Appendix B

Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy as at 30th September 2016

Lancashire County Council

Financial Outlook for the County Council: Medium Term Financial Strategy

1. Executive Summary

1.1 Introduction

This report outlines the financial position facing Lancashire County Council over the period 2017/18 to 2020/21. The County Council is experiencing an ongoing period of unprecedented financial pressure as a result of the Government's extended programme of austerity combined with significant increases in demand for public services.

In September 2016 Cabinet received a report outlining the latest financial position facing Lancashire Council which covered the period 2017/18 – 2020/21 and estimated an estimated in year funding gap of £147.944m by the end of the 4 year period. The Council being forecast to have a cumulative deficit of £397.900m by the end of 2020/21.

This report provides an updated position following a review of the existing assumptions to reflect the most current information available. As a result of these reviews the funding gap has reduced to £146.133m, however the cumulative gap has increased to £411.209m as a result of a larger 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 savings that are included cover savings identified as part of Zero Based Budget Review (ZBBR) process totalling of £6.320m in areas such as Design and Construction, Emergency Planning and Resilience and Legal and Democratic Services. In addition it has been identified as part of the detailed review of Adults Services that further savings (over the 4 year period) can be found relating to Learning Disability Remodelling (£4.800m) and in Financial Assessments (increased income) (£1.200m) through benefits maximisation.

1.2 Financial Overview 2017/18 – 2020/21

Under a separate Money Matters report the County Council's financial position for 2016/17 as at 30th September has been outlined (£13.271m forecast underspend). This is a significant improvement compared to the financial position reported to Cabinet in September, but is primarily the result of Treasury Management activities and the underlying position reflects increasing pressures on demand led budgets, particularly Children's Social Care.

The assumptions made in the original MTFS have been reviewed and been updated to reflect the latest information available.

The table below provides a detailed analysis and movements between the previously reported financial gap and the revised financial gap:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Spending Gap as reported to Cabinet September 2016	47.978	35.922	34.178	29.866	**147.944**
Add change to forecast of spending:					
Pay and Pensions	-0.054	0.721	0.886	-0.017	**1.536**
Price Inflation and Cost Changes	-0.253	0.636	0.697	-0.526	**0.554**
Service Demand and Volume Pressures	7.901	-0.268	-0.430	-0.088	**7.115**
Other	-1.794	0.309	0.301	0.276	**-0.908**
Undeliverable Savings	2.211	0.000	0.000	0.000	**2.211**
Re-profiled Savings	12.479	-9.022	-3.400	-0.057	**0.000**
Additional Savings	-8.120	-1.800	-1.200	-1.200	**-12.320**
Total change to forecast of spending	**12.372**	**-9.425**	**-3.146**	**-1.612**	**-1.811**
Funding	0.000	0.000	0.000	0.000	**0.000**
Total change to forecast of resources	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Revised funding gap	**60.350**	**26.497**	**31.032**	**28.254**	**146.133**

Aggregated Funding Gap					**Total £m**
2017/18 (£m)	60.350	60.350	60.350	60.350	**241.400**
2018/19 (£m)		26.497	26.497	26.497	**79.491**
2019/20 (£m)			31.032	31.032	**62.064**
2020/21 (£m)				28.254	**28.254**
Total	**60.350**	**86.847**	**117.879**	**146.133**	**411.209**

1.3 Conclusion

Lancashire County Council continues to face, as previously stated, an unprecedented period of financial constraint through to at least 2020/21.

The recent PwC report presented to Cabinet validated the MTFS position previously reported and reiterates that the financial commitment required to fund statutory demand led services is above the County Council's resources, even if the lowest quartile benchmark for expenditure is achieved in each service area. Whilst we cannot 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, indications from the previous base budget review tied in with the outturn position delivered in 2015/16 suggests that there will be insufficient resources to cover statutory services, as they are currently delivered, from 2018/19.

The County Council, in redesigning the services it provides to the public, faces the challenge of doing so whilst delivering significant savings, over and above those already agreed and the additional £12.320m identified in this report, of an estimated £142m over the next 4 years.

As part of the process of redesigning its services the County Council has previously explicitly recognised that it will need to utilise its reserves. Details on the reserves are detailed in the Money Matters report Appendix C. In this report it is noted that as at 1 April 2016 the County Council had £314.647m of reserves, some of which are already committed. Including the Funding Gap identified in this report, it has been identified that there is an estimated reserves requirement of £60.350m to support the revenue budget in 2017/18. Consequently, by 31st March 2018 it is anticipated that there will only be the £36.000m County Fund and a residual £79.767m of service reserves which includes £8.354m school PFI expenditure and £5.084m which is not LCC money, meaning in effect the available balance of £66.329m. This position is a forecast dependent upon a number of key factors that are detailed within Appendix C.

2. Resources

The MTFS includes government funding based on the Secretary of State's proposed allocations up to 2019/20.

The MTFS approved by Cabinet in September 2016 included the following forecast resources:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	180.861	186.141	192.038	197.255
Council Tax	430.627	452.288	475.036	498.932
New Homes Bonus	5.530	3.475	3.334	3.334
Better Care Fund	3.210	22.656	40.014	40.014
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
Total	**715.390**	**726.539**	**743.316**	**766.463**

The figures above were based on a number of assumptions which have revisited as part of this report, however at the moment there is not any further information that would indicate that these figures should be revised. It is important to note that Council Tax has been increased by 3.99%, however this will be a Full Council decision when setting the budget for each financial year.

2.1 Autumn Statement

The Autumn Statement did not provide many proposals which will have a direct impact on the County Council and therefore there are no changes reflected in this MTFS. The Chancellor announced that departmental spending plans would remain unchanged from those estimates provided in 2015.

Key issue of the Statement was that the economy is still resilient but that forecasted economic growth is due to fall in 2017 and 2018.

The Chancellor has identified the productivity of the economy as a problem. To address this he announced a number of investments in research and development, housing, digital infrastructure and Transport some of which could impact on Lancashire, but this will only be known when further details are provided.

The announcement included an increase in the National Living Wage which has already been provided for the MTFS. There was also an announcement that employee and employer national insurance thresholds will be equalised from April 2017, although at the moment we require confirmation of the details of this change. If this ultimately represents a cost pressure to the County Council it will be reflected in a future MTFS.

2.2 Settlement Funding Assessment (SFA)

The Secretary of State announces a Settlement Funding Assessment (SFA) for each authority. This is an indication of the level of resources required by an authority which is to be met from business rates and RSG. In 2016/17 the Secretary of State announced details of proposed support for the next 3 years, i.e. up to 2019/20 and the MTFS has been based on this Settlement. These were:

	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment (SFA)	258.326	239.014	220.747
Funded by:			
Revenue Support Grant	81.508	56.979	32.894
Business Rate Baseline	176.818	182.035	187.853
Total	**258.326**	**239.014**	**220.747**
Reduction in SFA	-33.923	-19.312	-18.267

The Settlement for 2017/18 to 2010/21 was indicative but the Secretary of State offered local authorities the opportunity to apply for a four year finance settlement covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. The County Council has not accepted the offer of a four year finance settlement as it has been evidenced, and validated by PwC, that there are not sufficient funds within the proposed settlement to support the Council's statutory services. As part of this forecast Revenue Support Grant is assumed to reduce each year until ultimately it is phased out completely by April 2021 at the latest.

The indicative figures that have been provided remain the best available forecast of Central Government's funding intentions. They have therefore been retained as the basis of this MTFS.

However, there is still significant risk associated with the figures include in the table above. At the time of the final settlement in February 2016 the forecast of economic growth was in the region of 2% per annum, however the Autumn Statement has now indicated a worsening position in 2017 (1.4%) and 2018 (1.7%). Since then economic conditions and uncertainty both at home and in the world economy have worsened, particularly following the United Kingdom's decision to leave the European Union. Most estimates of UK economic growth over the lifetime of this MTFS are now lower. This will have an impact on Government finances and could potentially result in further public sector expenditure reductions although the Chancellor has announced that the aim to generate a surplus by the end of parliament is no longer sustainable.

Business Rates

The business rates budget consists of:

- Business rate top up grant
- Business rate income from District Councils
- Section 31 grants

As shown in the table above detailing the SFA the business rate income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the County Council the amount anticipated to be received from the business rates collected in the area is less than its assessed need therefore it receives a top up grant.

Unless there is change in the SFA due to the economic uncertainties referred to above; the level of the top up grant between 2017/18 and 2020/21 is the best basis of the forecast available for business rates figures in the MTFS. There is however some degree of discretion over the locally raised amounts.

It is also possible that business rate income could fall, although there is a safety net within the business rates retention system which ensures that no authority's income will fall by more than a set percentage of their original baseline funding level (and this level will be increased by RPI every year). The Safety Net percentage has been set at -7.5%.

In terms of the MTFS, whether or not to add additional income is difficult to assess. There is little local information and much will depend on the general economic performance of local areas. In addition, there are valuation appeals outstanding, some of which are on large value properties. If successful these will have a negative impact on the ability to generate business rates.

The baseline data already assumes an increase in income derived from local business rates. Therefore given the economic uncertainty forecast income has been maintained at the baseline funding level.

In 2015/16 the Government compensated authorities for the cost of a number of measures introduced by the Government. These were the multiplier cap, the temporary doubling of small business rates relief, the temporary maintenance of small business rate relief when a second property is occupied, relief given to newly built properties whilst they are empty (herein after referred to as "new empty" property relief), relief given to long-term empty property brought into occupation ("long-term empty relief"), retail relief, flooding relief and payments made in lieu of transitional relief. Compensation is provided by means of a grant paid under Section 31 of the Local Government Act 2003 and the County Council has been notified that its S31 grant in 2016/17 is £3.992m. There is no information in respect of future years but the main elements of the grant relate to the multiplier cap and the doubling of the small business rate relief.

Assuming that the reliefs continue the impact of the multiplier cap is likely to rise with inflation as without the cap the income would have increased. Other reliefs are more likely to relate to the change in the business rate base. It has been assumed that the level of S31 grants is maintained at the current level.

The final aspect of the business rate forecast is the pooling arrangement. The 2016/17 budget includes an additional £0.400m due from the pooling arrangement. The pool is a one year arrangement. It is expected that this arrangement will continue, however until this has been confirmed this has not been built into the MTFS for 2017/18.

Council Tax

The MTFS presented to Cabinet in September included the assumption that Council Tax would increase by 3.99% per annum which is the current referendum limit; although it is important to note that this has not been confirmed for future years.

The MTFS last presented to Cabinet also assumed increased the tax base year on year by 1%, as this level of growth would seem to be reasonable given the economy is growing, and also with the City Deal impacting on the number of households that will be paying Council Tax.

Recent tax base data are:

	Tax base	% change
2010/11	382,201	
2011/12	383,227	0.27
2012/13	383,703	0.12
2013/14	331,648	-13.57
2014/15	336,050	1.33
2015/16	342,636	1.96
2016/17	348,980	1.85

The MTFS contains the following forecast income for Council Tax assumes a 3.99% increase in Council Tax along with a 1% increase in the tax-base.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Council Tax Income	430.627	452.288	475.036	498.932

New Homes Bonus

The 2016/17 Local Government Finance Settlement included an actual New Homes Bonus figure for 2016/17 and indicative allocation for 2017/18 to 2019/20. These future years' form the basis of the MTFS. They are lower in later years to reflect a reduction in the total funding allocated. However, the New Homes Bonus System (NHB) is subject to change and actual allocations will depend upon the outcome of the consultation that was undertaken earlier in 2016 and also the impact of future local growth. At this stage it is still the best information available for NHB allocations.

Better Care Fund/ Transitional Grant

The MTFS is based on indicative data in the last Settlement and therefore represent the best estimate available.

Capital Receipts

As part of the Autumn Statement the Chancellor of the Exchequer announced that the rules for the use of capital receipts, which is the income received from the sale of the County Council's fixed assets, were to be amended to help local authorities deliver more efficient and sustainable services. Previously the use of capital receipts has been restricted to the funding of capital expenditure or the repayment of debt. From 1 April 2016 capital receipts can be used to fund revenue expenditure which meets qualifying criteria, which is that the revenue expenditure needs to be on any project which is designed to generate ongoing revenue savings or to transform the service so as to make savings or improve the quality of service provision.

Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

Current estimates of the capital receipts to be generated are:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Capital receipts generated	5.000	12.500	5.000

An estimated £22.500m has previously been agreed to be applied to the revenue budget. It should be noted that the receipts are one-off resources and there is a possibility that the level of receipts to be generated from the sale of assets will not be maintained at these levels for a sustained period of time. The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely. This report does not assume any variation from the existing assumptions.

The funding gap shown in section 1.1 already assumes the use of these receipts in supporting the revenue budget under the new flexibilities which Councils can apply.

3. Net Spending Pressures

The MTFS covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed savings measures that are either no longer achievable at all or not to the scale or in the timeframes originally planned**.**

3.1 Pay

In the July 2015 Budget the Chancellor announced a 4 year restriction on public sector pay increases at 1% per year. This assumption was built into the current MTFS and remains unchanged, however a full review of the current staffing cohort and future savings that may impact on staffing has been included. This also incorporates a separate calculation for the National Living Wage which the County Council is committed to paying its employees as an accredited member of the Living Wage Foundation. The pay requirement also includes a provisional amount for additional holiday pay to staff.

As part of the review of the MTFS a resource requirement has been built in to fund the cost of increments that will be paid to staff as they progress up their respective grades. The staffing budgets have undergone a full realignment in 2016/17 with budgets being allocated on specific grade points at the start of 2016/17, with the staffing data being regularly reviewed as changes occur, particularly in relation to service restructures.

The pension's element of the pay budget has seen a reduction in this MTFS due to an over provision in the previous MTFS in relation to the County Council's estimated contribution rate and deficit contributions, with updated information recently received. There was previously £4.445m included for pensions in the MTFS for 2017/18, but this has now been revised to £1.390m in 2017/18.

The Chancellor has previously announced that an apprenticeship levy would be introduced to help fund employer apprenticeship schemes and "invest in Britain's future." The levy will be introduced in April 2017 at a rate of 0.5% of an employer’s pay bill, therefore an estimate of £1.500m has been included in this MTFS.

The table below presents the amounts already built into the MTFS for pay and the impact of the revised calculation:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Pay (including Pensions) – Previous MTFS	**9.891**	**5.130**	**5.132**	**5.689**	**25.842**
Pay requirement (1% increase and Living Wage)	4.422	2.933	3.518	4.229	**15.102**
Incremental Pressure	2.525	2.308	1.828	1.443	**8.104**
Pensions Costs	1.390	0.610	0.673	0.000	**2.673**
Apprentice Levy	1.500	0.000	0.000	0.000	**1.500**
Revised Pay Budget Requirement	**9.837**	**5.851**	**6.018**	**5.672**	**27.378**
Impact on Financial Gap	**-0.054**	**0.721**	**0.886**	**-0.017**	**1.536**

3.2 Price Inflation and Cost Changes

Contractual price increases represent a significant cost pressure to the County Council. The assumptions have been subject to regular review by services with an increase of £5.212m identified over the 4 year period.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Price inflation – previous MTFS	20.037	13.652	15.855	18.481	**68.025**
Revised price inflation requirements	19.784	14.288	16.552	17.955	**68.579**
Impact on Financial Gap	**-0.253**	**0.636**	**0.697**	**-0.526**	**0.554**

Some of the key areas of price pressure are:

- A significant part of the price pressures shown in the above table relate to inflationary pressures within Adults Services. This is calculated using a model designed by Lang and Buisson which is commonly used to estimate inflation within social care. It is forecast that a budget requirement of £45.419m over the MTFS period is required for payments to external providers of social care (excluding the impact of the National Living Wage) and it is important that the County Council keeps up with increases in the price of resources for suppliers to ensure the required service provision is delivered.

  The price inflation included in the MTFS for Adults Service is profiled as follows:
    - 2017/18 – £14.232m
    - 2018/19 - £9.668m
    - 2019/20 - £10.395m
    - 2020/21 - £11.124m

  The inflationary pressures included in this MTFS for Adults Services reflects a reduction of £2.537m following the realignment of budgets and some slight amendments to demand figures based on the most up to date information available. The County Council has a legal responsibility to demonstrate the suppliers are able to deliver services with the fees paid to them. This figure also incorporates recent fee increases of £5.200m that were agreed by the Cabinet Member which is the main reason behind the additional requirement in 2017/18.

- Waste Disposal continues to require significant budget to meet inflationary commitments over the next four years. In total the total budget requirement for the service is £9.055m. The requirement within the previous MTFS was £7.262m with the revised position incorporating the increased demand budget that will then require inflation to be applied to it.

- Children's Social Care is the final significant area that required price inflation within its budget. In the previous MTFS a total of £6.086m was included for items that will inflate such as agency payments, residence orders, foster and other allowances and payments to health. The revised requirement in this MTFS over the four year period is £7.344m with the increased pressure linked to the increased demand that will have an inflationary pressure applied to it.

- Other smaller areas of price inflation include transport costs, concessionary travel, highways, winter maintenance, energy and legal fees.

3.3 Demand Pressures

All services have reviewed the demand pressures faced by the County Council in future years. The impact of this review has been identified and is reflected in the revised MTFS and it can be seen that a significant proportion of the funding gap that has been identified is due to demand pressures.

In total it is estimated that the demand pressures are now £87.599m. This is an increase of £2.457m from the previous MTFS over this time period.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Demand – previous MTFS	29.981	15.448	18.498	21.214	**85.141**
Revised Demand Requirements	37.882	15.180	18.068	21.126	**92.257**
Impact on Financial Gap	**7.901**	**-0.268**	**-0.430**	**-0.088**	**7.115**

Adult Social Care represents a large proportion of the demand pressures. Adult Social Care has long seen annual increases in the demand for services and the MTFS attempts to predict growth in future years largely based on reviewing current and past activity trends but also taking into account future population changes.

In deriving the estimated cost of demand the following projections have been used:

- Older People – population projections from the ONS for the aged over 85 population.

	2017/18	2018/19	2019/20	2020/21
Total Older People Population Projection Growth	1.92%	2.52%	3.07%	3.57%

The percentages presented above are those that were used within the previous MTFS, and still reflect the best estimate of population increases and have therefore continued to be used within this MTFS.

All other demand assumptions contained within this revised MTFS regarding Adult Social Care have been reviewed based on the most up-to-date trend analysis and also incorporated budget realignments that are reflected within the revenue monitoring report. The previous MTFS contained £59.105m additional budget requirement for demand over the next four years, whereas this MTFS now contains £56.493m.

The demand included in the MTFS for Adults Service is profiled as follows:

- 2017/18 – £10.775m
- 2018/19 - £12.540m
- 2019/20 - £15.336m
- 2020/21 - £17.842m

- The cost of Children's Social Care continues to experience increasing demand and has been significantly increased again as part of this iteration of the MTFS (and can be linked to the budget monitoring positon for Children's Social Care). In the previous MTFS the total demand requirement for this service area was £12.324m. The forecast is now anticipating costs of £21.420m. This is in addition to significant additional budget that the service has been given to support improvements following the Ofsted inspection (c£16m).

  The particular area of concern is in relation to Agency Residential placements as demand seems to be particularly high in this area. The forecast is based on available financial and activity information and assumes that placements will continue to increase by 3.4% (the current average monthly increase in the number of children placed in Agency Residential) until the end of the financial year and then after that will increase as per child population increases. Work is underway to review the underlying reasons for increases in numbers of placements and is an area that is being kept closely under review by the 0-25 Board.

  A Finance Sub-Group has been established to specifically focus on the cost drivers, unit costs and financial analysis of the costs and demand levels being experienced in Children's Social Care, with their findings being reported back to the 0-25 Board. This analysis and action is vital as the current demand levels represent a significant risk to the MTFS assumptions, as there are only currently population increases (c£0.300m - £0.400m) included in each year from 2018/19 – 2020/21 which are significantly below the current demand levels.

  The additional budget requirement of £9.096m in 2017/18 for Children's Social is included within the revised MTFS. This reflects the overspend that is being reported as part of budget monitoring in 2016/17 and continues to anticipate a growing population of children looked after in 2017/18 and beyond with an overall £22.361m included from 2017/18 – 2020/21.

- The revised MTFS for 2017/18 continues to include a significant amount in relation to Waste Services demand pressures as a result of increases in residual waste arisings with 4% currently being forecast (compared to a previously assumed 1%) and some additional green waste costs. In the previous MTFS the budget requirement for waste was £9.946m with the revised position in this MFTS being a requirement of £11.204m due to slightly increasing demand.

3.4 Other

This section contains adjustments in relation to the National Living Wage assumptions anticipated additional income for the Mental Health service and other minor adjustments to service budgets.

3.5 Undeliverable Savings

The savings to be achieved are constantly under review. This has resulted in some savings plans being identified as now not being fully deliverable or delayed.

Within this MTFS the previously savings contained within the budget for Adults Services have been re-profiled and adjusted to reflect the transformation work, "Passport to Independence" that the service is undertaking with Newton Europe. This results in a significant although largely temporary additional budget requirement of £14.256m in 2017/18, as in future years the budgets are reduced to reflect the correct timing of the achievement of the savings.

However, there is a net £1.777m that may not be achieved and has been built back into the MTFS.

Other areas where savings are deemed to be undeliverable are mainly facilities management, where items such as the revised plans for Woodlands and the decision not to reduce opening hours means that savings totalling £0.434m will not be achieved and have been adjusted for in the MTFS.

3.6 Adjustments to Savings Programme

As part of last year's budget strategy and budget setting process a Zero Based Budget Review (ZBBR) process was commenced to identify any further efficiencies and budget savings within service and corporate budgets. As a result of the work undertaken a total of £6.320m has been identified as potential budget reductions for 2017/18 in areas such as Design and Construction, Emergency Planning and Resilience and Legal and Democratic Services. Further details of the ZBBR outcomes can be found in Appendix D.

In addition it has been identified as part of the detailed review of Adults Services that further savings (over the 4 year period) can be found in the following areas:

- 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.

3.7 Re-profiled Savings

Following further detailed work with Newton Europe surrounding the Adults Saving programme the saving has been re-profiled. This results in reduced savings in 2017/18 but the savings are achieved in later years.

4. Future Risks

In addition to the economic uncertainty post-Brexit outlined earlier in the report, the following are key future risks, the full impact of which is not yet known at this stage:

4.1 Agreed Savings Plans Delivery

The scale of agreed savings is hugely significant given both the scale and areas covered, and there are inherent risks in their delivery. Any significant under-delivery of agreed savings will create an additional funding gap and impact on the ongoing and longer-term financial health of the Council. This has been identified as one of the highest level risks in the Risk and Opportunity Register. There are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

4.2 Identification of Further Savings Opportunities

Cabinet has previously agreed a financial strategy based on:

- Setting an expenditure target for service expenditure levels to move in line with the lower quartile of the most appropriate group of local authorities for individual services.

- Stage 3 of the base budget review being the zero base with a fundamental review of all expenditure within services to ensure the best value for money. The outcome of this work is included on this agenda as a separate report and the impact included within this report.

- PwC are assisting the council in scoping and undertaking the review prioritising development of a public services operating strategy for the County Council to enable it to be sustainable within its forecast financial resource envelope by 2020/21. This is ongoing with the outcomes from this work 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.

- Transformational work across Adult Social Care aimed at both improving systems and processes and delivering significant financial savings. The overall scale and phasing of benefits from the review has now been finalised and included in the revised position within this report.

4.3 Business Rates Retention / Changes to Funding Formula

In 2015 the Chancellor announced that local government as a whole would be able to keep 100% of business rates by 2020. Using Office for Budget Responsibility (OBR) forecasts the Government has estimated that additional business rates kept by councils will be c£13bn by 2020/21 with the intention to transfer new responsibilities to local government to ensure cost neutrality overall of the funding changes. There is currently a system of redistribution (top-ups and tariffs) to reflect there are councils with relatively higher needs but lower income from business rates and vice versa. The Secretary of State for Communities and Local Government has also announced a full review of needs and redistribution which will be use as the starting point for the new system when it comes into force.

The County Council currently receives a top-up grant, primarily as a result of having Adult Social Care responsibilities, and there is insufficient information currently, although work is progressing nationally with a number of complete and planned consultations regarding the changes, to model what the financial impact of the changes will be and the financial impact on the County Council.

4.4 STP

Since 2015 the County Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). Building on this is the requirement for every part of the NHS to have a locally led Sustainability and Transformation Plan (STP) in place by 2017. This is within the context of the substantial financial challenges for the health and social care system in Lancashire and will necessarily involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for patients and service users.

4.5 Children's Social Care

Children's Social Care is currently reporting an overspend of £17.736m with demand levels continuing to increase, particularly within agency residential placements. The establishment of the 0-25 Programme Board in addition to a supporting Finance Sub Group are critical in analysing the current and future levels of demand and working to develop demand management across the service. However if demand levels are not controlled then there will be substantial additional costs to the County Council that are not currently reflected within this MTFS.

4.6 Procurement

The MTFS includes general inflationary price increases across impacted areas which are generally based around national statistics such as RPI. It also includes any contractual or other price pressures that are known about. However, there are a number of significant procurement exercises that the County Council (e.g. homecare) will be undertaking over the timeframe of the MTFS (with some over the next 12 months) and any additional price increases will be built into future MTFS revisions.