

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Executive
Date:	05 January 2016
Subject:	Council Budget 2016/17
Decision Reference:	I010203
Key decision?	Yes

Summary:

This report describes the Provisional Local Government Finance Settlement issued on 17 December and its implications for the Council's finances.

The Executive are asked to make proposals for the Council's budget for 2016/17 as a basis for internal and external consultation.

This report describes the basis on which proposals have been developed and their impact on services.

The Executive are also asked to delegate authority to the Leader to decide whether to continue with the existing business rate pooling arrangement with six of the Lincolnshire District Council's (Boston Borough, City of Lincoln, East Lindsey, North Kesteven, South Kesteven and West Lindsey).

Recommendation(s):

That the Executive:

1. agree the budget proposals described in this report as its preferred option for the purposes of further consultation; and
2. delegate authority to the Leader to review the Council's participation in a business rates pooling arrangement with six of the Lincolnshire District Council's (Boston Borough, City of Lincoln, East Lindsey, North Kesteven, South Kesteven, and West Lindsey) in light of the Provisional Local Government Settlement and notify the Government by 15 January 2016 in the event the Council no longer wishes to be considered as part of a pool.

Alternatives Considered:

1. The proposals for the revenue budget and council tax as described in this report.
2. Higher levels of spending and consequently higher levels of council tax in future years.
3. Lower levels of spending and consequently lower levels of council tax in future years.

Reasons for Recommendation:

The recommended option reduces the Council's spending to reflect reducing government grant income to the Council. It also allows for an increase in council tax of 3.95% (1.95% plus a further 2.00% for the social care 'precept').

The Council has in place a memorandum of understanding with six of the Lincolnshire District Council's relating to pooling business rates for 2016/17. Following the receipt of the Provisional Local Government Finance Settlement on 17 December 2015, the Council may withdraw from this arrangement on condition they notify Government by 15 January 2016.

1. Background

1.1 This report sets out a one year financial plan for revenue and capital budgets. For the second year running the Council is only able to set a one year budget. This is due to the continued significant reductions in government funding, growing cost pressures from demand led services such as adult and children's social care and the Council's responsibility from 2016/17 to pay staff and contractors the National Living Wage. These pressures mean the Council has been unable, at present, to develop sustainable long term financial plans beyond the next twelve months.

1.2 In developing its financial plan the Council has considered all areas of current spending, levels of income and council tax and use of one off funding (including use of reserves and capital receipts) to set a balanced budget.

1.3 All areas of service expenditure have been reviewed to identify cost pressures which must be funded and savings which can be made, through efficiencies and by reducing the level of service provided. The Council remains aware of its high priority areas, but no service has been exempted from helping the Council to deliver its savings target. These high priority areas are:

- Safeguarding children and adults;
- Maintaining and developing highways and infrastructure;
- Managing flood risks;
- Supporting communities to support themselves; and
- Fire and rescue services.

1.4 On an annual basis the Council has the opportunity to review the level of Council Tax. Central government sets thresholds above which a local authority would be required to hold a referendum for Council Tax increases. For 2016/17 it is proposed that this threshold would be 2.00%, plus a further 2.00% for authorities with Adult Social Care responsibilities to deal with pressures in this area including demographic pressures and the impact of the national living wage. A council tax increase of 3.95% (1.95% plus a further 2.00% for the social care 'precept') is proposed.

1.5 The Autumn Statement and Provisional Local Government Settlement has provided local authorities with some flexibilities around the use of capital receipts. Under previous regulations these were required to be utilised to fund capital expenditure or pay down debt. Under these new flexibilities the Council will be able to use capital receipts to fund the revenue cost of transformation as long as certain criteria are met.

1.6 The budget proposals set out in this paper take a mixed approach to meeting the current challenges of reduced levels of local government funding. Savings identified from service and corporate budgets, as set out in the paper below, plus a proposed increase in Council Tax, the use of reserves and the use capital receipts to fund the cost of transformation will be used to set a balanced budget for 2016/17. During the next twelve months the Council will need to explore further opportunities to bridge the gap between the funding available and levels of expenditure.

Provisional Local Government Finance Settlement

1.7 The Provisional Local Government Finance Settlement issued on 17 December 2015 has provided the Council with levels of funding for 2016/17, along with indicative figures for the following three years based on the concept of Core Spending Power (funding from central government plus locally collected taxes – Council Tax and Business Rates). The main trends over the four year period are:

- A continuation of the significant year on year reductions in the Settlement Funding Assessment (made up of Revenue Support Grant and Business Rate baseline funding);
- Additional funding for the Better Care Fund. From 2017/18 £105m will be made available to local authorities. This increases to £825m in 2018/19 and £1.5bn in 2019/20; and
- Assumed year on year increases in Council Tax (including a continuation of the additional 2.00% for Adult Care responsibilities).

1.8 Taking these factors into account the most significant reductions in local authority funding are in 2016/17 and 2017/18. These reductions will have a significant impact on service budgets in future years.

1.9 The government has offered every Council which wishes to, and can demonstrate efficiency savings, the opportunity to sign up to these allocations. As the Council is currently only in a position to set a one year budget it is not proposed to sign up to these allocations from 2016/17.

Revenue Support Grant (RSG)

1.10 The main points arising for RSG in 2016/17 are:

- The RSG allocation for 2015/16 is £70.351m. Indicative figures are as follows: £48.292m in 2017/18, £33.964m in 2018/19 and £20.139m in 2019/20;
- The Care Act Implementation Grant and Carers Grant (£2.619m) plus the Care Act Deferred Payment Agreements (£1.718m) has been rolled into RSG in 2016/17;
- The Lead Local Flood Authority Grant (£0.305m), previous paid as part of the Local Services Support Grant has also been rolled into RSG in 2016/17; and
- The Rural Services Delivery Funding from which the Council received £1.327m in 2015/16 as part of RSG has been removed and will be received as a separate grant in 2016/17.

1.11 Taking the above changes into consideration before comparing RSG funding received for 2015/16 to 2016/17, the Council has seen a reduction of £27.578m or 28.2% in RSG funding between the two financial years. Taking this forward based on the indicative funding announced in the provisional financial settlement the following reductions in RSG would be seen:

- 2016/17 to 2017/18: £22.059m or 31.36%
- 2017/18 to 2018/19: £14.327m or 29.67%
- 2018/19 to 2019/20: £13.826m or 40.71%

Other Revenue Government Grants

1.12 The Government has also announced that it will provide non-specific grants in addition to the settlement:

- Rural Services Delivery Grant of £1.712m will be provided in 2016/17 (an increase of £0.385m from the 2015/16 allocation included within RSG). This is in recognition of the higher costs of providing services in rural areas;
- New Homes Bonus Grant of £4.284m will be provided in 2016/17 (an increase of £0.760m from 2015/16) relating to the increase in the number of new properties built in Lincolnshire;

- Education Services Grant is estimated and budgeted at £4.791m. This reflects the Council's estimate of pupil numbers and funding rates per pupil in local authority and academy schools in 2016/17. The 2015/16 grant was based on £87 per pupil and it falls to £77 per pupil next year. The grant is paid on a quarterly basis with each payment being adjusted as schools convert to Academies throughout the financial year; and
- Local Services Support Grant. The Lead Local Flood Authority element of this grant has been rolled into RSG (this had a value of £0.301m in 2015/16). No notification has been received regarding the remaining elements of the grant: Extended Rights to Free Travel and Inshore Fisheries Conservation Authorities. It is assumed that these will continue at the same rates as in 2015/16:
 - DfE Extended Rights to Free Travel (£0.632m); and
 - Inshore Fisheries Conservation Authorities (£0.128m).

1.13 The Public Health Grant will continue as a separate ring-fenced grant in 2016/17. The allocations for next year will not be announced until the new year, but the Department of Health indicated that the total grant, including the new 0-5 funding, will be reduced by 2.2% from the 2015/16 baseline which is on top of the £200m reduction nationally, announced part way through 2015/16. The estimated grant for 2016/17 is £34.050m, a reduction of £2.787m from the rebased 2015/16 award.

Council Tax

1.14 It is proposed that Council Tax will be increased by 3.95% for 2016/17. The Secretary of State announced the Government's proposed referendum thresholds in 2016/17 would remain at 2.00% with a number of exceptions. Authorities with Adult Care responsibilities will be able to increase Council Tax up to 2.00% above the 2.00% threshold. It is estimated that an increase of 3.95% will generate additional income of £9.215m.

1.15 The final figures on the council tax base and any surpluses or deficits on the council tax element of the collection fund will not be received from Lincolnshire District Councils until 31 January 2016. This information will be reported to the Executive at its meeting on 2 February 2016, together with the funding this will generate for the County Council.

Business Rates

1.16 Business Rates receivable will be £102.010m; comprising £19.584m actually collected by the seven District Councils in Lincolnshire and a top up grant of £82.426m from Central Government as the total business rates collected in Lincolnshire are not sufficient to cover local authority spending in the area.

1.17 Comparing business rates funding received for 2015/16 to 2016/17, the Council has seen a modest reduction of £0.024m or 0.02% in Business Rates funding between the two financial years.

1.18 The Government confirmed that it will compensate local authorities in full for the extension of small business rate relief announced in the Spending Review and Autumn Statement through a section 31 grant, as in previous years. At the time of preparing this paper the Council is awaiting announcement of the value of this grant. This will be built into the budget assumptions reported to the Executive at its meeting on 2 February 2016.

1.19 Any surpluses or deficits on the business rates element of the collection fund will not be received from the Lincolnshire District Councils until 31 January 2016. These will be reported to the Executive at its meeting on 2 February 2016. It is worth noting that only 10% of the business rates collected locally is passed to Lincolnshire County Council and any share of surpluses or deficits will be on this basis too.

Business Rates Pooling 2016/17

1.20 The Local Retention of Business Rates Scheme allows the County Council to consider the option of pooling our business rates with other local authorities.

1.21 The proposal from central government is that existing pools from 2015/16 would continue into 2016/17 unless any member of the pool chooses to leave, in which case the pool would be dissolved and the local authorities identified as part of this pool will revert to being considered as individual authorities for the purposes of the business rates retention scheme. Local authorities have 28 days beginning with the date on which the draft Local Government Finance Report is published to consider if they wish to continue to be designated as a pool.

1.22 The pooling arrangement continuing from 2015/16 into 2016/17 includes the County Council plus six of the Lincolnshire Districts Council's (Boston Borough, City of Lincoln, East Lindsey, North Kesteven, South Kesteven and West Lindsey). Initial calculations show the County Council could benefit by some £0.940m from remaining in the pool. In previous years the Council has budgeted for this additional income, however, due to the timing and size of appeals received by the District Councils, these amounts have been volatile and have not all been delivered. It is therefore, proposed not to budget for the estimated additional income. Any income generated from pooling during 2016/17, when received, will be used to reduce the amount planned to be used from reserves in 2016/17.

The Council's Overall Revenue Budget

1.23 The table below (**TABLE 1**) sets out the overall changes in budget, the cost pressures which the Council proposes to fund, the savings to be made and the current proposed use of reserves to bridge the gap between current funding available and service costs.

TABLE 1: Summary Revenue Budget

SUMMARY REVENUE BUDGET	2016/17 £m
EXPENDITURE:	
Base Budget	476.261
Cost Pressures (<i>including inflation</i>)	30.961
Savings	-42.059
Total Expenditure	465.163
Use of Reserves	-38.735
Budget Requirement	426.428
INCOME:	
Local Retention of Business Rates	102.010
Revenue Support Grant	70.351
Other Grants	11.546
County Precept	242.521
Total Income	426.428

1.24 The Council proposes to allocate an additional £1.415m of resources in 2016/17 to fund pay inflation and £2.659m to meet the Council's obligation of increased employers national insurance contributions from 2016/17. Details on all other cost pressures and savings included within the Council's budget for 2016/17 are set out in the Commissioning Strategy narratives below.

1.25 The Council proposes to use reserves of £38.335m. These are one off contributions to the Council's budget shortfall and are planned to smooth the effect of reductions in funding on implementing service changes and reductions. Also £0.400m will be released in 2016/17 from the General Fund. The Council maintain the General Fund balance at between 2.5% and 3.5% of the Council's total budget. With reducing funding the amount required in the General Fund is also reducing.

Revenue Budgets

1.26 Revenue budgets for each year are shown in **TABLE 2** below together with the change over the previous year. The Council now delivers services to a Commissioning Model and as such the budgets are presented on this basis. **Appendix A** to this report provides further details of the services undertaken in each Commissioning Strategy.

1.27 The budget proposals assume inflation increases of 1.0% for pay for the next financial year.

TABLE 2: Net Service Revenue Budget 2016/17 and change over previous year

Commissioning Strategy Revenue Budgets	2015/16	2016/17
	£m	£m
Readiness for School	8.369	7.582
Learn & Achieve	35.999	32.492
Readiness for Adult Life	6.321	4.995
Children are Safe & Healthy	54.568	58.960
Adult Safeguarding	3.256	1.795
Adult Frailty, Long Term Conditions & Physical Disability	93.094	99.208
Carers	2.044	2.044
Adult Specialities	47.243	51.539
Community Resilience & Assets	12.669	10.183
Wellbeing	38.328	32.406
Sustaining & Developing Prosperity Through Infrastructure	49.493	43.709
Protecting & Sustaining the Environment	22.467	23.309
Sustaining & Growing Business & the Economy	1.772	1.315
Protecting the Public	24.801	22.857
How We Do Our Business	8.333	7.835
Enablers & Support to Council Outcomes	38.945	36.209
Enablers & Support to Key Relationships	0.000	0.000
Public Health Grant Income	-32.672	-34.050
Other Budgets	66.277	67.821
Delegated Schools Budget	464.194	463.809
Dedicated Schools Grant	-492.434	-497.222
Schools Related Expenditure	23.194	28.367
Total Net Expenditure	476.261	465.163
Transfer to/from Earmarked Reserves	-21.871	-38.335
Transfer to/from General Reserves	-0.300	-0.400
Budget Requirement	454.090	426.428

Please see Appendix A to this report for descriptions of the services included in each Commissioning Strategy.

Children's Services

1.28 Children's Services commissioning strategies include the following: Learn and Achieve; Readiness for Adult Life; Readiness for School and Children are Safe and Healthy.

1.29 Through these commissioning strategies, Children's Services has successfully delivered in full, and on time, the savings from 2011/12 to 2014/15, which totalled £30.367m. Also, the services are working towards achieving the 2015/16 savings target of £4.258m. This is at a time of delivering consistently high standards of

service delivery. With the challenging financial position of the Council, Children's Services will be required to reduce its budgets further to contribute towards meeting the Council's budget shortfall.

1.30 **Readiness for School** strategy is required to make savings of £0.896m (or 10.71% of the 2015/16 budget) in 2016/17. These reductions are being delivered following a review of its service delivery model and commissioning intentions. £0.662m of the 2016/17 savings relate to legacy 2015/16 decisions through a reduction in commissioning activities being delivered (namely, counselling support, debt advice, speech & language therapists, Homestart).

1.31 To deliver future savings targets in this commissioning strategy, a fundamental review of children centre sufficiency requirements will be required. This may include an alternative operating model which would explore delivering services from alternative venues. Any policy changes would be subject to consultation.

1.32 **Learn and Achieve** strategy is required to make savings of £3.550m (or 9.86% of the 2015/16 budget) in 2016/17. Included within this is savings of £0.428m relating to legacy 2015/16 decisions on activities of non-statutory support for children with disabilities; music service moving to a fully traded service (£0.204m), and school improvement (£1.083m), as the service moves towards a sector-led approach to school improvement.

1.33 In addition, Home to School / College Transport savings of £1.631m is required and this will be achieved through more effective procurement. The budget continues to face cost challenges from market factors affecting transport delivery. To deliver future savings targets in this commissioning strategy, policy changes are likely to be required. Such policy changes would be subject to consultation.

1.34 **Readiness for Adult Life** strategy is required to make savings of £1.464m (or 23.16% of the 2015/16 budget) in 2016/17. These proposed reductions would be delivered following a review of its service delivery model and commissioning intentions. A proportion of the savings (£0.316m) relate to legacy 2015/16 saving decisions (Supported Accommodation re-procurement).

1.35 Further reductions in this strategy are likely to require the Council to stop delivering all non-statutory support for young people and for the Council to only deliver / commission services to meet statutory duties.

1.36 **Children are Safe and Healthy** strategy is required to make savings of £0.589m (or 1.08% of the 2015/16 budget) in 2016/17 following a review of its service delivery model and commissioning intentions. Members have identified that this strategy is a high priority service e.g. child protection, fostering etc. The Local Authority has a statutory obligation in safeguarding young individuals, and external demands on its services cannot always be controlled. Services are currently experiencing increasing demands, which are subsequently resulting in an increase in costs. Lincolnshire's spending on these individuals is not only the lowest of all the Upper Tier authorities; the level of spending is considerably below the levels of most other Upper Tier authorities. However, the need to make future savings in this

strategy is likely to result in a reduction of capacity and targeted activities in supporting young parents and young people and removing the budgets aimed at improving health outcomes (obesity management projects / Family Nurse Partnership).

Adult Care

1.37 Adult Care is responsible for four of the County Council's seventeen Commissioning Strategies: Adult Frailty and Long Term Conditions, Specialist Adult Services, Carers and Safeguarding Adults.

1.38 The Adult Care budget is set in the context of increasing demographic pressure and cost pressures related to service provider fee increases that will occur as a direct consequence of the implementation of the National Living Wage in April 2016. This results in a pressure of £3.946m in 2016/17 in addition to the funded pressure already identified of £4.951m (£8.897m in total).

1.39 Savings in 2016/17 of £6.843m are proposed, covering three of the Commissioning Strategies.

1.40 Adult Safeguarding propose a £1.500m saving in 2016/17 (or 46.08% of the 2015/16 original budget). It is proposed this saving would be made by reducing the additional funding made available for Best Interest Assessments to address Deprivation of Liberties Safeguards (DoLS) requirements. A review of the additional funding allocated has identified that this budget could be reduced while still meeting statutory requirements.

1.41 Specialist Adult Services propose a £0.311m saving in 2016/17 (or 0.66% of the 2015/16 original budget). It is proposed that this will be delivered by efficiencies in micro-commissioning.

1.42 Adult Frailty and Long Term Conditions propose a £5.032m saving in 2016/17 (or 5.41% of the 2015/16 original budget). It is proposed that this would include: an increase in user contributions to services, via growth in the number of people being supported and a change in the policy (£2.608m); efficiencies made through joint commissioning with partners and pooled funding arrangements (£1.877m); and reshaping management, commissioning and fieldwork teams (£0.435m).

1.43 April 2015 saw the advent of the Care Act, the single biggest legislative change affecting the most vulnerable adults and their carer's in more than 50 years. The first year of the Act the required £6.000m due to be funded via the Better Care Fund (£2.000m) and direct grant (£4.000m). The budget makes an assumption that this funding continues.

1.44 Another area with a profound effect upon Adult Care is the Better Care Fund (BCF) in which £53.000m (£48.100m revenue and £4.900m capital) was earmarked for the Lincolnshire health and care economy in 2015/16. Spend against this allocation was agreed with the four Clinical Commissioning Groups (CCGs). £20.000m was allocated to the County Council in 2015/16 predominantly

in Adult Care to help fund the costs of the Care Act (£2.000m) and to 'protect' adult care most of that money is already being spent on such services such as the Local Authority Reablement Service (LARS), Hospital Discharge Teams and on Learning Disability services.

1.45 The Spending Review also announced that £1.5bn would be added to the national ring-fenced Better Care Fund progressively from 2017/18 reaching £1.5bn in 2019/20. However it has been confirmed that there will be no additional funding for the Better Care Fund in 2016/17 above 2015/16 levels.

1.46 Negotiations are currently ongoing in respect LCC's BCF allocation for 2016/17.

Community Wellbeing and Public Health

Community Resilience and Assets

1.47 Savings of £3.031m for 2016/17 have been proposed from the Community Resilience and Assets strategy (or 24% of the 2015/16 original budget of £12.669m). The savings reflect that a number of the activities within this strategy are discretionary and therefore the proposal is to reduce the funding to zero for the **Community Grants** programme and the **Members Big Society Fund**. It is proposed that the grants to voluntary sector organisations will be focused on supporting volunteers who play a crucial role in supporting communities.

1.48 **Library and Information Services** have savings of £1.000m. These are savings that were originally agreed as part of 'core offer', but have been delayed to align with the implementation of the new model of delivery for the Library Service. The procurement process of the library provision, will also deliver further efficiencies which will be built into the 2017/18 budget.

1.49 **The Local Welfare Support Scheme-** the Lincolnshire Community Assistance Scheme (LCAS) was supported by a specific grant when the responsibility transferred from the Department for Work and Pensions. This grant has now ceased so it is proposed that the scheme should reduce to operate on residual grant that has been reserved from previous underspends.

1.50 **Chance to Share** (shared use of sports facilities) proposed saving of £0.223m, can be delivered by ceasing the current Service Level Agreement for Yarborough Sports Centre, when it comes to an end in March 2016.

Wellbeing

1.51 Savings of £6.045m for 2016/17 have been proposed from the Wellbeing Strategy (from a 2015/16 original budget of £38.287m). The savings have been proposed from the following activities:

1.52 Health Improvement, Prevention and Self-Management (£3.224m or 44% of the 2015/16 original budget), this proposed saving would cease our commissioning of many of the health improvement activities we currently fund, such as adult weight management, health trainer programme, sports co-ordination, food and health programmes, walking programmes, master gardener and health support for offenders. There would also be reduced support for a smoking cessation programme. Further savings would be realised in 2017/18 when these proposed changes are fully implemented.

1.53 Public Health Statutory Service (£0.396m or 10% of the 2015/16 original budget), this budget supports the mandatory function of providing Public Health advice to the NHS and other professionals. The service underwent a restructure in 2015, and this saving will be met from the full year effect of these changes.

1.54 Registration, Celebratory and Coroners Service (£0.060m or 4% of the 2015/16 original budget). This saving is proposed from efficiencies within the Coroners Service including a move to one office base. There are also opportunities for the Registrars Service to generate additional income to meet this saving.

1.55 Wellbeing Service (£0.815m or 10% of the 2015/16 original budget), these savings will be realised from the changes that have already been implemented for the Wellbeing Service.

1.56 Sexual Health Services (£0.591m or 10% of the 2015/16 original budget) this is a mandated responsibility for the Council; the saving would be delivered from a procurement exercise that has recently been undertaken. Any further reduction in service provision is likely to increase charges from out of county providers.

1.57 Prevention and Treatment of Substance Misuse (£0.958m or 13% of the 2015/16 original budget) the service has begun a redesign and procurement of its substance misuse contracts and is aiming to do this with a 25% smaller funding envelope, the remaining savings will be realised when the changes are fully implemented. This would reduce the number of people who can be treated by the service, but would focus on those for whom the most impact can be achieved in terms of outcomes.

Environment and Economy

Sustaining and Developing Prosperity Through Infrastructure

1.58 The Council currently spends £49.492m revenue and £104.818m of capital expenditure delivering the maintenance and management of the County's road network, transport, major road schemes and economic infrastructure.

1.59 The savings proposed from this strategy are £6.255m for 2016/17 and further savings of a similar magnitude would be required in future years. Ultimately, the challenge will be to spend much smaller sums of money in different ways. To achieve this some services will reduce or stop altogether. What we do in future will

not simply be the difference between what we do now less the "savings". Transformed services will emerge and new "norms" will appear. However, to deliver these budget reductions, changes in the following services are being actively considered:

1.60 Transportation and Concessionary Fares - (Reductions of £2.063m with further savings in 2017/18, from an original 2015/16 budget of £14.782m, half of which is concessionary fares):

- Reducing bus subsidies and transport initiatives and remodelling support to the local transport network. This would result in a different bus service offer with a number of communities not having a service. This will have the effect of moving the cost for the provision of some statutory school transport services to Children's Services; and
- Confirming the removal of the Lincoln Park and Ride (Castle Shuttle) and removing support for a County Council funded service.

1.61 Highway Asset Maintenance – (Reductions of £3.084m with further savings in 2017/18, from an original 2015/16 budget of £22.693m):

- Reducing Road Maintenance;
- Reducing highway grass and verge maintenance;
- Reducing Public Rights of Way maintenance;
- Reducing Parish Amenity Grass Cutting;
- Reducing Street Lighting and investing in new LED technology to reduce street lighting costs; and
- Reducing other inspections and safety maintenance.

1.62 Highway Network Management – (Reductions of £0.915m with further savings in 2017/18, from an original 2015/16 budget of £9.402m):

- Revising the operating model of the management of the highway network which is likely to result in less engagement with the public and elected members; and
- Reducing the winter safety programme to 25% of the network (currently 33%)

1.63 Economic Infrastructure and New Investments – (Reductions of £0.192m in 2016/17 from an original 2015/16 budget of £0.901m):

- Reducing activity in this area resulting in fewer capital projects being developed and external funding being bid for.

1.64 Heritage Operation and Development, whilst no reductions are being budgeted for in 2016/17 we will be investigating models of delivery for the service to deliver future reductions in budget.

Protecting and Sustaining the Environment

1.65 The Council currently spends £22.467m revenue and £6.65m of capital expenditure delivering waste management services, planning, flood and water risk management, the natural built environment and carbon emissions.

1.66 The savings proposed from this strategy are £0.348m for 2016/17. There was an expectation that a saving could be made in 2016/17 from dry recycling, however, a change in market prices for these materials has resulted in the activity creating a cost pressure of £1.100m. Other savings will be delivered by reducing activity levels in the remaining elements of this strategy. This will include consideration being given to stopping services completely (such as some Household Waste Recycling Centre's and supplementary services) and concentrating on delivering a reduced core activity.

Sustaining and Growing Business and the Economy

1.67 The Council currently spends £1.772m of its revenue budget helping to maintain, improve and attract investment into the county's economy. The savings proposed from this commissioning strategy are £0.506m for 2016/17 and would be met by reducing activities. We would focus on priorities such as employability skills, influencing large employers and supporting the work of the Greater Lincolnshire Local Enterprise Partnership. The Council needs to do things that create successful businesses because of the reliance on business rate growth to offset reductions in Revenue Support Grant from Government.

Finance and Public Protection

Protecting the Public

1.68 **Fire and Rescue** have a proposed budget reduction of £0.850m in 2016/17 (or by 4.3% of the 2015/16 original budget) with further savings expected in 2017/18. The 2015/16 original budget for this service is £19.764m. Plans to deliver part of these savings were agreed last year following a public consultation. To find the remaining savings a number of additional options will need to be considered all of which will further affect the level of service provided. These could range from changes to the organisational structure to the closure of fire stations. The impact of each potential option will be assessed and a further consultation undertaken before any decisions are made.

1.69 The service is currently receiving funding from the Better Care Fund (£0.150m) towards the costs of Co-Responding, there will be a financial risk to the service if this funding cannot be secured for future years.

1.70 **Emergency Planning** has a proposed budget reduction of £0.119m in 2016/17 (or by 25% of the 2015/16 original budget) to include some reductions in exercise, command training and equipment budgets.

1.71 **Community Safety** has a proposed budget reduction of £1.237m in 2016/17 (or by 69% of the 2015/16 original budget), which would require a reduction in support for PCSO's and Community Safety Initiatives.

1.72 **Road Safety** has a proposed budget reduction of £0.119m in 2016/17 (or by 27% of the 2015/16 original budget) which would be met by the Lincolnshire Road Safety Partnership becoming part self-funding. There are no planned reductions to school crossing patrol budgets.

1.73 **Trading Standards** have a 10% proposed budget reduction of £0.254m in 2016/17. An element of this saving is the full year effect of their staffing restructure which was implemented during 2015. This saving would require the service to focus on a narrower set of priorities where there is most harm to communities and consumers e.g. doorstep crime which targets elderly and vulnerable residents. The service would also need to develop its cost recovery model for a number of its services provided to businesses.

1.74 **Youth Offending Service** has already made significant reductions due to previous reductions in their external funding. Their budgets will be reviewed in the light of any further changes in partnership funding.

How we do our Business

1.75 The How We Do Our Business strategy and the budgets that support it provide the corporate governance, risk and standards framework and the democratic machinery for the whole Council. The budget and policy strategies/frameworks and the Council's constitution provide the context for this and the way that the Council works. It also encompasses the corporate, statutory roles of the Head of Paid Service, Monitoring Officer and the Section 151 Officer as part of the framework.

1.76 In **Budget and Policy Framework – Finance and Audit** a saving of £0.631m is proposed in 2016/17 (or by 12.18% of the 2015/16 budget). Both the Finance and Internal Audit functions restructured part way through 2015/16, budget savings in 2016/17 represent a full year effect from these restructurings. The effect of these reductions include: reduced support to budget holders and projects within the finance area and within the Internal Audit area a reduction to routine school internal audits, counter fraud activity and corporate risk management support. Further savings will be generated through the new contract with SERCO which is volume linked and from income generation.

1.77 In **Decision Making, including Democratic Processes** a saving of £0.045m is proposed in 2016/17 (or by 2.02% of the 2015/16 budget). It is proposed that these would be delivered by a small reduction in Democratic Services support in 2016/17. In 2017/18 Boundary Commission changes will reduce the size of the Council by 10%, this should generate budget savings from this date.

1.78 There are no proposed budget savings in **Fisheries Precept – Inshore Fisheries and Conservation Authority (IFCA)**. The Council is precepted directly by the IFCA and has no direct control over this cost.

Enablers and Support to Council's Outcomes

1.79 The Enablers and Support to the Council's Outcomes cover the budgets and activities that support the Council both as a corporate organisation and facilitate the work to achieve the Council's main commissioning outcomes.

1.80 In **Information Management and Technology Strategy and Support** a saving of £0.214m is proposed in 2016/17 (or by 2.31% of the 2015/16 budget). Costs in this area would be driven down through improved contract management, information governance and the new consumption based charging approach, which will allow operations to be scaled. Continuing to move systems into the cloud should leverage the best value for the Council, as should rationalisation of IT systems. These service changes should deliver savings for the Council in 2016/17 and future financial periods.

1.81 In **Property Strategy and Support** a saving of £1.199m is proposed in 2016/17 (or by 10.92% of the 2015/16 budget). Savings would be delivered through rationalisation of the Council's property portfolio, including reductions to the number of buildings occupied and the associated costs of using these buildings, and vacating leased properties as leases expires. It is also proposed to further reduce the staffing budgets in this area. Accommodation reviews and portfolio rationalisation will continue to deliver savings for the Council beyond 2016/17.

1.82 Activity will be undertaken by the Property Team to increase future capital receipts from the sale of land and buildings in order to support some revenue budgets under the new flexibility arrangements.

1.83 In **Legal** a saving of £0.060m is proposed in 2016/17. Legal Services is a shared service that operates as a trading unit covering costs from the income it recovers. Income is dependent on volumes of business from the County Council Clients, district partners and external bodies. The proposed saving will come from increased surplus delivered for the forthcoming financial year.

1.84 **People Management** plans to permanently reduce service budgets by £0.167m in 2016/17 (or by 4.17% of the 2015/16 budget). The proposed budget reductions relate to ending of the graduate programme for new entrants; the ceasing of the leadership management development programme, and available budget following staffing changes made in 2015/16. The largest proportion of the People Management budget (£2.509m) is the SERCO People Management contract.

1.85 In **Commissioning** a saving of £0.431m is proposed in 2016/17 (or by 10.52% of the 2015/16 budget). Proposed savings in this area would be achieved through reductions in the commissioning support unit through vacancy management

and the removal of the transformation fund. In future years further savings are proposed by the removal of funding for a fixed term post in this part of the organisation.

1.86 In **Business Support** a saving of £1.283m is proposed in 2016/17 (or by 11.02% of the 2015/16 budget) with a further saving of a similar magnitude in 2017/18. The budget for business support is predominately a staffing budget, with the exception of some corporate budgets, such as, postage and other running costs. As a support service the reshaping of this service will follow changes to areas of the Council. The size and shape of this service will be matched to the needs and demands placed on it by other parts of the Council and will be seeking further potential savings from that process.

1.87 In **Strategic Communications** a saving of £0.09m is proposed in 2016/17 (or by 0.89% of the 2015/16 budget). The £0.09m saving represents a full year effect of staffing reductions from 2015/16. Future savings beyond 2016/17 in this area would include: reductions in the cost of publication and distribution for County News, reshaping involvement in the County Show.

Schools

1.88 The Schools Budget is funded via the Dedicated Schools Grant (DSG). The Government's school funding reforms categorise the DSG into the Schools block, the Early Year's block and the High Needs block.

1.89 Lincolnshire's DSG allocation for 2016/17 is £497.222m, and will be used to support all schools in Lincolnshire including local authority schools and academies. Over half of Lincolnshire pupils attend academy schools; therefore the DSG figure for the Schools block will be revised down for the academy schools budget share allocations. The DSG is a ring-fenced grant and the actual split between academies and local authority schools has no financial risk to the Council from the DSG perspective.

1.90 The DSG has been protected by the government over the last spending period, and in 2016/17, this will continue. The government continues to fund growth for an increase in pupil numbers and has identified £92.5m nationally to support high needs growth pressures in Local Authorities. Overall, Lincolnshire's DSG will increase by 1.05% in 2016/17.

1.91 The government is not planning to make any changes to the school funding arrangements for mainstream schools in 2016/17. The government's intentions are still introduce a national fair funding formula.

1.92 In Lincolnshire, the Schools Forum has supported the proposal to the planned 0.5% reduction in mainstream schools Age Weighted Pupil Units (AWPUs) in 2016/17 to implement a behavioural outreach support service to provide a range of early intervention activities; preventions and support for Schools, Families and to the pupils experiencing social, emotional and behavioural difficulties. No further changes to the funding formulas are planned.

1.93 Protection arrangements will continue to be put in place through application of the Government's minimum funding guarantee (i.e. individual schools budgets will be protected on a per pupil basis, i.e. at 98.5% of the previous year's funding level).

1.94 Lincolnshire's Pupil Premium for 2015/16 is presently £27.295m. Pupil Premium funding nationally is at £2.406 billion, however there are no plans for further growth in funding nationally for 2016/17, other than for the increase in pupils meeting the eligibility criteria. Similarly to the DSG, the pupil premium allocation for Lincolnshire covers both the allocations for local authority schools and academy schools. The Education Funding Agency allocate pupil premium for academy schools, so the grant will be reduced accordingly. However, this has no financial risk to the Council. Publication of 2016/17 allocations will be released in June 2016.

1.95 The 2016/17 allocations per pupil meeting the eligibility criteria is £1,320 for primary-aged pupils; £935 for secondary-aged pupils, and a £300 allocation per pupil for service premium. Schools will continue to receive £1,900 for each child who has been looked after for 1 day or more; has been adopted from care, or has left care. The 2016/17 pupil premium rates remain protected at the 2015/16 level.

Other Budgets

1.96 Capital Financing Charges, within other budgets have been set at a level to reflect the revenue implications of the revised capital programme set out below (paragraphs 1.103 to 1.108). The revenue implications of the capital programme are estimated to cost the Council £52.804m in 2016/17. The overall affordability of the capital programme has been reviewed to ensure the impact on the revenue budget remain affordable. The Council is also budgeting for £1.200m of receipts from investment of cash balances in 2016/17.

1.97 The Council also proposes the following changes to other budgets:

- A saving of £0.923m by the removal of the Second Homes budget from 2016/17. This budget was previously paid over to the Lincolnshire District Council's and used to fund shared objectives between the county and district councils, such as Disabled Facility Grants and community safety schemes;
- An increase of £0.043m for the Council's monetary contribution to the Local Government Pension Fund, taking this to £1.161m in 2016/17. The triennial review of the fund is due to take place during 2016/17 and applies from April 2017, there may be further increases from this date; and
- An amount of £4.790m in 2016/17 has been budgeted for the Council's obligation to pay a National Living Wage to all employees and contractors. These amounts cover all service area obligations across the whole Council. Further amounts of a similar magnitude are expected to be incurred annually to 2019/20.

1.98 It is proposed that the following budget will remain at the same level as the previous financial year:

- The Council's contingency budget would remain at £4.000m in 2016/17 to fund any emerging financial issues which arise during the financial year; and
- The Corporate Redundancy budget will remain at £4.500m in 2016/17. This is to fund any redundancies arising from the Council reshaping services.

1.99 The Autumn Statement and Provisional Local Government Settlement has provided local authorities with some flexibilities around the use of capital receipts in 2016/17 and for the following two financial years. Under previous regulations these were required to be utilised to fund capital expenditure, or pay down debt. Under these new flexibilities the Council will be able to use capital receipts to fund the cost of transformation of which the key criteria is the expenditure will generate ongoing revenue savings to the authority. The guidance provided by government recommends Councils develop a strategy detailing the schemes which will be funded in this way. Further guidance will be published with the final settlement in February. It is currently proposed that an amount of £4.500m will be used from income generated from capital receipts to fund these types of schemes in 2016/17.

Reserves

1.100 On an annual basis the Council review the financial risks facing the Council when considering the level at which general reserves should be set at. The Council's current financial strategy is to maintain general reserves within a range of 2.5% to 3.5% of the Council's total budget. It is planned to review these levels in January 2016. The outcome from this review will be reported to the Overview and Scrutiny Management Committee in January and reported back to the Executive at its meeting on 2 February 2016.

1.101 Using the existing policy of maintaining the general reserve within a range of 2.5% to 3.5% of the Council's total budget at 31 March 2015 the balance stood at £15.900m. General reserves at 31 March 2016, are estimated to be £14.900m which is 3.5%. In future years, as the Council's overall revenue budgets reduce, the balance required to maintain the Council's general fund balance at 3.5% also reduces. To maintain the Council's general fund balance at 3.5% at 31 March 2017 requires a balance of £14.500m. In 2016/17, this will release £0.400m from the general fund to fund other Council services.

1.102 At the 31 March 2015, the Council set aside £31.632m in the Financial Volatility Reserve help smooth the effect of funding reductions in 2016/17 and future financial periods. It is estimated that the balance in this reserve will be £41.632m at the end of 2015/16. It is planned to use £38.335m from the Financial Volatility Reserve to balance the budget in 2015/16.

Capital Programme

1.103 The proposed capital programme matches the revenue budget and runs until 2016/17, plus major schemes which stretch into future years (including: a number of highways schemes and the rolling programme of renewal and replacement of fire fleet vehicles). The gross programme is set at £298.136m from 2016/17 onwards, with grants and contributions of £166.057m giving a net programme of £132.079m to be funded by the County Council.

1.104 The overall capital programme and its funding are shown in **TABLE 3** below.

TABLE 3: Summary Capital Programme 2016/17 plus future year's commitments.

	2015/16 £m	2016/17 £m	Future Years £m
Gross Capital Programme	194.864	146.907	151.229
Less: Grants and Contributions	-108.311	-67.749	-98.308
Net Programme Funded by LCC	86.553	79.158	52.921
Funded By:			
Revenue Funding	4.500	4.500	0.000
Use of Capital Receipts	2.000	3.115	0.000
Borrowing	78.012	71.543	52.921
Use of Capital Grants Unapplied	0.000	0.000	0.000
Use of Revenue Grant Reserves	0.000	0.000	0.000
Use of Other Earmarked Reserves	2.041	0.000	0.000
Total Funding by LCC	86.553	79.158	52.921

1.105 The following amendments have been made to the net capital programme in 2016/17 as part of the budget setting process:

- The addition of maintenance block budgets for:
 - The replacement of short life equipment assets for Fire and Rescue: £0.585m in 2016/17;
 - The maintenance of existing property assets and essential property works linked to Asbestos, work place regulations and disabled access: £2.950m in 2016/17.
 - The ICT infrastructure and IT refresh programme: £0.750m in 2016/17.
- New Developments Capital Contingency budgets of: £7.500m in 2016/17, to fund any emerging schemes identified in these financial years.

- Removal of the Property Contingency budget of £7.298m from the 2016/17 programme. Transfer of £3.279m into 2015/16 and £0.700m into other property schemes in 2016/17. This reflects the Council's changing property needs due to reshaping the delivery of services.
- Transfer of £1.019m into 2016/17 from the fire and rescue block budget from the fleet vehicle budget. This aligns funding with current service requirements.

1.106 The Council receives government grant funding to support large parts of the capital programme, including schools maintenance and provision of school places, and roads maintenance. The following grants have been announced and incorporated into the capital programme in 2016/17 and future years:

- An indicative award for Highways Asset Protection Maintenance Block of £28.431m in 2016/17. Further indicative awards have been made up to 2020/21 when the grant is estimated to be £24.954m.
- A three year award for Integrated Transport Grant of £3.312m per annum from 2015/16 to 2017/18, plus three further indicative years of £3.312m per annum to 2020/21; and
- Provision of Schools Place – Basic Need Grant 2016/17 is the final year of a three year award period which will allow the Council to plan strategically for the places needed in schools. The Council has been awarded £12.006m in 2016/17.

1.107 At the time of preparing this paper the Council is awaiting announcements on Devolved Schools Capital, Schools Modernisation, Fire Capital and Adult Social Care Capital Grants for 2015/16.

1.108 The Council funds the net capital programme primarily through borrowing (£71.543m in 2016/17), with smaller elements coming from revenue contributions (£4.500m) and capital receipts (£3.115m). As already mentioned above at paragraph 1.98 the Council plans to utilise an element of capital receipts to fund the cost of transformation in revenue. The Council has currently allocated £4.500m for this purpose. As plans are developed around transformation projects capital receipts currently included within the capital programme may be diverted to fund these revenue costs. Additional borrowing would be taken to replace any capital receipts diverted to meet revenue transformation costs.

Legal Issues

1.109 There are a number of issues that the Executive must have regard to in determining its budget proposals to include:

- The need for consultation
- The Public Sector Equality Duty under section 149 of the Equality Act 2010
- The Child Poverty Strategy

- The Joint Strategic Needs Assessment
- The Joint Health and Wellbeing Strategy

1.110 In terms of consultation, the purpose of the main decision contained within this Report is to identify a proposed budget on which the Council will then consult. The results of that consultation will then be reported to the Executive when they determine the budget they will recommend to the full Council in February.

1.111 In addition to this budget consultation, certain service changes that may be necessary to meet budget savings targets may themselves require consultation. This will be kept under review on a case by case basis and where consultation is required by law, that consultation will be conducted before changes are carried out.

1.112 The Executive will be mindful of its obligations under the Equality Act 2010 and the special duties the Council owes to persons who have a protected characteristic as the duty cannot be delegated and must be discharged by the decision maker. The duty is for the Council, in the exercise of its functions, to have due (that is proportionate) regard to the need to:

1. Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
2. Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
3. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it: Equality Act 2010 s 149(1).

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation: s 149(7).

1.113 Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- a. Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- b. Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- c. Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

1.114 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

1.115 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

1.116 Compliance with the duties in this section may involve treating some persons more favourably than others.

1.117 A reference to conduct that is prohibited by or under this Act includes a reference to:

- i. A breach of an equality clause or rule
- ii. A breach of a non-discrimination rule.

1.118 These equality considerations do not preclude changes in services being made, but do require that these be fully appreciated. It is clear that the current and future financial challenges facing local authorities and the need for budget savings will result in changes to service provision and to some reduction in Council services. These will apply to services accessed by all people in Lincolnshire as well as services provided to specific groups. It is possible that there may be an adverse impact on some people and communities including those with a protected characteristic.

1.119 In order to meet its obligations equality impact analyses will be carried out in relation to any proposed changes to services on an individual basis. The specific impacts on people with a protected characteristic will be investigated and the potential mitigation if any will be made clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been and will continue to be, regularly reported to the Executive as part of the decision making processes.

1.120 Approval of the budget is not a final decision about what the Council's services will be or about how much money will be saved under any particular proposals. Individual proposals will only be implemented after due regard to the legal matters that must be considered as set out in paragraph 1.109 including the public sector equality duty and where required consultation.

1.121 As part of its decision-making the Executive will need to consider whether any alternative approaches could alleviate or at least mitigate the impact of the decision such as making reductions in other areas which do not have the same impacts, including particularly equality impacts. The result could be to require additional resources to be used in certain areas than has been budgeted for. In this event the usual budget management processes such as virement would be followed and approval sought at the appropriate levels in accordance with Financial Regulations including full Council where necessary. In particular a contingency has been built into the budget proposals in the form of the Financial Volatility Reserve (the balance is estimated to be £3.297m after use to balance the 2016/17 budget) and the annual Contingency budget of £4.000m for 2016/17, for when additional funding cannot be found by way of virement from other service areas.

2. Conclusion

2.1 These budget proposals reflect the level of government funding available to the Council and the proposal to increase Council Tax in 2016/17 by 1.95%, and Adult Care Premium of 2.00%. They are based on a thorough and comprehensive review of the Council's services. The budget proposals therefore aim to reflect the Council's priorities whilst operating with the resources available to it.

3. Legal Comments:

The Executive is responsible for publishing initial budget proposals for the budget in accordance with the Budget and Policy Framework Procedure Rules.

When publishing its budget proposals the Executive must be mindful of its obligation to have due regard to a number of matters including under the Equality Act 2010.

Case law has established that it is sensible and lawful for a Council first to decide its budget and then to consider the question of consultation and the specific impact of proposed policies and service changes at the time they are developed and decisions are taken on them.

The way in which it is proposed to deal with such matters is set out in full in the body of the report.

The recommendations are within the remit of the Executive and are lawful. The Executive has the power to accept the recommendation 1 or to agree one of the alternative approaches referred to in the report.

The proposed delegation in recommendation 2 is lawful.

4. Resource Comments:

These budget proposals incorporate the level of funding available to the Council from Central Government plus an increase in council tax of 3.95% (1.95% plus a further 2.00% for the social care 'precept'). The Council's Financial Strategy includes one off use of reserves of £38.335m, plus £0.400m released from the General Fund balance, to produce a balanced budget.

To achieve a sustainable budget in 2017/18 and onwards, a further review of budgets will be required.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

Overview and Scrutiny Workshops

During November and December 2015 a number of workshops were held with the Council's Scrutiny Committees. Comments from these meetings are set out at **Appendix B** to this report.

Further Scrutiny and Consultation

A consultation meeting with local business representatives, trade unions and other partners will take place on 22 January 2016.

A series of seven public budget consultation meetings will take place in various locations around the County in January 2016.

The Council's scrutiny committees will have the opportunity to scrutinise proposals in detail during January.

The proposals will be publicised on the Council's website together with the opportunity for the public to comment.

Consultation comments and responses will be available to be considered when the Executive makes its final budget proposals on 2 February 2016.

d) Policy Proofing Actions Required

An Equality Impact Assessment will be completed for the proposed increase in Council Tax. This will be reported back to the Executive at its meeting on 2 February 2016.

Further Equality Impact Assessments will need to be undertaken on a service by service basis.

6. Appendices

These are listed below and attached at the back of the report	
Appendix A	Commissioning Strategies Glossary
Appendix B	Scrutiny Committee Comments from the Financial Challenges Workshops held on November/December 2015

7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Provisional Local Government Finance Settlement announcements	Executive Director of Resources and Public Protection
Council Budget 2015/16	Executive Director of Resources and Public Protection

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