

Report to the Cabinet

Meeting to be held on Thursday, 8 December 2016

Report of the Director of Financial Resources

Electoral Divisions affected: All

Money Matters – 2016/17 Financial Position and Medium Term Financial Strategy

(Appendix 'A', 'B', 'C', 'D' and 'E' refer)

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Executive Summary

This report provides an update of the forecast outturn Financial Position for 2016/17 on revenue and capital as at 30th September 2016, and the County Council's updated Medium Term Financial Strategy for the period 2016/17 to 2020/21 including some additional efficiency savings for the County Council.

Financial Position as at 30th September 2016 (Appendix A)

An underspend is forecast for the County Council of £13.271m and represents a variance of c2.0% against the overall County Council budget. This is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which is difficult to predict in some demand-led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review with a focus on controlling and reducing costs and the delivery of an improved financial position by year-end.

However, it is important to recognise that the underlying position excluding the forecast impact of non-recurrent additional income arising from Treasury Management activities would be an overspend of £12.985m which would represent an increase of £1.718m from the previous report to Cabinet.

The 2016/17 budget of £713.020m includes a significant savings requirement of c£100m. However many savings will not be fully implemented until 2017/18 or 2018/19 and therefore it was agreed that these would be covered by the use of reserves.

The report provides details as to progress on the achievement and delivery of the savings relating to each Head of Service area. The level of reserves that were approved to be applied from the transitional reserve 2016/17 in support of the delivery of savings was £46.417m and the amount that is now forecast to be required is £36.265m, reflecting early delivery of some agreed savings, although this is partially

offset by some budget savings that are delayed and will require reserve funding to cover the delay in implementation.

Delivery of the significant savings programme has been identified as a key risk area and the savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.

The Medium Term Financial Strategy (Appendix B)

A revised MTFS was presented to Cabinet in September with a reported funding gap of £147.944m (cumulative gap of £397.900m).

This report considers the impact of budget decisions to be taken by Cabinet and updates other assumptions in light of the most current information available. The overall estimated funding gap has reduced to £146.133m, however the cumulative gap has increased to £411.207m as a result of an increasing gap in earlier years. Whilst this appears positive overall, this improved position predominantly relates to the identification of further savings of £12.320m for 2017/18 and following years, which are offset by a number of factors, the most significant being the continuing increasing demand in Children's Social Care. It remains critical that the vast majority of newly identified savings and previously agreed savings are delivered fully and on time, as any delay or under delivery will further increase the financial gap.

The financial commitment required to fund statutory demand-led services as they are currently delivered is almost certain to result in using up all the available resources available at a point within the timeframe covered by this financial strategy. It is not possible to be certain of the point at which funding may not cover statutory demand-led services as, for example, the resources available to the County Council have yet to be confirmed for future years, although there have been no changes to our resource assumptions following the Autumn Statement. However, indications from previous base budget review tied in with the outturn position delivered in 2015/16 and the recent report by PwC that suggest there will be insufficient resources to cover statutory services from 2018/19.

The County Council's Reserves Position (Appendix C)

The County Council by 31st March 2018 is expected to have reserves (excluding schools) of £115.767m, of which £36.000m County Fund will remain leaving a residual amount of £79.767m in service reserves. This does however include £8.354m school PFI expenditure and £5.084m which is not LCC money, meaning in effect the available balance of £66.329m.

If the County Council underspends in 2016/17 as currently forecast this will be a further contribution to reserves. This is not currently included within the forecast reserves position.

The report indicates that there are sufficient funds within reserves to deliver a balanced budget in 2017/18. However this is dependent upon a number of key factors:

- The forecast in year overspend is minimised.

- All values within reserves that are currently reported to be uncommitted funds are transferred into the transitional reserves with no further commitments emerging in these areas following the transfer.
- There is limited slippage on the agreed savings programme for 2017/18 and 2018/19. Any slippage is likely to result in a requirement for funding from reserves.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix C) the funding requirement to bridge the financial gap in 2018/19 would total £86.846m. Although there are reserves available at 31st March 2017 of £79.600m (if the currently forecast underspend is achieved) there are commitments in 2018/19 of £10.473m (excluding non LCC commitments) therefore the available balance to support the 2018/19 budget is £69.127m resulting in there not being sufficient funds within reserves to support the 2018/19 budget based on current assumptions.

Recommendations and Budget Adjustment Proposals arising from Zero Based Budget Reviews (Appendix D)

As part of the February 2016 budget strategy and budget setting process a Zero Based Budget Review (ZBBR) exercise was commenced, with a view to identifying any further efficiency savings and/or budget realignments within service and corporate budgets.

As a result of the ZBBR work undertaken, a total of £6.320m has been identified as proposed budget reductions for 2017/18. The report provides the detail of the ZBBRs undertaken and the recommendations and proposals arising from each review.

Capital Monitoring and Financing Position as at 30th September 2016 (Appendix E)

This report sets out the Quarter 2 capital monitoring position for 2016/17 against the re-profiled capital programme 2016/17 budget approved by Cabinet on 6th October 2016.

It also compares the 2016/17 Q2 monitoring position with the equivalent position in 2015/16 in order to give an understanding of the progress being made to date with regard to overall spend level.

An outline is also provided of the financing of the full multi-year re-profiled capital programme and the expected associated capital charges.

Recommendation

The Cabinet is asked to:

- (i) Note the forecast underspend of £13.271m on the 2016/17 revenue budget;
- (ii) Note the revised funding gap of £146.133m covering the period 2017/18 to 2020/21 (cumulative gap £411.207m);

- (iii) Note the position in respect of the Council's reserves and to agree the transfers outlined in the report;
- (iv) Note the position in respect of the Capital Programme in-year delivery and overall capital financing requirements covering the period 2016/17 – 2020/21;
- (v) Approve the budget proposals set out within Appendix 'B' (Section 3.6) and Appendix 'D', authorise officers to proceed with their implementation and agree that the 2017/18 budget is based upon these revenue decisions;

Background and Advice

The detailed reports at Appendices 'A' and 'B' present the County Council's revenue position as at 30th September 2016 and an updated financial outlook and Medium Term Financial Strategy for the period 2017/18 – 2020/21.

2017/18 – 2020/21 Budget Strategy and Proposals

The County Council is facing an unprecedented challenge. The assumptions that have been made in the MTFs reported to Cabinet in September 2016 have been reviewed and updated to reflect the latest information available. The revised funding gap is now estimated to be £146.133m and a cumulative total of unavailable resources of £411.207m across the four year period.

The Base Budget review and the recent report from PwC have demonstrated that from April 2018 the Council will not have sufficient financial resources to meet its statutory obligations without additional financial support from Central Government. The report also indicated that in 2016/17 and 2017/18, the council will rely heavily on reserves in order to set a balanced budget. The latest reports also indicate that whilst there will be residual reserve balances in 2018/19, these will not be of sufficient value to set a balanced budget and therefore further budget savings will need to be identified for 2018/19.

The Financial Sustainability of the County Council

Lancashire County Council is not alone in this financial challenge. The whole of the public sector in Lancashire is facing severe financial conditions that give rise to fundamental questions as to the nature, scale and sustainability of public services in the county. Health and social care services in Lancashire are forecast to have a significant budget shortfall. The Police and Fire and Rescue Service face significant reductions in expenditure over this period, as do the district and unitary councils across Lancashire.

It is clear that the county council, in its present form, is not a financially sustainable organisation in the medium term.

PwC are assisting the council in scoping and undertaking the review prioritising development of a public services operating strategy which would enable the County Council to be sustainable within its forecast financial resource envelope by 2020/21. This work is progressing with the outcomes to be presented at future Cabinet meetings. The scale of any additional savings that are agreed arising from this review would then be included within a future update of the MTFS.

Adjustments to the Savings Programme

Within Appendix B (Section 3.6) and Appendix D are some additional efficiency savings that have been identified. These savings are largely an extension to current processes and activities that are being undertaken. These savings are as follows:

- Learning Disability (LD) Remodelling (£4.800m) – This is the continuation of an existing saving programme that is currently underway. This is a review process that looks at the need of the service users within shared supported living settings and remodels the service package they are receiving with a priority being encouraging independence. The team are expected to complete the remodelling process for c.40 tenancies per annum. This review activity has been in place for a number of years and it is anticipated that all remaining tenancies to be reviewed will be remodelled over the next 4 years.
- Financial Assessments (increased income) (£1.200m) – This is a process that the team undertake currently as resources permit, but was completed more comprehensively historically due to increased time and resources that the team had available to them. This process involves the financial assessment officer working with the service user to maximise the benefits that they are entitled to such as Attendance Allowance. Through the calculation of the financial assessment, which determines an individual's ability to contribute towards the cost of their care, this will result in a proportion of the additional benefits received meeting an additional contribution towards the cost of the care services commissioned by the County Council. It is anticipated that with more focus to this process the additional income levels can be achieved.

In Appendix D are details of further savings that have been identified as part of the Zero Based Budget Review (ZBBR) undertaken as part of the Council's agreed financial strategy. The savings identified as part of this exercise total £6.320m.

Equality and Cohesion

Cabinet must ensure that they comply with the requirements of the Public Sector Equality Duty contained in s.149 of the Equality Act 2010.

It is not considered that any of the budget proposals set out in the report will have any negative impact on any persons with protected characteristics as defined in s.149.

Implications:

Risk management

The County Council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks that could affect the position outlined in the report primarily cover the following:

Level of Future Resources from Central Government

Risks remain in relation to the level of resources the Council receives from the government in terms of Revenue Support Grant and the impact of the statement by the Chancellor of the Exchequer regarding the retention of 100% business rates and the ending of RSG by the end of this Parliament. At this point in time there is insufficient detailed information regarding the changes to amend the funding assumptions within the MTFS.

Demand

There is continued pressure on the Council's budget, particularly around Adults and Children's social care, and the most up to date demand forecasts have been included. However any increase in demand over above that forecast will add additional pressure to future years.

Inflation

A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of meeting new national living wage levels for their employees.

Delivery

The MTFS assumes that c£148m of existing agreed savings will be delivered in the period 2016/17 to 2017/18 to ensure the current forecast gap does not increase. There are a significant number of factors, both internal and external which may impact upon delivery and the impact of these on new and existing budget proposals being taken forward will need to be clearly identified and minimised.

List of Background Papers

Paper	Date	Contact/Tel
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