

Money Matters

The County Council's Revenue and Capital Financial Position 2018/19 Outturn

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Executive Summary

This report provides details for Cabinet on the County Council's 2018/19 revenue and capital outturn position.

2018/19 Revenue Budget

The report outlines the final revenue outturn position whilst also providing a comparison to the last reported position at Quarter 3. The final position at the end of the year is net expenditure of £745.375m, which represents an in year underspend of £19.265m which is 2.52% of the revenue budget.

The revenue position includes significant levels of support from reserves that have previously been agreed. **In 2018/19 the structural reserve funding totalled £44.767m, primarily covering the funding gap, and if this support had not been available then expenditure would have exceeded income by £25.502m.**

The most significant areas of over and underspend in 2018/19 are as follows:

- Education and Children's Services – **£2.908m overspend** as a result of agency staffing costs and placement costs
- Public Health and Wellbeing – **£3.945m underspend** due to staff vacancies and reduced spend across commissioned services
- Waste Services – **£4.524m underspend** due to a combination of factors including reduced waste arisings, reduced operating costs and additional income
- Treasury Management - **£27.566m positive variance** principally due to the sale of bonds and lower borrowing costs
- Corporate Budget (Funding and Grants) - **£10.234m overspend** due to reduced income from capital receipts

The remaining **underspend of £3.628m** was made across a number of services across the County Council, with staff vacancies being the main reason for variances.

2018/19 Revenue Reserves

In the report to Full Council in February 2019 details were provided of the reserves position and the ability to support the revenue budget in future years whilst working towards a sustainable financial position. This indicated that there would be sufficient funds remaining in reserves to support the budget until 2022/23.

At the end of the financial year, a combination of the revenue underspend, a reduced expenditure from reserves and also the transfer of funds that are no longer required from other reserves has led to an improved position with £164.254m being available in the transitional reserve at the end of 2018/19 for future years; a positive variance of £24.893m. Currently £10.245m is forecast in 2019/20 from reserves to support the funding gap, and following further commitments of £3.566m this leaves a forecast of £150.443m available to support the financial gap in 2020/21 and beyond. However, this could vary dependent upon the outcome of a small number of specific

consultations (totalling £14.429m) on savings proposals with final decisions on implementation to be taken by Cabinet.

In light of the position outlined above work is progressing to identify additional savings aimed at reducing the reserves requirement in 2020/21 and beyond with the aim of achieving a financially sustainable.

2018/19 Capital Programme

The capital programme for 2018/19 totalled £124.170m with the programme delivering an outturn position of £120.514m, resulting in a variance to budget of £3.656m.

The variance of £3.656m is due to the following:

- Net underspends on completed projects - £2.916m
- Net overspends on completed projects - £0.302m
- Delivery delays and advance delivery (net position) - £1.042m

The slipped delivery is a mixture of financial delays eg. for retention amounts, but where the project is complete; delays due to changes to the work programmed and delays due to adverse weather which delayed completion or commencement of projects.

During the first 3 months of 2019/20 a comprehensive review of the delivery programme for 2019/20 will be undertaken in light of the outturn position and any proposed changes to the 2019/20 delivery programme reported back to cabinet as part of the regular money matters reports.

Section A - The 2018/19 Revenue Budget

1. Executive Summary

This section of the report provides an update for Cabinet on the County Council's 2018/19 revenue financial position and contains a comparison to the previously reported financial position as at Quarter 3.

The final position for the end of the year is net expenditure of £745.375m, reflecting an in year underspend of £19.265m which represents 2.52% of the budget.

The revenue position includes significant levels of support from reserves that have previously been agreed. **In 2018/19 the structural reserve funding totalled £44.767m, primarily covering the funding gap, and if this support had not been available then expenditure would have exceeded income by £25.502m.**

Delivery of the savings programme continues to be a key risk area and the savings plans have been subject to detailed and regular scrutiny throughout 2018/19 by the Programme Office and Finance and will continue to be in future financial years. As part of the 2018/19 outturn position £68.149m of budgeted savings were delivered, including some early delivery of savings relating to 2019/20 in areas such as income savings in adults services, waste management and bus lane enforcement savings.

2. Revenue Budget Outturn 2018/19 Summary Table

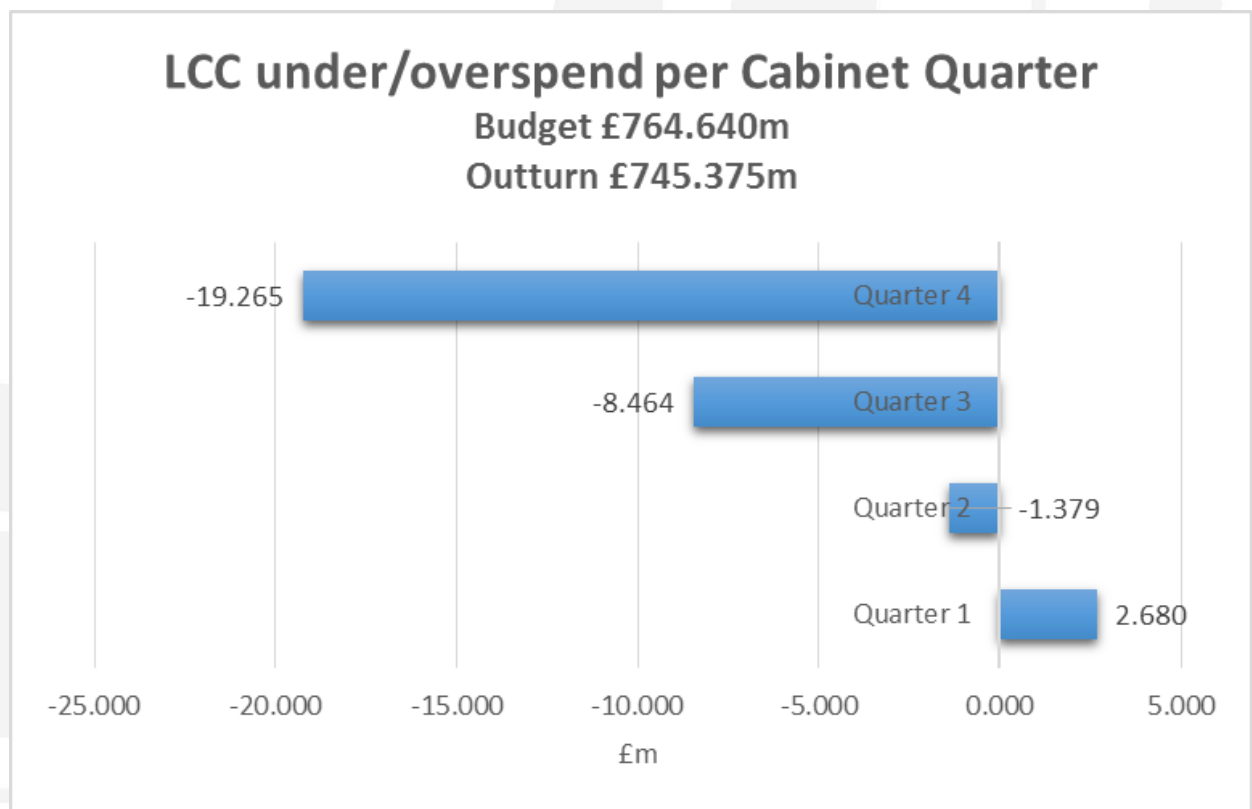
| Ref | Service Area | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast £m |
|-----|--|-----------------------|----------------|------------------------|-----------------------|--------------------------|
| 3.1 | Adult Services | 344.891 | 344.965 | 0.074 | 0.02% | 1.153 |
| 3.2 | Public Health and Wellbeing | 14.908 | 10.963 | -3.945 | -26.46% | -3.139 |
| 3.3 | Adult Services and Public Health and Wellbeing | 6.284 | 6.470 | 0.186 | 2.96% | 0.228 |
| 3.4 | Education and Children's Services | 157.498 | 160.406 | 2.908 | 1.85% | 2.383 |
| 3.5 | Growth, Environment and Planning | 4.201 | 3.193 | -1.008 | -23.99% | -0.662 |
| 3.6 | Highways and Transport | 133.212 | 132.165 | -1.047 | -0.79% | -0.315 |
| 3.7 | Finance | 32.022 | 32.382 | 0.360 | 1.12% | 0.589 |
| 3.8 | Corporate | 18.081 | 18.177 | 0.096 | 0.53% | 1.303 |
| 3.9 | Strategy and Performance | 31.855 | 32.376 | 0.521 | 1.64% | -0.243 |
| 4.0 | Chief Executive Services | 21.688 | 4.278 | -17.410 | -80.27% | -9.761 |
| | TOTAL | 764.640 | 745.375 | -19.265 | -2.52% | -8.464 |

The final outturn position for 2018/19 is net expenditure of £745.375m, reflecting an in year underspend of £19.265m being 2.52% of the budget. The 2018/19 forecast has improved by £10.801m compared to the position reported to Cabinet as at the end of December 2018.

The most significant areas of change compared to the forecast presented to Cabinet at Quarter 3 are:

- Improved Treasury Management performance of £6.565m due to a combination of interest payable being lower than budgeted and gains made on the sale of bonds.
- A reduced overspend across Adult Services due to additional income and reduced costs of £1.079m.
- An increased underspend across Public Health and Wellbeing of £0.806m due to staff vacancies and reduced costs across commissioned services.
- A reduced overspend within corporate services of £1.207m as a result of lower than anticipated costs of legal fees and costs within the coroner's service.
- Increased demand pressures across Children's Services, with the majority offset by one-off additional grant.
- An increased underspend in waste management of £0.541m as a result of further reductions in waste arisings and reduced waste disposal costs.
- Highways overspend increased by £0.610m predominantly due to additional maintenance costs during the final quarter.

The graph below shows how the variances have developed over quarterly cabinet reporting during the financial year:



3. Revenue Budget Outturn Detailed Analysis

3.1 Adult Services

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|---|-----------------------|----------------|------------------------|-----------------------|-----------------------------------|
| 3.1.1 | Disability (Adults) | -2.016 | -2.307 | -0.291 | -14.43% | -0.630 |
| 3.1.2 | Learning Disabilities, Autism & Mental Health | 174.698 | 175.295 | 0.597 | 0.34% | -1.687 |
| 3.1.3 | Older People | 2.422 | 3.252 | 0.830 | 34.27% | 0.845 |
| 3.1.4 | Social Care Services (Adults) | 169.787 | 168.725 | -1.062 | -0.63% | 2.625 |
| | Total - Adult Services | 344.891 | 344.965 | 0.074 | 0.02% | 1.153 |

The total net approved budget for Adult Services in 2018/19 is £344.891m with the service overspending by £0.074m in this financial year. It must however be noted, that despite this position, the county council's 2018/19 budget was underpinned by c£42m of reserves, therefore meaning that c£19m (on a pro-rated basis) is supporting the adult services budget and without this the service would be significantly overspent.

The final outturn position for Adult Services shows an improvement of £1.079m compared with Quarter 3, with the position being a lower overspend. The change is due to a number of different variances across this wide ranging budget, but is mainly as a result of additional income due to early delivery of some service challenge savings and also as a result of an updated provision for bad and doubtful debts under new accounting standards. The outturn position reflects the utilisation of additional winter pressures funding for 2018/19 which provided monies to pay for additional capacity including, for example, more care provision and staff support to alleviate pressures in hospitals and support effective discharges.

Although there is a small overspend reported across our Learning Disability, Autism and Mental Health services, including social work and in-house care support teams, there are a number of variances within this position. The mental health service continue to experience staff turnover and delays in recruitment, however this has not impacted on quality ratings with all provision rated good or outstanding. Lower than forecast placement numbers are suppressing costs overall in social work teams, although the service is having to manage the unexpected costs for individuals/service users who live outside of Lancashire but who may have originated from the county, and the authority is now required to cover these costs which are significant. Legislation has since changed to minimise future financial risks.

In addition the older people and physical disability services, including social work teams and in house care provision, has a final outturn of an overspend position although it is supporting significantly higher numbers of people. The financial challenge in the in house service concerns occupancy levels which are below target and the necessity of covering staff absences. Work is underway to improve attendance levels and establish a pool of casual employees. However, demand for residential and nursing placements was lower than 2017/18 levels, but continuing increase in placement costs putting some pressure on the budget. It must be noted that residential and nursing placements are often more costly when compared to other care packages such as domiciliary care and in addition, alternative placements to residential care often provide better outcomes for the service user. This was a key element of the passport to independence programme that continues to be delivered across adult social care. This was predicated on enabling people to maintain their independence for as long as possible and reducing the number of residential submissions which are not necessarily a good outcome for individuals.

Domiciliary care and direct payments were the greatest area of demand pressure, continuing the trend that commenced towards the end of 2017/18. Direct Payments service user numbers (net of domiciliary care) continued to increase significantly (11.82%) compared to the number of people that were supported through these packages of care in 2017/18. These demand levels are much higher than was budgeted for within the 2018/19 funding envelope and therefore has resulted in a pressure within the budget. However, offsetting this pressure is additional income which is higher than budgeted.

3.2 Public Health and Wellbeing

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|--|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 3.2.1 | Public Health & Wellbeing | -67.936 | -68.011 | -0.075 | -0.11% | 0.034 |
| 3.2.2 | Children And Family Wellbeing Service | 14.126 | 11.511 | -2.615 | -18.51% | -2.418 |
| 3.2.3 | Health Equity Welfare & Partnerships | 65.049 | 63.603 | -1.446 | -2.22% | -0.914 |
| 3.2.4 | Health, Safety & Resilience | 0.582 | 0.441 | -0.141 | -24.23% | -0.145 |
| 3.2.5 | Trading Standards and Scientific Services | 3.087 | 3.419 | 0.332 | 10.75% | 0.304 |
| | Total - Public Health & Wellbeing | 14.908 | 10.963 | -3.945 | -26.46% | -3.139 |

Public Health and Wellbeing has underspent by £3.945m in 2018/19. The forecast underspend has increased by £0.806m compared to the quarter 3 reported position.

The overall outturn underspend has increased compared with quarter 3. This is mainly due to a higher underspend within the children and family wellbeing service reflecting a significant number of vacant posts needing to be recruited to and an underspend on some non-staffing budgets.

Despite an overall underspend across the health equity, welfare and partnerships service it must be recognised that this position includes a significant overspend related to the sexual health contracts (c£1.3m). This service is funded on the basis of activity which has significantly increased to a level within the original scope of the contract but considerably higher than in previous years, with work underway to review and revise arrangements. This overspend is offset by underspends on other contract costs and staffing budgets and the budget has been realigned for 2019/20. The areas of underspend are contracts such as oral health, health checks, tobacco services and local enhanced services.

Trading Standards and Scientific Services has overspent predominantly due to costs within scientific services of £0.208m, in particular equipment renewal and repairs and under achievement of income targets in trading standards.

3.3 Adult Services and Public Health & Wellbeing

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|---|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 3.3.1 | Policy, Information and Commissioning Age Well | 0.449 | 0.457 | 0.008 | 1.78% | 0.002 |
| 3.3.2 | Policy, Information and Commissioning Live Well | 0.597 | 0.597 | 0.000 | 0.00% | 0.001 |
| 3.3.3 | Patient Safety and Quality Improvement | 5.238 | 5.416 | 0.178 | 3.40% | 0.225 |
| | Total - Adult Services and Public Health & Wellbeing | 6.284 | 6.470 | 0.186 | 2.96% | 0.228 |

Adult Services and Public Health & Wellbeing has overspent by £0.186m in 2018/19. The forecast has improved by £0.042m compared to Quarter 3 figures. The budgets shown in the table above relate to services working across both adult services and public health and wellbeing.

The overspend position is due to an increased volume of referrals into the safeguarding enquiry service via Multi Agency Safeguarding Hub (MASH) which resulted in some additional temporary resource costs to clear the backlog whilst more fundamental changes are made to service processes. The additional resource was agreed by the county council corporate management team in order to clear the backlog and was managed by other underspends across the adult services and public health budget. However, when compared to the forecast at quarter 3 the position has improved due to resource management undertaken by the service.

3.4 Education and Children's Services

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|--|-----------------------|----------------|------------------------|-----------------------|-----------------------------------|
| 3.4.1 | Children's Social Care Localities | 98.764 | 101.160 | 2.396 | 2.43% | 2.252 |
| 3.4.2 | Fostering, Adoption, Residential and YOT | 29.534 | 29.519 | -0.015 | -0.05% | 0.035 |
| 3.4.3 | Safeguarding, Inspection and Audit | 11.898 | 11.453 | -0.445 | -3.74% | -0.277 |
| 3.4.4 | Education and Children's Services Central Costs | -1.378 | -1.811 | -0.433 | -31.42% | -0.241 |
| 3.4.5 | Education Quality and Performance | 6.800 | 6.244 | -0.556 | -8.18% | -0.567 |
| 3.4.6 | Learning and Skills Service | -5.425 | -4.226 | 1.199 | 22.10% | 0.963 |
| 3.4.7 | Inclusion | 16.429 | 17.138 | 0.709 | 4.32% | 0.189 |
| 3.4.8 | Policy, Information and Commissioning Start Well | 0.876 | 0.929 | 0.053 | 6.05% | 0.029 |
| | Total – Education and Children's Services | 157.498 | 160.406 | 2.908 | 1.85% | 2.383 |

Children's Services overspent by £2.908m in 2018/19 against a budget of £157.498m. This is an increase of £0.525m from the forecast outturn reported to Cabinet at Quarter 3.

The service are undertaking a review of the outturn position by completing analysis both internally and externally. A comparison of the position that similar authorities have found themselves in as part of their 2018/19 position and also future year budgets is being completed. In addition, as part of the finance monitoring board for the directorate a review of the position for traded services will be undertaken.

3.4.1 Children's Social Care Localities is overspent by £2.396m for 2018/19. This is a small increased overspend compared to Quarter 3. The overspend is due to overspends on staffing (£2.222m), agency residential and fostering placement costs (£4.456m). There are offsetting underspends across Special Guardianship Orders and Assistance to Families (£1.501m) in addition to smaller underspends across

areas such as staying put and leaving care allowances. The service overspend was offset by additional grant that was not budgeted for of £1.998m.

Agency residential placements increased from 206 in March 2017 to 265 in March 2018 and increased to 292 in March 2019. Agency fostering placements increased slightly from 485 in March 2017 to 488 in March 2018 and increased to 524 in March 2019. It is important to note that forecast growth was included in the 2018/19 budget. Whilst increases in demand did appear to slow during the last quarter of 2017/18 and the early part of 2018/19 there was a significant increase in referrals and consequently numbers of placements in July and August 2018. Whilst numbers of placements decreased from August 2018 to December 2018, they increased between December 2019 and the end of the financial year. Work is continuing as part of the Children's Services Finance Monitoring Board to review the underlying reasons for increases in numbers of placements, to estimate likely future demand and monitor the achievement of agreed savings in order to identify the impact of this on the county council's budget. However, at this stage we do anticipate an initial pressure of c£2m across placement budgets based on the outturn position. The service have recently made a bid for the Hertfordshire Family Safeguarding model, if this is successful this will help the controlling of demand levels.

3.4.2 Fostering, Adoption, Residential and Youth Offending Team has underspent by £0.015m in 2018/19 which has not changed significantly from forecasts at Quarter 3. The service are experiencing underspends across the adoption and fostering service which is offset by an overspend of £0.766m in the residential in-house provision services mainly due to staff costs resulting from an increase in complex placements and welfare checks. There are also pressures relating to the use of casual staff to support outreach/edge of care service and therapeutic services provided to young people not placed in in-house residential units.

3.4.3 Safeguarding, Inspection and Audit (SIA) underspent by £0.445m in 2018/19 and has improved by £0.168m from Quarter 3. The underspend position is predominantly due to staffing underspends and additional income.

3.4.4 Education and Children's Services Central Costs underspent by £0.433m in 2018/19 which is an improved position by £0.192m compared to the quarter 3 forecast. The underspend is predominantly due to reduced premature retirement costs which can be quite volatile and difficult to estimate year on year.

3.4.5 Education Quality and Performance achieved an underspend of £0.556m in 2018/19. This was mainly due to an underspend of £0.458m relating to work placement costs for children looked after. In addition there were further smaller underspends across staffing and income.

3.4.6 Learning and Skills Service achieved a negative variance of £1.199m in 2018/19 (i.e. overspent by £1.199m), which is broadly the same as the forecast at Quarter 3. The service does however continue to make a contribution to corporate overheads, the value being £4.226m in 2018/19. The negative position is due to the following:

- School Catering pressures due to difficulties in fully achieving a £0.703m additional income target and increases in food costs. It must be noted that

£0.500m reflects an unachievable income target built back into the budget from 2019/20.

- Learning Excellence is overspent by £0.466m largely due to a decrease in income through the decline of course bookings from schools as a result of the closure changes to the location of courses provided. The service is working towards mitigating against this through use of other venues.

3.4.7 Inclusion overspent by £0.709m in 2018/19, which is an increased overspend of £0.520m compared to the forecast at Quarter 3. This change is mainly due to additional placement and direct payment costs that have emerged during the final quarter. The service has overspent on placement costs, but these are offset by smaller underspends within the Lancashire breaktime service and staffing and operational costs across a range of teams. Work is currently taking place to carry out further benchmarking of comparator authorities to review their unit costs, service delivery, cost pressures and opportunities in this area.

3.5 Growth, Environment and Planning

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|---|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 3.5.1 | LEP Coordination | 0.246 | 0.249 | 0.003 | 1.22% | 0.004 |
| 3.5.2 | Business Growth | 1.627 | 1.361 | -0.266 | -16.35% | -0.126 |
| 3.5.3 | Planning & Environment | 1.625 | 1.316 | -0.309 | -19.02% | -0.267 |
| 3.5.4 | Estates | 0.580 | 0.326 | -0.254 | -43.79% | -0.054 |
| 3.5.5 | Strategic Economic Development | 0.123 | -0.059 | -0.182 | -147.97% | -0.219 |
| | Total - Growth, Environment and Planning | 4.201 | 3.193 | -1.008 | -23.99% | -0.662 |

Growth, Environment and Planning Services have underspent by £1.008m. The underspend at final outturn has increased by £0.346m compared to quarter 3.

Across those services relating to economic development the underspend is due to staffing underspends and reduced contributions required to projects.

The Estates service has underspent by £0.254m due to reduced costs in relation to swimming pools and also on travellers' sites. In addition the Planning and Environment Service has underspent by £0.309m due to additional income.

Cabinet agreed to community asset transfers of 3 swimming pools in late 2017/18 with the budget remaining at this stage. Following the successful transfer of the facilities the budget is no longer required and therefore an underspend is reported and an adjustment to the medium term financial strategy made.

3.6 Highways and Transport (including Waste Management)

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Q3 Forecast Variance £m |
|-------|--|-----------------------|----------------|------------------------|-----------------------|----------------------------|
| 3.6.1 | Waste Management | 67.394 | 62.870 | -4.524 | -6.71% | -3.983 |
| 3.6.2 | Libraries, Museums, Culture and Registrars | 9.237 | 8.988 | -0.249 | -2.70% | -0.134 |
| 3.6.3 | Highways | 12.116 | 13.421 | 1.305 | 10.77% | 0.695 |
| 3.6.4 | Public and Integrated Transport | 44.216 | 47.383 | 3.167 | 7.16% | 2.888 |
| 3.6.5 | Customer Access | 3.092 | 2.843 | -0.249 | -8.05% | -0.062 |
| 3.6.6 | Design and Construction | -2.843 | -3.340 | -0.497 | -17.48% | 0.281 |
| | Total – Highways and Transport | 133.212 | 132.165 | -1.047 | -0.79% | -0.315 |

Highways and Transport underspent by £1.047m in 2018/19. This is an improved position of £0.732m compared to the forecast reported to Cabinet at Quarter 3.

3.6.1 Waste Management has underspent by £4.524m due to a combination of factors, the most significant of which is a reduction in waste arisings during the year (0.25% decrease rather than the budgeted increase of 2.1%). A further significant underspend related to processing of waste at Thornton, which as a result of loss of mass from drying waste, has reduced costs. The underspend position has significantly increased since Quarter 3 as a result of further reductions in waste arisings and reduced waste disposal costs.

3.6.2 Libraries, Museums, Culture and Registrars (LMCR) has underspent by £0.249m. This is largely due to staffing and operational underspend across libraries in addition to income that is higher than budgeted across the registrars service. However, the museums service has overspent by £0.295m due to the museums not yet recovering enough income to cover their costs as had been the strategy for these services.

3.6.3 Highways has overspent on revenue by £1.305m in 2018/19. This is due to a combination of factors including lower than budgeted utilisation of plant on capital work, costs on grounds maintenance being higher than the income received for the work and a pressure relating to pay and display income at Preston Bus Station. The service have already undertaken review work of the overspends on plant and grounds maintenance to reduce pressures in the 2019/20 budget.

A further overspend of £0.467m related to increased spend on maintenance work, particularly drainage. The mild winter weather conditions in February and March enabled the service to deploy additional resource in delivering routine maintenance on functions such as gully emptying and so the service are ahead in terms of delivery of planned works.

3.6.4 Public and Integrated Transport has overspent by £3.167m which shows increased costs of £0.279m position to that reported at Quarter 3. This is predominantly due to overspends on transporting pupils with special educational needs and disabilities and excluded pupils (c£1.900m). This is due to a combination of factors. There are additional school days in the financial year 2018/19 compared to 2017/18 largely relating to Easter holidays. In addition, a combination of higher than assumed passenger numbers and greater taxi price increases created pressure on the budget.

In addition there is a further overspend (£0.690m) relating to transporting pupils to non-maintained independent schools which were previously funded from schools budgets but which, upon review, should be funded from LCC transport budgets. This pressure has been addressed as part of the MTFS for 2019/20.

There are also overspends relating to public bus services (£0.497m) and bus station running costs (£0.239m).

There are offsetting underspends within the service on concessionary travel (£0.652m) as a result of reduced demand and across fleet services (£0.412m) due to additional income.

3.6.5 Customer Access has underspent by £0.249m predominantly due to additional income.

3.6.6 Design and Construction has underspent by £0.497m in 2018/19. This has significantly improved when compared to the forecast reported at quarter 3 mainly due to a damaged bridge settlement in the last months of the financial year and an improved position on highway capital work across the highways design and construction element of the service.

The property element of the service underspent by £0.025m. There was lower than budgeted recovery of income (£0.745m), however this pressure was offset by managing lower staff and agency costs.

3.7 Finance

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Q3 Forecast Variance £m |
|-------|---|-----------------------|---------------|------------------------|-----------------------|----------------------------|
| 3.7.1 | BTLS | 21.694 | 22.513 | 0.819 | 3.78% | 0.893 |
| 3.7.2 | Lancashire Pension Fund | 0.000 | 0.000 | 0.000 | 0.00% | 0.000 |
| 3.7.3 | Exchequer Services | 2.576 | 2.676 | 0.100 | 3.88% | -0.115 |
| 3.7.4 | Financial Management (Development & Schools) | 0.189 | -0.053 | -0.242 | -128.04% | -0.156 |
| 3.7.5 | Financial Management (Operational) | 1.737 | 1.563 | -0.174 | -10.02% | -0.026 |
| 3.7.6 | Office of the Police & Crime Commissioner Treasurer | -0.011 | -0.007 | 0.004 | 36.36% | 0.004 |
| 3.7.7 | Corporate Finance | 3.618 | 3.521 | -0.097 | -2.68% | -0.007 |
| 3.7.8 | Internal Audit | 0.696 | 0.646 | -0.050 | -7.18% | -0.004 |
| 3.7.9 | Procurement | 1.523 | 1.523 | 0.000 | 0.00% | 0.000 |
| | Total – Finance | 32.022 | 32.382 | 0.360 | 1.12% | 0.589 |

Finance Services have overspent by £0.360m in 2018/19. The final outturn position has improved by £0.229m compared to the Quarter 3 position reported to Cabinet.

The overspend is predominantly due to pressures experienced in the BTLS budget which have been reported throughout 2018/19. The overspend is due to delayed delivery of savings, income and inflationary pressures. The MTFS from 2019/20 includes additional budget for those areas of recurrent pressure.

The pressure due to income under-recovery relates to various different categories, such as payroll, external clients and ICT.

Across the remainder of finance there have been smaller offsetting underspends which predominantly relate to staffing underspends, reduced operational costs, additional income and early delivery of savings.

3.8 Corporate Services

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|-----------------------------------|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 3.8.1 | Coroner's Service | 2.688 | 2.168 | -0.520 | -19.35% | -0.340 |
| 3.8.2 | Human Resources | 0.875 | 0.598 | -0.277 | -31.66% | -0.227 |
| 3.8.3 | Legal & Democratic Services | 11.936 | 13.285 | 1.349 | 11.30% | 2.188 |
| 3.8.4 | Skills Learning & Development | 2.582 | 2.126 | -0.456 | -17.66% | -0.318 |
| | Total – Corporate Services | 18.081 | 18.177 | 0.096 | 0.53% | 1.303 |

Corporate Services have overspent by £0.096m in 2018/19. The final outturn position has improved by £1.207m compared to the Quarter 3 position reported to Cabinet.

3.8.1 Coroner's Service has underspent by £0.520m in 2018/19, an improvement of £0.180m compared to the Quarter 3 position reported to Cabinet. The underspend and improvement are due to further ongoing reductions in pathologists fees and mortuary storage costs following the introduction of electronic scanning. This also represents early delivery of savings for 2019/20.

3.8.2 Human Resources has underspent by £0.277m in 2018/19. The underspend position is predominantly the result of additional income generation against budget with less significant underspends relating to staffing and operational costs.

3.8.3 Legal and Democratic Services has overspent by £1.349m in 2018/19. This position has improved by £0.839m mainly due to forecast legal costs not being as high as expected. The fees still remain the main reason behind the overspend due to increases in child protection cases. The additional demand pressure has been reflected in the MTFS from 2019/20 and the service are working closely with children's social care to review the demand and need levels.

3.8.4 Skills, Learning and Development has underspent by £0.456m in 2018/19 mainly due to reduced costs within operational budgets. These were identified as part of the service challenge process and are therefore early delivery of agreed savings.

3.9 Strategy and Performance

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|---|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 3.9.1 | Asset Management | 7.218 | 6.091 | -1.127 | -15.61% | -1.364 |
| 3.9.2 | Facilities Management | 19.536 | 20.699 | 1.163 | 5.95% | 0.649 |
| 3.9.3 | Core Systems and Business Support | 3.750 | 3.758 | 0.008 | 0.21% | -0.055 |
| 3.9.4 | Programme Office | 0.454 | 0.931 | 0.477 | 105.07% | 0.545 |
| 3.9.5 | Business Intelligence | 0.897 | 0.897 | 0.000 | 0.00% | -0.018 |
| | Total – Strategy and Performance | 31.855 | 32.376 | 0.521 | 1.64% | -0.243 |

Strategy and Performance Services have overspent by £0.521m in 2018/19. The final outturn position has worsened by £0.764m compared to the Quarter 3 position reported to Cabinet.

3.9.1 Asset Management has underspent by £1.127m in 2018/19 primarily due to underspends relating to carbon reduction credits (£0.900m) and non-recurrent income relating to 2017/18 for utility recharges to schools. These underspends are offset by overspends relating to street lighting energy and in particular increased energy consumption due to a delay in LED replacement work and higher than budgeted winter prices for energy. The recurring element of the significant underspend relating to carbon credits has been agreed as a saving within service challenge and is therefore early delivery of an agreed saving.

3.9.2 Facilities Management has overspent by £1.163m in 2018/19 predominantly due to a one-off pressure relating to charges to schools (two years of charges included) and pressure relating to delayed delivery of an agreed saving for the repairs and maintenance budget (£0.233m). In addition the service has further overspent in the final months of the year due to the requirement to set aside funds that may be payable in relation to the sale of property in 2018/19 (£0.224m).

3.9.4 Programme Office has overspent by £0.477m in 2018/19. It was intended that the service operate with a model of staff recovering income for the project work they complete. However, staff are currently involved in work that does not generate sufficient income thereby resulting in an overspend. This was offset by underspends on staffing due to vacancies and operational budgets. The outturn includes the use of non-recurrent reserve funding of £0.861m from the Transitional Reserve. This recurrent pressure has been addressed in 2019/20 with additional budget allocated to this service.

4.0 Chief Executive

| Ref | Head of Service | Approved Budget £m | Outturn £m | Outturn Variance £m | Outturn Variance % | Quarter 3 Forecast Variance £m |
|-------|--|-----------------------|---------------|------------------------|-----------------------|-----------------------------------|
| 4.0.1 | Chief Executive Services | 2.025 | 1.974 | -0.051 | -2.52% | -0.036 |
| 4.0.2 | Service Communications | 0.795 | 0.795 | 0.000 | 0.00% | 0.001 |
| 4.0.3 | Corporate Budgets (Funding and Grants) | -42.046 | -31.812 | 10.234 | 24.34% | 11.025 |
| 4.0.4 | Corporate Budgets (Treasury Management) | 39.040 | 11.474 | -27.566 | -70.61% | -21.001 |
| 4.0.5 | Corporate Budgets (Pensions and Apprenticeship Levy) | 21.874 | 21.847 | -0.027 | -0.12% | 0.250 |
| | Total - Chief Executive | 21.688 | 4.278 | -17.410 | -80.27% | -9.761 |

Chief Executive Services have underspent by £17.410m. The underspend has increased by £7.649m compared to Quarter 3 Cabinet monitoring mainly as a result of an improved Treasury Management position reflecting positive investment activity over the quarter.

A significant underspend has been achieved following approval of a change agreed by Full Council in July 2018 to the Minimum Revenue Provision policy. This has enabled a £11m reduction in costs in 2018/19. Additionally, there is an underspend of over £17m within the Treasury Management budget as a result of extra income received, which is far higher than initially anticipated. With the markets responding to economic and political events there has been volatility in the price of Gilts and other bonds. The subsequent increase in the price has enabled sales to be made which has generated a significant surplus. Also, further savings have been made following the repayment of LOBO loans which has resulted in reduced interest costs.

The table below shows the variations in more detail:

| | Approved Budget £m | Outturn £m | Outturn Variance £m |
|-----------------------------------|-----------------------------------|-----------------------|------------------------------------|
| Minimum Revenue Provision (MRP) | 23.432 | 12.453 | -10.979 |
| Interest Paid | 23.604 | 23.807 | 0.203 |
| Interest Received/Surplus on Sale | -7.777 | -24.567 | -16.790 |
| Grants Received | -0.220 | -0.220 | 0.000 |
| Grand Total | 39.039 | 11.473 | -27.566 |

However, this is offset by a £11m pressure relating to a forecast shortfall in capital receipts that were originally agreed relating to the Cuerden site. There have been some offsetting additional income streams that have slightly reduced this pressure during the year.

Section B - Schools Spending 2018/19

The final outturn position against schools delegated budgets at 31 March 2019 is an overspend of £1.409m. This means that school balances have decreased by £1.409m in 2018/19, to a total of £42.741m. The tables below show analysis of school balances by phase at the end of the financial year 2018/19.

2018/19 School Balances - In-Year Movement of Balances by Phase

| Phase | Balance Brought Forward as at 1 April 2018 | Less Net Expenditure 18/19 | Balance Carried Forward as at 31 March 19 |
|--------------|--|----------------------------|---|
| | £m | £m | £m |
| Nursery | 0.466 | -0.049 | 0.417 |
| Primary | 35.177 | 0.129 | 35.306 |
| Secondary | 3.766 | -0.681 | 3.086 |
| Special | 3.989 | -1.176 | 2.813 |
| Short Stay | 0.751 | 0.367 | 1.119 |
| Total | 44.150 | -1.409 | 42.741 |

The outturn position shows a reduction in the level of school balances at 31 March 2019 to £42.741m. The continued reductions in the level of balances held by schools is indicative of the ongoing pressure on school funding. Dedicated Schools Grant (DSG) income has, for a number of years, been cash flat, or has not kept pace with inflation. Further reductions in overall level of balances in the nursery and secondary school sectors reflects the significant financial challenges confronting these phases and the substantial reduction in the overall level of balances in the special school sector is also symptomatic of the savings that are required in the High Needs Block of the Dedicated Schools Grant.

2018/19 School Balances –In-Year Movement Count of Schools by Phase

| Phase | Count of deficit in year | Count of surplus in year |
|--------------|--------------------------|--------------------------|
| Nursery | 14 | 10 |
| Primary | 217 | 256 |
| Secondary | 23 | 35 |
| Special | 15 | 14 |
| Short Stay | 2 | 7 |
| Total | 271 | 322 |

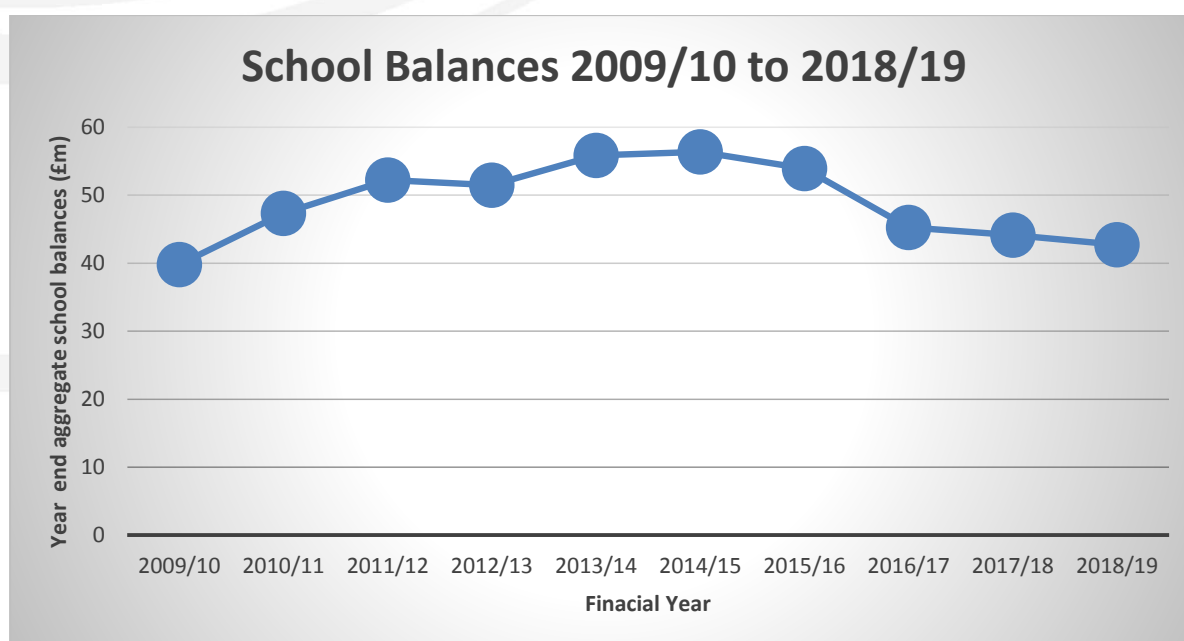
271 schools (46%) operated an in year deficit in 2018/19, spending from reserves. The significant numbers of schools, across all phases, using reserves in order to balance their budgets is a further demonstration of the persistent financial pressures in the school sector. Within the nursery and special sectors, more than half the schools within each phase spent more than their income in year.

2018/19 School Balances – No of Schools in Surplus/Deficit by Phase

| Phase | Count of deficit close balance | Count of surplus close balance |
|--------------|--------------------------------|--------------------------------|
| Nursery | 5 | 19 |
| Primary | 16 | 457 |
| Secondary | 12 | 46 |
| Special | 5 | 24 |
| Short Stay | 1 | 8 |
| Total | 39 | 554 |

39 schools ended the 2018/19 financial year in deficit, including schools from all sectors. The number of schools in deficit at 31 March 2019 has reduced from 47 schools a year earlier. Throughout the year, the County Council has provided significant targeted support and enhanced monitoring and early warning around Schools in Financial Difficulty, and this, along with the commitment of individual school leaders, has contributed to this reduction in the number of schools in deficit. However, the financial environment for schools remains extremely difficult, with a number of key challenges continuing across all school sectors.

Aggregate School Balances by Year



The graph demonstrates the trend in aggregate school balances over recent years. Balances at 31 March 2019 are at their lowest level since 2009/10 and show a continued decline in aggregate school balances, from a peak in 2014/15, as schools utilise their reserves to set balanced budgets.

Schools Reserves**

| Schools Reserves | Opening Balance as at 1 April 18 | In Year Changes | Closing Balance as at 31 March 19 |
|-----------------------------|---|------------------------|--|
| | £m | £m | £m |
| Individual Schools Reserves | 44.150 | -1.409 | 42.741 |
| Other Schools Reserves | 20.913 | -0.993 | 19.920 |

** The School Reserves are ring-fenced to schools and are used at schools' discretion.

Under the Education Reform Act, schools are given most of their budgets to directly control. If a school does not spend its entire budget, it is held as a reserve for them to use in the future. These reserves cannot be used for any other purpose.

Section C – The 2018/19 Capital Delivery Programme

Capital Delivery Programme Outturn 2018/19 Summary Table

The final capital delivery programme for 2018/19, incorporating additions and re-profiling agreed by Cabinet during the year was £124.170m. Table 1 shows that of this delivery programme expenditure of £120.514m took place during the financial year. The variance from expected delivery of £3.656m represents 2.94% of the delivery programme.

Throughout the year delivery has been achieved on projects which have increased and enhanced the county's assets as well as maintained the fabric and condition of our buildings. In addition, capital has been invested in projects that will deliver economic growth to Lancashire and its residents.

The outturn position for capital by block is shown below:

Table 1: Outturn position 2018/19

| Service Area | Total delivery programme for 2018/19 | Outturn | Variance |
|---------------------------|--------------------------------------|----------------|---------------|
| | £m | £m | £m |
| Schools (exc DFC) | 22.082 | 19.438 | -2.645 |
| Schools DFC | 2.767 | 2.886 | 0.118 |
| Children and Young People | 0.644 | 0.389 | -0.255 |
| Highways | 49.570 | 43.349 | -6.221 |
| Transport | 13.877 | 14.426 | 0.549 |
| Externally Funded | 3.871 | 2.987 | -0.884 |
| Waste and Other | 0.721 | 1.310 | 0.589 |
| Adults Social Care | 13.674 | 13.908 | 0.234 |
| Corporate | 13.244 | 18.169 | 4.925 |
| Vehicles | 3.720 | 3.653 | -0.067 |
| Totals | 124.170 | 120.514 | -3.656 |

The variance to budget is summarised in Table 2 and splits the variance between:

- Underspends on the delivery of completed projects.
- Overspends on completed projects.
- Slipped delivery budgets where delivery has been delayed in part or full to future years.
- Additional delivery where expenditure on an approved project has been incurred this year that had not originally been profiled for delivery in 2018/19.

Table 2: Breakdown of Variances

| Service Area | Variance | Underspends | Overspends | Slipped delivery | Brought forward delivery |
|---------------------------|---------------|---------------|--------------|------------------|--------------------------|
| | £m | £m | £m | £m | £m |
| Schools (inc DFC) | -2.526 | -0.927 | 0.028 | -4.112 | 2.485 |
| Children and Young People | -0.255 | -0.005 | 0.003 | -0.409 | 0.156 |
| Highways | -6.221 | -1.699 | 0.140 | -10.194 | 5.533 |
| Transport | 0.549 | -0.171 | 0.027 | -5.017 | 5.710 |
| Externally funded | -0.884 | 0.000 | 0.000 | -1.175 | 0.290 |
| Waste and Other | 0.589 | -0.114 | 0.000 | -0.018 | 0.721 |
| Adults Social Care | 0.234 | 0.000 | 0.000 | 0.000 | 0.234 |
| Corporate | 4.925 | 0.000 | 0.104 | -3.088 | 7.909 |
| Vehicles | -0.067 | 0.000 | 0.000 | -0.420 | 0.353 |
| Totals | -3.656 | -2.916 | 0.302 | -24.433 | 23.391 |

The slipped delivery is a mixture of financial delays, e.g. for retention amounts, but where a project is complete, delays relating to changes to the work programmed and delays due to adverse weather conditions which delayed completion or commencement of projects. The level of slipped delivery has been largely offset during the year through the delivery of projects originally profiled in future years. This has ensured that the overall level of programme delivery was broadly in line with that budgeted.

Capital Programme 2019/20 next steps:

A comprehensive review of the delivery programme for 2019/20 is being undertaken in light of the 2018/19 outturn position and any proposed changes to the 2019/20 delivery programme will be reported back to cabinet as part of the regular money matters reports.

Capital Programme Outturn Detailed Analysis

The outturn variances by block from the budget for delivery in 2018/19, with comments by programme or significant project are as follows:

Schools (including DFC)

The 2018/19 schools capital programme (including devolved formula capital) has a delivery budget of £24.849m. Spend against this budget is £22.323m. This is a variance of £2.526m which can be summarised as follows:

- Underspends of £0.927m
- Overspends of £0.028m
- Slipped delivery of £4.112m
- Brought forward delivery of £2.485m

The 2018/19 programme contains in the region of 300 projects. Due to the size and complexity of the block, a summary of the position of the major programmes within the block are shown below:

Basic Need

The basic need programme is comprised of construction projects to increase school place provision capacity in targeted areas across Lancashire. Details of the key variances are as follows:

The majority of the underspend position within the basic need delivery programme relates to Holy Cross (£0.738m) and St Georges (£0.157m). Earlier than profiled delivery of £0.447m reflects some early design costs for commencing schemes.

Within this programme there was slipped delivery of £1.951m which mainly related to Whalley CE Primary School (£0.365m), Langho St Marys (£1.000m) and delayed payment of fees (£0.365m). These projects have experienced delays resulting from a variety of reasons such as value engineering exercises, and archaeological surveys (Whalley CE Primary School) and changes to demand levels leading to a requirement for additional funding due to housing developments (Langho St Marys). Both these projects are forecast to be completed in 2019.

Condition

The condition programme delivers a variety of works to address priority condition issues at existing schools. The works are usually undertaken over the summer months to minimise disruption to the education provision. The delivery programme for these works in 2018/19 was £15.246m and against this £14.687m was spent.

Slipped delivery of £2.061m is reported for this programme relating to the 2017/18 approved programme which was profiled for delivery over 2017/18 and 2018/19 and this is largely complete. Although not reported until the project is completed, it is anticipated that £1.161m of the programme will be an underspend and will be reutilised in 2019/20 on emerging priorities. The remaining balance of the slippage of £0.900m will be required for delayed costs in completing works and final retention payments in 2019/20, this includes the extensive remedial work ongoing at Rhyddings High School.

This programme is also reporting £1.503m of brought forward delivery at the end of 2018/19 with the 2018/19 (and 2019/20) 2 year programme progressing well. The projects that will continue to be delivered next year include many of the more complex remedial cases to do with heating, which missed the summer window for works due to longer design stages.

Devolved Formula Capital programme

The Devolved Formula Capital programme (DFC) is direct funding devolved to individual schools to maintain their buildings and fund small-scale capital projects, allocated annually by the Department for Education on a formula basis. In the Autumn Budget Statement (October 2018), the Chancellor announced an additional one off allocation. An additional £4.227m was received for Lancashire controlled schools in early 2019.

The programme delivery budget for 2018/19 was £2.767m, in line with the annual allocation. Schools have spent an additional £0.118m in 2018/19 and will continue to plan projects funded from the additional allocation and further annual allocations in line with the grant funding agreements over future years.

Children and Young People

The 2018/19 Children and Young People capital programme has a delivery budget of £0.644m. Spend against this budget is £0.389m, resulting in a variance of £0.255m. The 2018/19 programme contains 13 projects.

The main variance within this programme relates to slipped delivery of £0.409m within the residential redesign programme. This is mainly due to £0.205m unspent contingency monies (which are likely to be a resultant underspend once the project is completed) and £0.163m of slipped delivery on the refurbishment of a children's home in Morecambe.

Highways

The 2018/19 Highways capital programme had an agreed delivery budget of £49.570m with outturn expenditure of £43.349m, an outturn variance of £6.221m resulting from:

- Underspends of £1.699m
- Overspends of £0.140m
- Slipped delivery of £10.194m
- Brought forward delivery of £5.533m

The 2018/19 programme contains 955 projects. Due to the size and complexity of the block, a summary of the position of the major programmes within the block is below:

Bridge Maintenance

This programme contains slippage of £1.861m and covers a range of projects. The most significant relates to the work on the Greyhound Viaduct, which is subject to ongoing discussions with the Environment Agency, and resulted in slippage of £0.875m in 2018/19. Further slippage is reported on the project relating to the Brig

and Pinder Hill and a number of smaller bridge projects. In addition there have been delays to the replacement of Doctor's and Bridge Street footbridges relating to work required with partners such as Network Rail and these are now scheduled to be replaced in July 2019.

Drainage

The Drainage outturn position is £1.391m expenditure against a £0.581m delivery programme.

Within the 2018/19 Programme there are 4 completed schemes that have overspent by a total of £0.065m. The remaining spend greater than budget is due to early delivery of schemes originally planned for 2019/20 delivery as a result of the comparatively good weather during the winter months.

DfT Funding for Flood damaged Roads and Bridges

The contractors programme for the replacement of Dinckley Footbridge was much shorter than anticipated resulting in additional delivery of £0.352m, which was originally profiled for delivery in 2019/20.

Footways

Expenditure was £0.346m lower than profiled reflecting net slippage across a number of projects within the programme.

Residential Urban

Net slippage of £0.326m on the 2018/19 programme and completion of the work from outstanding years.

Rural Unclassified

This programme had slippage of £0.655m mainly due to 6 schemes not starting until 2019/20 offset by earlier than profiled delivery £0.042m on prior year programmes.

Incentive Fund

The development of a strategy for dealing with the deterioration of Moss Roads has led to slippage of £0.400m on the 2018/19 programme. Further slippage of £0.701m is a result of delays on a number of other projects including Derby Street Railway Bridge and Principal Bridge Inspections.

This is offset by earlier than profiled delivery of £0.240m of works at Salter Fell Slaidburn and £0.266m expenditure on the completion of prior year programmes.

Pothole Action Fund

The 2018/19 budget for this scheme was £1.484m with actual expenditure exceeded this and totalled £2.667m. This resulted in a variance of £1.183m, with £1.040m being earlier than profiled delivery and £0.133m of slippage.

Project and Resources

This is a multi-year programme across which there is likely to be a significant underspend on completion based on current forecasts. In 2018/19, earlier than profiled delivery of £1.718m was incurred as well as incurring £0.422m slippage to those planned for 2018/19.

Other elements of the programme are presented below:

- ABC Roads: across the 2018/19 programme there is an underspend of £0.600m and slippage of £1.921m. There has been further spend of £0.479m on completion of prior year programmes.
- The Salix street lighting works began in March 2019. This was delayed, therefore there was slippage of £1.837m in 2018/19 with the additional works now expected to be delivered during 2019/20.
- Street Lighting: in 2018/19 there was £0.250m slippage on the 2018/19 Column Replacement programme. The combined 'invest to save' lantern replacement programme underspent by £0.612m.
- Tawd Valley Cycleway: Due to delays with the tender process there is slippage of £0.420m on Tawd Valley Cycleway.
- Skid Resistance: issues with the size of machinery used to carry out repairs to the "bleeding" or "shiny" roads has resulted in slippage of £0.674m.
- Traffic Signals: there was an underspend of £0.147m on defects within and also slippage of £0.100m on two 2018/19 traffic signal schemes.

Transport

The 2018/19 transport capital programme has a delivery budget of £13.877m. Spend against this budget is £14.426m. This is a variance of £0.549m which can be summarised as follows:

- Underspends of £0.171m
- Overspends of £0.027m
- Slipped delivery of £5.017m
- Additional delivery of £5.710m

The 2018/19 programme contains 215 individual schemes. Due to the size and complexity of the block, a summary of the position of the major programmes within the block is below:

Cycling Safety schemes

In Quarter 1 the annual budget of £0.500m was re-profiled into 2019/20 and 2020/21 to allow for completion of design and delivery of slipped budget from 2017/18. Given the historic problems associated with some of these prior year schemes being overcome in 2018/19 the design elements were undertaken this financial year allowing £0.177m more delivery than profiled.

Road Safety Schemes

The majority of schemes are progressing through the design phase, slipping against the forecast delivery budget by £0.674m. Savings of £0.029m were achieved on a number of completed projects.

National Productivity Investment Fund (NPIF)

This programme of work at a number of sites was approved in January 2018 to improve traffic flow to areas of economic development. These are the M65 junction 13 roundabout, Vivary Way North Valley road, A583 Riversway Corridor, M6 junction 31 Swallow Hotel and M65 growth corridor improvements at J8, 9, 10 and 13. These projects are currently in either the design or delivery phase. The programme has slipped by £0.787m on the 2018/19 delivery budget as consultants review plans for feasibility before a package of work can be tendered. Through this process a number of proposed changes to the programme have been identified and will be presented for approval in 2019/20 to ensure the improvement criteria outcomes are delivered.

Burnley Pendle Growth Corridor

This is a multi-year £13.300m programme of 16 junction improvement projects around the M65 growth corridor. Several projects are completed and several are currently in the design phase. £1.044m has been spent in year after reporting slippage in previous years. Works will continue until 2021 and proposals will be presented for approval to bid for Department for Transport National Productivity Investment Funding in order to complete works at Burnley Rose Grove junction (A679/A646), which the extensive design process has identified is considerably complicated by a number of land and ecology issues and diversions for utilities.

East Lancashire Strategic Cycleway Network

The programme to create safe cycle links in East Lancashire and Blackburn for both leisure cycling and routes to places of employment commenced in 2016 and was originally planned to be completed in 2018/19. The delivery timescale was slipped and extended by 12 months to March 2020 to accommodate delays incurred due to design changes following public consultations and ecological considerations. Spend in 2018/19 has been £0.564m more than the planned re-profiling as work has progressed well on the Valley of Stone sections and the tunnel sections now to be completed this summer. There is prospective funding from Highways England for LCC to deliver additional sections of the cycle route, the outcome of which will likely be known in spring 2019 and will be added to the programme if the funding becomes available.

Lancaster City Centre Congestion Relief

A programme to support the future economic developments planned for Lancaster by making provision for a rapid bus transit route, for which studies and development work are ongoing. Consultants have completed the majority of the benefit assessment work, feeding into the recent HIF bid with £0.025m of final development work slipping into 2019/20. A separate bus lane was introduced on Greyhound bridge and a project was created for the installation of enforcement cameras, which overspent by £0.020m. Additional delivery was incurred on Caton Road of £0.054m, with work ongoing to establish a wireless CCTV link to County Hall.

Skelmersdale Rail Link

This £6.850m multiyear programme of works was developed from the West Lancashire Highways and Transportation masterplan where it was identified that a rail link into Skelmersdale town centre could stimulate economic development in West Lancashire.

Across the 4 projects that make up the Skelmersdale Rail Link programme, £2.078m was spent against an expected delivery programme budget in 2018/19 of £3.878m with the variance slipping into the 2019/20 delivery plan.

M6 – Heysham Bay Gateway

There was slippage on the 2018/19 delivery budget of £1.329m reflecting delays in agreeing the final account with the contractor, but this has now been agreed and will be financially settled in 2019/20. Part 1 compensation claims are being negotiated and will continue to be paid as awarded until 2022.

Blackpool to Fleetwood Tramway

Outstanding remedial works at the tram depot that have not been resolved mean the retention payment to the contractor is not yet paid and no expenditure was budgeted to be paid in year due to the length of negotiation expected. The matter is progressing to legal proceedings led by Blackpool Council for which Lancashire County Council is liable for 50% of any costs which could represent an additional budget pressure. Additional delivery of £0.161m on legal fees was made in 2018/19.

Town Heritage Initiatives (THI)

£1.061m was achieved in earlier than profiled delivery with the Accrington and Bacup THI projects having been completed in year and being in the defects liability period.

Public Rights of Way

£0.594m was budgeted to be spent in 2018/19, which was a combination of new projects and completion of ongoing works from previous years. £0.319m has been spent in 2018/19 leading to £0.275m slippage.

Safer Roads

LCC secured a Department for Transport grant from the Safer Roads Fund in response to a bid for improvements to the A588, A682, A683, A6 and A581. The DfT will provide £7.942m over three financial years (2018/19 – 2020/21). All schemes are intended to reduce the risk of serious collisions occurring along the routes by reducing exposure to hazards and should increase the International Road Assessment Programme (iRAP) Star Rating for all routes. The budget was profiled in line with estimated delivery timeframes in the bid. Slippage of £0.087m has occurred due to design approach changes needed to integrate the programme with the Highways Infrastructure Fund bid.

Externally Funded Schemes

The 2018/19 externally funded capital programme has a delivery budget of £3.871m. Spend against this budget is £2.987m. This is a variance of £0.884m which can be summarised as follows:

- Slipped delivery of £1.175m
- Earlier than profiled delivery of £0.290m

The variance due to slippage primarily relates to £0.811m on the M55 Heyhouses Link Road, £0.176m on Padiham Town Centre Heritage Initiative and £0.141m on Whalley Town Centre Footway and Bus Stop Improvements.

There was earlier than profiled delivery against several schemes, most notably £0.089m on the Kellet Road Puffin Crossing and £0.076m on the Blackpool Road/Lea Road Crossing Facilities.

Waste and Other

The 2018/19 Waste and Other capital programme has a delivery budget of £0.721m. Spend against this budget is £1.310m resulting mainly from earlier than profiled delivery with small underspends on some completed schemes.

Adult Social Care

The 2018/19 Adult Social Care capital programme has a delivery budget of £13.674m. Spend against this budget is £13.908m resulting in a variance of £0.234m.

In 2018/19 there was earlier than profiled delivery of £0.234m on a number of projects including Social Care Reform LPRES (Lancashire Person Record Exchange Service) and the Changing Places – Preston Chapel Yard project.

The main element of the Adult Social Care delivery programme is the Disabled Facilities Grant. This is received at the start of the financial year and immediately passported out to the district councils. The grant figure for 2018/19 is £13.652m.

Corporate

The 2018/19 corporate capital programme has a delivery budget of £13.244m. Spend against this budget is £18.169m. This is a variance of £4.925m which can be summarised as follows:

- Additional delivery of £7.909m
- Slipped planned delivery of £3.088m
- Overspends of £0.104m

Additional delivery relates to the approved capitalisation of items previously budgeted to be paid to City Deal out of revenue streams and work undertaken during the year to meet health and safety concerns emerging during the year in corporate buildings.

The slipped delivery refers to slower than expected spend on our super-fast broadband roll out and the slower delivery of the programme of works for older peoples' homes, a large percentage of which is now complete but financial payments and retentions are still to be made.

The £0.104m overspend is on the Core Systems budget which is being used to fund necessary adjustments/improvements to the systems post "go-lives".

Vehicles

The 2018/19 Vehicles capital programme has a delivery budget of £3.720m. Spend against this budget is £3.653m. This is a small net variance of £0.067m.

Section D – County Fund Balance, Reserves, Provisions and Capital Receipts

5. Revenue Reserves as at 31st March 2019

Table 1 below shows the summary position for revenue reserves as at 31st March 2019:

Table 1

| Reserve Name | Opening Balance 2018/19 | 2018/19 Expenditure | 2018/19 transfers to / from other reserves | 2018/19 Closing Balance | 2019/20 Forecast Spend | 2020/21 Forecast Spend | Total forecast as at 31 March 2021 |
|---|-------------------------|---------------------|--|-------------------------|------------------------|------------------------|------------------------------------|
| | £m | £m | | £m | £m | £m | £m |
| County Fund | -23.437 | 0.000 | 0.000 | -23.437 | 0.000 | 0.000 | -23.437 |
| SUB TOTAL - COUNTY FUND | -23.437 | 0.000 | 0.000 | -23.437 | 0.000 | 0.000 | -23.437 |
| Strategic Investment Reserve | -3.765 | -0.144 | 1.813 | -2.096 | 1.600 | 0.350 | -0.146 |
| Downsizing Reserve | -13.891 | 0.506 | 5.941 | -7.444 | 4.605 | 2.840 | 0.000 |
| Risk Management Reserve | -5.402 | 0.714 | 1.884 | -2.804 | 1.204 | 0.800 | -0.800 |
| Transitional Reserve | -155.066 | 6.650 | -15.838 | -164.254 | 3.566 | 0.194 | -160.494 |
| Service Reserves | -19.118 | -0.333 | 6.200 | -13.251 | 5.851 | 0.304 | -7.097 |
| Treasury Management Reserve | -10.000 | 0.000 | 0.000 | -10.000 | 0.000 | 0.000 | -10.000 |
| SUB TOTAL - LCC RESERVES | -207.243 | 7.393 | 0.000 | -199.850 | 16.826 | 4.488 | -178.536 |
| Schools/Non-LCC Service Reserves | -16.521 | -1.007 | 0.000 | -17.528 | 2.216 | -0.034 | -15.346 |
| SUB TOTAL SCHOOLS/NON LCC RESERVES | -16.521 | -1.007 | 0.000 | -17.528 | 2.216 | -0.034 | -15.346 |
| | | | | | | | |
| GRAND TOTAL | -247.201 | 6.387 | 0.000 | -240.814 | 19.042 | 4.453 | -217.319 |

The County Fund shown at the top of Table 1 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 has a County Fund balance of £23.437m at the end of 2018/19.

The table above shows that the forecast value at the end of 2020/21 of the uncommitted Transitional Reserve following the 2018/19 outturn is £160.494m. This is an improved position compared to that reported to Cabinet at Quarter 3, due to the higher underspend within the revenue budget and also the transfer of funds that are no longer required from other reserves. There are also some additional significant

balances that are included in the reserve at the close of 2018/19 that are committed in 2019/20.

The closing balance of the Transitional Reserve has improved by c£25m when compared to the forecast at quarter 3. The main reasons for this are as follows:

- £11m increase in the underspend position that is subsequently transferred to the transitional reserve
- £5m increased income from areas such as s31 grants and economic development. The largest value relating to business rates levy that was paid towards the end of the 2018/19 financial year which has been committed to support the revenue budget for 2019/20.
- £1m transfer to the transitional reserve following a review of provisions held that are no longer required.
- £3m transferred from other reserves that following an improved position as part of the 2018/19 outturn are no longer required to support commitments.
- £3m pensions prepayment surplus – placed in the reserve with commitments in the next financial year.

Whilst it is anticipated that further revenue savings for 2019/20 and beyond will be identified, the impact of utilising the Transitional Reserve to fund the £10.245m gap and other commitments would leave £150.443m available for use in 2020/21 and beyond based on current forecasts. Table 2 within the report demonstrates the funds that are forecast to be available to support the budget gap in 2019/20 and future years. However, in order to set a legal budget in later years further savings will need to be made.

Table 2

| | 2019/20 (£m) | 2020/21 (£m) | 2021/22 (£m) | 2022/23 (£m) |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Opening Balance | 164.254 | 150.443 | 119.878 | 83.990 |
| MTFS Gap funding | 10.245 | 30.370 | 35.888 | 47.326 |
| Commitments | 3.566 | 0.194 | 0.000 | 0.000 |
| Closing balance | 150.443 | 119.878 | 83.990 | 36.664 |

7. Provision for Bad and Doubtful Debts

In addition to general provisions against known liabilities the Council maintains a provision against bad and doubtful debts.

The methodology for calculating the provision has had to be reviewed due to new accounting standard requirements (IFRS 9) with the primary change being to adult social care debt where we no longer need to provide for debts at 100% over 6 months old (following a detailed analysis of our debt collection rates and the timing of collection).

However, despite the revised methodology the outstanding debts that are owed to the council continue to increase, therefore the provision has increased in the table below. There is a significant amount of work taking place to review the strategy and resources in relation to debt collection and it is anticipated this will have a positive impact in 2019/20.

| | Opening Balance as at 1 April 2018 £m | In Year Changes £m | Closing Balance as at 31st March 2019 £m |
|---------------------------------|--|-------------------------------|---|
| Corporate Bad Debt Provision | -16.107 | -2.054 | -18.161 |

8. General Provisions

General Provisions which are set aside for specifically quantified liabilities such as insurance claims. Movements in general provisions are summarised in the table below:

| | Opening Balance as at 1 April 2018 £m | In Year Changes £m | Closing Balance as at 31st March 2019 £m |
|---|--|------------------------------|--|
| Adult Services - Safeguarding | -0.500 | -0.500 | -1.000 |
| Adult Services – General | 0.000 | -2.778 | -2.778 |
| Adult Services – Learning Disabilities | -0.564 | 0.564 | 0.000 |
| SEND Provision | -0.603 | 0.000 | -0.603 |
| Children's Services – Special Educational Needs | -0.101 | 0.101 | 0.000 |
| Financial Resources | -0.947 | 0.861 | -0.086 |
| Teachers Pensions | -0.245 | 0.245 | 0.000 |
| Business Rates Appeals | -4.444 | -1.007 | -5.451 |
| Municipal Mutual Insurance (MMI) Provision | -2.749 | 0.000 | -2.749 |
| Insurance Provision | -22.257 | 7.592 | -14.665 |
| PFI Payments | -0.815 | 0.215 | -0.600 |
| Grand Total | -33.225 | 5.293 | -27.932 |

The table above contains both long and short term provisions held at the end of the 2018/19 financial year. A review of all provisions has been undertaken with several removed as they are no longer required. In addition, where new provisions are required (such as the Adult Services – General) or increases were needed to existing provisions then the required action has been taken.

9. 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.

As part of the Provisional Settlement in December 2017 it was announced that flexibility to use capital receipts to help meet the revenue costs of transformation programmes will continue for a further three years.

Local authorities are only 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.

As part of the 2018/19 revenue budget agreed by Full Council a total of £18.525m was built into the budget. However, in the money matters report to cabinet in quarter 1 it was identified that the budgeted level of capital receipts would not be achieved due to the significant capital receipt of £11.025m that would not be received in relation to the Cuerden site. This pressure was reported in the budget monitoring position, but was offset by an underspend within the minimum revenue provision and treasury management performance.

The table below shows the amount that was expected to be spent in each service area and how much was spent as part of the 2018/19 outturn:

| Service Area | 2018/19 Budget (£m) | 2018/19 Expenditure (£m) | 2018/19 Variance (£m) |
|---------------------------------------|------------------------|--------------------------------|-----------------------------|
| Children's Social Care | 4.204 | 0.601 | -3.603 |
| Waste Services | 0.717 | 0.282 | -0.435 |
| Exchequer Services | 2.186 | 1.366 | -0.820 |
| Human Resources | 0.900 | 0.195 | -0.705 |
| Programme Office | 0.632 | 0.477 | -0.155 |
| Policy, Information and Commissioning | 0.828 | 0.000 | -0.828 |
| Procurement | 0.700 | 0.381 | -0.319 |
| Financial Management (Operational) | 0.850 | 0.416 | -0.434 |
| Corporate Finance | 0.280 | 0.000 | -0.280 |
| Estates | 0.391 | 0.000 | -0.391 |
| Facilities Management | 0.457 | 0.000 | -0.457 |
| Asset Management | 1.028 | 0.000 | -1.028 |
| Core Business Systems Transformation | 1.799 | 1.099 | -0.700 |
| Adults Services | 3.086 | 2.597 | -0.489 |
| Customer Access | 0.381 | 0.000 | -0.381 |
| Public and Integrated Transport | 0.086 | 0.086 | 0.000 |
| Grand Total | 18.525 | 7.500 | -11.025 |

In 2018/19 actual receipts totalled £8.476m, against a revised target of £7.500m. This resulted in a balance carried forward from 2019/20 of £0.976m to contribute towards future year targets. It is expected that the actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. It is currently forecast that the receipts built into future years' budgets of £8.000m (2019/20) and £7.000m (2020/21) will be achieved.

The funding shown above has been used to support the following projects:

- Transformation activity to support the delivery of £192m of savings that were previously agreed and included within the 2018/19 budget and beyond, including the recently agreed service challenge savings of £77m.
- Support the Passport to Independence Transformation Programme in Adults Services.
- Additional investment in Children's social care to transform and improve services.

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 programme. The indicators are reviewed on a regular basis and reported to Members on a quarterly basis.

Section E – Conclusion on the County Council's Financial Health

Whilst the revenue outturn position for 2018/19 presented within the report is positive in headline terms, the revenue budget was supported by reserves to meet the structural funding gap. The underlying outturn position, excluding the structural application of reserves, was an overspend of c£26m and a forecast funding gap of £47m by 2022/23 remains.

The agreed use of reserves in 2018/19 revenue budget to meet the structural funding gap represents a continuation of recent years reserves commitments to support the delivery of a significant number of agreed savings plans (£4.386m agreed to support savings delivery in 2018/19) and the funding gap, whilst savings proposals to reduce the funding gap have been developed. These have been a combination of efficiencies, demand management, income generation, reduction in some services and reducing the level of revenue funding of the capital programme.

The availability of reserves to support recent revenue budgets has been enabled by good financial stewardship. The council has a track record of delivering positive outturn positions in most years through strong financial management, including delivering the majority of savings that have been agreed in budget cycles.

Positively this has continued in 2018/19 with the revenue underspend resulting in a much lower net reduction in reserves than was originally budgeted for. Some elements of the underspend reflect early delivery of savings now agreed as part of the 2019/20 budget, but detailed work is being undertaken to determine the extent to which any of the underspending areas represent structural underspends not yet adjusted for within the MTFS for future years, e.g. continuing strong treasury management performance. Similarly, overspending areas are also being reviewed to determine the extent that it is recurrent and not reflected in the MTFS, with an updated position to be reported to cabinet in September.

The proportion of the council's revenue budget spent on key demand led areas continues to increase and remains a challenge as a result of the ageing population and increasing demand, despite the receipt of non-recurrent grant funding and the application of the adult social care precept. The other significant area of demand is children's social care, which overspent last year despite a significant amount of growth built into the budget over the last three years. This remains an area of focus moving forward to track and determine whether, based on recent local and national trends, sufficient growth has been built into the MTFS for 2019/20 and future years.

The remaining reserves are forecast to be sufficient to enable a balanced budget to be set until 2022/23, however it is critical that further proposals are developed to address the funding gap. Following the successful identification of savings as part of phase 1 of service challenge, phase 2 has now commenced building on the good work to date and identify further savings. This phase will focus on more cross cutting themes throughout the council. This initiative will also incorporate the recently agreed corporate strategy and use the priorities identified as a framework for prioritisation across the council.

As with any such plan, the medium term financial strategy contains a number of assumptions within future year forecasts reflecting a number of unknown elements in relation to the future funding of local government. The government's aim is to introduce a new fair funding formula and 75% business rates retention from 2020/21.

Together with the proposed spending review, the impact on the council's funding envelope is unknown. At this stage government's timescales seem challenging with several consultations still to take place and the impact of whilst commitments relating to the exit of the European Union remain to be determined. At this stage we anticipate a one-year settlement in the autumn, but this is also an assumption.