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 December 2013 and shows in summary:

For the Revenue Budget

- A forecast overspend on the revenue budget of £2.4m representing an overall improvement in position of £1.9m since the last report to Cabinet. This is offset by the availability of additional one-off resources from the government in 2013/14 of £5.8m, giving a net position of an underspend of £3.4m. In accordance with Cabinet's previous decisions, £0.7m of this will be transferred to the Council's Hardship Claims reserve with the balance of £2.7m added to the downsizing reserve.
- It is anticipated that a range of small underspends within services will emerge over the final quarter of 2013/14, and it is therefore anticipated that the final position for the year will be improved.

For the Capital Investment Programme

- Forecast capital spending in year of £165.3m which is 81.8% of the programme.
- Estimated slippage in total to future years of £36.7m.

For Reserves and Balances

- A forecast position at the end of the year of £36m on the Council's County Fund and £47.9m on the Council's Downsizing reserve.

3. Section A - The 2013/14 Revenue Budget

3.1 In February 2013 the County Council approved a revenue budget of £776.343m, the forecast position at the end of the year, based on information at 31 December 2013 is set out below:

Budget Area	Cash Limit	Forecast End of Year Position	-under/over spend	
	£m	£m	£m	%
Adult Services, Health and Wellbeing Directorate	340.897	342.160	1.263	0.4
Children and Young People	160.095	160.519	0.424	0.3
Environment	185.690	181.462	-4.228	-2.3
Office of the Chief Executive	21.449	21.784	0.335	1.5
County Treasurer	4.979	4.556	-0.422	-8.5
Strategic Partnership	18.470	23.855	5.385	29.2
Corporate	15.123	16.843	1.720	11.4
Lancashire County Commercial Group (LCCG)	0.963	0.204	-0.759	-78.8
Hardship Claims	0.750	0.050	-0.700	-93.3
Investment proposals	14.250	14.250	-	-
Contribution from Strategic Investment reserve	-10.000	-10.000	-	-
Contribution from reserves	-5.000	-5.000	-	-
Council Tax Freeze Grant 2013/14	-3.672	-4.281	-0.609	-16.6
Capital Financing	32.349	32.349	-	-
Budget Requirement	**776.343**	**778.751**	**2.409**	**0.3**

The key issues emerging are as follows:

3.2 Adult Services, Health and Wellbeing Directorate

The directorate is forecasting an overspend of £1.3m which is unchanged since the position last reported to Cabinet.

The main factors affecting the forecast position are:

Personal Social Care and Mental Health Services

There remain significant pressures in respect of Physical Disability and Learning Disability Services with estimated overspends of £3.6m and £1.2m 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 £0.9m on Older People services, largely as a result of actively reducing the number of new admissions to residential care.

The forecast £3.6m overspend on Physical Disabilities is of most concern as it represents some 13% of the budget for this area and is primarily the result of a forecast overspend on direct payments. There has been an increase in cost of direct payments in the region of 7% over the year to date. This reflects a combination of increasing numbers of individuals supported and an increase in the average costs. The increase is significantly above the level of increase expected through standard demographic indicators. In addition there is increased pressure on the domiciliary care budget with individuals transferring from commissioned domiciliary care to direct payments with numbers of cases and average costs increasing in the year to date. The overspend has been subject to a review to fully understand the causes and plans are in place to take short and medium term corrective action to reduce the financial impact in the current and future years.

The pressure resulting from the increasing numbers and complexity of Learning Disability service users and increased demand for residential care within Mental Health Services continues be a significant issue. Whilst the impact of budget growth allocated to meet demographic increases and budgets being re-aligned across services has reduced the in-year pressure in both those areas, the forecast over spend on learning disability services is exacerbated by the further net additional cost of Ordinary Residence changes and implementation of the Winterbourne Concordat whereby all current NHS and Joint funded hospital placements had to be reviewed by 1 June 2013 with plans to be put in place to move anyone who is inappropriately in hospital to community-based support, funded, at least in part, by LCC as quickly as possible, and no later than 1 June 2014. These areas will be subject to detailed review during 2014/15, and are an area of risk within the 2014/15 budget.

Review activity 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 and is delivering efficiency savings as is the shared lives service which continues to expand and deliver net savings in the cost of support, which is helping to offset some of the overspend identified above on Physical and Learning disability services.

In addition, the planned reduction in the number of social workers and review, Assessment and Support Officers (RASO's) is heavily dependent on a number of other actions expected to reduce workloads and increase productivity. Some of these, including the implementation of the FACE assessment and resource allocation system and replacement for the Integrated Social Services Information System (ISSIS) have been delayed and therefore it is unlikely that the budgeted savings will be achieved in full by the end of 2013/14. The net impact is forecast overspend on this area of around £1m in 2013/14 with the saving now planned to be delivered in 2014/15.

Commissioning and Resources

These services are forecast to under spend by £2.9m, 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 identified scope for planned under spending to manage the Directorate's overall budget position given the significant pressure on the demand led budget areas.

All the services delivered or commissioned by the Directorate have been critically reviewed earlier in the year and this and has provided a basis for identifying areas for additional savings and also focusing activity on those areas which have the biggest influence on reducing the impact of increasing demand going forward to ensure that the directorate is well placed to respond to future financial challenges.

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 ring-fenced public health reserve. The same conditions of use that apply to the grant will continue to apply to this reserve. However, work remains ongoing to ensure that public health activity undertaken by the Council is appropriately identified and charged to the public health budget.

Given the context of Public Health services newly transferring over to the local authority, with services transferring to the County Council from three different 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 non recurrent forecast underspend.

3.3 Directorate for Children and Young People

The Directorate is currently forecasting an over spend of £0.424m against its cash limit compared to an overspend of £4.299m in the last Cabinet monitoring. A change in forecast position of £3.875m.

Since the significant over spend was identified earlier in the year a number of actions to reduce the impact of demand for social care services have been implemented by the Directorate. These have started to take effect and have resulted in a much reduced overspend position. In addition some emerging under spends can be reflected in the monitoring position.

The main factors producing the change in forecast position are:

Increases in budget pressure

- An increase in the forecast cost on Children's Social Care of £1.141m due to increases in demand.

These areas of pressures are offset by underspending in the following areas:

- £0.800m pay costs set aside within the revenue budget to fund the impact of the pay and grading harmonisation relating to Soulbury grades. A decision by the Employment Committee on 7 October 2013 not to continue the harmonisation process means that this funding is no longer required and is available to help the Directorate manage its overall budget position;
- Allocation of £1.330m from the Public Health budget for services provided by the Directorate which includes early Support, Children's Centre and Domestic Abuse.

The implementation of the Directorate Action Plan to manage the overall financial position has resulted in:

- £1.048m reduced expenditure in the areas of Early Years, Early intervention and Lancashire Break Time as a result of reviews undertaken to minimise expenditure without seriously impacting upon beneficial outcomes;
- Improved income forecast from traded services with schools amounting to £0.456m;
- A large number of smaller savings resulting from management actions to reduce spending which total an additional £2.320m of savings.

3.4 The Environment Directorate

The forecast year end position is an underspend of £4.228m which represents an improved position of £2.310m since the last report to Cabinet.

The main factors for the improved position are:

<u>Transport and Environment Services</u>

The forecast saving in relation to concessionary travel has increased by £0.800m as a result of more accurate numbers of travel passengers. This is reflected in the 2014/15 budget.

The Lancashire Partnership for Road Safety underspend of £0.230m due to an agreed reduction in the Council's level of contribution. Back office efficiencies in the operation of the Partnership has meant all partners have benefited from a reduction in running costs. This has also been reflected in the 2014/15 budget.

The forecast expenditure in relation to bus contracts has also reduced due to a fall in the number of passengers on subsidised routes resulting in a further under spend of £0.150m.

Strategy and Policy Services

The underspend in relation to waste services has increased by £1.040m due to a number of factors, including increased waste diversion rates as a result of more opportunities to avoid landfill by using alternative markets for the waste we receive. In addition, reduced transport costs are forecast due to the more efficient movement of waste. For example the Council is now transporting waste directly to our waste processing plant in Thornton rather than via waste transfer station in the Blackpool area. There has been an increase in the performance deductions on the PFI contract and less recycling credits being provided to third sector organisations than expected.

3.5 The Office of the Chief Executive

The Office of the Chief Executive is forecasting an overspend of £0.335m which represents an improvement in the position since that last reported to Cabinet of £0.160m.

The reason for the reduction in forecast overspend is, in the main, due to a reduced forecast of the cost of appointing an interim Chief Executive due to the Chief Executive's post becoming vacant.

3.6 The County Treasurer's Directorate

The County Treasurer's Directorate is forecast to underspend by £0.422m which reflects an improved position since the last report to Cabinet of £0.103m which is largely as a result of holding vacant posts within the Directorate ahead of delivering the 2014/15 budget savings.

3.7 The Strategic Partnership budget

The Strategic Partner budget is forecast to overspend by £5.4m which represents a slight increase in overspend since the last report to Cabinet of £0.4m. Of this £2m relates to loss of income and £3.4m relating to lower than anticipated procurement savings on revenue expenditure.

3.8 Lancashire County Commercial Group

The Lancashire County Commercial group is currently reporting an underspend of £0.759m compared to £0.202m previously reported to Cabinet. This reflects an overall reduction in costs whilst maintaining income.

3.9 The Corporate budget

An overspend of £1.720m is being reported on corporately held budgets which represents a £3.7m change since the position last reported to cabinet. The key issues that have caused this change are::

- Unrealised property related savings giving an overspend of £2m, plans are in place to realise these savings in 2014/15 but there will be an overspend in this financial year.
- Unrealised savings of £1.9m in respect of the redesign of the Council's Operating Model, plans are in place to deliver the majority of this saving in 2014/15 however a pressure will remain of £0.5m which is incorporated within the 2014/15 budget set out elsewhere on Cabinet's agenda.

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 £0.700m in 2013/14. Cabinet approved at its meeting on 5th December 2013 that the underspend on Hardship Claims in 2013/14 should be transferred into an earmarked reserve to be available to support expenditure in future years.

3.11 Capital financing costs

The budget for capital financing costs is forecast to break even at the end of the year, this reflects a reduction in underspend from the position last reported to Cabinet of £1.2m. The change in forecast reflects a restructuring of the Council's debt portfolio to mitigate falling interest rates and protect the level of interest income the council will receive in future periods.

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

In February 2013 the Council agreed a capital investment programme of £172.912m. Adjusting for slippage from 2012/13 and new approvals the 2013/14 programme is currently £202.069m. Within the new approvals figure is an amount anticipated to be spent on the Heysham to M6 link road in 2013/14 following confirmation from the Department of Transport of grant funding.

	£m
Original Programme	172.912
Variation from 2012/13	4.201
New Approvals	24.956
Programme 2013/14	**202.069**

The forecast position by Directorate is shown in the table below:

	Approved Programme	Forecast End of Year Position as at September	Forecast End of Year Position as at December	Change in Forecast since previous report	
	£m	£m	£m	£m	%
Adult Services and Health and Wellbeing	6.018	3.474	3.009	-0.465	-13.3
Children and Young People	74.358	61.716	61.061	-0.655	-10.6
Environment	75.817	50.258	64.625	14.367	28.6
Corporate	39.687	36.743	32.174	-4.569	-12.4
LCCG	6.189	5.215	4.530	-0.685	-13.1
Total	**202.069**	**157.406**	**165.399**	**7.993**	**5.1**

The forecast shows that the anticipated expenditure in the year is £7.991m more than forecast in the last report to Cabinet. This includes the effect of the addition of the Heysham M6 link road and the expenditure being incurred at Leyland St Mary's RC Technology College following the fire damage. After adjusting for these projects, the forecast spend on the remaining programme is estimated to be £11.110m less than previously reported. Some of the key reasons for the change are:

4.1 ***Adult Services, Health and Wellbeing***

- The expenditure on Libraries Regeneration is less than anticipated by £0.339m as a result of issues at Bolton- Le- Sands including the need to accommodate bats on the site and a review of the requirements for the meeting room and a review of the sites that will be subject to minor works under the Programme.

4.2 ***Directorate for Children and Young People***

- The forecast now includes £2.9m of expenditure to be incurred on Leyland St Mary's Technology College following a major Fire which will be funded through an insurance claim.

- There is now forecast to be a reduction in expenditure on the schools capital pot of £2.087m. This is principally due to slippage on the scheme at Weeton Primary as a consequence of the start of the scheme being delayed due to protracted negotiations with the Ministry of Defence £0.780m, complexities around the refurbishment causing delay at Fleetwood Chaucer, and a delayed start at Morecambe Great Wood.

- Spending on Children's residential redesign is £0.950m lower than expected as there was a delay in determining which design schemes were to be taken forwards.

- Expenditure on the Youth Zones is lower than anticipated due to on-going lease and private sector negotiations at two sites.

4.3 ***Environment Directorate***

- The forecast includes an increase of £16.3m in expenditure on the Heysham to M6 link road following receipt of the grant approval from the Department of Transport.

- £1.5m has slipped into future years on the Local Transport Plan priority projects. The projects have been delayed as work is being undertaken with partners to determine the most appropriate design and programming to fit in with other projects.

- £1m has slipped to 2014/15 on the 2013/14 Bridges programme, which has experienced delays as a result of co-ordinating work with external partners.

4.4 ***Corporate***

- The payments schedule for the ISSIS and resolution replacement system now shows that spend in year is £2.9 m less than anticipated due to delays in the implementation of the new systems.

- The expenditure on Growing Places is £1.9m lower than previously expected. This is principally the result of a delayed start date on the Blackburn Cathedral Quarter project due to contract negotiations with various funders.

4.5 ***Lancashire County Commercial Group***

- It is anticipated that there will be slippage of £0.637m on the vehicle replacement programme

5. Section C – Impact on reserves

Previous reports to Cabinet have identified additional one off resources from government in 2013/14 of £5.8m made up as follows:

	£m
LACSEG refund	3.6
Additional New Homes Bonus	1.4
Council Tax Support schemes – transition grant	0.8
	5.8

Cabinet agreed that this additional one-off funding be transferred into the Council's downsizing reserve subject to the year-end position being break even or underspend. The current monitoring position identifies an overspend of £2.409m of which £0.700m is committed to being transferred to the Hardship Claims reserve, therefore £2.691m is available to transfer into the downsizing reserve.

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

	£m
Release from CYP DFM reserve	0.90
Release from Carbon Tax provision	0.60
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	1.00
Additional one-off resources	**5.85**

Cabinet agreed that the cost of the introduction of the Living Wage in 2013/14 of £0.173m be met from resources released from earmarked reserves and the remaining balance of £5.677m be transferred into the Council's downsizing reserve.

In addition to the resources identified above, the ongoing review of the Council's balance sheet has identified unrealised commitments from the procurement system relating to previous financial years that are no longer required to be met. This results in resource being available for release of £1.8m. It is recommended that this resource be transferred in to 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 December the cost of these is forecast to be £4.7m by year end. This cost reduces the balance available in the Voluntary Severance reserve to £3.2m which at this point in the year is considered adequate to meet any further demand in 2013/14.

There is no impact on the the County Fund Balance as a result of the latest forecast for the Council's revenue budget. County Fund balance is anticipated to remain at £36m at the end of the financial year.

The impact of the current monitoring position on the Council's Downsizing reserve is:

	£m
Downsizing reserve balance at 1.4.13	**37.695**
Transfer in from other reserves	5.677
Transfer of one off additional funding from government	2.691
Release from the balance sheet of resources	1.800
Forecast Downsizing reserve balance at 31.3.14	**47.863**

Forecast movements in 2014/15:	
Anticipated one-off resource from Council Tax Surplus	4.360
Release from Revenue contributions to Capital	38.500
Invest to save commitments from the Council's savings strategy	-9.600
Returned New Homes bonus top slice	0.224
Balance available for funding Voluntary Severance in future years	**81.347**

6. Section D – Conclusion

A number of significant revenue spending pressures have emerged in the current year and the Council's management team have taken action that has reduced this pressure considerably during the year. Based on previous experience, it is likely that a number of smaller underspends will emerge over the final quarter of the financial year, and that the final position on the revenue budget is likely to be better than current forecast.

The pressures and underspends identified in this monitoring report have also been reflected in the Council's budget proposals for 2014/15.