

## Appendix 'A'

# Money Matters - Update on the Financial Outlook to 2017/18

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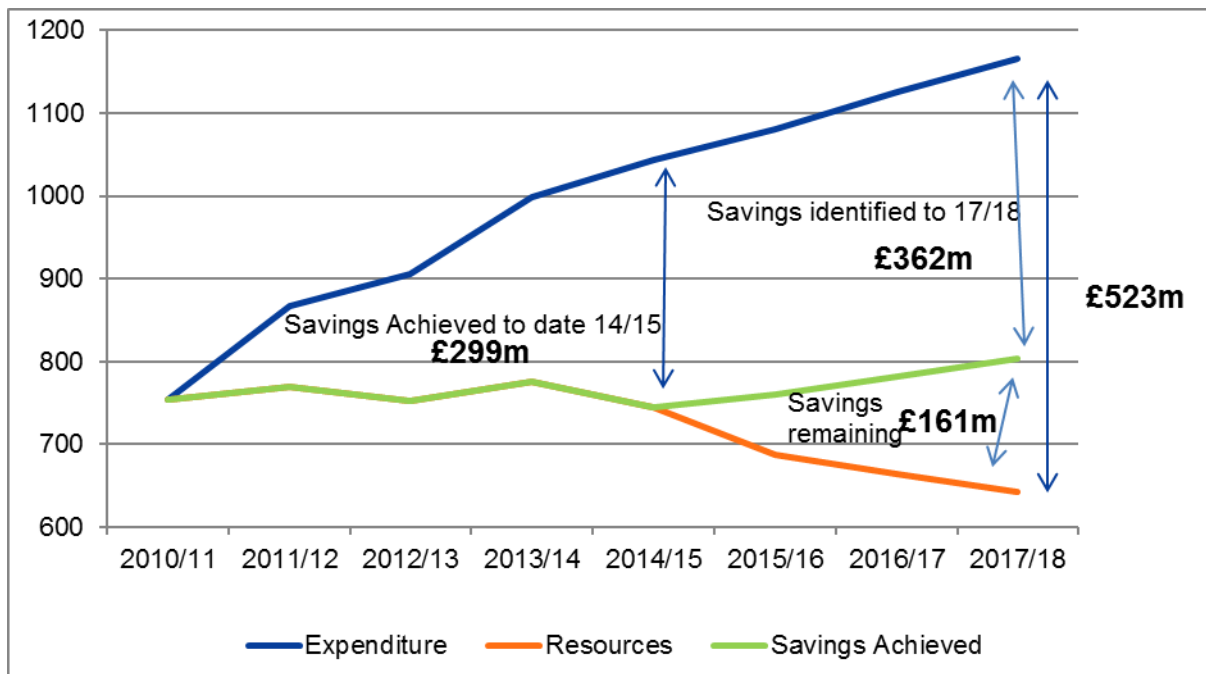
### Introduction

This report provides an initial update on the financial outlook for the Council for the period 2015/16 to 2017/18, based upon the information emerging in terms of demand trends, the latest available forecasts for inflation and resource forecasts.

### The Starting Point

A number of reports over 2013/14 set out the scale of the financial challenge facing the Council over the period 2014/15 to 2017/18, with savings of £300m needed. Full Council, in setting the 2014/15 budget in February 2014 agreed a package of measures to deliver savings and increase resources of £139m. On this basis, the scale of the financial challenge facing the Council (making no assumption about changes in the rate of Council Tax) is £161m.

This represents 21% of the 2014/15 budget, and the graph below shows the Council's progress towards meeting the overall challenge of financial austerity since 2010.



The scale of the "gap" is driven by a number of factors. While the level of resource provided through the local government finance system provides one part of the equation, the other element is the changing level of demand for services and the levels of inflation. All of these factors change over time and in order to ensure that

the Council is in a robust financial position and not exposed to risk, the forecast needs to be updated on a regular basis to take account of these factors. This report provides the latest such update and reflects the latest information available in respect of the Council's costs and resources.

### What Has Changed?

The table below sets out an updated financial forecast to 2017/18. At this stage the update is provided on the basis of ranges of possible outcomes as there are a number of areas where there remains a level of uncertainty as to the actual financial impact, and further work is required to reduce the level of uncertainty. A further update will be reported to Cabinet in October, when a further detailed review will have been undertaken. It should be noted however, that it is anticipated that these pressures will arise largely in 2015/16.

	<b>Best Case £m</b>	<b>Worst Case £m</b>
Remaining "gap" after approval of the 2014/15 budget	161.487	161.487
<b>Add : Updated forecasts of Demand</b>		
<i>Adult Social Care</i>		
Demographics – Physical Disabilities	2.000	2.000
Demographics – Mental Health	0.500	0.500
Ordinary Residence	0.800	0.800
<i>Children's Social Care</i>		
Looked After Children	0.790	1.980
Fostering	-	0.125
Residential Placements	0.100	0.600
Paediatric Occupational Therapy	-	0.400
<i>Other</i>		
Care and Urgent Needs Scheme	-1.500	-1.000
Council Tax Support Hardship Schemes	-0.200	-0.100
<b>Total Changes</b>	<b>2.490</b>	<b>5.305</b>
<b>Less : New Efficiencies Identified</b>		
Renegotiation of the Council's Partnership with BT	-1.772	-1.000
<b>Overall Impact on the Spending Gap</b>	<b>0.718</b>	<b>4.305</b>
<b>Revised Spending Gap</b>	<b>162.205</b>	<b>165.792</b>
<b>Further Potential Pressures - New Burdens</b>		
Winterbourne Concordat	0.300	2.400
Deprivation of Liberty Safeguards Supreme Court Ruling	-	2.900
<b>Total</b>	<b>0.300</b>	<b>5.300</b>

The key issues reflected in the position above are:

1. Changes in the forecast level of demand – In general these movements indicate a need to accommodate more demand than previously forecast as a result of incorporating evidence from the 2013/14 outturn within the forecast. While many of the savings agreed by Full Council in the area of social care are designed to reduce demand these forecast changes relate to demand that is already within the system, in particular in the areas of physical disability and mental health where commitments are much longer term than for other client groups. Adjustments to the forecast to reflect the actual level of demand for both the Care and Urgent Needs Scheme and for Council Tax Support Hardship Claims reduce the overall pressure in this area.
2. New efficiencies – This reflects the financial impact of the re-negotiation of the Council's Strategic Partnership with BT, as previously reported.
3. New burdens – There are a number of areas where the Council faces additional costs which are a form of new burden for which funding should be provided through the local government finance system, although whether such resources will be sufficient is not clear at present. These areas should therefore be considered as a financial risk facing the Council, although the extent cannot be determined, as it is subject to the level of resource received.
  - a. Winterbourne Concordat – This relates to the resettlement of people with learning disabilities inappropriately placed within the healthcare system. The Council has already taken on a number of cases and the worst case forecast assumes that all of the remaining 27 cases are able to be provided for in the community after allowing for contributions towards costs from the NHS.
  - b. Deprivation of Liberty Safeguards – Following a recent Supreme Court judgement it will be necessary to change the way in which Deprivation of Liberty safeguards in relation to service users with mental health problems are operated. This is an area where representations for specific additional funding will be made to the Department of Health.

The overall picture continues to be one which requires the delivery of significant savings by the County Council over the period to 2017/18. While the Council has agreed a package of measures to deliver savings of £141m, demand is placing further pressures on resources and the potential impact of new burdens adds further risk to the overall position. Information above indicates some early progress towards meeting the target, all of which will have an impact in 2015/16 which is the peak year for savings it is also the case that spending pressures continue to build, particularly in the area of social care.

## **Key Future Risks**

There remain a number of risks that are likely to impact on the forecast over the planning period but which it is not currently possible to reflect in the forecast, largely due to lack of information.

- The Care Act – This recently passed legislation will significantly increase the number of adults eligible to receive financial support from the Council towards the costs of care, although at the same level of need as reflected in current eligibility criteria. Some additional resource (of c £3m) for set up costs has been allocated to local authorities through the Better Care Fund arrangements but at this stage the ongoing additional cost is not clear. In addition an indicative specific grant figure of £7.7m for 2015/16 has been provided. While these costs will be funded through the "new burdens" mechanism there is a significant risk both that the total resource provided will be insufficient and that the distribution mechanism used will fail to match the incidence of increased costs. A significant level of work is ongoing on this area, and further reports will be provided to members as information emerges.
- The key driver in the overall picture is the level of recourses available to the Council. At this stage there is no significant change to the overall picture. However the trajectory of reductions in grant is subject to a range of factors over which the County Council has little or no influence and a 1% change in the trajectory of reduction (e.g. from 7% to 8%) has an impact of £3.8m. Some further information, in particular on the results of the first year of new business rates system will be available for the next update to the forecast.
- In addition, the impact of economic growth has a much bigger effect on resources; Councils are now far more affected by changes in the level of economic activity than has previously been the case. While at present there are indications of a strengthening recovery this is not occurring at the same rate across the county and this may result in a differential impact on the County Council, although this impact is as likely to be beneficial as to be negative.

## **Conclusion**

The level of financial challenging facing the Council remains high - the scale of savings required over the period 2014/2015 to 2017/18 is unprecedented, and the Council has recognised that in order to meet this challenge and be sustainable it must reshape both the organisation and the service offer to Lancashire's communities.

Whilst the forecast shows an increased level of pressure from demand, there is also a heightening risk from new burdens, in particular the Care Act. The Council's Management Team is currently developing a revised service offer which aims to deliver sustainable services within the level of resources available to the Council by 2017/18. Measures which seek to manage demand will form an integral part of this. This ongoing work will include a level of contingency to ensure that any cost increases which crystallise in 2015/16 to 2017/18 do not throw the development of the revised offer off track. At the same time, it is vital that the savings already agreed be delivered. Progress on this will be reported to members through the quarterly Money Matters reports for 2014/15. However, it is also critical that the Council continues to ensure its voice is heard nationally and lobbies strongly for resources to support the new burdens it is facing.