# The County Council's Revenue Budget and Council Tax for 2019/20 and Capital Delivery Programme for 2019/20

## 1. Introduction

The council has faced an unprecedented period of financial challenge since austerity began in 2010. Like all councils, Lancashire County Council is facing significant financial pressures, and whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period, further work is required to ensure the council can achieve a financially sustainable position.

In reports throughout the financial year to cabinet, it is clear that the council is committed to the delivery of a significant savings programme (c£120m over the period 2019/20 to 2022/23) including £77m of new savings proposals agreed by cabinet during 2018/19. There are inherent risks with saving plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the council's risk and opportunity register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

A benchmarking exercise across all county councils (and other councils where appropriate) identified that there are some service areas where Lancashire is high cost. The service challenge process was targeted at understanding the reasons for this and designing the delivery of better services at lower (median county council) cost. This process resulted in the identification of c£77m from 42 individual service challenge reviews. There remain a number of areas where further, more detailed analysis and investigation is required and phase two of the service challenge process will progress this work as well as look more strategically at some cross-cutting issues that could provide the potential for additional savings proposals to come forward to future cabinet meetings for consideration.

Should any of these savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the funding gap. £7.529m of the savings proposals are subject to the outcome of specific consultations that are needing to be undertaken. Following the cabinet decision in December detailed project planning has been completed by services with regard to those consultations, including when the outcome of them will be reported back to cabinet to make a final decision regarding their implementation.

The medium term financial strategy (MTFS) includes government funding as announced in the final settlement on 29th January 2019, with no change to the additional funding announced as part of the provisional settlement in December 2018.

As part of the settlement the Chancellor announced several new 75% business rates pilot schemes, with Lancashire being successful in its bid. This means that in order to secure the additional growth from business rates authorities agree to forgo their revenue support grant. The bid contained the county council, along with 11 district councils, Lancashire Fire and Rescue Authority and the two unitary authorities of Blackburn with Darwen and Blackpool which could see potentially a one off extra c£10m retained across Lancashire based on current growth estimates.

It is currently anticipated that a new system of local government finance, the "fair funding formula", will be in place in 2020/21 which involves local government retaining 75% 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. Additional consultations have been published with the provisional settlement in December 2018 with content currently being reviewed and responses being prepared. Without any insight into the outcomes of this work, the MTFS assumes that the funding proposals in future years will match the current business rates and grants structure, with the exception that the revenue support grant will cease from 2020/21, in line with previous government announcements.

The MTFS reported to cabinet in February 2019 included a 1% adult social care precept in 2019/20 as a result of flexibilities offered by Government. The final settlement confirmed that the council has scope to increase council tax by a further 1% in 2019/20 on the grounds that it keeps pace with inflation. This flexibility is not currently being offered in subsequent years.

From 2020/21 onwards, it is therefore assumed that the maximum increase will revert back to 1.99%, as the option to raise an adult social care precept will no longer be available. Council tax increases are 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.

Taking account of updated resources information a funding gap of £10.245m remains in 2019/20 and, in order to set a balanced budget, reserves of £10.245m are therefore required to fund the gap. However, this is clearly dependent on all service challenge savings agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles.

There also remains an overall funding gap of £47.326m by 2022/23. Current forecasts indicate that that there may be sufficient funds within the transitional reserve to support the identified budget gap through to 2022/23. However the intention is to identify further savings and thereby reduce the call on the transitional reserve, for 2020/21 and beyond.

This report presents for consideration by the full council the recommendations of the cabinet for:

- The revenue budget for 2019/20;
- A revised capital delivery programme for 2019/20;
- The council tax and precept for 2019/20.

In addition the report sets out the advice of the Chief Executive and Director of Resources, as the council's statutory Chief Finance Officer, on the robustness of the budget and the adequacy of reserves as required by Section 25 of the Local Government Act 2003.

Reports will be provided regularly to cabinet in 2019/20 to update the financial position for the county council based on the latest information.

**2. The Budget Process**

The county council's approach is driven by a formal requirement to deliver a balanced budget in 2019/20. This needs to be undertaken whilst recognising the position for future years and that there will be a requirement for reserves to support the 2019/20 budget. The cabinet has considered the budget for 2019/20 and future years at a number of its meetings. The reports considered can be found at:

http://council.lancashire.gov.uk/ieListMeetings.aspx?CommitteeId=122

**3. The Revenue Budget 2019/20 to 2022/23**

The county council's medium term financial strategy (MTFS) was approved by full council in February 2018 covering the 2018/19 budget and the forecast position for 2019/20 to 2021/22. This identified the funding gap in each year as follows:

**Table 1**

| Aggregated Funding Gap | | | | |
|---|---|---|---|---|
| **2018/19 (£m)** | 42.045 | 42.045 | 42.045 | 42.045 |
| **2019/20 (£m)** | | 26.365 | 26.365 | 26.365 |
| **2020/21 (£m)** | | | 49.728 | 49.728 |
| **2021/22 (£m)** | | | | 25.946 |
| **Total** | **42.045** | **68.410** | **118.138** | **144.084** |

During 2018/19 cabinet has received a number of MTFS reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period including an additional year of 2022/23. The latest MTFS shows a revised spending gap of £47.326m. The profile of the funding gap is shown in table 2:

**Table 2**

| **Aggregated Funding Gap** | | | | |
|---|---|---|---|---|
| **2019/20 (£m)** | 10.245 | 10.245 | 10.245 | 10.245 |
| **2020/21 (£m)** | | 20.125 | 20.125 | 20.125 |
| **2021/22 (£m)** | | | 5.518 | 5.518 |
| **2022/23 (£m)** | | | | 11.438 |
| **Total** | **10.245** | **30.370** | **35.888** | **47.326** |
| | | | | |
| **Previous position (£m) (December cabinet – Quarter 3)** | 13.446 | 30.376 | 35.833 | 47.209 |
| **Variance (£m)** | **-3.201** | **-0.006** | **0.055** | **0.117** |

Although the financial gap has significantly reduced, from the £144.084m reported last February, the county council's budget is still facing a challenging future with savings of £120m to achieve as part of the 2019/20 budget and beyond, with significant additional pressures. These include the impact of the national pay award, national living wage and inflationary and demand pressures across children's social care, adult social care, waste services and transport.

**4. The level of resources available to support the 2019/20 revenue budget**

The level of resources reflected in the MTFS for 2019/20 and future years is as follows:

**Table 3**

| | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m |
|---|---|---|---|---|
| Revenue Support Grant | 0.000 | 0.000 | 0.000 | 0.000 |
| Business Rates | 230.657 | 200.419 | 205.861 | 211.473 |
| Business Rates – Additional Levy | 2.860 | 0.000 | 0.000 | 0.000 |
| Business Rates – Pilot growth | 2.886 | 0.000 | 0.000 | 0.000 |
| Council Tax | 493.898 | 512.287 | 531.365 | 551.155 |
| New Homes Bonus | 3.579 | 3.025 | 3.016 | 3.016 |
| Better Care Fund | 45.532 | 45.532 | 45.532 | 45.532 |
| Capital receipts | 8.000 | 7.000 | 0.000 | 0.000 |
| Social Care Grant | 9.427 | 9.427 | 9.427 | 9.427 |
| Collection Fund Surplus | 5.436 | 3.750 | 3.750 | 3.750 |
| **Total** | **802.275** | **781.440** | **798.951** | **824.353** |

These figures reflect the final settlement and have been adjusted for the impact of the final council tax base figures and surplus and deficit position (across council tax and business rates collection funds) as discussed below.

*4.1 The resources received through the local government finance settlement*

The Secretary of State announced the provisional local government finance settlement on 13th December 2018, followed by the final settlement on 29th January 2019. There were no changes following the publication of the final settlement, however there have been several updates to the funding position following more detailed information being available in relation to s31 grants. It is important to note that the settlement only covers the period up to 2019/20, therefore assumptions have been made for 2020/21 onwards. It is currently anticipated that a new system of local government finance will be in place in 2020/21 which involves local government retaining 75% 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 stage.

*4.2 Council Tax in 2019/20*

On 7th February 2019 cabinet recommended to full council that Band D council tax for 2019/20 has a 3.99% increase, including 1% to be used for the adult social care precept. The council tax figures within the MTFS include the impact of a 3.99% increase in council tax in 2019/20, 1.99% increase in 2020/21, 2021/22 and 2022/23.

There is a requirement for section 151 officers in those authorities levying the adult social care precept to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. Any proposals for a council tax increase above these thresholds will be subject to a referendum.

As part of the budget setting process district councils must confirm both the council tax-base and the surplus/deficit on the collection fund by 31st January 2019. The information provided by district councils has resulted in a tax base increase of 1.37% for 2019/20. This is less than the tax base growth that has been built into the MTFS, therefore the reduced growth has been reflected in this report, with reduced funding of £1.610m. The growth for future years remains at 1.7% with future year council tax base increases kept under review with district councils.

As part of the budget setting process district councils must confirm the surplus/deficit on the council tax collection fund by 31st January 2019. The information received from district councils state that a surplus has been achieved on the council tax collection fund of £5.240m. This has therefore been included in the funding position for 2019/20.

*4.3 Business Rates in 2019/20*

From 2013/14 an element of the county council's funding is received from the locally retained element of business rates collected by the district councils. It is estimated that the county council will receive funding of £236.403m from business rates (including top up grant, additional levy and pilot growth).

As part of the budget setting process district councils must confirm the surplus/deficit on the business rates collection fund by 31st January 2019. The information received from district councils state that a surplus has been achieved on the business rates collection fund of £0.196m. This has therefore been included in the funding position for 2019/20.

*4.4 Capital receipts*

In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt. However, 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 service provision. The flexibility was extended as part of the provisional settlement in December 2017 to help meet the revenue costs of transformation programmes and will continue for a further three years.

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 service reform.

The current estimates of the capital receipts to be generated, and utilised in supporting revenue expenditure, are as follows:

**<u>Table 4</u>**

| | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | Total £m |
|---|---|---|---|---|---|
| **Capital receipts generated** | 8.000 | 7.000 | 0.000 | 0.000 | 15.000 |

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. Capital receipts received as at 31st December 2018 were broadly on track to achieve the 2018/19 target. However, as the value has not yet been achieved this remains a risk, with any in year shortfall to be met from the transitional reserve.

There is suitable forecast expenditure within the revenue budget to enable the estimated £8.000m to be applied in 2019/20. As part of the service challenge process additional resources have been identified to support the transformation of services and delivery of the savings. The assumption within the MTFS is that there will be sufficient capital receipts to meet these transformation costs over the next 2 years and therefore they will not be a draw on reserves or increase the funding gap. These receipts would normally be applied to the capital delivery programme and therefore the impact is to effectively increase the level of borrowing required to support the approved capital delivery programme.

The capital receipts in 2019/20 will be applied to the following areas (shown in Table 5) to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

**Table 5**

| **Service Area** | **Value (£m)** |
|---|---|
| Business Intelligence | 0.353 |
| Core Business System Transformation | 0.981 |
| Customer Access | 0.120 |
| Disability Services (Adults) | 0.110 |
| Exchequer Services | 0.349 |
| Financial Management (Development and Schools) | 0.082 |
| Financial Management (Operational) | 0.425 |
| Fostering, Adoption, Residential and YOT | 0.124 |
| Health, Equity and Welfare Partnerships | 0.500 |
| Highways | 0.114 |
| Learning Disabilities, Autism & Mental Health | 1.148 |
| Patient Safety and Quality Improvement | 0.090 |
| Programme Office | 1.402 |
| Social Care Services (Adults) | 2.202 |
| **Grand Total** | **8.000** |

At full council in February each year the county council's prudential indicators are reviewed and approved. As part of the treasury management strategy, that is requesting approval at this full council meeting, the level of indicators incorporate the budgeted level of capital receipts that will be used to support the revenue budget rather than the capital delivery programme. The indicators are reviewed on a regular basis and reported to members on a quarterly basis.

*4.5 Specific Grants and contributions to be received by the County Council in 2019/20*

The following table summarises the more significant specific grants to be received by the council in 2019/20:

**Table 6**

| Grant | Estimated Allocation 2019/20 £m | Description |
|---|---|---|
| Better Care Fund | 26.3 | The Better Care Fund is a pooled budget to help improve the integration of health and care services. |
| Public Health | 66.6 | Ring fenced funding only able to be spent in accordance with the conditions of the grant. |

*4.6 Reserves*

The latest reserves positon agreed by Cabinet is shown in Table 7 and this includes the impact of the forecast revenue underspend.

**Table 7**

| Reserve Name | Opening Balance 2018/19 | 2018/19 Forecast Expenditure | 2018/19 transfers to / from other reserves | 2018-19 Transfers from revenue budget | 2018/19 Forecast Closing Balance | 2019/20 Forecast Spend | 2020/21 Forecast Spend | Total as at 31 March 2021 |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | | £m | £m | £m | £m |
| County Fund | -23.437 | 0.000 | 0.000 | 0.000 | -23.437 | 0.000 | 0.000 | -23.437 |
| **SUB TOTAL - COUNTY FUND** | **-23.437** | **0.000** | **0.000** | **0.000** | **-23.437** | **0.000** | **0.000** | **-23.437** |
| Strategic Investment Reserve | -3.765 | 0.740 | 1.679 | 0.000 | -1.346 | 0.350 | 0.850 | -0.146 |
| Downsizing Reserve | -13.891 | 3.346 | 5.941 | 0.000 | -4.604 | 4.605 | 0.000 | 0.000 |
| Risk Management Reserve | -5.402 | 3.267 | -0.688 | 0.000 | -2.823 | 1.224 | 0.800 | -0.800 |
| Transitional Reserve | -155.066 | 41.555 | -14.735 | -11.025 | -139.271 | 0.437 | 0.194 | -138.640 |
| Service Reserves | -19.118 | 6.563 | 7.804 | 0.000 | -4.752 | 3.057 | 0.762 | -0.932 |
| Treasury Management Reserve | -10.000 | 0.000 | 0.000 | 0.000 | -10.000 | 0.000 | 0.000 | -10.000 |
| **SUB TOTAL - LCC RESERVES** | **-207.243** | **55.471** | **0.000** | **-11.025** | **-162.796** | **9.672** | **2.606** | **-150.518** |
| Schools/Non-LCC Service Reserves | -16.521 | 1.647 | 0.000 | 0.000 | -14.874 | -0.823 | -0.823 | -16.520 |
| **SUB TOTAL SCHOOLS/NON LCC RESERVES** | **-16.521** | **1.647** | **0.000** | **0.000** | **-14.874** | **-0.823** | **-0.823** | **-16.520** |
| | | | | | | | | |
| **GRAND TOTAL** | **-247.201** | **57.118** | **0.000** | **-11.025** | **-201.108** | **8.849** | **1.783** | **-190.475** |

**Table 8**

| **Transitional Reserve** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|---|
| **Opening Balance** | 139.271 | 128.589 | 98.025 | 62.137 |
| **Gap funding** | 10.245 | 30.370 | 35.888 | 47.326 |
| **Commitments** | 0.437 | 0.194 | 0.000 | 0.000 |
| **Closing balance** | **128.589** | **98.025** | **62.137** | **14.811** |

The county fund shown at the top of table 7 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m.

The value of the uncommitted transitional reserve is currently forecast to be £138.640m by the end of March 2021 providing there is no requirement for structural funding support from reserves to the 2019/20 or 2020/21 budgets. This includes the 2018/19 forecast revenue underspend of £8.462m.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps through to 2022/23 as set out in table 8. However, the intention is to identify further savings to reduce the gap, and hence the call on reserves, for 2020/21 and beyond.

## 5. The Overall Revenue Budget Position for 2019/20

### *5.1 Summary of cabinet's revenue budget proposals*

The overall impact of the cabinet's recommendations to full council for the 2019/20 revenue budget and the potential changes are set out in Table 9.

The table reflects the following:

- impact of further cost pressures;
- changes in the level of resources that are currently known;
- the cabinet's recommendation of a council tax increase of 3.99% in 2019/20;
- the anticipated use of one-off resources in 2019/20; and
- the provision of estimated figures by the city and borough councils in respect of council tax base and business rates income.

**Table 9**

| | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | Total £m |
|---|---|---|---|---|---|
| Forecast net budget requirement | 807.332 | 795.111 | 804.130 | 835.636 | **3,242.208** |
| Funding | 792.722 | 780.931 | 798.502 | 823.963 | **3,196.118** |
| **Spending Gap as reported to Cabinet (Quarter 2)** | **14.610** | **14.180** | **5.628** | **11.673** | **46.090** |
| Add change to forecast of spending: | | | | | |
| Pay & Pensions | 0.473 | 0.238 | 0.044 | 0.259 | **1.014** |
| Inflation and Cost Changes | 2.968 | 0.555 | -0.037 | 0.047 | **3.533** |
| Service Demand and Volume Pressures | 0.329 | -0.684 | -0.178 | -0.603 | **-1.136** |
| Other | 0.135 | -1.958 | 0.000 | 0.000 | **-1.823** |
| Savings Adjustments | 0.357 | -0.320 | 0.000 | 0.000 | **0.037** |
| **Total Change to Forecast of Spending** | **4.262** | **-2.169** | **-0.171** | **-0.297** | **1.625** |
| | | | | | |
| Change to forecast of resources: | | | | | |
| Funding | -5.426 | 4.919 | 0.000 | 0.000 | **-0.507** |
| **Total Change to Forecast of Resources** | **-5.426** | **4.919** | **0.000** | **0.000** | **-0.507** |
| | | | | | |
| **Revised Funding Gap reported to Cabinet 7th February 2019 (Quarter 3)** | **13.446** | **16.930** | **5.457** | **11.376** | **47.209** |
| | | | | | |
| Funding Update | -4.129 | 4.123 | 0.061 | 0.062 | **0.117** |
| Expenditure Update | 0.928 | -0.928 | 0.000 | 0.000 | **0.000** |
| | | | | | |
| **Revised Funding Gap** | **10.245** | **20.125** | **5.518** | **11.438** | **47.326** |

*5.2 Revenue Budgets for Services in 2019/20*

The budget outlined below results in a net revenue budget of £802.275m. The budget by service is summarised below:

**Table 10**

| Revenue Budget 2019/20 | Net Budget £m |
|---|---|
| Adult Services | 343.054 |
| Chief Executive Services | 28.990 |
| Children's Social Care | 143.820 |
| Corporate Services | 18.954 |
| Education and Skills | 27.879 |
| Finance Services | 38.073 |
| Growth, Environment and Planning | 3.940 |
| Waste Management | 65.995 |
| Highways and Transport | 57.998 |
| Public Health and Wellbeing | 23.440 |
| Strategy and Performance | 33.615 |
| **Sub-Total** | **785.758** |
| Financing Charges | 26.762 |
| Use of one off resources | -10.245 |
| **Revenue budget 2019/20** | **802.275** |

## 6. The Capital Delivery Programme

This section of the report sets out the following:

- an outline of the 2019/20 capital delivery programme including known projects; and
- summary of the proposed funding of the 2019/20 capital delivery programme and the revenue implications of the increased use of prudential borrowing.

*6.1 Capital Delivery Programme for 2019/20*

Table 11 below details a summary of the proposed capital delivery programme for 2019/20 of £130.289m. The proposed 2019/20 delivery programme will include the provision to complete works already in the programme and the addition of projects identified for utilising the updated capital grant funding for 2019/20.

The proposed delivery programme is broadly similar in scale to the forecast outturn for 2018/19 and may need to be updated when the actual outturn position is confirmed to reflect any re-profiling impact on 2019/20 that may be required.

**Table 11**

| Programme | Initial indicative programme subject to profiling |
|---|---|
| | **£m** |
| Schools (excl DFC) | 21.859 |
| Schools DFC | 2.527 |
| Children & Young People | 0.027 |
| Highways | 46.776 |
| Transport | 30.128 |
| Externally Funded schemes | 0.111 |
| Waste & Other | 0.190 |
| Adult Social Care | 13.654 |
| Corporate | 11.297 |
| Vehicles | 3.720 |
| **Total** | **130.289** |

*6.2 Proposed Funding*

The capital delivery programme is currently funded by a variety of funding streams as shown in table 12 below:

**Table 12**

| **Programme** | **Initial indicative programme subject to profiling** | **Funded by borrowing** | **Funded by Grant** | **Funded by Contributions / Other funding sources** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Schools (excl DFC) | 21.859 | 0.000 | 21.859 | 0.000 |
| Schools DFC | 2.527 | 0.000 | 2.527 | 0.000 |
| Children & Young People | 0.027 | 0.027 | 0.000 | 0.000 |
| Highways | 46.776 | 16.190 | 26.037 | 4.549 |
| Transport | 30.128 | 3.500 | 23.907 | 2.721 |
| Externally Funded schemes | 0.111 | 0.000 | 0.000 | 0.111 |
| Waste & Other | 0.190 | 0.190 | 0.000 | 0.000 |
| Adult Social Care | 13.654 | 0.000 | 13.654 | 0.000 |
| Corporate | 11.297 | 11.297 | 0.000 | 0.000 |
| Vehicles | 3.720 | 3.720 | 0.000 | 0.000 |
| **Total** | **130.289** | **34.924** | **87.984** | **7.381** |

Table 13 identifies the revenue budget for financing charges as reflected within the medium term financial strategy:

**Table 13**

| | **2019/20** | **2020/21** | **2021/22** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Minimum Revenue Provision | 14.936 | 16.316 | 17.209 |
| Interest Paid | 24.410 | 24.407 | 24.505 |
| Interest Earned | -12.384 | -12.372 | -12.384 |
| Grants Received | -0.200 | -0.180 | -0.160 |
| **Total** | **26.762** | **28.171** | **29.170** |

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. Provision has also been made for changing some of the borrowing to a long term fixed rate rather than the existing short term rates in 2020/21.

The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to cabinet.

**7. Council Tax for 2019/20**

The recommendation of the cabinet to full council on the council tax requirement is that the band D council tax for 2019/20 be increased by 3.99% which includes the 1% social care precept. The impact of these increases are:

**Table 14**

| | **Band D Council Tax** | **Council Tax income** |
|---|---|---|
| Adult Social Care Precept increase at 1% | £12.95 | £4.750m |
| General Council Tax increase at 2.99% | £38.72 | £14.202m |

The overall position is summarised as follows:

**Table 15**

| | **£m** |
|---|---|
| **Budget Requirement** | **802.275** |
| Less Business Rates | 230.657 |
| Less Business Rates – Additional Levy | 2.860 |
| Less Business Rates – Pilot growth | 2.886 |
| Less New Homes Bonus | 3.579 |
| Less Improved Better Care Fund | 45.532 |
| Less Capital receipts | 8.000 |
| Less Social Care Grant | 9.427 |
| Less Collection Fund Surplus | 5.436 |
| **Equals council tax cash** | **493.898** |
| | |
| Divided by tax base | 366,777.14 |
| Gives Band D council tax for 2019/20 | 1,346.59 |
| 2018/19 council tax | 1,294.92 |
| **Percentage increase** | **3.99%** |

## 8. The Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the Council's Chief Finance Officer (in the case of the county council the Chief Executive and Director of Resources) on the robustness of the estimates and the adequacy of the council's reserves.

### Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur.

The table below demonstrates the scale of just a small variance in the assumptions made, showing the potential impact of both a positive and negative movement of 1% across the main areas within the MTFS and the potential impact of a further 0.25% variation on interest rates:

| | Potential Full-Year Impact (£m) |
|---|---:|
| Funding (1%) | +/- 4.955 |
| Pay (1%) | +/- 2.551 |
| Price Inflation (1%) | +/- 5.574 |
| Demand (1%) | +/- 5.969 |
| Interest Rates (0.25%) | +/- 1.250 |

A number of specific risks remain within the budget as follows:

- **Government Funding**

The council did not take up the offer in 2016 of a multi-year finance settlement covering revenue support grant, rural services delivery grant and transitional grant. Revenue support grant is expected to formally end in 2019/20 and the impact on the council of the Business Rate Retention Scheme and Fair Funding Review from 2020/21 is not yet known. For the purpose of the budget and MTFS a neutral position has been assumed including no revenue support grant from 2019/20 and will be updated when further information is known. Following the successful bid by Lancashire to be a 75% business rates pilot for 2019/20 the county council will no longer receive RSG and the equivalent amount that is expected has been built into the business rates pilot workings.

Additional funding was announced for both adult social care and children's services, with the county council receiving an additional £15m. This was however announced as one-off funding, although as part of the MTFS it has been assumed that this funding will continue due to demand pressures that councils are facing. There was no additional funding announced to support the new pay spine for local government workers and these additional cost pressures have been included in the strategy.

The final settlement has confirmed the council's scope to increase council tax by an additional 1% in 2019/20 on the grounds that it keeps pace with inflation, CPI is currently running at 3%. Adult social care precept arrangements also remain unchanged for councils, with adult social care responsibilities able to add up to a 3% increase in council tax up to a maximum of 6% over the period 2017/18 to 2019/20. These flexibilities are included in the strategy as part of this report.

- **Service Demand**

This is a key risk facing the council in both preparing future budgets and managing budgets during the year. As reported in the budget monitoring reports presented to cabinet over the year, demand for both adult and children's social care services and waste services continue to see increases despite the impact of demand management measures and additional funds being built into the budget to reflect forecast pressures.

Over the period 2019/20 to 2022/23 £75m has been provided in the MTFS for demand pressures of which £50.5m relates to adult social care and £14.0m children's social care. These have been identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of adult social care). Whilst for adult social care the estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year significant and unanticipated increased costs in relation to children's social care have occurred and have been reported to cabinet in revenue monitoring reports.

Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and what steps can be taken to mitigate the financial impact, which along with grant funding reductions, is a major contributing factor towards the funding gap reported in the MTFS.

- **Pay**

The majority of the pay bill is driven by the national pay agreement and the announcement of a new pay spine represents a significant additional cost pressure reflected in the updated MTFS. The county council also remains committed to paying its employees as an accredited member of the Living Wage Foundation who have announced a 2.86% increase in the living wage. The impact of this initial increase and further 3.00% (2020/21) and 2.90% (2021/22 & 2022/23) increases in subsequent years for those staff directly impacted has been factored into the MTFS.

- **Inflation**

The Monetary Policy Committee (MPC) of the Bank of England has been set an inflation target by the Government of 2% as measured by Consumer Prices Index (CPI). The CPI has been above this level since early 2017 increasing to 3.1% in

November 2017. However, the rate has fallen since then with the November 2018 rate being 2.3%. The Bank of England anticipate that inflation will be within target in the medium term.

Provision made within the budget is limited to areas where the council has no choice but to pay increased prices e.g. due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation or the need to absorb additional inflationary costs in year.

A particularly significant area is the care market, primarily residential, nursing and homecare, the funding of which is recognised as a significant issue regionally and nationally. A significant amount of resource has been included within the MTFS to fund price increases and the estimated impact of the national living wage on care providers.

- **Interest Rates**

In August 2018 the MPC raised the base rate by 0.25% to 0.75%. This followed a previous increase in November 2017 which was the first increase in a decade.

Despite this increase the base rate continues to be at historically low levels and the Bank of England has maintained expectations for slow and steady rate rises in line with the performance of the economy. The county council's treasury advisors predict two more 0.25% rises during 2019 to take official UK interest rates to 1.25%.

- **Savings Programme Delivery**

The council is committed to the delivery of a significant savings programme (c£120m over the period 2019/20 to 2022/23) including c£77m of new savings already agreed by cabinet in December. There are inherent risks with saving plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

**Adequacy of Reserves**

The council holds reserves for a number of reasons:

- to enable the council to deal with unexpected events such as flooding or the destruction of a major asset through fire;
- to enable the council to manage variations in the demand for services which cause in year budget pressures; and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- the level of risk evident within the budget as set out above;
- a judgement on the effectiveness of budgetary control within the organisation; and
- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

In relation to the council's general reserve (County Fund Balance), the forecast level at 31 March 2019 is £23.437m. In addition the council continues to hold £10m as a formal treasury management reserve to reflect that, whilst the council's treasury management performance (covering both investment activity and financing costs) has been positive over an extended period, the outlook post-Brexit is particularly uncertain and volatile. The reserve is there to hedge against that volatility, including interest rate changes and associated risks over the short-term, without directly impacting the revenue account.

The revenue budget has been heavily supported in recent years by the reserves that have been available to the county council and their value has therefore reduced significantly. The value of the council's uncommitted transitional reserve by the end of the financial year is currently forecast to be £139.271m, including the 2018/19 forecast underspend.

The level of risk evident within the budget has been significant in recent years and remains so at a time when it is clear that the revenue budget for 2019/20 will also need to be supported by reserves. The council acknowledges that it needs to move to a sustainable financial position and also that this will take time to implement. The transitional reserve allows decisions to be made in a more measured and considered way but does not itself negate the need for a sustainable budget to be achieved. While the council's budgetary control procedures are strong in terms of managing in year expenditure, the effectiveness of budgetary control is a combination of systems and processes as well as the risk environment within which the council is operating. It therefore remains an essential requirement that the council continues to ensure that processes are effective in maintaining a grip on in year expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

As part of the MTFS report, scenario analysis and stress tests of the current financial gap and reserves position have been undertaken. A key scenario that has been tested relates to the savings that require consultation prior to implementation which total £7.529m (£2.150m 2019/20, £5.329m 2020/21 and £0.050m 2021/22). Should cabinet ultimately not agree to any of these savings being implemented post consultation, then there would be sufficient reserves to support the budget until part way through 2022/23.

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2019/20 to 2022/23. However, despite the identification of further savings through the service challenge process of c£77m it is necessary that additional savings are identified to be delivered to bring the council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

## Conclusion

There has been a significant focus nationally on the financial resilience of councils and one of the key areas of concern has been the utilisation of reserves in supporting budgets and the levels of reserves remaining. A key indicator identified by the Chartered Institute of Public Finance and Accountancy (CIPFA) in flagging up potential issues is the level of reserves used by a council to meet any funding shortfall in setting the budget compared to the average level of reserves used to fund any structural deficit over the previous 3 financial years. The average over the last 3 years in Lancashire has been c£40m and the proposed use of £10.245m for 2019/20 represents a significant improvement in this regard. This follows strong financial control during the current financial year as evidenced by the forecast revenue underspend which will enable a transfer into reserves and c£77m of further budget proposals being identified. However, this is clearly dependent on all the agreed service challenge savings being agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles. Should any of these budget options ultimately not be taken forward they will need to be replaced with alternative savings to avoid increasing the size of the financial gap.