>	<b>1.706</b>	<b>0.020</b>	<b>12.401</b>
<b>Environment Directorate</b>						
804	Street Lighting Energy	0.170	0.100	0.230	---	<b>0.500</b>
805	Highway infrastructure sponsorship	0.050	0.050	---	---	<b>0.100</b>
809	Members priority contingency	0.220	---	---	---	<b>0.220</b>
813	Targeted Parking Enforcement	0.050	---	---	---	<b>0.050</b>
815	Environment & Community Projects and Forest of Bowland Area of Outstanding Natural Beauty	0.118	---	0.612	---	<b>0.730</b>
817	Public Rights of Way & Countryside Service Reductions	0.094	---	0.454	---	<b>0.548</b>
821	Winter Service	0.447	---	---	---	<b>0.447</b>
822	Close waste transfer stations and landfill sites on bank holidays	---	0.030	---	---	<b>0.030</b>
823	Sustainable Drainage Consenting & Enforcement	0.150	---	---	---	<b>0.150</b>
824	Joint Production of Local Transport Plan	---	0.030	---	---	<b>0.030</b>
828	Withdrawal of Adult Cycle Training	0.014	0.015	0.006	---	<b>0.035</b>
829	Safer Travel Unit training	0.018	0.024	0.020	---	<b>0.062</b>
831	Business Travel Planning	0.003	---	0.017	---	<b>0.020</b>

No.	Policy Option	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
832	Speed management provision	0.040	---	---	---	<b>0.040</b>
833	Operational Learning and Development within Highways Services	0.025	0.040	---	---	<b>0.065</b>
834	New Traffic Systems Maintenance Contract	0.100	---	---	---	<b>0.100</b>
836	Transfer of Parking Services front line call handling into Parking Services	0.075	---	---	---	<b>0.075</b>
837	District/Parish Public Realm Agreements - Highway - Green Space maintenance	0.144	0.137	0.123	---	<b>0.404</b>
841	Bus Shelter Maintenance	0.025	---	---	---	<b>0.025</b>
842	Vehicle and associated checks carried out on subsidised services	0.025	---	---	---	<b>0.025</b>
<b>Total</b>		<b>1.768</b>	<b>0.426</b>	<b>1.462</b>	<b>---</b>	<b>3.656</b>
<b>Services within the Office of the Chief Executive</b>						
921	Review of Voluntary, Community and Faith Sector (VCFS) Grants	0.500	---	---	---	<b>0.500</b>
		<b>0.500</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>0.500</b>
<b>Total Policy Options</b>		<b>15.392</b>	<b>10.302</b>	<b>4.118</b>	<b>0.170</b>	<b>29.982</b>

*Further detail for each of the options above is provided in the report to Cabinet on 7 November 2013 available [HERE](#) at item 7.*

**Policy Options – Cabinet 5 December 2013**

No.	Policy Option	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
<b>Environment Directorate</b>						
814	Review of bus subsidies and an enhancement of community transport services	1.827	0.260	-0.025	-0.024	<b>2.038</b>
851	Revisions to School Crossing Patrols	-	0.500	-	-	<b>0.500</b>
		<b>1.827</b>	<b>0.760</b>	<b>-0.025</b>	<b>-0.024</b>	<b>2.538</b>

*Further detail for each of the options above is provided [HERE](#) at item 7.*

Summary	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Policy Options proposed by Cabinet for consultation at their meeting of 7 November 2013	15.392	10.302	4.118	0.170	<b>29.982</b>
Policy Options proposed by Cabinet for consultation at their meeting of 5 December 2013	1.827	0.760	-0.025	-0.024	<b>2.538</b>
<b>Total</b>	<b>17.219</b>	<b>11.062</b>	<b>4.093</b>	<b>0.146</b>	<b>32.520</b>