

Appendix 'A'

The County Council's Financial Strategy 2014/15 to 2017/18

1. Introduction to the scale of the financial challenge ahead

Over the past three years the reductions in public spending following the 2010 Comprehensive Spending Review have had a significant impact on the level of resources for local government. Over that period, the County Council saw a 28% reduction in the level of resources received from the government and by the end of 2013/14, will have delivered savings of £217m over its current three year budget. The government has also stated that local government could expect to see the same level of reduction in resources over the next spending review period.

The 2013 spending review was published in June 2013 and covered the two financial years 2014/15 and 2015/16. As previously trailed by the government, local government saw further major reductions to resources. Overall, local government will face further reductions in resources of 8% in 2014/15, and 13.1% in 2015/16. With reductions expected to continue beyond this, it is clear that reductions in resources of this scale will have a significant impact on the future of the County Council.

2. The Impact on the County Council

The level of the financial challenge over the next four years is driven by two key issues – increased costs as well as the reduced levels of resources described above.

The table below summarises the position previously reported to Cabinet in July and September 2013, and shows that over the next four years the County Council is facing:

- an increase in costs over this four year period of 21%, or £165m
- a reduction in resources of 17%, or £134m.

2.1 Forecast Increases in the County Council's Costs

	£m
The starting point – the 2013/14 Revenue Budget	776.34
<i>Add : Forecast Changes to Costs</i>	
Potential impact of pay awards	18.5
Potential impact of increased employers contribution as a result of the triennial valuation of the Pension Fund	8.4
Impact of the introduction of the single tier pension	6.0
Forecast impact of conversion to academies	2.3
Impact of inflation on the prices paid to third parties	79.2
Impact on costs of Forecast Changes to Demand for Services	50.9
<i>Total of Forecast Increases in Costs</i>	<i>165.3</i>
Budget Requirement by 2017/18	941.64

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Of course, in addition to facing increases in costs, the County Council must also consider changes to its resources.

2.2 Forecast Reductions in the County Council's Resources

	£m
The starting point – the level of resources within the 2013/14 Revenue Budget	776.34
Made up of:	
• Council tax	360.21
• Revenue Support Grant	248.81
• Local share of the business rates	165.53
• New Homes Bonus	1.79
<i>Forecast Changes to Resources:</i>	
Council Tax	+4.0
Revenue Support Grant and Local share of the business rates	-133.7
Reduction in Education Support Grant in 2015/16	-5.0
Proposed topslice to New Homes bonus	-1.0
<i>Overall Impact on resources</i>	<i>-134.3</i>
Forecast of resources in 2017/18	642.01

2.3 The Overall Impact on the County Council

The combined impact of increases in costs and reductions in resources is a gap of £300m which will have to be met by either reducing costs or increasing resources. The summary of the Financial Outlook for the County Council over the four year period is set out below.

The Overall Position	£m
<i>Budget Requirement by 2017/18</i>	<i>941.64</i>
<i>Forecast of resources in 2017/18</i>	<i>642.01</i>
Gap	299.63

This gap is profiled over the next four financial years as follows:

2014/15	2015/16	2016/17	2017/18	Total
£m	£m	£m	£m	£m
76	94	67	63	300

3. The Approach to Meeting the £300m Challenge

2013/14 is the final year of the current three year budget, and in July Cabinet agreed to seek to develop a four year budget which will cover the life of the administration. This was to enable certainty for our communities, staff and partners, and enable a considered and planned approach to the significant downsizing that will be required.

Over the summer and early autumn period the Management Team has been working to identify either reductions in costs, or increases in resources which have no impact

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on the level of services provided. The outcome of the work to date is set out within this report and includes:

- Review of cost pressures within the financial forecast
- The outcome of the 10% Challenges, and
- Reducing the cost of being in business.

3.1 Review of Cost Pressures

It is vital that as the financial strategy develops, a close review is kept of both cost pressures and resource forecasts. Given the scale of the £300m challenge, costs must be kept under review to ensure they are neither under forecast (and placing the County Council at risk of overspending) or over forecast (and at risk of reducing spend in services unnecessarily).

Since the previous report to Cabinet in September, the review of costs has resulted in an overall reduction in the forecast of the County Council's costs over the next four years of £17.4m, as set out below:

Area of Cost	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Impact of the proposal to implement the Living Wage	-2.305	-0.069	-0.071	-0.073	-2.519
Impact of the revised forecast of procurement savings	-5.000	-	-	-	-5.000
The full year effect of savings agreed as part of the current financial strategy but not included within the financial forecast	3.600	1.900	1.300	0.800	7.600
Review of inflation for social care providers; providing 1.75% within the 2014/15 forecast	3.245	-	-	-	3.245
Review of the level of demand incorporated within the forecast for concessionary travel	0.645	0.180	0.197	0.190	1.212
Revised forecast of the employers contribution to the local government pension fund as a result of the triennial valuation	1.500	1.553	1.541	1.538	6.132
Reflection of the government commitment to a 1% pay cap for local government in 2014/15	2.600	-	-	-	2.600
Revised forecast of council tax income arising from the previously approved review of the single persons discount	2.000	0.250	0.730	1.180	4.160

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Area of Cost	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
and the impact of the City Deal					
Impact of the review of costs	6.285	3.814	3.697	3.635	17.430

3.2 The 10% Challenge

A crucial element to the work over the summer period has been the 10% challenge. This is the challenge set by the Management Team to all employees across the County Council – to save the County Council 10% of its costs giving a continued focus on driving out waste and increasing efficiency. It is standard practice in many organisations to expect 10% savings every year from such a focus - hence the 10% challenge within the County Council. All teams across the County Council were engaged in this, and by drawing on the knowledge and experience of staff throughout the organisation further efficiency savings of £19.1m have been identified over the next two financial years.

These savings are mostly small savings identified by staff where they believe there is the opportunity to reduce costs without any impact on services. The proposals have all been agreed by Directorate Management Teams as efficiency measures and include:

- Reductions in supplies and services budgets and squeezing of costs
- Removal of vacancies and reductions in hours
- Changes in planning and processes to enable reductions in staffing levels (e.g. improved route planning in the delivery of routine maintenance).

The overall level of 10% challenge by Directorate is as follows:

Directorate	2014/15 £m	2015/16 £m	Total £m
Adult Services, Health and Well-being Directorate	6.266	2.005	8.271
Children and Young Peoples Directorate	2.931	-	2.931
Environment Directorate	5.156	0.779	5.935
County Treasurer's Directorate	0.307	0.025	0.332
Lancashire County Commercial Group	0.573	-	0.573
The Office of the Chief Executive	1.039	-	1.039
Total	16.272	2.809	19.081

3.3 Reducing the Cost of being in Business

It is vital that the costs of the County Council being in business are constantly challenged; by continually seeking to reduce these costs the impact of the level of

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savings required on the provision of services to the communities of Lancashire can be reduced.

A number of areas have been identified where the cost of being in business can be reduced, with no impact on the level, or quality of services provided by the County Council to communities. These are set out in the table below:

Area of Cost to be Reduced	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Contribution of Public Health to the County Council's overheads – calculation of the appropriate share in accordance with proper accounting practice	1.050	-	-	-	1.050
Reduced process costs within the Environment Direction as a result of the implementation of a fit for purpose asset management systems for highways and property	-	-	-	0.900	0.900
Reduction in printing and postage costs	1.000	-	-	-	1.000
Management of business mileage through greater use of tele-conferencing and reducing the requirement to travel to meetings	1.000	-	-	-	1.000
Reduction in accommodation costs as a result of the downsizing of the County Council	-	-	-	5.000	5.000
Review of business intelligence support services to join up resources across the County Council	0.400	0.400	0.100	0.100	1.000
Reducing the cost of the County Treasurer's Directorate to reflect the downsizing of the County Council	0.303	0.180	0.707	0.229	1.419
Reflecting actual spending levels within the Corporate Expenditure budget	0.210	-	-	-	0.210
Reviewing the Treasury Management Strategy to reflect normal practice in stock lending, reduction in prices and realignment of loan charges	1.675	0.600	-	-	2.275
Reduction in the cost of waste	-	0.500	0.500	0.500	1.500
Impact of the previously approved revised approach to energy management	0.885	0.121	1.006	-	2.012
Impact of reducing the cost of being in business	6.523	1.801	2.313	6.729	17.366

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3.4 Summary of the Impact of the Work Undertaken To Date

The impact of the areas set out above is as follows:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Impact of review of costs	6.285	3.814	3.697	3.635	17.430
10% Challenge	16.272	2.809	-	-	19.081
Reducing the cost of being in business	6.523	1.801	2.313	6.729	17.366
Total Reduction in Costs	29.080	8.424	6.010	10.364	53.878

4. Bridging the Gap

It can be seen from the table above that savings have been identified, with no impact on services, of £53.9m over the next four financial years.

Despite this, there remains a gap of £246.1m, of which £46.9m falls in 2014/15, which, without further work to identify alternative ways of reducing the Council's costs, would have to be met by reducing the cost, and level of services provided by the County Council. Savings of this level from services have the potential to have a significant impact on the future of public services within Lancashire.

This reduction needs to be set within the context that between the years 2010 to 2017, the County Council will have had to make savings of over £0.5bn. This in itself sits within a national context whereby authorities are publically speaking about financial projections which may leave them no longer financially viable, or where the provision of statutory services may be significantly compromised.

At a reduction of almost 40%, the challenge facing the County Council is unprecedented. Delivering this level of saving whilst seeking to deliver effective services for our communities cannot be achieved without a radically different approach which focuses on service delivery within a budget envelope of £642m by 2017/18. Reshaping public services across Lancashire will require innovative thinking and leadership to secure effective services for our communities and ensure a sustainable future.