

## Report to the Cabinet

Meeting to be held on Thursday, 9 November 2017

## Report of the Director of Financial Resources

Part I

Electoral Division affected:  
(All Divisions);

### Money Matters - 2017/18 Financial Position and Medium Term Financial Strategy

(Appendices 'A', 'B', 'C' and 'D' refer)

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#### Executive Summary

This report provides an update of the forecast outturn Financial Position for 2017/18 on revenue as at 30 September 2017, and the County Council's updated Medium Term Financial Strategy for the period 2018/19 to 2021/22. The report also sets out budget proposals for Cabinet to consider.

#### Recommendation

The Cabinet is recommended to:

- (i) Note the forecast underspend of £7.498m on the 2017/18 revenue budget.
- (ii) Note the revised Medium Term Financial Strategy (MTFS) and funding gap of £161.218m covering the period 2018/19 to 2021/22.
- (iii) Note the position in respect of the Council's reserves and to agree the transfers outlined in the report.
- (iv) Approve the budget proposals set out within Appendix 'D' for the purposes of consultation, where necessary, with the recognised Trade Unions, the outcome of the consultation to be reported back to Cabinet at a future meeting.

#### Background and Advice

##### Financial Position as at 30 September 2017 (Appendix 'A')

An underspend is forecast for the County Council of £7.498m and represents a variance of 1.03% against the overall County Council revenue 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.

The 2017/18 revenue budget of £724.822m includes a significant savings requirement of c£54m. However, a significant proportion of savings will not be fully implemented until 2018/19 so it was agreed that these would be covered by the use of reserves to facilitate the transformation of services.

The narrative provides details as to progress on the achievement and delivery of the savings relating to each Head of Service. The level of reserves that were approved to be applied from the Transitional Reserve 2017/18 in support of the delivery of savings was £24.2m and the amount that is now forecast to be required is £16.5m. This is due to early delivery of some savings, particularly through staff vacancies and turnover, although this is partially offset by some budget savings that are delayed and will require reserve funding to cover the delay in implementation.

The forecast position includes £93.513m from reserves (net contribution) which includes the strategic investment reserve, downsizing reserve, risk management reserve, transitional reserve and specific service reserves. (Details can be found in Appendix 'C').

Delivery of the significant savings programme is a key risk area and the savings plans will continue to be subject to detailed regular scrutiny throughout 2017/18.

#### The Medium Term Financial Strategy (Appendix 'B')

A revised MTFs was presented to Cabinet in September with a reported funding gap of £167.132m.

This report provides an updated position for the rolling 4 year period and a review of the existing assumptions to reflect the most current information available. As a result of these reviews and despite the identification of £12.577m of new savings (the MTFs includes an assumption that all identified savings in Appendix 'D' will be agreed) the funding gap has decreased to £161.218m.

It is important to note that the funding gap is not evenly spread, with a gap of £64.765m forecast for 2018/19, £90.292m in 2019/20, £143.425m in 2020/21 and £161.218m in 2021/22.

#### The County Council's Reserves Position (Appendix 'C')

At Full Council in February 2017 the budget report included a forecast required commitment from the Transitional Reserve of £88.040m in 2018/19 to support the reported financial gap at that time. However, following a review of the MTFs for Cabinet in September 2017 based on the financial position at the end of June 2017 it was identified that the gap between forecast expenditure and funding in 2018/19 was £90.205m.

The updated MTFS based on the financial position at the end of September 2017 (Appendix 'B') identifies the gap between forecast expenditure and funding in 2018/19 as £64.765m.

The value of the uncommitted Transitional Reserve is currently £94.201m and whilst it is anticipated that further revenue savings for 2018/19 will be identified, Table 2 of this report shows the impact of utilising the Transitional Reserve to fund the £64.765m gap which would leave £29.436m available for use in 2019/20 based on current forecasts.

Table 1 also shows available balances in the Strategic Investment Reserve, Risk Management Reserve and Service Reserves where work is currently underway to review if there are further commitments or other conditions (such as grant requirements) that means that these funds cannot be transferred to the Transitional Reserve. The total of the balances under review is £9.425m.

The report indicates that there are sufficient funds within the Transitional Reserve to support the budget gap between forecast expenditure and available funding in 2018/19 but not then in 2019/20 and beyond. However this is dependent upon a number of key factors and risks which are as follows:

- All values within reserves that are currently reported to be available funds are transferred into the transitional reserves with no further commitments emerging in these areas now that the transfer has taken place.
- There is limited slippage on the agreed savings programme for 2018/19 and beyond. Any slippage will result in a requirement for funding from reserves.
- Further savings are identified and implemented from April 2018 to support achieving a balanced budget position.
- Impact of the in-year revenue position – a positive or negative outturn will impact on the level of reserves available from April 2018.

#### Additional Savings 2018/19 – 2021/22 (Appendix 'D')

As the County Council continues to have a significant and increasing financial gap over future financial years a detailed review has been completed of service budgets. This has resulted in savings totalling £12.577m (over the next 2 financial years) being included within this MTFS from 2018/19 onwards with the total value presented in Appendix 'D'.

It is anticipated that further savings proposals will be presented for approval at future Cabinet meetings, reflecting that there remains an estimated shortfall of £64.765m in 2018/19 should savings in this report be agreed and delivered.

#### **Consultations**

N/A

#### **Equality and Cohesion**

Cabinet must ensure that they comply with the requirements of the Public Sector

Equality Duty as set out in s.149 of the Equality Act 2010.

The budget proposals set out in Appendix 'D' which have a negative impact on any persons with protected characteristics will be the subject of Equality Analyses to be considered by Cabinet.

This item has the following implications, as indicated:

### **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 (RSG) 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 Adult and Children's social care, and the most up to date demand forecasts have been included. However any increase in demand above the current 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£54m of existing agreed savings (aside from those agreed as part of 2017/18 reports to Cabinet) will be delivered in the period 2017/18 to 2020/21 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.

## Legal

The immediate legal implications of the budget proposals to be considered by Cabinet are set out in Appendix 'D'.

### List of Background Papers

Paper	Date	Contact/Tel
Money Matters 2017/18 Position – Quarter 1	14 September 2017	Neil Kissock/(01772) 536154
The County Council's Budget	9 February 2017	Neil Kissock/(01772) 536154

Reason for inclusion in Part II, if appropriate

N/A