

## Report to the Cabinet

Meeting to be held on Thursday, 13 September 2018

### Report of the Interim Chief Executive and Director of Resources

Electoral Divisions affected:

All

### Money Matters 2018/19 Position – Quarter 1

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

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#### Executive Summary

This report provides the first update to cabinet on the county council's 2018/19 financial position as at the end of June 2018. It includes an update on the current year's financial position for both revenue and capital and an updated Medium Term Financial Strategy (MTFS).

Like all councils, Lancashire County Council is facing significant financial pressures, and officers continue to work to ensure the council can achieve a financially sustainable position over the strategy period.

In summary:

- The 2018/19 revenue forecast outturn is £767.321m, representing a projected overspend of £2.680m (c0.35%) of the agreed budget.
- The MTFS has been updated and revised downward and now indicates a financial deficit of £135.300m in 2022/23.
- The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing c3% of net budget.
- The council is forecast to hold £125.009m of uncommitted transitional reserve (not including the forecast overspend in the current financial year), which is sufficient to meet the deficit in 2019/20 and contribute to the 2020/21 deficit, however in order to set a legal budget in future years further savings will need to be made.
- The in-year re-profiled capital delivery programme is £114.817m with a forecast spend of £111.382m representing a delivery variance of £3.435m or 3% of the programme.

## Recommendations

Cabinet is asked to:

- (i) Note the current forecast overspend of £2.680m on the revenue budget in 2018/19.
- (ii) Note the reduced funding gap of £135.300m covering the period 2019/20 to 2022/23 as set out in the revised financial outlook forecast for the council.
- (iii) Approve the budget adjustments for 2019/20, and following years' increases, included in the revised MTFS.
- (iv) Note the contents of the county council's reserves position and approve the transfers between reserves contained within the report.
- (v) Approve the re-profiled Capital Delivery Programme of £114.817m for 2018/19.
- (vi) Note the current forecast under-delivery of £3.435m on the capital programme in 2018/19.

## Background and Advice

The detailed reports at Appendices A to C present the following:

- County council's 2018/19 forecast revenue position as at Quarter 1 (Appendix A).
- Revised Medium Term Financial Strategy for the period 2019/20 to 2022/23 as at Quarter 1, including reserves position (Appendix B).
- Update on the Capital Programme as at Quarter 1 (Appendix C).

### Financial Position as at 30<sup>th</sup> June 2018 (Appendix A)

A revenue overspend is currently forecast for the county council of £2.680m and represents a variance of c0.35% against the overall revenue budget of £764.641m. 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 delivery within the financial envelope set by year-end.

In light of the forecast overspend, the Corporate Management Team (CMT) have recognised and clearly communicated to all Directors and Heads of Service the importance of achieving a balanced budget position by year end. At this stage though, budget holders have not been issued with any central controlling policies with a view to recover the forecast overspend, as based on historical trends the forecast at Quarter

1 has tended to be prudent due to the earliness in the year and the lack of information available. However, this will be closely monitored with monthly updates provided to the CMT, and should an overspend position continue to be reported at the end of September then corporate spending controls may be put in place.

As part of monthly monitoring the savings that have been agreed to date are monitored by finance monitoring boards (FMBs). The position at the end of Quarter 1 was that 93% of the financial value of savings were rated as on track, albeit some potentially having to undertake work to avoid any potential delays. The remaining 7% are the most challenging to deliver currently, but services are working hard to deliver those savings and are regularly reporting progress to FMBs.

### The Medium Term Financial Strategy (MTFS) and Reserves Position (Appendix B)

At Full Council in February 2018 the MTFS indicated a forecast funding gap of £144.084m by the end of the 4 year period (2018/19 – 2021/22). This report provides an updated position for the next 4 year period of 2019/20 - 2022/23 including a review of assumptions to reflect the most current information available.

At Quarter 1 the funding gap has reduced to £135.300m for the period 2019/20 – 2022/23. Improvements include an increase in council tax levels due to tax base increases and an improved council tax collection fund position. In addition savings relating to the Minimum Revenue Provision agreed recently by Full Council have been included. Offsetting these improvements are pressures due to the shortfall in forecast funding relating to capital receipts and the impact this has on the use of current flexibilities in supporting revenue expenditure.

The value of the uncommitted Transitional Reserve is currently forecast to be £125.009m by the end of 31<sup>st</sup> March 2021 if there was no requirement for structural funding support from reserves to the 2019/20 or 2020/21 budgets. This represents an improved position compared to that previously reported to Full Council in February due to a higher than forecast 2017/18 underspend, a contribution to reserves reflecting a change in the Minimum Revenue Provision in 2017/18 and also some lower than forecast contributions from reserves to the revenue budget.

The impact of utilising the Transitional Reserve to fund the £60.596m gap in 2019/20 will leave a balance of £64.413m available to support the budget in 2020/21, however this will be insufficient to fully support the budget gap of £110.698m, requiring further savings to be made.

Work continues on the identification of savings, primarily through the completion of service challenges being undertaken for all services. The outcomes will be brought to the December Cabinet meeting for decisions to be taken.

### Capital Monitoring and Financing Position as at 30<sup>th</sup> June 2018 (Appendix C)

The report sets out the outcome of a comprehensive review of the projects for delivery in 2018/19, including prior year slippage, that has been undertaken by project and programme managers. The primary purpose of the review was to identify the proposed delivery programme for 2018/19 which will then form the agreed base line for the year.

The multi-year capital programme approved at Full Council on 8 February covering the period 2018/19 to 2020/21 totalled £226.117m with £161.392m identified for delivery in 2018/19. The 2018/19 delivery programme did not include the subsequent impact arising from outturn variances in 2017/18 and there have also been a number of further adjustments to the size and profiling of the capital programme agreed at cabinet. The proposed 2018/19 capital delivery programme for 2018/19 is £114.817m and is split by service block in the report.

The current forecast outturn position resulting from the monitoring review undertaken based on the position at the end of quarter 1 is a £3.435m under-delivery representing a c3% variance. This is primarily the outcome of the net effect of some small forecast under and overspends on completed projects, forecast over-delivery on the Structural Defects programme and some currently un-programmed amounts within the Property rationalisation programme.

### **Consultations**

N/A

### **Implications**

This item has the following implications, as indicated:

### **Equality and Cohesion**

N/A

### **Risk management and Financial Implications**

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, business rates and the fairer funding settlement yet to be announced. At this point in time there is insufficient detailed information regarding the changes to amend the funding assumptions within the MTFs and they have been maintained at a prudent level.
- *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. Any increase in demand above the current forecast will add

additional pressure to future years and conversely reductions in demand will create underspends.

- *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 the new national living wage.
- *Delivery*  
The MTFS assumes that agreed savings will be delivered in the period 2018/19 to 2020/21. There are also a significant number of other factors, both internal and external which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

### List of Background Papers

Paper	Date	Contact/Tel
Revenue Budget 2018/19 and Financial Strategy 2018/19 to 2021/22 Capital Investment Programme 2018/19 and beyond Council Tax and Precept 2018/19	8 <sup>th</sup> February 2018	Angie Ridgwell/ 01772 536260

Reason for inclusion in Part II, if appropriate

N/A