

Appendix 'A'

Cabinet - 15 September 2011

Report of the County Treasurer

Electoral Division affected: N/A

Money Matters – The County Council's Financial Position at 31 July 2011 (Appendix 'A' refers)

Contact for further information:

George Graham, (01772) 538102, County Treasurer's Department,
george.graham@lancashire.gov.uk

Executive Summary

In order to maintain overall strategic control of the County Council's finances, the Cabinet receives regular Money Matters reports. The purpose of these is to highlight issues identified as high risk and identify the likely position at the end of the financial year as well as any impact on the overall financial strategy. The report attached at Appendix 'A' is the first for 2011/12 and is based on information to the end of July.

The key headlines of the financial position based on information available to the end of July are:

- A forecast underspend on services of £6.4m, almost 2/3rds of which is from back office functions and is largely due to the early achievement of savings targets within the overall budget strategy.
- A financial benefit of £3.7m on capital financing reflecting the continued success of the Treasury Management Strategy in reducing the cost of the Council's borrowing and lending activity.
- Capital expenditure is forecast to be £208.9m, which represents slippage of £10.2m against the updated programme.
- The overall effect of these variations is to increase the forecast level of County Fund Balance to £52.6m.

While the overall position reported is favourable there remain considerable risks around the various demand led budgets, particularly for social care services which will continue to be closely monitored so that they do not destabilise the position going forward.

At this stage, while there are a number of new pressures which have been identified these are being managed within the overall level of resources available to services.

It is evident that the financial strategy which front loaded "below the line" savings allowing more time for detailed consultation on, and implementation of, service savings, is generating in year flexibility which can be used on a one off basis to manage risk. However, the early achievement of the "below the line" savings does not alter the overall recurrent resource equation in future years.

Recommendation

Cabinet is asked to note the financial position at 31 July 2011.

Background and Advice

See Appendix 'A'.

Consultations

Executive Directors have considered the respective sections of this report relating to their Directorates.

Advice:

N/A

Alternative Options to Be Considered:

N/A

Implications: E.g. Financial, Legal, Personnel, Human Rights, Crime and Disorder or Other

This item has the following implications, as indicated:

Risk Management

The report sets out the Council's projected financial position for 2011/12 and the main implications for future years.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
Financial Plan 2011/12		George Graham, County Treasurer's Department (01772) 538102

Money Matters – The County Council's Financial Position at 31 July 2011

Introduction

This report provides a summary of the County Council's forecast financial position for 2011/12 based on information available to the end of July 2011. Given that the Council has agreed a three year budget this report also looks at the impact of the issues arising in 2011/12 and financial performance in the current year on the remaining years of the budget strategy period.

Summary Position

The key headlines of the financial position based on information available to the end of July are:

- A forecast underspend on services of £6.4m, most of which is from back office functions largely reflecting the early achievement of savings targets within the overall budget strategy.
- A financial benefit of £3.7m on capital financing reflecting the continued success of the Treasury Management Strategy in reducing the cost of the Council's borrowing and lending activity.
- Capital expenditure is forecast to be £208.9m, which represents slippage of £10.2m against the updated programme.
- The overall effect of these variations is to increase the forecast level of County Fund Balance to £52.6m

While the overall position reported is favourable there remain considerable risks around the various demand led budgets, particularly for social care services which will continue to be closely monitored so that they do not destabilise the position going forward. In addition, the Council needs to make corporate savings in excess of £100m during 2012/13 – 2013/14.

At this stage whilst there are a number of new pressures which have been identified these are being managed within the overall level of resources available to services.

The financial strategy front loaded "below the line" savings to allow more time for detailed consultation on and the implementation of service savings. This is generating in year flexibility which can be used on a one off basis to manage risk. However, the early achievement of the "below the line" savings does not alter the overall recurrent resource equation in future years or the requirement to save in excess of £100m in 2012/13 – 2013/14.

Revenue Budget – 2011/12 Monitoring Position

The County Council set a revenue budget of £769.117 million in February 2011. After adjusting for in year use of earmarked reserves brought forward of £2.706m the cash limit is £771.823 million.

The forecast outturn for the year is £761.692 million, reflecting an underspend of £10.131 million, the breakdown of which is summarised in the table below:

Directorate	Cash Limit £m	Forecast £m	Variations £m	Variations %
ACS	333.290	333.447	0.157	0.1
CYP	165.318	163.030	-2.288	-1.4
Environment	192.529	191.548	-0.981	-0.5
OCE	28.742	26.312	-2.430	-8.5
County Treasurers'	11.616	10.461	-1.155	-9.9
Corporate	5.765	6.020	0.255	4.4
Capital Financing	37.125	33.436	-3.689	-9.9
Other	-2.562	-2.562	-	-
Total	771.823	761.692	-10.131	-1.3

The reasons for variations against the budget for each Directorate are explained in more detail below:

Adult and Community Services Directorate - £0.2m overspend

The continued impact of the directorate's recovery plan, implemented in 10/11, is resulting in improvements in the financial position on key adult social care budgets, particularly on Older People services. However, this is offset by the increasing numbers of clients receiving residential care within the Mental Health service and increasing costs on Learning Disability services.

The key issues are:-

Mental Health services are forecast to overspend by £2.6 million. Included in this total is a net overspend on residential care services of £2.4 million reflecting a 13% forecast growth in the number of care packages. Discussions are ongoing with NHS colleagues to mitigate the financial risks to LCC brought about through the review of health contributions to individual packages of care.

Learning Disability services are forecast to overspend by £1.4 million. This overspending is due to a number of factors including the Department of Health issuing revised guidance on matters relating to residence which determines which authority is responsible for care and funding when clients are cared for outside the Local Authority's boundaries. Additional pressure resulting from increasing numbers of transfers through transition from Children's social care plus the closure of the Independent Living Fund to new applicants is leading to increased social care costs in domiciliary care and supported living settings.

These overspends are offset by the following underspending areas:

Older People's services are forecast to underspend by £1.4 million. This is through improved income collection and the continued impact of the recovery plan implemented in 10/11. However, the delivery of 11/12 and future years' savings targets present considerable challenges. The current forecast includes various assumptions around the achievement of the major areas of financial savings and dedicated project teams have been established within the directorate to support each of these initiatives. Progress is kept under close review by the Directorate's senior management team.

Adult Provider services are forecast to underspend by £1.9 million through tight management control of costs, a focus on efficient working and reflecting the plans for service re-configuration in light of the significant current and future years' savings targets.

Community services are forecast to underspend by £0.5 million mainly due to underspending on Library services through forecast early delivery on efficiency plans.

Directorate for Children and Young People Directorate - £2.3m underspend

The Directorate is currently forecasting an underspend of £2.3 million, this is equivalent to 1.4% of the Directorate's budget. This is based on current trends and will be kept under review as demand patterns can change significantly during the year due to factors outside the control or influence of the Council. A summary of the key variances is outlined overleaf:-

Legal Services

A number of high cost legal cases finalised in the first quarter of the year has resulted in a projected year end overspend of £1.5 million in this area. The Directorate is currently working with Legal Services to review legal costs and the overspend on the budget.

Transport

An underspend of £0.6 million is forecast on mainstream home to school transport, discretionary transport and extended rights to free travel. This position will be kept under review as take up of transport can change from one academic year to another.

Agency

The agency placement budget is currently forecast to underspend by £2.9 million as the Directorate continues to see a reduction in expenditure seen at the end of the last financial year. However, this budget can be volatile and small changes in demand can have a significant impact on the financial position. Therefore, the position will be closely monitored throughout the year.

Environment Directorate – £1.0m underspend

Overall the Directorate is expected to underspend by £1.0 million reflecting a range of spending pressures offset by other underspendings.

The main areas of overspending include

- £0.991 million on street lighting energy as a result of an increase in fuel prices above assumed inflation levels; and
- £1.025 million on staffing recharges as a result of a reduction in externally funded projects (particularly REMADE).

To offset these overspends, the main underspending areas include

- £0.923 million in concessionary travel as a result of the actual pattern of demand and prices;
- £0.759 million on concessionary travel as a result of a negotiated reduction in the reimbursement rate from 59.50% to 57.25%;
- £0.367 million on waste as a result of the delays to full service partly offset by increased cost of landfill;
- £0.456 million on employee liability insurance due to the reassessment of the level of provision;
- £0.442 million of resources for localities which it is currently assumed will not be utilised this year;
- £0.120 million due to the companion card scheme not going ahead as budgeted; and

- £0.328 million on staff salaries as a result of staff reductions taken earlier than assumed when setting the budget.

Office of the Chief Executive - £2.4m underspend

A major factor contributing to the forecast underspend are £1.890m of savings being generated ahead of schedule in the following areas:-

- OCE Business Support Team, as part of the Business Support review,
- Policy Unit, as part of Policy and Performance review,
- Corporate Property Group as part of the accommodation review/consolidation of property functions

There are also savings within the Communications Service of £0.160 million which will deliver part of the year 2 savings derived from the Policy and Performance review.

County Treasurers' Department – £1.1m underspend

There is a forecast saving of £0.2 million within the core departmental budget from the deletion of the former post of Executive Director of Resources and the early achievement of year 2 savings targets.

In addition, the Strategic Partnership is forecast to deliver a £0.926 million under spend comprising two elements:

- The receipt of £1.120 million from One Connect representing a rebate of costs incurred due to the slippage of contract signature into the current financial year as compared to the original operational date; although
- This benefit is offset by a range of minor variations totalling £0.2m elsewhere within the overall Partnership budget.

The delivery of the targeted procurement savings by the Partnership remains an area of variability within the budget but is subject to active project management

Corporate Expenditure - £0.3m overspend

An overspend of £0.420 million is currently being forecasted against the Land Not In Operational use budget. Demand on this budget has increased due to the current state of the property market and the reduction in the Council's property requirements. This overspend is offset by a £0.165 million underspend against the budget for Member related expenditure.

Capital Financing - £3.7m underspend

The financial benefit is in addition to the saving of £9m factored in to the budget as a result of the implementation of the new Treasury Management Strategy. The reported position reflects two factors:

- Firstly, the fact that the Council is taking advantage of historically low variable rates to temporarily fund a significant proportion of its long term borrowing requirement; and
- Secondly, the fact that a more active and risk conscious investment strategy is resulting in the investment portfolio generating above benchmark and budget returns.

Lancashire County Commercial Group – Nil Variance

At this relatively early stage of the year Commercial Group is not anticipating any budget variance. However, as a result of the closure of the Chauffeur Service £0.25m of earmarked reserves have been returned to County Fund as reported below.

Future Revenue Budget Issues

At this stage in the year there are no specific issues around the delivery of the major savings plans being highlighted by services although clearly the sheer scale of savings required remains extremely challenging.

However, there remain specific risks arising from the legal challenge to elements of the Council's budget decisions in relation to social care which would impact on either the timing or deliverability of some savings. *Note: If further information is available it will be reported on orally at Cabinet.* It is intended to manage these specific risks through the County Fund balance.

In relation to the other budget risks highlighted when the Council set the budget the major one which is materialising, as noted above, is in relation to the rules on the definition of Ordinary Residence for Adult Social Care where the number of cases falling to the Council to fund is increasing, as reflected in the monitoring position.

In addition, there are pressures evident within the waste management budget going forward and potential issues arising from increases in energy costs which will have to be factored into the future financial scenario.

The overall budget strategy concentrated on the early delivery of "below the line" savings, in order to give services the opportunity to deliver the more complex and difficult changes in the configuration of services in a considered way. The Council is currently receiving a one off benefit from the early start made on the "below the line" savings and the various service savings proposals are not indicating any variation

from plan. Therefore, at this stage, there is no reason to alter the previously agreed three year budget strategy.

Capital Programme

The original Capital programme for 2011/12 of £204.1 million was approved by County Council in February 2010. After taking into account the slippage arising from 2010/11 which will impact on 2011/12, adjustments for new approvals and re-phasing part of the programme into 2012/13 the Programme was adjusted to £219.1million.

	£m
Original programme	204.079
Slippage from 2010/11	18.625
Re-phased to 2011/12	
Changes in approval	-3.624
Expected spend 2011/12	219.080

The change in approval shows a reduction as the expected grant received for REMADE is less than expected when the 2011/12 Programme was set due to the abolition of the NWDA from April 2012. This resulted in the decision not to fund any new starts.

At this stage in the financial year new starts on projects are still being developed and, although it is currently anticipated that the expenditure will be incurred, there is potential for further change which will be reported in future monitoring reports. The forecast spend as at July 2011 for the year is £208.864m

The programme reflects significant investment in the County's asset base, particularly schools, highways infrastructure, the completion of strategies for services for people with learning difficulties and the ongoing Regenerate programme in Libraries.

Directorate	Budget £m	Forecast £m	Variance £m	Variance %
ACS	12.066	10.723	-1.343	-11.1
CYP	117.563	108.687	-8.876	-7.5
Environment	67.529	67.529	0	-
Central Departments	5.633	5.642	0.009	-
Corporate	12.145	12.145	0	-
LCCG	4.144	4.138	-0.006	-
Total	219.080	208.864	-10.216	-4.7

The following sections identify the major elements of each Directorate's programme and the key issues causing scheme slippage.

Adult and Community Services

- Delays on the Learning Difficulties modernisation schemes resulting in some expenditure now being incurred in 2012/13 (£0.8m)
- It now seems unlikely that an extra care sheltered housing scheme to which the County Council was making a contribution will proceed (£0.2m)
- The upgrading of IT systems is subject to review (£0.2m)

Children and Young People

- Schools Access - £4.6m due to the review of the special education service
- Family Support and Children's Residential Redesign - £2.8m is affected by the need to ensure that investment is aligned with the delivery of the service's revenue budget targets.
- Some slight slippage on the schools modernisation - £0.6m

Other elements of the programme are currently forecast to deliver in line with budget, including a significant programme to address condition issues in schools, the replacement of the mechanical and electrical services in the Record Office and the Guild Wheel scheme.

County Fund Balance, Reserves and Provisions

County Fund Balance is currently forecast to stand at £52.6m at the year end. The movements to arrive at this balance are summarised below:

	£m
Balance at 31.03.11	41.926
Technical Adjustments	
Accounting adjustment following the separation of the Pension Fund's banking arrangements	0.297
Transfer of earmarked reserves relating to Chauffeur Service and Pool Cars no longer required	0.250
Adjusted Balance	42.473
Add	
Forecast in year underspend	10.131
Forecast balance at 31.03.12	52.604

This leaves County Fund balance at a somewhat higher level than was anticipated when the budget was set.

It is anticipated that there will be a further call on the Equal Pay Reserve of £3m in the year as a result of the settling of a range of appeals against the initial grading awarded through the Equal Pay Review process. This is in addition to the cost of £13m already provided for in the budget and will have an impact in the budget in future years.

The costs of additional voluntary severance agreed as part of the implementation of the various budget proposals amount to £4.586m which will be met from the earmarked reserve established in closing the 2010/11 accounts.

There are no significant forecast movements on provisions to report.

Conclusion

The financial and economic context within which the Council is operating remains very challenging, and there is no indication of change in the direction of government economic policy which would change the Council's resource assumptions. Current evidence indicates that significant progress has been made with delivering savings plans. However, significant challenges remain in terms of delivering the service savings proposals which form the second and more difficult tranche of savings. The currently forecast underspend gives the Council some capacity to manage the risks we face without undermining overall financial stability.