

Appendix 'A'

Money Matters – Update on the County Council's Financial Position for 2013/14

1. Introduction

This report provides an update for Cabinet on the County Council's current financial position. The report is in four parts:

Section A – Sets out the forecast end of year position for the 2013/14 revenue budget

Section B – Sets out progress on the Capital Investment Programme

Section C – Sets out the impact of the current monitoring position on the County Council's reserves

Section D – Sets out the conclusion

2. Summary of the Financial Position

This report provides Cabinet with a view on the Council's current financial performance and the anticipated position at the year end. The forecast is based on information to the end of September 2013 and shows in summary:

For the Revenue Budget

- A potential overspend on the revenue budget of £4.3m representing an overall improvement in position of £2.1m since the last report to Cabinet, with action plans in place by Directorates to bring service spending into line with budgets.
- As previously reported, the availability of additional one-off resources from the government in 2013/14 of £5.8m.

For the Capital Investment Programme

- Forecast capital spending in year of £157.4m which is 87.6% of the programme.
- Estimated slippage in to future years of £22.3m.

For Reserves and Balances

- As previously reported, the identification of £1.5m in earmarked reserves and provisions to be released in 2013/14.
- The identification of a further £4.35m in earmarked reserves and provisions available for release in 2013/14.
- The impact on reserves of the receipt of additional, one-off resources in 2013/14 of £5.8m.

3. Section A - The 2013/14 Revenue Budget

3.1 In February 2013 the County Council approved a revenue budget of £776.343m, which when adjusted for in year changes, such as items carried forward, results in a cash limit for monitoring purposes of £776.107m.

Budget Area	Cash Limit	Forecast End of Year Position	-under/over spend	
	£m	£m	£m	%
Spending on Services				
Adult Services, Health and Wellbeing Directorate	340.851	342.150	1.299	0.4
Children and Young People	160.095	164.394	4.299	2.7
Environment	185.690	183.778	-1.912	-1.0
Office of the Chief Executive	21.517	22.013	0.496	2.3
County Treasurer	4.958	4.639	-0.319	-6.4
Strategic Partnership	18.465	23.510	5.045	27.3
Corporate	14.250	12.260	-1.990	-14.0
Lancashire County Commercial Group (LCCG)	0.963	0.761	-0.202	-21.0
Hardship Claims	0.750	0.250	-0.500	-66.7
Investment proposals	14.250	14.250	-	-
Contribution from Strategic Investment reserve	-10.000	-10.000	-	-
Contribution from reserves	-5.563	-5.563	-	-
Contribution to Downsizing Reserve	1.204	1.204	-	-
Council Tax Freeze Grant 2013/14	-3.672	-4.281	-0.609	-16.6
Capital Financing	32.349	31.079	-1.270	-3.9
Budget Requirement	776.107	780.444	4.337	0.6

Additional one-off resource as reported to Cabinet on 5 September 2013 has been received from the government in 2013/14 as follows:

	£m
Local Authority Central Spend Equivalent Grant (LACSEG) Refund	3.6
Unused New Homes Bonus refund from DCLG	1.4
Council Tax Support transition grant from DCLG	0.8
	<u>5.8</u>

The above forecasts make no assumptions about the impact of management action on the position at the end of the financial year.

The key issues emerging are as follows:

3.2 Adult Services, Health and Wellbeing Directorate

The Directorate is currently reporting an in-year overspend of £1.3m representing an improvement of £0.2m since the last report to Cabinet, and as reported throughout the previous financial year, is experiencing significant pressures on demand led social care budgets.

Personal Social Care and Mental Health Services

Current data indicates a continuation of some of these pressures particularly on Physical Disability and Learning Disability Services with estimated overspends of £3.1m and £1.1m respectively. The pressures are a result of a growth in demand, both in terms of the overall number of service users supported, which have increased over the year to date, but also the increasing complexity of individuals now being supported which is reflected in increasing average care package costs in these areas. The overspends are, in part, offset by a predicted underspend of £1.9m on Older People services, largely as a result of actively reducing the number of new admissions to residential care.

The most significant cost pressures over recent years have resulted from the increasing numbers and complexity of Learning Disability service users and increased demand for residential care within Mental Health Services. The pressure on demand within learning disability services is exacerbated by the potential further net impact of Ordinary Residence changes and implementation of the Winterbourne Concordat whereby all current NHS and Joint funded hospital placements will be reviewed by 1 June 2013. If it is judged that anyone is inappropriately in hospital, they will need to move to community-based support, possibly funded by the County Council, as quickly as possible, and no later than 1 June 2014.

The Directorate is continuing a plan of review activity which continues to be focused on mitigating the impact of demographic growth across all demand led service areas with the reablement service being expanded and starting to deliver additional savings in line with the current financial strategy. A dedicated review team is in place for Learning Disability services relating to the planned re-modelling work of supported living services focused on delivering budgeted efficiency savings. The shared lives service is also being expanded to deliver net savings and work is ongoing to better manage the impact of transitions into adult learning disability care services from children's social care and the impact on spend forecasts. Further action will be taken to ensure that planned budget savings are delivered and to manage the financial impact of increasing demand.

In addition, the planned reduction in the number of social workers and Review, Assessment and Support Officers (RASOs) of c12% is heavily dependent on a number of other actions expected to reduce workloads and increase productivity. The implementation of the FACE (Functional Analysis in Care Environments) assessment and resource allocation system and the replacement for the Integrated Social Services Information System (ISSIS) assumed within the financial strategy were not achievable and therefore it is unlikely that the budgeted savings will be achieved in full by the end of 2013/14. The impact is a forecast overspend on this area of around £1.1m.

Commissioning and Resources

These services are forecast to under spend by £2.2m, largely due to savings forecast to be achieved across a number of previously grant-funded or non-statutory areas of service through a combination of service reviews and scope for planned under spending to compensate for potential overspending on some demand led budget areas.

A programme of work is underway and now nearing completion aimed at critically reviewing all the services delivered or commissioned by the Directorate. This will provide a robust basis for identifying scope for additional savings and also focus future activity on those areas which have the biggest influence on reducing the impact of increasing demand going forward, with the aim for the directorate of quickly putting in place an action plan to deliver a balanced budget, or move to an underspend position, by the end of the financial year.

Public Health

Whilst the overall Public Health position is forecast as being in line with budget, there is expected to be an underspend against the Public Health grant in the region of £3m. As per the requirements of the grant, this underspend will be carried over to the next financial year as part of a ringfenced public health reserve. The same conditions of use that apply to the grant will continue to apply to this reserve.

Given the context of Public Health services newly transferring over to the local authority, with services transferring to Lancashire County Council from three different Primary Care Trusts (PCTs), work is progressing to develop a clear commissioning strategy designed to deliver a county-wide service to meet the overall outcomes required of Public Health. This has led to delays in the commissioning of services resulting in this forecast underspend, which will not continue into future years.

3.3 Directorate for Children and Young People

The Directorate is currently forecasting an over spend of £4.3m against its cash limit due to significant increases in demand at all levels for children's social care.

From March 2012 to July 2013, demand levels have risen significantly as set out below:

Demand Area Change in activity	Increases for the period March 2012 to July 2013
Looked after children – placed in residential and fostering placements	15%
Looked after children with Placement orders for adoption	16%
Special Guardianship and Residence Orders – where allowances are paid	30%
Referrals to Children's Social Care from Care Connect	13%

The Demand Position

The increase in looked after children impacts on placement costs, particularly agency spend with a greater need to place young people externally as the pressure exceeds the available in-house capacity.

Adoption and special guardianship orders provide a more permanent outcome for young people than residential and fostering placements. A national shortage of adopters is resulting in a greater number of children placed as CLA with carers whilst a suitable match is found which has increased the budget pressure. The number of Special Guardianship Orders (SGO) and Residency Orders (RO) granted by the courts has continued to rise, as an alternative to permanence through adoption. Whilst the costs of an SGO/RO are lower than for CLA placements they do represent a long term cost. Despite a number of looked after children being placed permanently and ceasing to be looked after increasing; the number of looked after children entering the care system continues to rise and the overall totals continue to rise.

An increase in numbers of young people entering the social care system has a direct impact on legal spend, increasing the number of care orders and permanent orders being sought. The requirement for pre-proceedings, introduced under the Family Justice Review, has increased legal intervention and this will increase further from October when Public Law Outline (PLO) is implemented locally, although it is anticipated that this change will reduce costs in the longer term.

The Budget Position

In the last Cabinet monitoring report a detailed action plan was outlined, setting out that although the overall overspend position is partially offset within the cash limit budget for the Directorate by the ongoing under spend of £4.1m from 2012/13, it is the intention of the Directorate leadership team that the full overspend will be clawed back through management action by the end of the year and the recurring under spend will be available for release in 2014/15.

The areas of pressure upon the Directorate's revenue budget can be summarised as follows:

- Children's Social Care agency placements (£4m): Foster Care Placements and Residential Care
- Family Support (£1.212m): The numbers of Special Guardianship Orders and Residential Orders have continued to increase;
- Legal Fees (£1.344m): Legal costs associated with Children's Social Care cases continue to rise above previous levels resulting in the identified pressure;
- Overnight Short Breaks (£0.786m): The revised strategy was agreed by the Cabinet Member in April 2013 and approval has now been given to consultation on the first of the redesigned units and the closure of three existing units. However the savings assumed in the current MTFs strategy will not be achieved this year ;
- Mainstream School Transport (underspend of £0.750m): The costs of mainstream home to school transport have been reassessed alongside the start of the new school year and an under spend has resulted;
- Extended Rights to Free Transport (£0.477m): shortfall in grant provided by Department for Education (DfE) caused by a reduced national allocation compared to earlier assumptions;
- Specialist Transport - SEN and Short Stay Schools (£1.515m): The costs of the transport provision for pupils with SEN and other specialist transport are forecast to over spend. However, further work is being undertaken to examine the underlying data and reasons for this and to assess the accuracy of the position.

The Directorate Action Plan

The measures outlined within the last report to Cabinet in September 2013 are now underway and evidence is starting to emerge that these are having an impact on the demand pressures outlined above. However, it is too early to incorporate the outcome of these actions with the forecast for the financial year; the early indications are that the actions will, as a minimum, bring the 2013/14 budget back into balance.

3.4 The Environment Directorate

The Directorate is forecasting an underspend of £1.9m, an increase in underspend of £1.0m since the last report to Cabinet. This is largely arising from an anticipated overall under spend on the Waste budget in the region of £1.5m. This is largely due to more informed projections on recycle income and landfill savings but also there is an expectation that £0.300m will be received during the year for deductions on the PFI contract which has not been budgeted for. There is a forecast underspend of £0.450m on Concessionary Travel costs due to a reduced number of passengers and expenditure on bus contracts is also reduced due to demand on subsidised services resulting in a predicted underspend of £0.249m.

However, there is a forecast under recovery of income from charges made to capital schemes of £0.535m. This has arisen as a result of improved efficiency in the directorate which is providing the same level of service to the capital programme but utilising less and lower cost resource. This saving is passed on to the capital scheme but results in lower than forecast recharge income giving rise to this pressure on the revenue budget.

There is also an underspend of £0.3m on street lighting due to a reduction in usage resulting from the implementation of efficiency measures and Highway maintenance shows a predicted overspend of £0.160m due to drainage and carriageway defect demands.

3.5 The Office of the Chief Executive

The overspend of £0.496m represents an increased overspend of £0.454m since the last report to Cabinet. The overspend is due, in the main, to additional expenditure of £0.171m arising from the appointment of the Interim Chief Executive and to a projected overspend of £0.337m relating to the increasing case load for Child Protection cases within the County Solicitors group.

3.6 The County Treasurer's Directorate

The County Treasurer's Directorate is forecast to underspend by £0.319m which is largely as a result of holding vacant posts within the Directorate as further efficiency savings are developed.

3.7 The Strategic Partnership budget

There is a forecast overspend within the Strategic Partnership of £5.0m representing no change since the last report to Cabinet. Of this, £1.9m relates to loss of income and £3.0m relating to lower than anticipated procurement savings on revenue expenditure.

3.8 Lancashire County Commercial Group

The £0.202m underspend is an improvement on the breakeven position reported previously to Cabinet and reflects an overall reduction in costs whilst maintaining income.

3.9 The Corporate budget

The Corporate budget is forecast to be underspend by £1.990m at year end which is an increased underspend position since the last report to cabinet of £0.403m.

The key changes resulting in the improved position are:

- The budgeted contribution for the revenue costs of the redesigned short breaks service will not be required in 2013/14 due to delays in delivering the reshaped service, this will realise a saving of £1.2m in 2013/14.
- A contribution by the Public Health service to the Council's overhead costs will realise a £1.1m underspend in 2013/14.
- There has also been a reduction to the Council's funding in respect of Education Service Grant that is generating an additional pressure of £0.750m.

3.10 Other budgets

The level of grant for the 2013/14 Council Tax freeze is greater than forecast realising an underspend of £0.609m.

Based on activity in the year to date it is forecast that the budget set aside for Council tax Hardship claims will underspend by £0.500m.

3.11 Capital Financing costs

There is a forecast underspend within the Capital Financing Costs of £1.270m. This reflects, in the main, a £2.5m overspend arising due to an unrealised loss on investments offset by a £4m underspend on the level of interest paid and received on loans and investments.

The £2.5m is representative of the current loss due to market movements on the trading bond portfolio. There is a requirement to sell the majority of these bonds by the end of December to fund cashflow requirements. This loss can increase or decrease as a result of market movements.

3.12 Additional resources

£5.8m of additional, one-off, revenue resources was reported to Cabinet on 5 September 2013. Cabinet approved that this resource be available for transfer into revenue reserves subject to management action bringing the revenue budget into balance at year end.

4. Section B - The 2013/14 Capital Investment Programme

In February 2013 the County Council agreed a capital investment programme of £172.912m. Adjusting for variations from 2012/13 and new approvals the programme is currently £ 179.713m.

	£m
Original Programme	172.912
Additions brought forward from 2012/13 programme (approved at Cabinet 11.7.13)	4.201

Cabinet Member Approvals in 2013/14	2.600
Revised Programme 2013/14	179.713

The forecast position by each area of the capital programme is shown in the table below:

	Revised Programme 2013/14	Forecast as at July	Forecast as at September	Change in -under/over spend since previous report	
	£m	£m	£m	£m	%
Adult and Community Services	6.018	4.344	3.474	-0.870	-20.0
Children and Young People	71.542	63.418	61.716	-1.702	-2.7
Environment	56.277	53.765	50.258	-3.507	-6.5
Corporate	39.687	40.251	36.743	-3.508	-8.7
LCCG	6.189	6.168	5.215	-0.953	-15.4
Total	179.713	167.946	157.406	-10.540	-6.2

The forecast shows that the anticipated expenditure in the year is £10.5m less than previously forecast to Cabinet on 5 September 2013. Some of the key reasons for the change since that report are:

4.1 *Adult and Community Services*

- The Extra Care Housing Strategy is being developed and it is expected that this will be completed this year. However, it is not anticipated that there will be any expenditure in 2013/14 resulting in a reduced forecast of £0.5m.
- Expenditure on the Libraries regenerate is slipping by £0.309m primarily due to the time taken to identify the priority sites for the minor works element of the programme.

4.2 *Directorate for Children and Young People*

- Expenditure in the year on the early education for 2 years old is less than initially anticipated (£1.5m). The allocation of this money is being carefully managed as the criteria for accessing the 2 year old places will widen considerably next year with the changing eligibility criteria coming into play and it is currently anticipated that the capital will be spent by August 2014.
- Expenditure on Youth Zones is estimated to be £1.3m lower than initially forecast. This is due to issues in securing the lease for the Hyndburn Youth Zone, the West Lancashire Youth Zone is now due to start on site in October slightly later than anticipated and delays on the Preston Youth Zone as a result of the County Council and its partners reviewing the project.

4.3 *Environment Directorate*

- Pennine Reach expenditure is £1.439m lower than previously forecast as the main land purchase relates to the compulsory purchase of Accrington Bus Station site which is now expected to be incurred in the next financial year.
- £1.5m has been slipped since last forecast on the M65 motorway works which will now take place early 2014/15.
- The Cuerden Strategic Site project has slipped by £0.953m as land negotiations are likely to be ongoing until the end of 2013/14 prior to highway and public transport infrastructure works being undertaken.
- Forecast expenditure on Preston Bus Station has been reduced by £0.928m following the recent announcement that the building and some of the interior is now listed by English Heritage. This has resulted in a need to review the project.

4.4 *Corporate*

- The work to be undertaken on the County Hall complex has been re-profiled due to slippage resulting in a reduced forecast on the Offices projects of £1.2m.
- Structural maintenance expenditure is estimated to be £0.473m lower with slippage arising on several Heritage Sites with the timing of the work restricted by climatic factors.
- There is now anticipated to be slippage of £1.3m on the economic development projects in the year.

4.5 *Lancashire County Commercial Group*

- A review of the commitments against replacement programme for vehicles has resulted in the forecasted slippage in year of some £1m.

5. **Section C – Impact on reserves**

The report to Cabinet on 5 September 2013 identified the following resources as available for transfer in to the council's revenue reserves:

	£m
LACSEG refund	3.6
Additional New Homes Bonus	1.4
Council Tax Support schemes – transition grant	0.8
Release from CYP DFM reserve	0.9
Release from Carbon Tax provision	0.6
	<u>7.3</u>

The following further one-off resources have been identified in 2013/14 as being available for release from earmarked reserves:

	£m
Available for release from the Equal Pay reserve	0.60
Amounts available for release from the Strategic Investment reserve:	
Young Peoples' transport	2.25
Changing Places	0.50
Available for release from the Performance Reward Grant reserve	<u>1.00</u>
Additional one-off resources	4.35

As set out elsewhere on the Cabinet agenda, it is proposed that the cost of the introduction of the Living Wage in 2013/14 of £0.173m be met from resources released from earmarked reserves. It is therefore suggested that £0.173m be set aside for this purpose (subject to Full Council approval of the introduction of the Living Wage) and the remaining £4.177m of one-off resources identified above be transferred into the Council's downsizing reserve. The Council has approved a number of voluntary redundancies in 2013/14 and with the potential cases awaiting approval, as at the end of September the cost of these could rise to £1.842m. This cost reduces the balance available in the Voluntary Severance reserve to £6m which at this point in the year is considered adequate to meet any further demand in 2013/14.

6. Section D – Conclusion

A number of significant revenue spending pressures have emerged in the current year, if the County Council's budget is to remain on track for 2013/14 it is imperative that management action continues to be taken to bring the budget into balance by the end of the year.

It is also vital that any action taken is similarly reflected in projections for future years so that savings proposals being developed for the financial strategy take account of any potential impact this action could have on their delivery.