

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

Report to:	Executive
Date:	06 January 2015
Subject:	Council Budget 2015/16 and Capital Programme Change for 2014/15
Decision Reference:	I008082
Key decision?	Yes

Summary:

Council's Budget 2015/16

This report describes the Provisional Local Government Finance Settlement issued on 18 December and its implications for the Council's finances.

The Executive are asked to make proposals for the Council's budget for 2015/16 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 enter into a 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).

Capital Programme Change 2014/15

The report also asks that the Executive approve a change and recommend to Full Council other changes to the 2014/15 capital programme with the net effect of adding £0.160m additional spending, and borrowing to the capital programme in that year.

Recommendation(s):

That the Executive:

1. agree the budget proposals described in this report as its preferred option for the purposes of further consultation;
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 2015 in the event the Council no longer wishes to be considered as part of a pool;

3. approves the virement of £0.323m from the 2014/15 Residual Waste Treatment Project capital budget to the Waste Services capital budget for asset replacement and operational improvement works at Louth, Grantham and Skegness Waste Sites; and

4. recommend to Full Council changes to the 2014/15 capital programme to remove £4.000m from the Residual Waste Transfer Project capital budget and reduce borrowing correspondingly and to increase the A1073 scheme capital budget by £4.160m and to increase borrowing.

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:

Council Budget 2015/16

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 1.9%.

The Council has entered into a memorandum of understanding with six of the Lincolnshire District Council's relating to pooling business rates for 2015/16. Following the receipt of the Provisional Local Government Finance Settlement on 18 December 2014, the Council may withdraw from this arrangement on condition they notify Government by 15 January 2015.

Capital Programme Change 2014/15

The proposal represents sound financial management in that it formally moves funding to where expenditure has been additionally incurred and removes funding from where it is no longer required.

1. Background

1.1 This report sets out a one year financial plan for revenue and capital budgets. The Council will set a one year budget due to the uncertainty associated with local government funding in the medium to long term. Uncertainty of future funding following a general election in May 2015 and the promise of a new Comprehensive Spending Review which will follow this will affect local government funding to the end of the decade. Also changes to funding through the Better Care Fund and implementation of the Care Act will require further clarification for local government budgets to be set with certainty in the longer term. Clarity on such matters should allow the County Council to develop longer term plans from 2016/17 onwards.

1.2 In developing the one year financial plan for 2015/16 the Council has undertaken a fundamental review of priorities and related budgets to identify how to close the gap between current spending levels and the amount of funding available to local government going forwards. The Council plans to use a mixed approach of delivering spending at the reduced level of funding available through budget savings/reductions plus the use of reserves built up in previous financial periods to smooth the effect of reductions to service budgets in this financial year.

1.3 On an annual basis the Council has the opportunity to review the level of Council Tax. In the last four financial years the Council has opted not to increase Council Tax and has accepted Freeze Grant offered by Central Government in these years. The government has again offered a 1% Freeze Grant for Council's who freeze their Council Tax, however, to maximise funding and lessen any long term impact on funding it is proposed to set a Council Tax increase of 1.9% for 2015/16.

1.4 The savings identified through the fundamental budget review plus the one off use of reserves and a proposed modest Council Tax increase will ensure the Council can withstand the immediate pressures in local government funding, while implementing the arrangements for delivering services at the reduced level of government funding

Provisional Local Government Finance Settlement

1.5 The Provisional Local Government Finance Settlement issued on 18 December 2014 has provided the Council with levels of funding for 2015/16. The main points arising for Revenue Support Grant (RSG) are:

- The RSG allocation for 2015/16 is £93.752m;
- The 2014/15 Council Tax Freeze Grant of £2.585m has been added into RSG from 2015/16 (this is in addition to the grant for 2013/14 - £2.547m which was incorporated into RSG in 2014/15);
- The Rural Services Delivery Funding of £0.171m received as a section 31 grant in 2014/15 has been added to the Efficiency Support for Services in Sparse Areas in RSG. The value of this in 2015/16 is £1.327m; and

- Local Welfare Provision also forms part of RSG in 2015/16 (£1.337m). This is a presentational change to RSG and does not represent new funding into the grant. There is no requirement to deliver this service.

1.6 Taking the above changes into consideration before comparing RSG funding received for 2014/15 to 2015/16, the Council has seen a reduction of £33.579m or 26.37% in RSG funding between the two financial years.

Other Revenue Government Grants

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

- New Homes Bonus Grant of £3.524m will be provided in 2015/16 relating to the increase in the number of new properties built in Lincolnshire;
- Local Services Support Grant of £1.061m comprising:
 - DfE Extended Rights to Free Travel (£0.632m) award from the DfE;
 - DEFRA Lead Local Flood Authorities (£0.301m); and
 - Inshore Fisheries Conservation Authorities (£0.128m).

The Council is awaiting confirmation of the amounts for Lead Local Flood Authorities and Inshore Fisheries Conservation Authorities.

- Special Educational Needs and Disability (SEND) Implementation Grant of £0.423m. The grant is to support local authorities to continue implementing the special educational needs and disability reforms, including transferring children and young people with statements of special educational need to education, health and care plans;
- Care Act Implementation Allocation of £4.433m. This funding is split into four elements: Additional Early Assessments (£2.321m), Universal Deferred Payment Agreement (£1.184m), Carers (£0.779) and Social Care in Prison (£0.149m); and
- Education Services Grant is budgeted at £6.661m. This reflects the Council's estimate of pupil numbers and funding rates per pupil in local authority and academy schools in 2014/15. The grant is paid on a quarterly basis with each payment being adjusted as schools convert to Academies throughout the financial year.

Council Tax

1.8 It is proposed that the Council Tax will be increased by 1.9% for 2015/16. The proposed increase is in line with government expectations of low Council Tax

increases. The Local Government Finance Settlement has set the Council Tax Referendum Threshold at increases of 2% and above for local authorities. It is estimated that an increase of 1.9% will generate additional income of £4.272m. This will be the first year the Council has increased Council Tax since 2010/11.

1.9 By increasing Council Tax by 1.9% the Council would forego the 1.0% Council Tax Freeze Grant for 2015/16, however, Freeze Grant continues to have an ongoing effect on the Council's budgets and funding. The Council had accepted freeze grant rather than increasing council tax between 2011/12 and 2014/15. The effect of these grants on the Council's overall budgets is as follows:

- The Council Tax Freeze Grant received by the Council in 2011/12 (£6.293m), 2013/14 (£2.547m) and 2014/15 (£2.585m) has been incorporated into the Council's Revenue Support Grant (RSG) allocation. As RSG is now reducing year on year, this funding is also effectively reducing annually; and
- The Freeze Grant receive in 2012/13, worth £6.332m, was a one off award and was only received in that financial year (this in effect left a budget shortfall in 2013/14, which was addressed in the budget for that year).

1.10 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 2015. This information will be reported to the Executive at its meeting on 3 February 2015, together with the funding this will generate for the County Council.

Business Rates

1.11 Business Rates receivable will be £101.167m; comprising £19.422m actually collected by the seven District Council's in Lincolnshire and a top up grant of £81.745m from Central Government as the total business rates collected in Lincolnshire are not sufficient to cover local authority spending in the area.

1.12 The Chancellor's Autumn Statement announced that Government would cap the planned RPI increases on business rates to 2% in 2014/15. In this year's Autumn Statement the Chancellor announced that a second cap of 2% would also apply in 2015/16. In 2014/15 local authorities were compensated for the difference between the 2% cap and the September RPI (3.2%) via a section 31 grant. The compensation relating to 2014/15 will continue to be paid in 2015/16. Its payment into future years will be decided by the government in place after the 2015 general election, as part of its spending review. In 2015/16 local authorities will again be compensated for the difference between this year's cap and the September RPI (2.35%).

1.13 The provisional section 31 grant allocation for the cap is £1.475m.

1.14 As in 2014/15, the Chancellor has again announced a doubling of the Small Business Rate Relief (SBRR) and an extension to the high street discount from £1,000 to £1,500. Government will fund this lost income through section 31 grants.

1.15 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 2015. These will be reported to the Executive at its meeting on 3 February 2015. 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 2015/16

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

1.17 The County Council has already notified Central Government that it wishes to pool business rates with six of the Lincolnshire District Councils (Boston Borough, City of Lincoln, East Lindsey, North Kesteven, South Kesteven and West Lindsey). Initial calculations show the County Council could benefit by some £1.116m by entering into such an arrangement. Following the Provisional Local Government Settlement announced on 18 December 2014, the Council has the ability to reflect on this arrangement and if it wishes, to withdraw from it. However, in doing so, must notify central government within 28 days of publishing the draft Local Government Financial Settlement.

The Council's Overall Revenue Budget

1.18 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	2015/16 £m
EXPENDITURE:	
Base Budget	476.414
Cost Pressures (<i>including inflation</i>)	29.011
Savings	-30.153
Total Expenditure	475.272
Use of Reserves	-32.583
Budget Requirement	442.689
INCOME:	
Local Retention of Business Rates	103.758
Revenue Support Grant	93.752
Other Grants	16.110
County Precept	229.069
Total Income	442.689

1.19 The Council proposes to allocate an additional £1.680m of resources in 2015/16 to fund pay inflation. Details on all other cost pressures and savings included within the Council's budget for 2015/16 are set out in the Commissioning Strategy narratives below.

1.20 The Council proposes to use reserves of £32.283m. 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 £0.300m will be released in 2015/16 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

1.21 Revenue budgets for each year are shown in **TABLE 2** below together with the change over the previous year. The Council has changed how it 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.

1.22 The budget proposals assume inflation increases of between 1.0% to 1.2% for pay for the next financial year.

TABLE 2: Net Service Revenue Budget 2015/16 and change over previous year

Commissioning Strategy Revenue Budgets	2014/15	2015/16	Change Over Previous Year	Change Over Previous Year
	£m	£m	£m	%
Readiness for School	9.177	8.284	-0.893	-9.7%
Learn & Achieve	35.981	35.919	-0.062	-0.2%
Readiness for Adult Life	7.104	6.322	-0.782	-11.0%
Children are Safe & Healthy	50.032	50.506	0.474	0.9%
Adult Safeguarding	1.348	3.256	1.908	141.5%
Adult Frailty, Long Term Conditions & Physical Disability	89.264	91.925	2.661	3.0%
Carers	2.973	2.973	0.000	0.0%
Adult Specialities	47.593	47.622	0.029	0.1%
Community Resilience & Assets	12.381	11.751	-0.630	-5.1%
Wellbeing	39.822	38.287	-1.535	-3.9%
Sustaining & Developing Prosperity Through Infrastructure	49.795	48.992	-0.803	-1.6%
Protecting & Sustaining the Environment	22.384	22.467	0.083	0.4%
Sustaining & Growing Business & the Economy	2.032	1.772	-0.260	-12.8%
Protecting the Public	26.058	24.801	-1.257	-4.8%
How We Do Our Business	8.919	8.193	-0.726	-8.1%
Enablers & Support to Council's Outcomes	40.525	39.046	-1.479	-3.6%
Public Health Grant Income	-28.506	-28.506	0.000	0.0%
Other Budgets	64.579	66.708	2.129	3.3%
Delegated Schools Budget	458.635	455.981	-2.654	-0.6%
Dedicated Schools Grant	-485.064	-486.242	-1.178	0.2%
Schools Related Expenditure	21.382	25.215	3.833	17.9%
Total Net Expenditure	476.414	475.272	-1.142	-0.2%
Transfer to/from Earmarked Reserves	-6.780	-32.283	-25.503	376.2%
Transfer to/from General Reserves	-1.125	-0.300	0.825	-100.0%
Budget Requirement	468.509	442.689	-25.820	-5.5%

Children's Services

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

1.24 Through these commissioning strategies, Children's Services has successfully delivered in full, and on time, the savings from 2011/12 to 2013/14, which totalled £27.630m. Also, the services remain on course to deliver the 2014/15 savings of £2.637m. This is at a time of delivering consistently high standards of service delivery.

1.25 Learn and Achieve strategy plans to make savings of £1.097m in 2015/16 following a review of its commissioning intentions. Also within this strategy, the Home to School/College Transport budget continues to face cost challenges through its current delivery model. It is proposed that an additional £0.380m is added to the revenue budget in 2015/16 to finance the market factors effecting transport delivery.

1.26 Readiness for Adult Life and Readiness for School strategies plan to make savings of £0.836m and £0.934m respectively in 2015/16. These savings are being delivered following a review of its service delivery model and commissioning intentions.

Adult Care

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

1.28 Between 2011/12 and the end of 2014/15 Adult Care will have delivered £38m savings.

1.29 This is set in the context of increasing demographic pressure and cost pressures related to service provider fee increases. Adult Care has identified during the Fundamental Budget Review in the summer that it can deliver £3.388m savings in 2015/16 (a combination of one-off and recurring savings). The proposed budget identifies an additional requirement of £3.794m which reflects those ongoing funding pressures within the service.

1.30 April 2015 sees 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. Latest modelling indicates that Adult Care will need to have £157m additional money in order to fully satisfy the duties imposed on it by the Care Act in the first 10 years. In 2015/16 the first year of the Act the sum required is £6.000m due to be funded via the Better Care Fund (£2.000m) and direct grant (£4.000m).

1.31 The Lincolnshire model which has generated this figure is being used nationally and as such the figures represent the best available intelligence.

1.32 Another area with a profound effect upon Adult Care is the Better Care Fund (BCF) in which £53m (£48.1m revenue and £4.9m capital) has been earmarked for the Lincolnshire health and care economy. However spend against this allocation must be agreed with the four Clinical Commissioning Groups (CCGs). £20m has been allocated to the County Council in 2015/16 predominantly in Adult Care to help fund the costs of the Care Act (£2m). To in effect '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. This allowed Adult Care to report a balanced Learning Disability budget in 2013/14 with a similar expectation in 2014/15.

1.33 There is a financial risk attached to the BCF in 2015/16 of approximately £12.75m. £3.75m is a required contingency reserve to cover the financial penalty if Lincolnshire in 2015 does not meet the 3.5% reduction in non-elective admissions. A further £9m risk exists which equates to the amount local CCGs have to transfer from their base budgets into the BCF and if not 'saved' across health and social care in 2015/16 will represent a shared financial risk at the end of the financial year.

Community Wellbeing and Public Health

Community Resilience and Assets

1.34 The Council has prioritised the promotion of community resilience and aims to work with people to help themselves through influencing, coordinating and supporting other organisations which contribute to life in Lincolnshire.

1.35 Savings of £0.739m have been identified for 2015/16 from the Community Resilience and Assets strategy. A large element of this will be delivered from the transfer of the Customer Service Centre to Serco (£0.506m). There will also be some reduction in the grants made available for community activities and voluntary sector infrastructure as well some internal staff changes.

Wellbeing

1.36 Since April 2013, upper tier authorities have been responsible for improving the health and well-being of their population and for public health services. This includes mandated functions such as sexual health services; NHS healthchecks and substance misuse services. The Wellbeing commissioning strategy aims to assist improvements in the health and well-being of the population as a whole and to support people to self-manage and maintain independence.

1.37 Savings of £1.563m have been identified for 2015/16 from the Wellbeing strategy. These savings will mainly be delivered from the redesign and re-procurement of the housing related support services (£1.001m) and from the review of the senior management and staffing structure.

1.38 Public Health Grant of £28.506m remains at the same level as 2014/15.

Environment and Economy

Sustaining and Developing Prosperity Through Infrastructure

1.39 The Council currently spends £49.795m revenue and £72.112m of capital expenditure delivering the maintenance and management of the County's road network, transport, major road schemes and economic infrastructure.

1.40 Within this the Council has been able to protect both the Winter Maintenance Service and Concessionary Fares in their entirety; however, savings of £1.197m are required from other activities in 2015/16. These savings will be achieved as follows:

- Rationalising the County's Area Maintenance Teams resulting in a reduction of three teams (£0.470m);
- A reduction of approximately 7% of the current asset maintenance staffing resource the detail of which can only be confirmed as the departmental restructuring is completed (£0.200m);
- Savings within the Countryside service (£0.188m);

- Reduced capacity preparing for major schemes. This will result in the need for prioritisation of the work programme to reflect the Council's priorities (£0.156m);
- A review of the delivery of transport policy, smarter choices and other transport initiatives (£0.146m); and
- Savings within Economy Infrastructure and Regeneration (£0.036m).

Protecting and Sustaining the Environment

1.41 The Council currently spends £22.384m revenue and £1.495m of capital expenditure delivering waste management services, planning, flood and water risk management, the natural built environment and carbon emissions.

1.42 Planning and flood and water risk management have been protected, however savings of £0.485m are required from other areas of this strategy.

1.43 The majority of the required saving will be generated from contract efficiency savings from the letting of the Gainsborough household waste recycling centre operation contract (£0.300m). Other savings will be made by reviewing the management of fly tipping, waste education and project development and a reduction in partnership projects (£0.185m).

Sustaining and Growing Business and the Economy

1.44 The Council currently spends £2.032m revenue and £1.248m of capital expenditure helping to maintain, improve and attract investment in the county's economy.

1.45 Tourism has been protected in 2015/16 because of the 800 year anniversary celebrations for the Magna Carta, following these celebrations a review will take place to deliver savings from the Tourism activity in future years. In 2015/16 savings of £0.288m are required from other activities within this strategy.

Finance and Public Protection

Protecting the Public

1.46 **Fire and Rescue** have a proposed budget reduction of £0.296m; in addition there is a requirement to identify additional savings to meet unavoidable cost pressures from national changes, namely; additional costs associated with fire fighter pensions and a reduction in central grant for Urban Search and Rescue Team. Therefore total savings required are £0.532m. These reductions will be met by staff restructures and changes to service delivery subject to public consultation.

1.47 **Emergency Planning** has a proposed budget reduction of £0.019m, which will be met by a reduction of 1 FTE pro rata in 2015/16.

1.48 **Road Safety** has a proposed budget reduction of £0.072m, this does not require any reduction in the school crossing patrols. A review of the Lincolnshire Road Safety Partnership (LRSP) is being conducted with a view to challenging outcomes and performance; delivery mechanisms and funding structure. The review will challenge LRSP to become self-funding by 2016.

1.49 **The Trading Standard's** budget is proposed to be reduced by £0.120m. Savings would be made through the removal of management and team leader post. A further saving is to be made through income generation including charging for business advice. The remaining service structure is to be reviewed along with priorities.

1.50 The **Youth Offending Service (YOS)** has a proposed 20% budget reduction (£0.147m), the Police & Crime Commissioner (PCC) and possibly Youth Justice Board (YJB) will match any LCC budget reductions in their contributions to the YOS. Reductions would be achieved by reviewing resources, existing ways of working and new opportunities to support the service. It is timely to evaluate if the service structure and the way it meets the needs of young people and victims still appropriately reflects the changing landscape which has emerged within Youth Justice.

1.51 **Community Safety's** budget is proposed to be reduced by 29% (£0.827m), this will leave some £1.2m in the budget for PCSOs and £0.535m for community safety commissioned programmes. Earmarked reserves will be utilised to cover contract commitments. As part of the funding agreement for PCSOs a service level agreement will be in place between Police and LCC ensuring PCSO funding forms part of the Commissioning Strategy and delivers appropriate outcomes.

How we do our Business

1.52 **Democratic Services** has a proposed budget reduction of £0.056m. There will be a review of arrangements for servicing the civic responsibility for the Chairman of the Council. The elections budget is only sufficient to cover one by-election per annum, £0.010m remains in the budget with no reduction proposed. Boundary Commission changes reducing the size of the Council by 10% would provide a saving on Member's Allowances of £0.100m, but this would not come into effect until the financial year 2017/18.

1.53 **Corporate Standards and Chief Executive's Office** have a proposed budget reduction of 29% (£0.214m). This saving includes the reduction of 1 Executive Director and the removal of the separate consultation budget, any future consultation cost pressures can be met if required from corporate contingency.

1.54 **Finance and Audit** have a proposed budget reduction of £0.506m. The reduction will be £0.456m for financial strategy/accountancy and £0.050m for internal audit. The current internal audit service for schools will be maintained. The savings would be from a range of measures including staff reductions, Serco contract, and income generation.

Enablers and Support to Council's Outcomes

1.55 **Legal Services Lincolnshire** has a proposed budget reduction of £0.060m. Income is dependent on volumes of business from the Lincolnshire County Council Clients, District partners and external public sector bodies. During the Autumn/Winter period Legal Services Lincolnshire will review its predicted volumes of work from all sources and review its staffing structures and numbers to ensure it is in a position to achieve at least a sufficient surplus for the forthcoming financial years to meet the savings target but also to distribute to shared services partners.

1.56 **People Management's** budget is proposed to be reduced by £0.121m. This reduction would be met by various staff related changes. Cost pressures have been recognised in this area, and as such £0.550m will be allocated to cover the shortfall in budget for the Serco contract and the additional resources needed due to the change in the pensions administration function.

1.57 **Information Management and Technology** have a proposed budget reduction of £0.021m. The IMT department has been reduced in size by 55% since 2010 while delivering substantial revenue savings. The activities being undertaken under the FBR build on this and provide additional saving enablers through improved contract management, information governance and a new consumption based charging approach that drives down the cost of IMT; making costs visible to departments and promoting rationalisation of systems. More substantial savings would be achieved in future years.

1.58 **The Commissioning Support Unit's** budget is proposed to be reduced by £1.011m. Savings have already been delivered through the Senior Management Review reductions. The proposal is that the service be re-modelled and resource prioritised to take account of the very substantial forthcoming commercial and procurement requirements particularly in Adult Care and to a lesser extent in Public Health and Children's over the next 2 years; the need for a dedicated contract manager and CSC client lead arising out of the Serco contract and the creation of a new Enterprise Data Warehouse team developing the LRO to improve the Council's data provision and report/analysis functions to better support commissioning activity.

1.59 As a consequence of this prioritisation and the need for savings, the proposal is that there will be less resource available in the Commissioning Performance and Assurance team to support the Council's priority projects. This recognises that the team will be supporting a smaller organisation than for which it is currently designed and that resources currently deployed on significant projects such as FDSS and LHAC will be available for redeployment in the next financial year.

1.60 **Strategic Communications** has a proposed budget reduction of £0.024m which will be met from a staff restructure.

1.61 **Property Strategy and Support** has a proposed budget reduction of £1.026m. The County Farms income budget was not proposed to be changed in FBR. The savings will be achieved as a result of:

- The re-structuring and rationalisation of the Corporate Property team and the Children's Services schools property team which has been completed and the new structure is now in place; and
- The re-procurement of the Mouchel property services contract has been awarded to Vinci/ Mouchel and will commence on 1st April 2015 delivering an improved service at a significantly lower cost.

1.62 Further rationalisation of the Council's office accommodation portfolio will deliver the balance of the savings by reducing the number of buildings we occupy and saving the costs associated with those buildings.

1.63 **Business Support's** proposed budget reduction is £0.857m, plus the service has to find additional savings to meet a cost pressure of £0.070m for LCC's offsite storage costs. The budgets for Business Support are predominantly staffing based with the exception of some corporate budgets such as postage services and other running costs. As a support service the reshaping of this service will need to follow that of other services and this will not commence until summer 2015. In addition, the impacts of Agresso and Mosaic on areas such as purchasing and invoicing work which are to be implemented from April 2015 will need to settle down and be understood and measured to enable appropriate savings to be realised.

Schools

1.64 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.

1.65 Lincolnshire's DSG allocation for 2015/16 is £486.242m, 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 prospective.

1.66 Confirmation was received that a national fair funding formula would not be introduced in 2015/16 as originally expected, however an additional £390m would be allocated to local authorities with schools most in need. Lincolnshire's increase for 2015/16 has been notified as £3.888m or 1% of the DSG, which is lower than expected. Schools forum had supported £2m for special educational needs and the remainder to be allocated to the primary and secondary sector through pupil-led funding. Outside of the fairer funding, there continues to be no further growth in DSG funding for 2015/16, other than for the increase in pupil numbers.

1.67 Work is currently underway to finalise the centrally held budgets within the DSG.

1.68 Lincolnshire's school funding formula has been amended for 2015/16 to comply with DfE's regulations. This includes ensuring that pupils requiring higher

needs top up funding are correctly funded, and having regard to the DfE's expectation that all schools should meet the first £6,000 SEN from their notional budgets. The changes aim to: ensure compliance with DfE regulations; fund schools fairly, and minimise the immediate and long term impact upon individual school budgets. As a result, there is expected to be no impact upon individual pupils with SEN.

1.69 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).

1.70 Details of the plans for use of the 2015/16 DSG will be considered by the Schools Forum at its meeting on 14 January 2015.

1.71 Lincolnshire's Pupil Premium for 2014/15 was £23.212m. Pupil Premium funding has risen nationally to £2.278 billion in 2014/15 as outlined in the Comprehensive Spending Review of 2010. There plans to be no further growth in funding for 2015/16, 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.

1.72 The 2015/16 allocations per pupil meeting the eligibility criteria is £1,320 for primary-aged pupils and £935 for secondary-aged pupils. 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.

Other Budgets

1.73 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 1.77 to 1.82). The revenue implications of the capital programme are estimated to cost the Council £50.866m in 2015/16. 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 £1.400m of receipts from investments of cash balances.

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

- A small increase of £0.380m to set the Council's contingency budget for 2015/16 at £4.000m. This budget funds any emerging financial issues which arise during the financial year;
- An increased the Council's Redundancy Budget by £2.500m to £4.500m for 2015/16. This is to fund any redundancies arising from the fundamental budget review of services; and

- An increase of £0.928m for the Council's monetary contribution to the Pension Fund, taking this to £1.118m in 2015/16.

Reserves

1.75 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. General reserves, at 31 March 2015, 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 2016 requires a balance of £14.600m. In 2015/16, this will release £0.300m from the general fund to fund other Council services.

1.76 At the 31 March 2014, the Council set aside £43.006m in the Financial Volatility Reserve help smooth the effect of funding reductions in 2015/16 and future financial periods. It is estimated that the balance in this reserve will be £48.683m at the end of 2014/15. It is planned to use £32.283m from the Financial Volatility Reserve to balance the budget in 2015/16.

Capital Programme

1.77 The proposed capital programme matches the revenue budget and runs until 2015/16 plus a number of major schemes which stretch into future years (including: a number of highways schemes, the rolling programme of renewal and replacement of fire fleet vehicles, and broadband in Lincolnshire). The gross programme is set at £609.749m from 2015/16 onwards, with grants and contributions of £346.054m giving a net programme of £263.695m to be funded by the County Council.

1.78 A review of the capital programme has been undertaken alongside setting the revenue budget. The main drivers in the review of the capital programme have been matching spending to service priorities while considering the overall affordability of the programme.

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

TABLE 3: Summary Capital Programme 2015/16 plus future year's commitments.

	2014/15 £'000	2015/16 £'000	Future Years £'000
Gross Capital Programme	159,640	174,362	275,747
Less: Grants and Contributions	-84,496	-95,501	-166,057
Net Programme Funded by LCC	75,144	78,861	109,690
Funded By:			
Revenue Funding	5,544	4,500	0
Use of Capital Receipts	2,000	2,000	0
Borrowing	37,200	72,361	109,690
Use of Capital Grants Unapplied	22,131	0	0
Use of Revenue Grant Reserves	4,515	0	0
Use of Other Earmarked Reserves	3,754	0	0
Total Funding by LCC	75,144	78,861	109,690

1.80 The following additions have been made to the net capital programme as part of the budget setting process. These add an additional £18.950m into the capital programme in 2015/16 and £1.500m into future years. These additions comprise:

- Removal of the budget for the Leverton Fire Station Replacement in 2015/16 (£1.500m) and replacement with a fire station adaption and repair budget of £0.500m in both 2015/16 and 2016/17;
- An additional £6.000m for the Grantham Southern Relief Road Project. £5.000m transferred from the Grantham Growth Point budget plus an additional £1.000m funded from borrowing in 2016/17.
- Addition of a maintenance block budget for:
 - The replacement of short life equipment assets for Fire and Rescue: £0.650m in 2015/16.
 - The maintenance of existing property assets and essential property works linked to Asbestos, work place regulations and disabled access. £3.200m in 2015/16.
 - The ICT infrastructure and IT refresh programme: £1.100m in 2015/16.
- The creation of a capital contingency budget: £15.000m in 2015/16 to fund any emerging schemes identified in this financial year.

1.81 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 2015/16 and future years:

- An indicative award for Highways Asset Protection Maintenance Block of £31.012m in 2015/16, this is some £9.083m more than the 2014/15 basic Asset Protection capital allocation. 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 2015/16 is the second year of a three year award period which will allow the Council to plan strategically for the places needed in schools up to 2016/17. The Council has been awarded £11.434m in 2015/16 and £12.006m in 2016/17.

1.82 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.

Legal Issues

1.83 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

1.84 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.

1.85 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.

1.86 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).

1.87 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.

1.88 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.

1.89 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.

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

1.91 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.

1.92 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.

1.93 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.

1.94 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 1.83 including the public sector equality duty and where required consultation.

1.95 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 £16.400m after use to balance the 2015/16 budget) and the annual Contingency budget of £4.000m for 2015/16, for when additional funding cannot be found by way of virement from other service areas.

Capital Programme Changes in 2014/15

Residual Waste Treatment Project

1.96 The Residual Waste Treatment Project (RWTP) commenced in 2007/08. The original budget for the scheme was £145.000m. In addition to this original budget, £2.023m was added in the early stages of the project to cover risk contingencies and £0.700m was transferred out of the budget to the Highways capital programme for a S106 contribution for safety aspects on the Whisby Road Improvement scheme.

1.97 The project has now concluded and has successfully delivered the Energy from Waste facility in North Hykeham along with four new Waste Transfer Stations at Boston, Sleaford, Grantham and Gainsborough.

1.98 The outturn of the scheme is £142.000m some £4.323m less than the budget available. This has arisen through effective project management, strict budget control and efficient site construction of all the facilities. Consequently, there have been no significant additional costs or claims.

1.99 It is proposed that £0.323m of this capital budget is used by Waste Services for asset replacement and operational improvement works at Louth, Grantham and Skegness Waste Sites. It is also proposed that the remaining £4.000m is allocated to reduce borrowing.

A1073 Spalding to Eye Improvement

1.100 The A1073 scheme fully opened in October 2011 (the Lincolnshire section opened in August 2010 however a geotechnical failure in July 2010 delayed the opening of the section in Peterborough).

1.101 At an early stage professional advice was sought on the expected value of the land that was to be acquired for the scheme and associated compensation payments. Subsequent to this, an area of land to the south of the scheme previously estimated at agricultural value has been identified as having some development (hope) value due to its proximity to Peterborough. The value of this land was the subject of a decision by the Lands Tribunal. The value of compensation payments paid to affected landowners is higher than originally estimated.

1.102 The original risk value was also set at an ambitious and optimistic level to meet funding constraints. A number of risks originally identified have been realised and a number of new risks have occurred.

1.103 As reported in the Council's budget monitoring reports both these factors have resulted in a scheme overspend of £4.160m (this amount excludes any future part 1 compensation claims that may be received). It is proposed to add additional funding from the capital programme to fund this shortfall.

1.104 The Council's constitution requires that all budget virements in excess of £0.500m are approved by full Council. The Executive are therefore asked to recommend to full Council the virements of £4.160m to the A1073 scheme, £4.000m from the RWTP to offset borrowing and to approve the virement of £0.323m for necessary asset replacement and operational efficiencies at Louth, Grantham and Skegness waste sites.

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 2015/16 by 1.9%. 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.

2.2 The proposed amendments to the 2014/15 capital programme represents sound financial management in that it formally moves funding to where expenditure has been additionally incurred and removes funding from where it is no longer required.

3. Legal Comments:

Council Budget 2015/16

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.

Capital Programme Change 2014/15

Under paragraph B16 of the Council's Financial Regulations reallocations of budget between service headings in excess of £500,000 must be referred to the Executive for consideration and approved by full Council.

Reallocations of budget between service headings of £500,000 or less can be approved by the Executive.

Consideration of this proposal both in terms of the approval of the reallocation of

£0.323m and the recommendation of the other sums to full Council are therefore within the remit of the Executive.

4. Resource Comments:

Council Budget 2015/16

These budget proposals incorporate the level of funding available to the Council from Central Government plus a 1.9% increase in Council Tax. The Council's Financial Strategy includes one off use of reserves of £32.283m, plus £0.300m released from the General Fund balance, to produce a balanced budget.

To achieve a sustainable budget in 2016/17 and onwards, a further review of budgets will be required.

Capital Programme Change 2014/15

Virements in excess of £0.500m require the approval of full Council, this report will allow this approval to be sought.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

Overview and Scrutiny Management Committee (18 December 2014)

The Committee was frustrated at the continuing under-funding of local government by central government.

The Committee was interested to know the consequential impact of our budget cuts on other public sector bodies in Lincolnshire.

The Committee hoped that a wider consultation might be possible on any future occasion including more engagement with young people.

Appendix B provides further information on the Priorities Consultation undertaken by the Council.

Further Scrutiny and Consultation

An initial consultation meeting with local business representatives, trade unions and other partners, would normally be scheduled in early December (and then followed by a further meeting in January) to discuss the general approach to preparing the overall budget proposals. However, due to the late announcement by Central Government of the financial settlement for Local Authorities, it was not possible to hold the usual initial consultation meeting in December.

Therefore, to ensure that up to date and detailed information can be provided regarding the Council's budget proposals, there will only be one budget consultation meeting taking place with local businesses, trade unions and other partners. This meeting is scheduled for 23 January 2015.

A series of three public budget consultation meetings with North Kesteven District Council will take place in January/February 2015.

The Council's scrutiny committees will have the opportunity to scrutinize 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 3 February 2015.

d) Policy Proofing Actions Required

Equality impact assessment 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	Priorities Consultation

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 2014/15	Budget	Executive Director of Resources and Public Protection
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