

The Financial Challenges beyond 2015/16

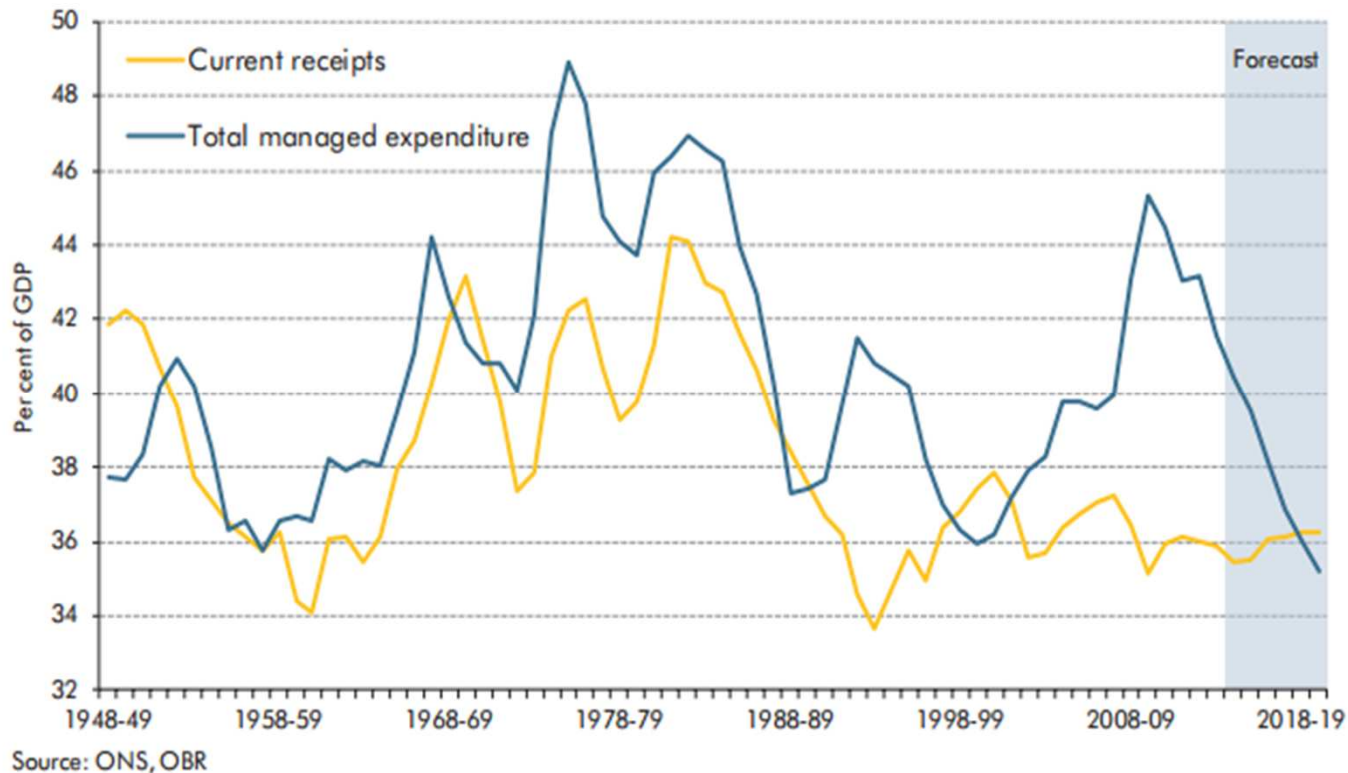


Financial Challenge – why we only set a budget for 2015/16

There were a number of uncertainties during the budget setting process leading us to prudently only setting a budget for 2015/16. These included:-

- New Comprehensive Spending Review expected Autumn 2015 covering a 3 or 4 year period from April 2016. Now known to report on 25th November and covers the next 4 years.
- Impact of any policy changes following the general election (eg. council tax referendum ceiling)
- Uncertainties around level of BCF funding available and on Care Act Funding
- We don't have enough reserves to balance the 2016/17 budget even with FBR implemented as planned

Taxation and public expenditure as % of GDP



Why Are The Public Finances Not Already Fixed?

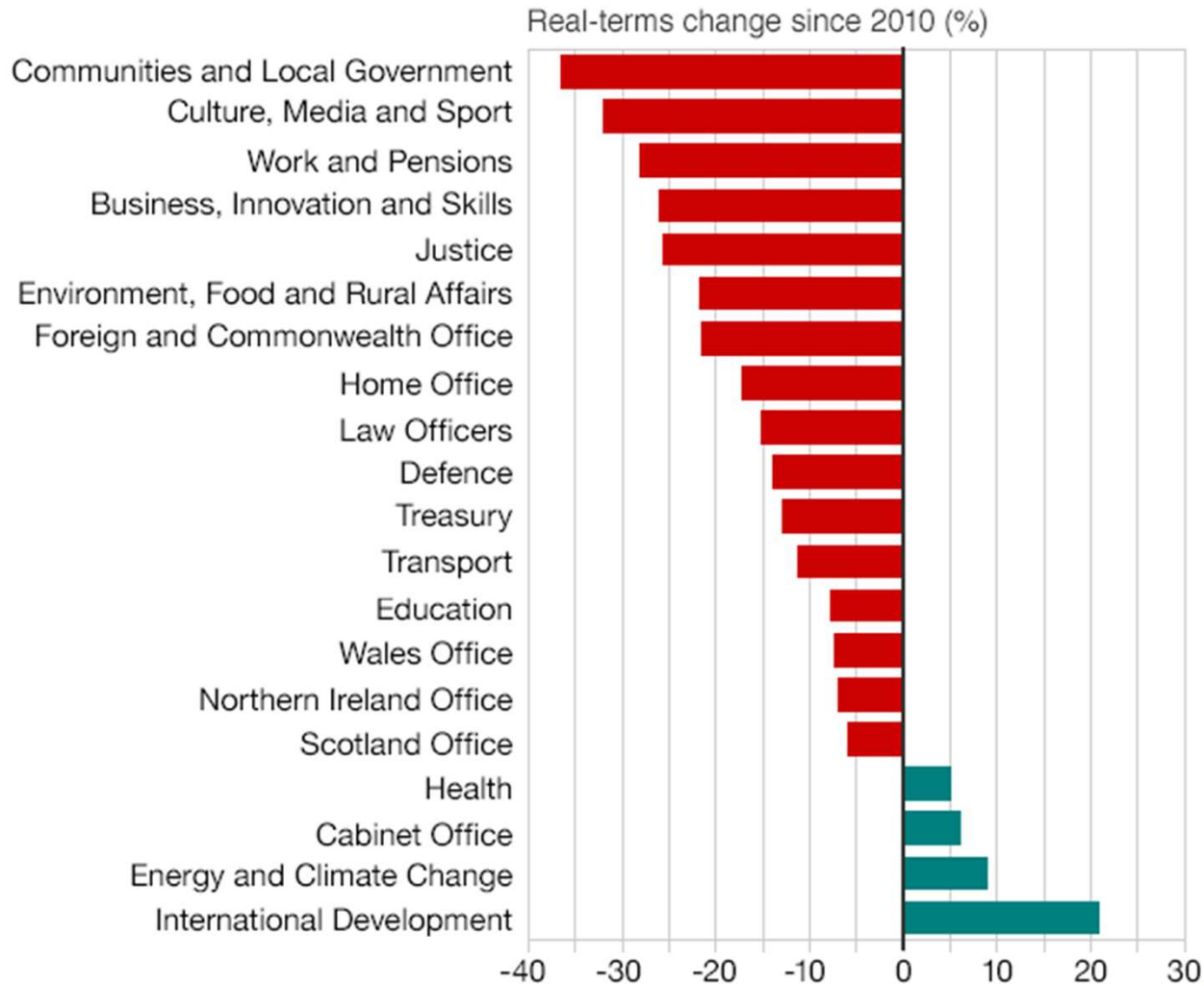
The first budget of the then new coalition government in 2010 predicted that in 2014/15 public spending would be £738bn and tax receipts would be £700bn - a £38bn deficit.

The reality is total spending last year was be £737bn but tax receipts were £646bn – a total deficit of £91bn or £53bn more than predicted.

Hence spending reductions have been on target but tax receipts have lagged expectations significantly. There are two main reasons for this situation:

- General growth in the economy has lagged that expected in 2010 – nominal GDP was predicted to be 28% higher in 2014/15 than 2010 – it is only going to be 21% higher. This is responsible for two thirds (£35bn) of the tax shortfall.
- The average rate of tax paid by those in employment has fallen from 19% in 2009 to around 16.5% now. That accounts for the other one third (£19bn) of the tax shortfall. Two factors have driven this situation. The coalition has significantly increased the basic income tax personal allowance - it will have increased by 38% in the last 4 years from £6,475 to £10,000. In addition, there has been a large increase in the number of people in low paid/part-time employment over the last 4 years – part-time workers are now 27% of those in employment – up from 25% 4 years ago. More people are therefore not paying income tax.

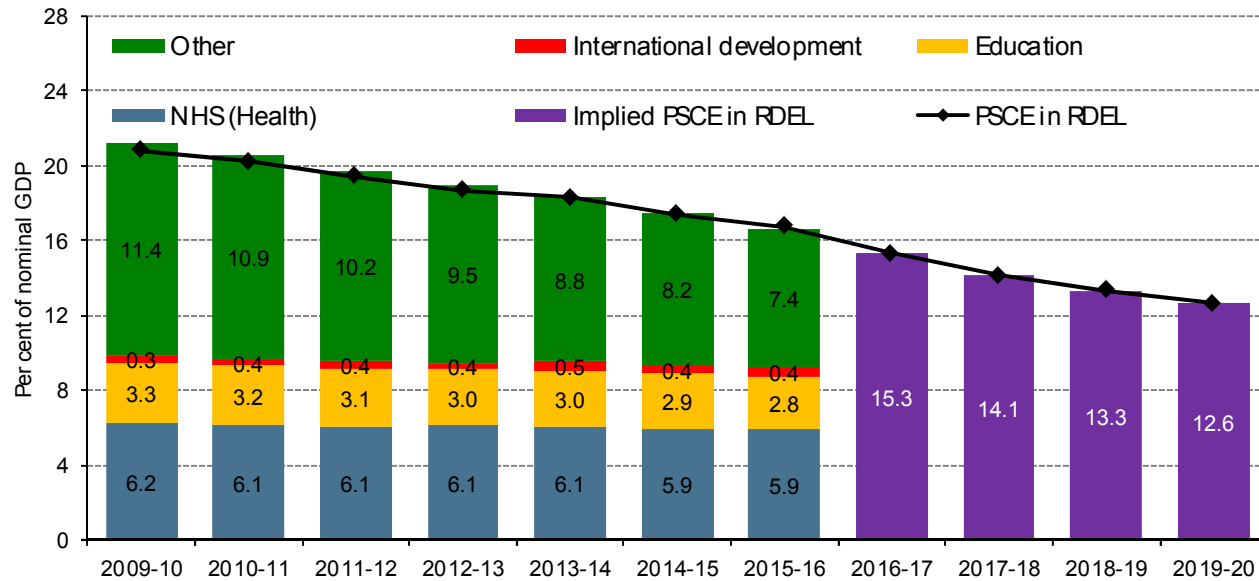
UK government department budgets



Source: Institute for Fiscal Studies

BBC

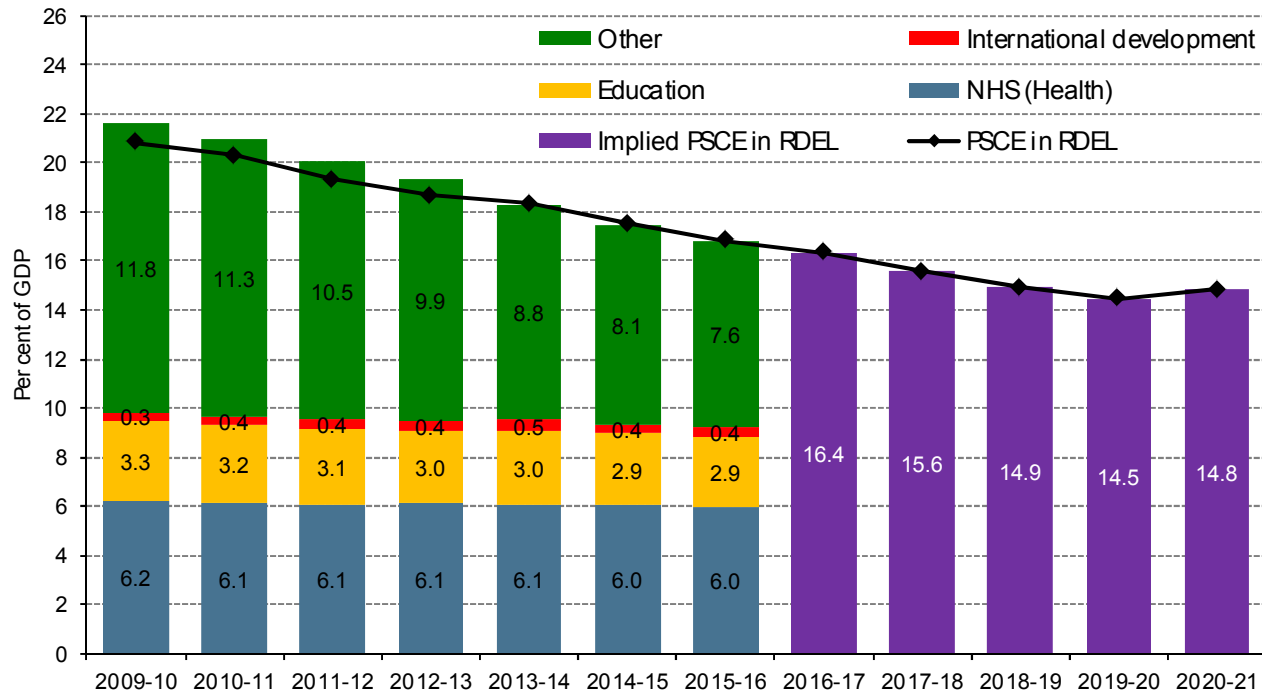
Future Public Spending December 2014



Plans for RDEL excluding depreciation upto 2015-16. Beyond 2015-16 based on implied PSCE in RDEL calculated from the Government assumption for TME. Other includes unallocated amounts.

Source: HM Treasury Autumn Statement 2014, HM Treasury Public Expenditure Statistical Analyses, July 2014

Future Public Spending July 2015



Note: The historical data in this chart have been adjusted for major discontinuities to produce a more comparable series. Details are in the supplementary fiscal tables on our website. In March, we adjusted for some of these discontinuities by adjusting the forecast series instead of the historical series. Our latest approach gives consistent forecast figures throughout the EFO. The previous approach added 0.6 per cent of GDP to RDEL on average between 2015-16 and 2019-20. This effect has now been removed, with historical data adjusted instead. Source: HM Treasury Public Expenditure Statistical Analyses, July 2014; HM Treasury Budget, July 2015; OBR

Summer Budget 2015

- Re-profiled departmental spending reductions yet again – less front end loaded and lower in total
- Added another year (2020/21) to the timeframe for rebalancing public finances
- Identified £17bn worth of savings from welfare benefits (£12bn) and tax changes (£5bn) leaving £20bn to be found from service spending
- Introduced the national living wage at £7.20 from April 2016 increasing to £9 by 2020 – a major impact on local authorities. For LCC around £30m pa by 2020 substantially on contract price increases
- Effectively adds defence spending as a protected service area
- Promotes devolution within England

Spending Review 2015

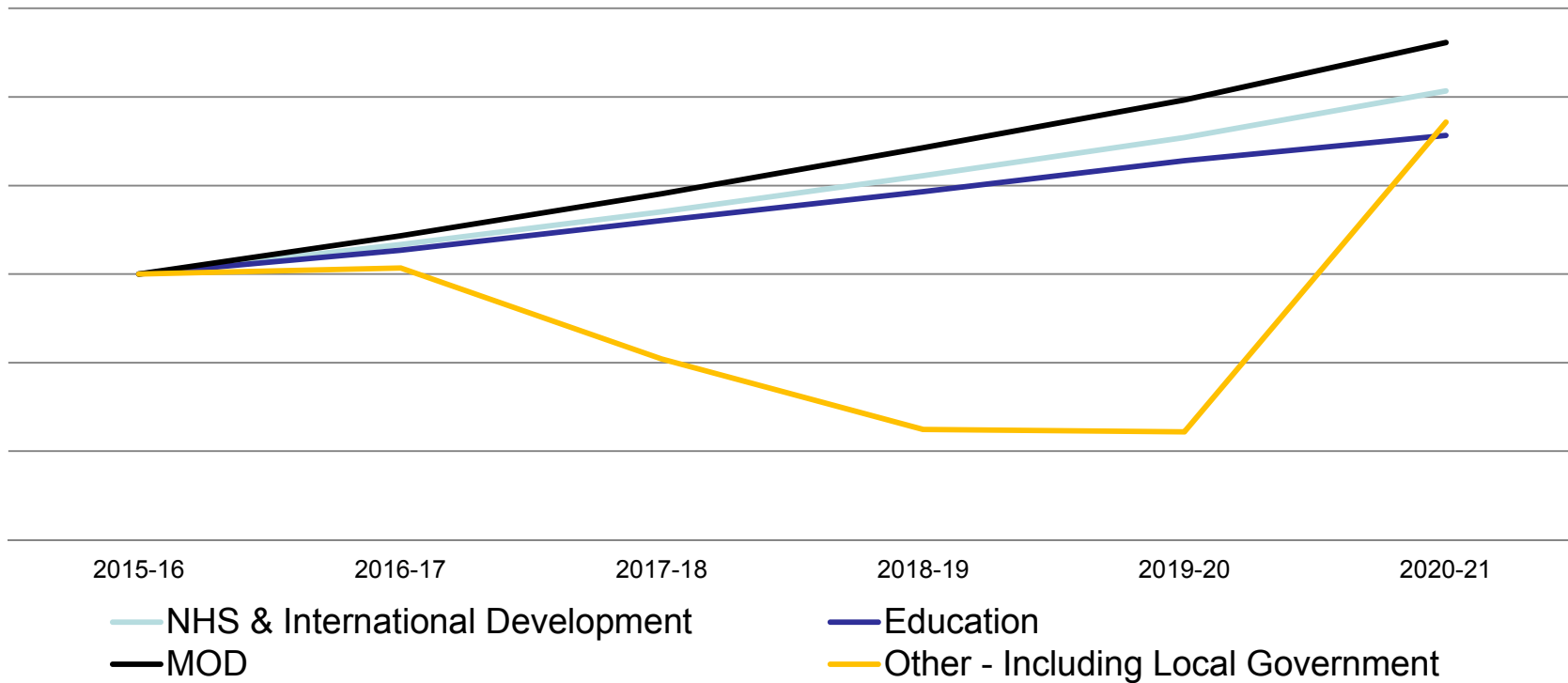
- Will be published on 25th November 2015 and will allocate £20bn of savings to the non-protected spending departments over the next 4 financial years

- Reductions profiled as follows:

2016/17	£3bn
2017/18	£8bn
2018/19	£7bn
2019/20	£2bn

- Requires non-protected government departments to propose savings of 25% and 40% over the next 4 years

Indexed Growth in DELs



Implied Year-on-year change to Other DELs (%)	2016-17	2017-18	2018-19	2019-20	2020-21
	+0.3	-5.1	-4.2	-0.1	+19.2

Local funding position – LCC graphs

- Based on projections of Government funding – primarily that revenue support grant falls 8.5% pa for the 3 years from April 2016.
- Includes estimated cost pressures and other assumptions as identified in November 2014

Assumptions included in the financial modelling:-

- Delivery of the savings already agreed as part of the 2014 FBR process
- Inclusion of the cost pressures identified in ASC beyond 2015/16 (for demographic and inflationary increases but not yet new national minimum wage)
- That all additional care costs initiated by the Care Act will be met by new burdens funding.
- The BCF continues at £20m pa
- A 1% p.a. increase for pay inflation
- A 0% p.a. increase for prices and income inflation
- A 1.9% p.a. increase in Council Tax
- A 0.5% p.a. growth in tax base
- A 2.5% increase for employers NI contributions from 2016

The Financial Challenge – June 2015

Year	Additional In Year Shortfall	Annual shortfall
2015/16	£22.2m	£22.2m
2016/17	£27.4m	£49.6m
2017/18	£3.6m	£53.2m
2018/19	£12.9m	£66.1m
Total	£66.1m	£191.1m

The Financial Challenge – July 2015

Year	Additional In Year Shortfall	Annual shortfall
2015/16	£22.2m	£22.2m
2016/17	£7.3m	£29.5m
2017/18	£19.5m	£49.0m
2018/19	£17.1m	£66.1m
Total	£66.1m	£166.8m

The Financial Challenge

This analysis indicates the need to find a further £66m in savings over the next four years on top of delivering the £65m found through the fundamental review.

This years shortfall of £22m is covered by reserves but the revised 2016/17 shortfall is £29.5m with a maximum of £31.5m available in the volatility reserve. All these estimates are very tentative.

Recent Summer Budget data now suggests that the higher levels of shortfall will move away from 2016/17 and into the two following years. It's likely that direct grant will be higher than previously expected but offset substantially by wage/contract price increases

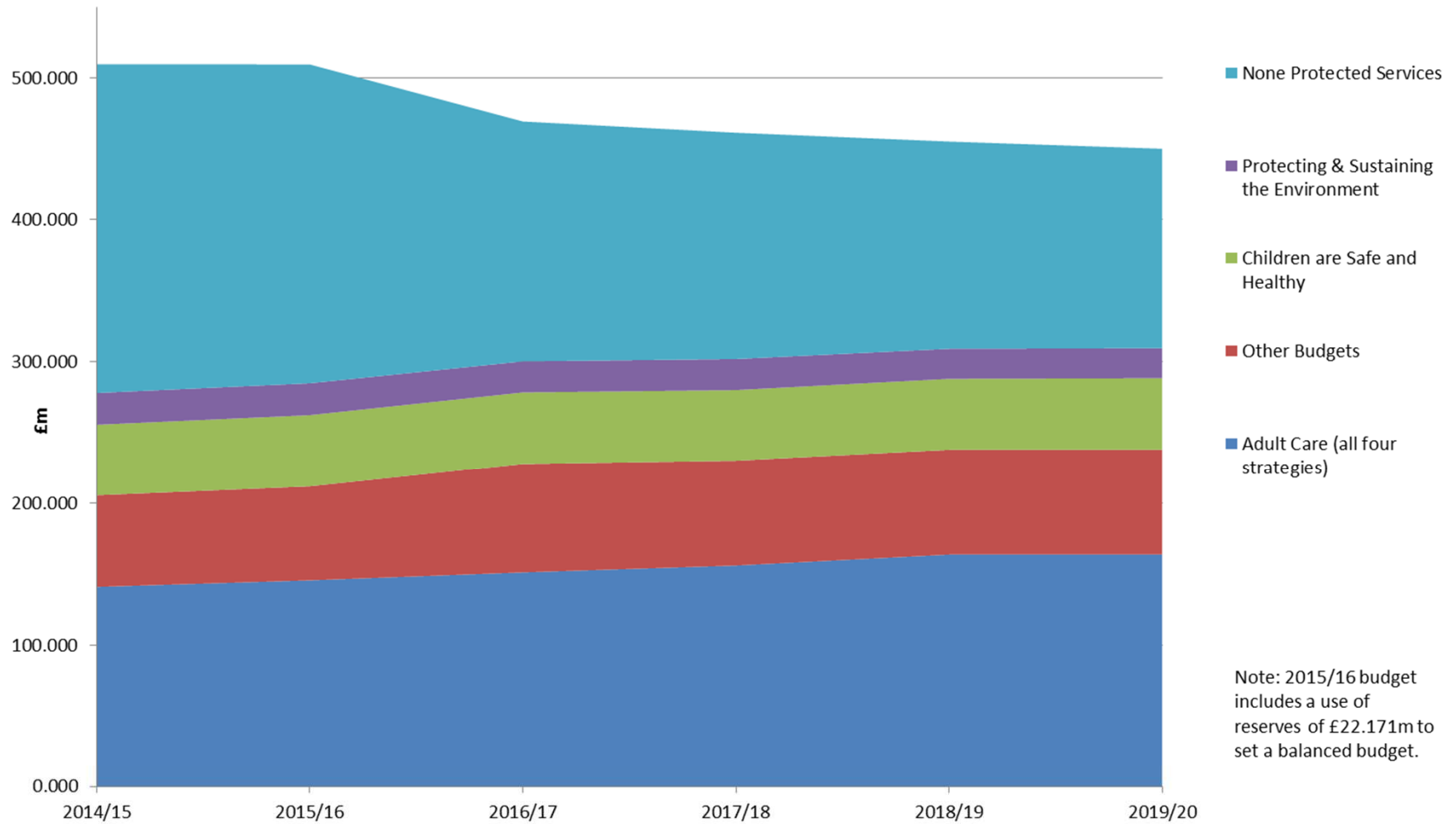
Demand Led Services

For modelling purposes only a small number of budgets have been assigned demand led status after having taken into account any savings initiatives agreed as part of the FBR exercise. These comprise:-

- Adult Social Care
- Children's Social Care
- Waste Disposal
- Capital Financing Charges

The nature of the service concerned, demographic pressures and the fixed cost nature of such services have been taken into account in assigning this status. Services are also consistent with national 'graph of doom' work undertaken in the recent past.

Commissioning Strategy Revenue Budgets in £m's - Allocating Out Savings Target (Protected Services)



Demand Led Services – The Consequences

Over the 4 year period from April 2015:

- Adult Care spend will increase by +16% (£19m)
- Children's Care spend will increase by +1%
- Capital financing will increase by +15% (£10m)
- Waste Disposal spend will be broadly neutral

BUT total resources available are predicted to fall by -12% (£60m). This implies all other service areas would have a reduction of around 40%.

Demand Led Services – The Consequences

It is suggested that an across the board 40% is not realistic or, indeed, achievable as it includes budgets with statutory responsibilities or those which have been assigned high priority status. For example:

- Home to school transport would reduce by a further £6.5m to £17m
- Leaving Care budget would reduce by £500k to £1.3m
- Libraries by another £1.6m to £4m
- Highways maintenance by £6m to £15m
- Transport/Concessionary Fares by £3.5m to £9m
- Fire & Rescue by £5.5m to £13.5m

Some of these reductions would seriously call into question achievement of statutory obligations.

If allowable the council tax rises that would be needed to balance the budget under this scenario would be:

2016/17 +14.5%

2017/18 +10.2%

2018/19 +9.2%

(ie. an average of around 11% pa)

Demographics in the County

	All Ages	0-5	5-65	65-75	75+
Current Population	728,288	47,521	526,483	88,492	65,792
5 Year Projected Growth	+30,538 (+4.2%)	+1,373 (+2.9%)	+7,120 (+1.4%)	+8,350 (+9.4%)	+13,696 (+20.8%)
10 Year Projected Growth	+55,832 (+7.7%)	693 (+1.5%)	+15,655 (+3.0%)	+6,324 (+7.1%)	+33,159 (+50.4%)

The Way Forward

Collective joint working between the Executive and the Corporate management Board aimed at:

- Updating fundamental budget review savings initiatives
- Considering further income generation sources
- Identifying the 'basic' minimum service levels across all activities
- Reviewing the capital programme and also considering the scope to generate additional capital receipts
- Reviewing the nature and type of reserves maintained
- Developing lobbying material for securing additional funding or financial flexibilities
- Considering the financial benefits from alternative governance models for the wider public sector within the surrounding area

This page is intentionally left blank