

Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety

Report to:	Executive
Date:	20 December 2011
Subject:	Council Budget 2012/13 to 2014/15
Decision Reference:	01977
Key decision?	Yes

Summary:

This report describes the Local Government Finance Settlement and its implications for the Council's finances.

It asks the Executive to make proposals for the Council's budgets 2012/13 to 2014/15 as a basis for internal and external consultation.

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

Recommendation(s):

The Executive is recommended to agree the budget proposals described in this report as its preferred option for the purposes of further consultation.

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 allows for a council tax freeze in 2012/13 funded by a further years allocation of Council Tax Freeze Grant. This allocation is for 2012/13 only. Thereafter the proposals allow for a moderate increase in council tax to avoid the need for further reductions in service spending.

1. Background

1.1 The County Council approved a four year revenue budget in February 2011 based upon the outcome of a core offer review of services. The revenue budget was based upon a two year grant settlement from government covering 2011/12 and 2012/13 with estimates for the remaining two years. This has formed the basis of the budget setting work undertaken and the proposals set out here are essentially fine tuning of the four year budget approved in February 2011.

Local Government Finance Settlement

1.2 The Local Government Finance Settlement was announced on December 8th. The main points arising from this announcement are:

- The Council's formula grant allocation for 2012/13 of £201.5m was confirmed as unchanged from that announced in last years settlement. This represents an 7.6% reduction in formula grant from that in 2011/12;
- The settlement includes £6.3m of Council Tax Freeze Grant relating to the 2011/12 freeze in Council Tax;
- The damping reduction of £13.8m remains a major factor; and
- Formula grant has not yet been amended to reflect the changes in the funding arrangements for academy schools. A separate consultation has been initiated by the Department for Education but is unlikely to require adjustments to the formula grant receivable in 2011/12 and 2012/13.
- A separate statement will be made in the next few weeks outlining the Government's response to the recent consultation on the local retention of business rates approach to funding local authorities from 2013/14 onwards.

The Council's overall revenue budget

1.3 Government grants – the Council's main source of income – have been reduced substantially in increments from 2011/12 to 2014/15 and it is expected that the grant will remain at its reduced level for a prolonged period of time. The Council's other main source of income – council tax – is set by the Council and can be increased. However, the Council do not wish to increase the council tax substantially particularly as it aims "to keep the level of council tax one of the lowest in the country." The Secretary of State also has powers to determine a maximum council tax increase beyond which a public referendum on the increase is required. For 2012/13 that maximum increase is 3.5% for this Council.

1.4 The Council's total income has therefore reduced and its spending strategy must reduce accordingly.

1.5 The Council also faces pressures due to increased costs. Some of these can be accommodated within existing budgets but some external pressures will add to the Council's costs. These include the county's increasing population and, in particular, the impact on the Council's social care budgets of increasing numbers of older people. Price increases, including energy price increases, will also impact on the Council's costs as will other costs such as annual increase of £8 per tonne in landfill tax.

1.6 Substantial savings are necessary in order to bridge the funding gap between spending plus unavoidable cost pressures and the income available to the Council. Proposed savings of £125m were identified over the 2011/12 to 2014/15 period in a thorough review of all the Council's services and activities last year and these have now been fine tuned to reflect changes to funding (e.g. Council Tax freeze grant) and changes to spending to allow for the cost pressures highlighted above.

1.7 The relative change in budget is shown in TABLE A.

TABLE A: Summary Revenue Budget Changes (on previous year)

	2012/13	2013/14	2014/15
Change in total budget requirement	-3.53%	1.17%	-0.95%
Change in formula grant	-7.63%	-0.62%	-5.62%
Change in council tax	0.00%	2.50%	2.50%

Council Tax

1.8 It is proposed that the Council sets the 2012/13 council tax at the same level as in 2011/12 (i.e. no increase). If this is the case, the government will again provide a Council Tax Freeze Grant. This is calculated as the equivalent to the extra income which the Council would have received if it had increased council tax by 2.5%. However, the grant is one year only funding and effectively will create a budget pressure of the full 2.5% (£6.3m) in 2013/14 as the indicative budget set for 2013/14 assumes an ongoing income from the 2.5% increase in Council Tax in 2012/13. As the grant is for 2012/13 only that income will not be forthcoming.

1.9 The council tax freeze grant received in 2011/12 will continue to be provided for at least the four years of the current spending review period as part of formula grant. This is worth £6.2m per annum to the Council.

1.10 Beyond 2012/13 council tax increases are projected at 2.5% for 2013/14 and 2014/15.

Service Revenue Budgets

1.11 Service revenue budgets for each year are shown below in TABLES B and C:

TABLE B: Net Service Revenue Budget 2012/13 to 2014/15

	Service Budgets	2011/12	2012/13	2013/14	2014/15
		£m	£m	£m	£m
1	Adult Social Care	130.175	129.209	126.412	127.029
2	Public Health	18.589	18.373	18.233	18.571
3	Children's Services	114.444	105.738	106.022	107.055
4	Early Intervention Grant	-24.052	-25.537	-26.048	-26.570
5	Highways & Transportation	47.200	47.571	48.500	49.462
6	Environment, Planning & Customer Services	29.048	28.535	26.503	25.057
7	Economy & Culture	14.036	13.131	12.537	11.379
8	Finance & Resources	16.188	15.662	15.575	14.650
9	Fire & Rescue	21.913	21.993	22.428	22.693
10	Community Safety	19.508	18.185	18.524	18.697
11	Performance & Governance	25.177	23.705	22.448	21.509
12	Other Budgets	69.798	55.420	66.068	63.374
13	Delegated Schools Budget	406.576	406.576	406.576	406.576
14	Dedicated Schools Grant	-466.679	-466.679	-466.679	-466.679
15	Central Services within the Dedicated Schools Budget	28.008	28.008	28.008	28.008
16	CfBT Managed Services within the Dedicated Schools Budget	27.050	27.050	27.050	27.050
17	Total Net Expenditure	476.978	446.939	452.157	447.860
18	Transfer to Reserves	-13.700	0.000	0.000	0.000
19	Budget Requirement	463.278	446.939	452.157	447.860

TABLE C: Net Service Revenue Budget, change over previous year

	Service Budgets	2012/13	2013/14	2014/15	3 year Change
		£m	£m	£m	£m
1	Adult Social Care	-0.966	-2.797	0.617	-3.146
2	Public Health	-0.216	-0.139	0.338	-0.018
3	Children's Services	-8.705	0.284	1.032	-7.389
4	Early Intervention Grant	-1.485	-0.511	-0.522	-2.518
5	Highways & Transportation	0.371	0.928	0.963	2.262
6	Environment, Planning & Customer Services	-0.514	-2.032	-1.446	-3.992
7	Economy & Culture	-0.905	-0.594	-1.158	-2.657
8	Finance & Resources	-0.526	-0.087	-0.924	-1.537
9	Fire & Rescue	0.080	0.435	0.265	0.780
10	Community Safety	-1.323	0.340	0.173	-0.811
11	Performance & Governance	-1.472	-1.257	-0.939	-3.668
12	Other Budgets	-14.377	10.648	-2.695	-6.424
13	Delegated Schools Budget	0.000	0.000	0.000	0.000
14	Dedicated Schools Grant	0.000	0.000	0.000	0.000
15	Central Services within the Dedicated Schools Budget	0.000	0.000	0.000	0.000
16	CfBT Managed Services within the Dedicated Schools Budget	0.000	0.000	0.000	0.000
17	Total Net Expenditure	-30.039	5.218	-4.297	-29.118
18	Transfer to or from reserves	13.700	0.000	0.000	13.700
19	Budget Requirement	-16.339	5.218	-4.297	-15.418

1.12 The budget proposals assume no increase in pay for local government staff in 2012-13. The current assumptions for pay awards in future years are: 2% in 2013/14 and 1% in 2014/15, although these will need to be reviewed in light of the Chancellor of the Exchequer's recent announcement regarding capping increases to public sector pay.

1.13 In terms of provision for price increases current budgets assume a 2% increase for the next three financial years.

Adult Social Care

1.14 Adult Social Care continues to focus on delivering personalisation and there is a huge ongoing effort around rolling out personal budgets. The independent sector remain crucial to the delivery of good value services, and continuing internal improvements are being made in the areas of commissioning and contract management.

1.15 The proposed 2012/13 budget for Adult Social Care is £129.209m, a net reduction from the 2011/12 base budget of £0.966m. Funding for demographic pressures of £4m in 2012/13 (£10m over the coming three years) has been allocated, to be utilised across all service user groups.

1.16 The savings target for 2012/13 is £18.67m and over the coming three years is £31.125m (24% of the net budget). The savings requirement reflects the original savings target for 2012/13 plus additional savings to fund existing base budget pressures (£5.7m) and also to fund an anticipated overspend in the 2011/12 financial year which will be carried forward to 2012/13.

1.17 Detailed plans are in place to deliver the required savings and the council's Infohub is being utilised to support sound project management arrangements.

Public Health

1.18 The Public Health Directorate provides a range of services to local people which protect and promote their well being.

1.19 In order to reduce the impact of forecast increases in demand for higher level and more costly services, preventative services within Public Health have been protected. The aim being to keep people well and independent for as long as possible.

1.20 The proposed 2012/13 budget for Public Health is £18.4m. This includes plans to reduce expenditure on supported housing by £0.5m with a further reduction £0.5m planned for 2013/14. This will be achieved by delivering the Well Being Support model at lower unit costs than existing rates.

Children's Services

1.21 Children's Services is on track to achieve the budget reductions required for 2011/12. Plans have been implemented to deliver savings of £11.3m across management, back office functions, schools support, school improvement, home to school transport, and preventative services.

1.22 The majority of staffing reductions were made as part of the core offer and, as a consequence, most of the £9.5m budget reductions for 2012/13 have also been implemented. More modest savings of £1.5m and £0.5m are required in the following two financial years.

1.23 A number of proposals have been made to vary the original plans for budget reductions in 2012/13, mainly due to emerging and changing government policy and priorities. Key challenges include sustaining low numbers of young people not in education, employment or training; maintaining outstanding safeguarding services within a fragmented system; providing adequate support for care leavers; providing support to small vulnerable schools, and; facilitating the community to deliver positive outcomes for young people. These can be managed within the previously agreed base budget and with access to some of this year's projected underspending.

1.24 Children's Services has worked hard to deliver a significant level of budget reductions through proactive and robust budget management, whilst continuing to deliver outstanding services.

Communities

1.25 Highways and Transportation are on target to make all of their £7.8m savings for 2011/12 and have plans in place to deliver further savings of £1.3m in 2012/13. These will be achieved through Managing Workforce Change reductions already agreed and the reallocation of inflation pressures within the Roads Maintenance budget. For 2012/13 the Council will take on the responsibility for Civil Parking Enforcement with an additional £0.2m funding provided for initial set up costs.

1.26 Environment, Planning & Customer Services are on target to achieve their £2.0m target savings for 2011/12 and have plans in place to deliver a further £13.8m in future years. In addition to this, due to lower than anticipated waste tonnage and contract efficiencies, another £0.6m has been removed from the base budget. Future savings will, in the main, relate to the significant reduction in waste disposal costs following the start of the Energy from Waste plant in 2013/14. Other reductions include £0.5m at the Customer Service Centre arising from a change in service standards.

1.27 Economy has achieved all of their £1.0m savings required from the core offer. £1.5m savings have already been achieved in Libraries and Heritage for 2011/12 including some that were planned for 2012/13 from the Management and Outreach Team. This is in anticipation of managing more significant changes to the Library Service to achieve core offer savings of a further £2.0m in 2013/14 and 2014/15.

Resources and Community Safety

1.28 The main changes to Finance and Resources budgets are within the property service area. The proposed budget includes £0.150m addition for 2 years, 2012/13 and 2013/14 to deal with pressure on the disposals budget, i.e. the costs of maintaining premises awaiting disposal. There is also a transfer of the Carbon Reduction Commitment (CRC) allowances budget to Property from Environmental Services, the CRC allowances budget is proposed to be £0.177m from 2012/13. Within the financial services work stream, negotiations with Mouchel are ongoing as to how the core offer savings can best be achieved.

1.29 For Fire and Rescue there are no proposed budget additions or savings included for 2012/13 to 2014/15. The outcomes of the service delivery review will be implemented over the next three years, as well as progressing a collaborative command and control function following the cancellation of the national regional control centre project.

1.30 The key proposed change to the Community Safety budgets are the Business Support savings that have been brought forward. All of the £0.790m savings are now included in 2012/13 instead of being spread over the period 2012/13 to 2014/15.

Performance and Governance

1.31 Within People Management there is a proposed addition of a maximum of £0.546m for one year, 2012/13, for continued people management costs in support of the Council's change programme.

1.32 The Council's budget as agreed in February 2011 included a £1.850m reduction in 2012/13 from the Programme Centre budget for transformation support. A bid to retain £0.500m was made which is not currently included in the budget. It is expected that should specific proposals be agreed the funding would be allocated from the contingency budget.

1.33 The key change in Information Management and Technology is the rephrasing of the savings. The four year budget set in February 2011 had £2.000m base budget savings included, the proposals now include £2.875m to 2014/15 and the allocation in each year has been changed.

1.34 The proposals include an addition of £0.570m in 2013/14 for the costs of running county council elections in that year.

Schools

1.35 The schools budget is funded via the Dedicated Schools Grant (DSG). The 2012/13 DSG will be calculated by reference to the number of children recorded on the schools' census in January 2012 and so the total grant available is not yet known.

1.36 Work is underway to finalise the centrally held budgets relating to early years, special educational needs, etc, and with regard to the Individual Schools Budgets, it is expected that there will be no growth in funding other than for the pupil premium. Officers have been working with school representatives to respond to the Government's mainstreaming of grants in to the DSG and although those funds are likely to be distributed in a different way next year, protection arrangements are likely to be in place. Indeed, it is expected that the government will again enforce a minimum funding guarantee, whereby individual schools budgets are protected on a per pupil basis, and probably once again at 98.5% of the previous year's funding level.

1.37 Full details on the plans for the DSG will be considered by the Schools Forum towards the end of January.

Other Budgets

1.38 Other budgets have been set at a level to reflect the revenue implications of phasing of the capital programme.

1.39 It is proposed to increase the in-year contingency budget for 2012/13 from £6.5m to £6.9m in light of the continuing uncertainty and risk in the economic and financial outlook.

1.40 The Council's corporate redundancy budget reduces from £15.0m in 2011/12 to £2.0m, the majority of staffing reviews will be complete by 2012/13 and additional funds no longer required in this area.

Reserves

1.41 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. Reserves at 31 March 2012 are estimated to be £15.9m which is 3.5%. No changes are proposed to general reserves over the three year budget period and the level will remain at £15.9m which is 3.5%.

Capital programme

1.42 Last year the capital programme included significant unallocated provisions for 2013/14 and 2014/15. A review of capital commitments has been undertaken and these amounts have now been assigned to proposed projects. The programme has also been extended beyond 2014/15 to provide for the total cost of major schemes outlined below.

1.43 The following major schemes now proposed to be fully incorporated into the capital programme:

- Lincoln Eastern Bypass (2012/13 to 2017/18) at £48m (£14m direct contribution and £34m underwriting external contributions);
- Lincoln East-West Link (2013/14 to 2016/17) at £15m;
- Spalding Relief Road Phase II (2017/18 to 2019/20) at £10m;
- Grantham Southern Relief Road (2013/14 to 2016/17) at £30m;
- Next Generation Broadband (2012/13 to 2014/15) at £10m; and
- Teal Park (2012/13 to 2013/14) at £8m.

1.44 Other schemes proposed to be added to the programme are shown in TABLE D below:

TABLE D: Other Schemes proposed to be added to the Council's Net Capital Programme for 2013/14 and 2014/15.

	Total £'000	2013-14 £'000	2014-15 £'000
Rural Gain Grant (LCC contribution)	200	100	100
Replace 7 Call Connect Buses	240	240	
Property Repairs and Maintenance	5,000	2,500	2,500
County Farms	400	200	200
Asbestos, Disabled Access and Work Place Regs	1,000	500	500
New Fire Station 2014-15 (Gainsborough)	2,000		2,000
Fire and Rescue: PPE & General Equipment	1,300	650	650
Corporate ICT	2,200	1,100	1,100
ICT Developments	5,000	2,500	2,500
Lincolnshire Waterways	300		300
Historic Lincoln Lighting Scheme	200		200
Capital Maintenance for Sports Centres	330	165	165
Grantham Business Incubation Centre	1,300	800	500
Capital enablers to deliver a redesigned and reshaped library service	900	450	450
	20,370	9,205	11,165

1.45 A Capital Development budget will also be created in 2013/14 and 2014/15 of £5.0m and £6.5m respectively to allow for funding of projects with sound business cases.

1.46 IT capital spend has been consolidated into one £5.0m budget to ensure central oversight and control of all development spend within the authority.

1.47 There is an ongoing commitment of £144.0m to the Energy from Waste project, this scheme is on schedule for completion in 2013/14.

1.48 Last year, the Council, as part of the Local Government Finance Settlement, was notified that capital support for roads and schools, previously provided as supported borrowing, would be awarded as grant. This has allowed the Council to increase capital spending on roads and schools whilst reducing the impact on its revenue budget. It is expected that these grants will continue to be allocated for these purposes in future years. However, announcements are still awaited on capital grant for schools for next year. Expectation is that spend will match grant received with priority given to schemes relating to statutory provision of school places.

1.49 The new overall capital programme and its funding is shown in TABLE E below.

TABLE E: Summary Capital Programme 2012/13 to 2014/15, plus future year commitments

	2012/13	2013/14	2014/15	Future Year Commitment
	£m	£m	£m	£m
Gross Capital programme	164.9	107.6	133.4	99.8
Less: grants and contributions	-61.3	-50.1	-67.9	-30.5
Net programme funded by LCC	103.6	57.5	65.5	69.3
Funding:				
Revenue funding	4.5	4.5	4.5	4.5
Capital receipts	8.3	2.0	2.0	2.0
Use of reserves		11.7		
Borrowing	90.8	39.3	59.0	62.8
Total funding	103.6	57.5	65.5	69.3

Equality Act 2010

1.50 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. These equality considerations do not preclude changes in services being made, but do require that these be fully appreciated, both individually and holistically.

1.51 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.

1.52 In order to meet its obligations equality impact analyses will be carried out when the nature of the proposed changes to services and the potential mitigation if any is 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. As part of this the Executive will 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 equality impacts. 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.

2. Conclusion

2.1 These budget proposals reflect the substantial reduction in government grant funding to the Council. 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 within much reduced resources.

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. The proposals are within the remit of the Executive. The Executive has the power to accept the recommendation or to agree one of the alternative approaches put forward in the report.

4. Resource Comments:

These budget proposals essentially represent a fine tuning of the four year budget approved by the Council in February 2011. They result in a second successive year of no increase in the level of Council Tax by accepting a further round of Council Tax Freeze Grant. Unlike last year no use of reserves is required to balance the budget to available income.

Any implications from the Academy Consultation will be reflected in the final budget report in February.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

An initial consultation meeting has been held with local business representatives, trades unions and other partners. The meeting covered the general approach to preparing overall budget proposals but did not include consideration of the service specific budget proposals. A further meeting to discuss the detailed proposals is scheduled for 20 January 2012.

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 7 February 2012.

d) Policy Proofing Actions Required

Equality impact assessments will need to be undertaken on a service by service basis.

6. 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	Director of Resources and Community Safety
Schools funding announcements	Director of Resources and Community Safety
Council Budget 2011	Director of Resources and Community Safety

This report was written by Dave Simpson, who can be contacted on 01522 553008 or dave.simpson@lincolnshire.gov.uk