



Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy as at
30th September 2017

www.lancashire.gov.uk

	Contents	Page
1	Executive Summary	3
2	Funding	6
3	Net Spending Pressures	11
4	Future Risks	16

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 2018/19 to 2021/22. 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 2017 Cabinet received an updated medium term financial strategy (MTFS) summary outlining the latest financial position facing Lancashire Council which covered the period 2018/19 – 2021/22 as at 30th June 2017 (Quarter 1) and estimated an in year funding gap of £167.132m by the end of the 4 year period.

This report provides an updated position for the period 2018/19 - 2021/22 and a review of the existing assumptions to reflect the most current information available. As a result of these reviews, increases to the level of capital receipts and the identification of £12.577m of new savings the funding gap has reduced to £161.218m. Offsetting these improvements are demand and inflationary pressures.

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.

1.2 Financial Overview 2018/19 – 2021/22

Under a separate Money Matters report the County Council's financial position for 2017/18 as at 30 September 2017 has been outlined (£7.498m forecast underspend), although this is based on a revenue budget heavily supported by reserves.

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

The table on the next page provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Spending Gap as reported to Cabinet Q1	90.205	8.432	51.858	16.637	167.132
Add change to forecast of spending:					
Pay & Pensions	0.049	0.100	0.358	0.657	1.164
Inflation and Cost Changes	-0.248	0.074	0.076	0.068	-0.030
Service Demand and Volume Pressures	3.259	-0.003	-0.063	-0.010	3.182
Other	-7.967	8.030	1.064	0.730	1.857
Undeliverable Savings	0.490	0.000	0.000	0.000	0.490
Additional Savings	-10.799	-1.778	0.000	0.000	-12.577
Reprofiled Savings	0.801	-0.352	-0.160	-0.289	0.000
Total Change to Forecast of Spending	-14.415	6.070	1.275	1.156	-5.914
Change to forecast of resources:					
Funding	-11.025	11.025	0.000	0.000	0.000
Total Change to Forecast of Resources	-11.025	11.025	0.000	0.000	0.000
Funding Gap	64.765	25.527	53.133	17.793	161.218

Aggregated Funding Gap					Total £m
2018/19 (£m)	64.765	64.765	64.765	64.765	259.061
2019/20 (£m)		25.527	25.527	25.527	76.581
2020/21 (£m)			53.133	53.133	106.265
2021/22 (£m)				17.793	17.793
Total	64.765	90.292	143.425	161.218	459.701

1.3 Conclusion

Lancashire County Council continues to face, as previously stated, an unprecedented period of financial constraint during the period covered by this MTFS.

The previous MTFS presented to Cabinet in September 2017 forecast a financial gap totalling £167.132m by 2021/22. The revised position reported in this MTFS indicates an improved financial gap of £161.218m by 2021/22. This revised position has changed predominantly as a result of the inclusion of new savings proposals offset by increasing demand (particularly within Children's Social Care).

As part of the process of redesigning its services the County Council has previously explicitly recognised the need to utilise its reserves. Details on the updated reserves position are provided in the Money Matters report Appendix C.

When reviewing the County Council's Reserves (Appendix C) in conjunction with the Medium Term Financial Strategy the funding requirement to bridge the financial gap in 2018/19 would total £64.765m. This position is a forecast dependent upon a number of key factors that are detailed within Appendix C. It is important to note that reserves are a one off resource, which excluding County Fund, based on the current forecast will be exhausted by 2019/20, and then not available to support a financial gap thereafter.

2. Funding

The MTFs includes government funding as announced in the Final Settlement in February 2017. It is important to note that the proposed allocations issued from the Government only cover the period up to 2019/20 and assumptions have had to be made for 2020/21 – 2021/22. It is currently anticipated that a new system of Local Government finance will be in place in 2020/21 which involves Local Government retaining all of the business rates and a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time therefore the current business rates and grants structure has been forecast for future years.

The Secretary of State offered Local Authorities the opportunity to apply for a four year financial settlement covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. The County Council declined this offer as there was evidence to suggest that the proposed settlement did not provide sufficient funding to support the Council's statutory services.

The MTFs approved by Cabinet in September 2017 included the following forecast level of resources:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rates	187.206	193.788	198.989	204.431
Council Tax	458.371	483.810	500.839	518.468
New Homes Bonus	3.727	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	5.000	0.000	0.000	0.000
Total	733.939	754.219	743.049	766.120

The figures above were based on a number of assumptions which have been revisited as part of this report and the latest information available has been included. It is important to note that these figures show Council Tax increasing by 3.99% up to 2019/20 and 1.99% thereafter, however this will be a decision made by Full Council each year when setting the budget.

The revised resources position incorporating the details set out below is as follows:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rates	187.206	193.788	198.989	204.431
Council Tax	458.371	483.810	500.839	518.468
New Homes Bonus	3.727	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	16.025	0.000	0.000	0.000
Total	744.964	754.219	743.049	766.120

2.1 Settlement Funding Assessment (SFA)

The Settlement Funding Assessment (SFA) is an indication of the level of resources required by an authority which is to be met from business rates and Revenue Support Grant (RSG). On 20th February 2017 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. Assumptions have been made that the funding follows a similar pattern in 2020/21. In the MTFs an assumption has been made that there will not be a Revenue Support Grant from 2020/21 as a result of the latest information available following the final financial settlement in February 2017.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
SFA Funded by:				
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rate Baseline	182.642	189.138	194.249	199.597
Total	239.621	222.032	194.249	199.597
Reduction in SFA	-18.835	-17.589	-27.783	5.348

As the County Council opted not to accept the four year settlement offered in 2016/17, the decision could result in future years grant being subject to change. As part of this forecast Revenue Support Grant is assumed to reduce each year until ultimately it is

phased out completely by April 2020 at the latest. It is hoped that, as part of the new funding formula and 100% business rates retention the County Council will be compensated for the removal of RSG and the new scheme that is put in place will be cost neutral. This will become clearer as more information becomes available.

The forecast of economic growth at the time of the Budget was 2% for 2017 but a worsening position was forecast in 2018 (1.6%). The uncertainty following the United Kingdom's decision to leave the European Union, will undoubtedly have an impact on Government finances and could potentially result in further public sector expenditure reductions.

2.2 Business Rates

Business Rates income consists of:

- Business Rates Top Up Grant
- Business Rates 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. There are no changes to the forecast income from Business Rates at Quarter 2.

Business Rates income for the County Council is heavily dependent upon cooperation from the District Councils, 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. With this in mind a minimal amount of growth has been built into the local share.

The baseline data from the government already assumes an increase in income derived from local business rates. Therefore given the economic uncertainty, no further growth has been built in on top of this.

The Government compensates authorities for the cost of a number of measures which they have introduced via Section 31 grant such as small business rates relief and the multiplier cap. Some of these reliefs are likely to rise with inflation as without the measure introduced, the income would have increased, whereas the other reliefs are more likely to relate to the change in the business rate base. It is assumed that the level of these reliefs is maintained at the current level.

The Lancashire Business Rates Pool

The final aspect of the business rate forecast is the pooling arrangement. The 2017/18 budget includes an additional £0.407m due to the continuation of the Lancashire Pool. This is agreed on an annual basis, therefore the additional income has not been included past 2017/18.

It is important to note that due to Lancashire County Council being part of a pooling arrangement it has forfeited the right to a safety net payment should our business rates income decline significantly, by more than 7.5%.

2.3 Council Tax

In the Provisional Financial Settlement in December 2016, in recognition of the pressures facing Local Authorities responsible for Adult Social Care, the Secretary of State announced that Local Authorities could bring forward the Adult Social Care Precept, moving from a limit of 2% to 3%, but with a maximum of 6% over the three year period (2017/18 – 2019/20). It was also announced that there would be no Adult Social Care Precept in 2020/21.

The MTFS presented to Cabinet in September included the assumption that Council Tax would increase by 1.99% per annum which is the current referendum limit, plus a 2% Adult Social Care Precept increase in 2018/19 and 2019/20. It is possible that the County Council could take the decision to raise a 3% Adult Social Care Precept in 2018/19 and therefore a 1% increase in 2019/20 due to the flexibilities offered by the Government, which would result in £4.4m of income being generated earlier, but by 2019/20 the cumulative position of income raised through Council Tax would be similar to the current MTFS projections. From 2020/21 onwards, it is assumed the maximum increase will revert back to 1.99%, as the option to raise an Adult Social Care precept will no longer be available. These assumptions continue to be reflected within this iteration of the MTFS. It is important to note that these increases would be subject to a Full Council decision each year when setting the budget, but any decisions taken not to increase council tax as per the assumptions above would increase the financial gap.

Tax Base

Analysis of Lancashire's tax base over recent years indicates an average council tax base increase of 1.7% therefore, in the MTFS at Quarter 1 a prudent tax base increase of 1.5% was built in to the figures. This will continue to be discussed further with District Councils throughout the year, and amended in future MTFS reports if required.

2.4 New Homes Bonus

As part of the provisional settlement, the Secretary of State announced that payments would be received for 5 years from 2017/18 and 4 years in future years. In addition no New Homes Bonus will be given for the first 0.4% of growth. These changes have been made to wholly fund the 2017/18 Adult Care Support Grant which resulted in a net gain for Lancashire overall (County Council, District Council and Unitary Councils) benefitting by £4.033m. This is one off funding that is within the 2017/18 budget.

2.5 Better Care Fund

The provisional allocations of the Better Care Fund remain unchanged from those reported to Cabinet in September 2017. It is important to note that provisional funding

information has only been provided up to 2019/20 therefore the MTFS assumes that this funding will continue into future years and/or be replaced by alternative funding at the same level.

2.6 Capital Receipts

From 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

The MTFS has been updated to reflect additional capital receipts that the County Council is forecast to achieve. The MTFS previously reported a value of £5.000m was included for capital receipts to support the revenue budget. In this revision of the MTFS £16.025m is now included. Any amounts over the amount forecast can be carried over towards the following year.

2.7 Improved Better Care Fund (iBCF)

At the 2017/18 Budget announcement a total of £2.021bn was announced as supplementary funding to the improved Better Care Fund (iBCF). This was to recognise that all local authorities face pressure on the provision of adult social care.

This resulted in Lancashire County Council receiving the following allocations:

- 2017/18 – £24.886m
- 2018/19 - £15.736m
- 2019/20 - £7.799m

The grant is non-recurrent and may only be used for the purposes of meeting adult social care needs, reducing pressure on the NHS including supporting more people to be discharged from hospital when they are ready and in ensuring that the local social care provider market is supported. Lancashire Health and Wellbeing Board on 7th August 2017 agreed spending plans that were put forward with regard to the grant for 2017/18 and 2018/19. The agreed schemes will now progress into implementation and future money matters reports will identify the financial impact of these activities.

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 and new savings proposals.

3.1 Pay and Pensions

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. The pay requirement also includes a provisional amount for additional holiday pay to staff which is required as a result of a court case which determined that holiday pay should include the payment of regular allowances which therefore form part of "normal pay". The Council's approach has yet to be determined by the Employment Committee.

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.

In March 2017 Cabinet agreed to a re-profiling of the Council's pension contributions resulting in a saving over a 3 year period. This is reflected within the MTFs based on the latest information available in relation to the County Council's estimated contribution rate and deficit contributions.

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 was introduced in April 2017 at a rate of 0.5% of an employer's pay bill, therefore an estimate of £1.500m was been included in the MTFs. This was reviewed at Quarter 1 based on payments to the levy and the 2018/19 budget provision was slightly reduced. There have been no further adjustments at Quarter 2.

The table below presents the amounts built into the MTFs for pay and pensions:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Pay and Pensions previous MTFs	3.158	5.481	7.844	5.264	21.747
Revised Pay and Pension requirements	3.207	5.581	8.202	5.921	22.911
Impact on Financial Gap	0.049	0.100	0.358	0.657	1.164

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 a very small reduction of £0.030m identified when comparing the values within the previous MTFS reported to Cabinet in September 2017.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Price inflation – previous MTFS	24.511	19.774	25.916	21.662	91.863
Revised price inflation requirements	24.263	19.848	25.992	21.730	91.833
Impact on Financial Gap	-0.248	0.074	0.076	0.068	-0.030

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 the best estimates of inflationary levels that are forecast within social care based on 2016/17 fee increases that were agreed. It is forecast that a budget requirement of £64.122m over the MTFS period is required for payments to external providers of social care 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/inflationary increases for Adults Services incorporates the National Living Wage as this is generally included within price increases that the service experiences.

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

- 2018/19 - £15.723m
- 2019/20 - £16.161m
- 2020/21 - £18.442m
- 2021/22 - £13.796m

There are no changes to the forecast price increases across Adults Services at Quarter 2.

- Waste Disposal continues to require significant budget to meet inflationary commitments over the next four years. In total the budget requirement for the service is £6.946m. There are no changes to the forecast price increases across Waste Services at Quarter 2.

- Children's Social Care is a further significant area that requires price inflation within its budget. In total the budget requirement for the service is £5.815m. This includes items that will inflate such as agency payments, residence orders, foster and other allowances and payments to health. There are no changes to the forecast price increases across Children's Social Care at Quarter 2.
- A further significant inflationary increase that is included in the MTFS relates to premises running cost budgets which were included at Quarter 1. As charges such as energy costs increase estimates of price rises have been included within this MTFS with 2018/19 including 2 years inflation as no provision was made in the 2017/18 budget. The total budget requirement is £3.992m over the 4 year period of the MTFS.
- 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 they face in future years. The impact of this review has been identified and is reflected in the revised MTFS. 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 £80.763m. This is an increase of £3.182m when comparing those years contained within the previous MTFS reported to Cabinet in September 2017.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Demand – previous MTFS	19.721	23.197	20.680	13.982	77.580
Revised Demand Requirements	22.980	23.194	20.617	13.972	80.763
Impact on Financial Gap	3.259	-0.003	-0.063	-0.010	3.182

- 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. From "a social care perspective" demand covers both increasing numbers of people eligible for support and the increasing complexity of those supported reflected in higher average costs per service user.

All demand assumptions contained within this revised MTFS regarding Adult Social Care have been reviewed based on the most up-to-date trend analysis. There are no changes to the forecast price increases across Adults Services at Quarter 2.

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

- 2018/19 – £11.922m
 - 2019/20 - £14.642m
 - 2020/21 - £17.055m
 - 2021/22 - £10.834m
- The cost of Children's Social Care continues to experience increasing demand and has been increased again as part of this update of the MTFS. The forecast requirement is £19.120m over the next 4 years. This is in addition to significant additional budget that the service has been given to support improvements following the Ofsted inspection in both 2016/17 and 2017/18, but an assumption is also made that demand will plateau in future years, with a reducing demand increase built into future years' budgets. In previous MTFS reports an increase has only been included for the next financial year, whereas in this revision 4 years of forecast demand levels has been included. This forecast is based on current demand levels and uses benchmarking information from other County Council's and national data in relation to Children Looked After (CLA) budgets to project future funding requirements.

The increase that has been included in the MTFS at Quarter 2 specifically relates to additional levels of demand relating to Special Guardianship Orders (SGOs). This has resulted in increased demand of £2.062m being included in 2018/19. It would be expected that an increase in SGOs would result in lower placement costs in other placements (such as residential). However, due to increases in numbers of Children Looked After we are not able to reflect this offsetting reduction as part of this MTFS. This will continue to be monitored and reviewed.

The demand included in the MTFS for Children's Social Care is profiled as follows:

- 2018/19 - £9.984m
- 2019/20 – £6.502m
- 2020/21 - £1.237m
- 2021/22 - £1.397m

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 (now renamed the Improvement and Accountability Board).

- The revised MTFS continues to include a significant amount in relation to Waste Services demand pressures, however this has reduced as a result of decreased forecasts for residual waste arisings with 3.2% currently being forecast (compared to a previously assumed 5.4%). The budget requirement for waste is forecast to be £4.937m over the next 4 years, and has remained unchanged from the Quarter 1 MTFS.

3.4 Other

This section of the MTFS has seen an increased budget requirement of £1.857m over the next 4 years compared to the requirement forecast within the MTFS at Quarter 1. The majority of this relates to an increase in the capital financing budget as a result of revised borrowing estimates within the capital programme (an additional £3.016m has been included over the period of the MTFS). In addition, a Cabinet report relating to support for Marketing Lancashire that was agreed at Cabinet in September has been included at Quarter 2 (£0.400m) with an offsetting adjustment for the reintroduction of the Bus Service Operators Grant (BSOG) (£1.559m).

3.5 Undeliverable Savings

The savings previously agreed are constantly under review with the current remaining programme totalling c£54m in 2017/18 and beyond. Whilst the majority of savings are being delivered within the timeframes identified, and in some cases earlier than planned, at Quarter 2 there is an additional budget pressure where it has now been identified that the saving for bus stations relating to the charging of departure fees, and is not fully deliverable which totals £0.490m in 2018/19.

3.6 Additional Savings

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 resulted in initial savings totalling £45.628m (over the next 3 financial years) being included and agreed as part of the MTFS reported to Cabinet in September 2017.

This was the first phase of savings that will be put forward with further phases to follow at future Cabinet meetings. These savings are deliverable from 1st April 2018, with some savings reflecting work that is already underway within services. Many of these savings are relatively straightforward to deliver with some already being shown as underspending areas within 2017/18 budget monitoring. These savings primarily cover efficiencies, recurrent underspends, income generation and service changes which are not expected to have a negative impact on front line service delivery.

The MTFS at Quarter 2 includes additional savings totalling £12.577m.

A saving relating to applying a 2% vacancy factor across the County Council's staffing budget has been included in Appendix D and the MTFS, which would result in a saving of £6.380m. Staff are currently budgeted for based on a full establishment, however many services are currently forecast to underspend on staffing as a result of staff turnover. A detailed analysis of turnover levels across services supports the introduction of a 2% vacancy factor being introduced across service staffing budgets. As most services are currently operating with vacancies on a day to day basis it is not expected that this will impact upon current levels of service delivery.

A saving of c£1m has been included in relation to the proposal contained in Appendix D that the Council consider ceasing the current commitment to Foundation Living Wage (FLW) pay rates for Council staff. If agreed, it is proposed that implementation

would be phased, with members of staff currently paid the FLW rate having their current hourly rate effectively frozen until annual increases in the National Living Wage (NLW) lead to it meeting and ultimately exceeding the current FLW rate. This would result in a saving over 2018/19 and 2019/20 until the NLW rate meets and exceeds the FLW rate in April 2020.

Appendix D also includes a proposal to include a saving of £5.000m in relation to changes in terms and conditions of employment for staff. Given that the overall Council staffing budget is c£319m (a very significant proportion of the overall County Council budget) and in the context of the serious financial challenge that the Council is facing, it is necessary to look at ways of reducing staff costs in ways which, wherever possible, reduce the risk of redundancy. If the proposal is agreed, discussions would be held with the recognised Trade Unions regarding development of proposals which would deliver the £5m saving.

Appendix D provides further details of these proposals.

A further additional saving of £0.154m has been included from 2018/19 to reflect the decision taken by Employment Committee to end the funding of Trade Union representatives within the Council's Facilities Agreement.

3.7 Re-profiled Savings

Following further detailed work in relation to savings for SEN Transport have been re-profiled due to some delays in being able to implement parts of the savings programme. This results in a savings value of £0.801m moved from 2018/19 into 2019/20 onwards in the MTFS.

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 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 (2017/18 – 2020/21 c£54m). 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

As detailed earlier in this report, additional potential savings options have been prepared for every area of the Council's expenditure. In the report agreed by Cabinet at Quarter 1, c£50m of savings were agreed to be implemented with further savings proposals to be considered at future Cabinet meetings, reflecting that there still

remains an estimated shortfall of £64.765m in 2018/19 even if the savings in this report are agreed and delivered in the timeframes identified.

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 used 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 although work is progressing nationally with a number of complete and planned consultations regarding the changes, there is currently insufficient information available to model what the financial impact of the changes will be and the financial impact on the County Council.

It is important to note that although the recent General Election may have caused some delays in progressing the scheduled timetable surrounding 100% business rates retention and funding formula review a representative from DCLG recently stated that: "Ministers remain committed to local government taking greater control of their income, as outlined in the Manifesto. We [DCLG] are engaging Ministers on the options for future reform without an immediate Bill and we will be in touch once we are in a position to resume working with you on the future of local government finance reform".

4.4 Children's Social Care

Children's Social Care demand levels are currently forecast to continue to increase, particularly within agency residential placements, agency fostering placements and also Special Guardianship Orders. The establishment of the 0-25 Programme Board (now renamed as the Improvement and Accountability Board) and 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.

Significant additional budget was allocated to Children's Social support improvements and demand pressures following the Ofsted inspection in both 2016/17 and 2017/18. An assumption is also made that demand will plateau in future years, with a reducing demand increase built into future year's budget. This MTFS is based on current demand levels and uses benchmarking information from other County Councils and national data in relation to Children Looked After budgets to project future funding requirements and will continue to be regularly reviewed.