Appendix 'A'

Money Matters – Update on the County Council's Financial Position for 2014/15

1. Introduction

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

Section A – Sets out the forecast end of year position for the 2014/15 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 and County Fund balance.

Section D – Sets out the County Treasurer's conclusion on the overall financial health of the County Council

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 2014 and shows in summary:

Section A - For the Revenue Budget

- A forecast underspend on services of £4.1m, meaning the Council will not need to call on the planned use of County Fund balance in 2014/15 of £2.6m to support the revenue budget

- An extraordinary financial position on the capital financing budget of £52m. This position is a direct result of the ongoing risk management activity in response to the current economic volatility which has impacted on the financial markets. This position is a one-off, and must be considered to be extra-ordinary.

- Given the extra-ordinary nature of the position on the capital financing budget, it is recommended that Cabinet consider the appropriate use of these funds as part of the overall considerations of the 2015/16 to 2017/18 revenue position and future capital investment programme.

- Within the forecast position for 2014/15, there remains ongoing risk around the achievement of previously agreed savings. In the context of the Council's overall financial position for 2014/15 these do not place the Council at risk. Given the level of savings that the Council must deliver in future years, robust monitoring must continue for the remainder of 2014/15 and beyond in order to effectively manage the financial position in 2015/16 and beyond.

Section B - For the Capital Investment Programme

- The forecast for capital spending in the year is £192.591m which is 81.6% of the programme.
- The remaining spending will slip into future years, resulting in slippage of £43.322m.

Section C - For Reserves and Balances

- The current forecast leaves the balance on County Fund at £36m.
- The downsizing reserve is forecast to be £76.1m at the end of the financial year.
- £1.7m of resources within the strategic investment reserve can be released.

3. Section A - The 2014/15 Revenue Budget

3.1 The Overall Summary

In February 2014 the County Council approved a revenue budget of £758.310m, which when adjusted for in year changes, results in a cash limit for monitoring purposes of £759.301m. The monitoring position against this budget at 31st December 2014 is set out below and shows an underspend on services of £4.1m and the extra – ordinary position in relation to capital financing of £52m.

Budget Area	Cash Limit	Forecast End of Year Position	-Under/Over spend	
	£m	£m	£m	%
Spending on Services				
Adult Services, Health and Wellbeing	326.303	326.579	0.276	0.1
Children and Young People	147.164	149.606	2.442	1.7
Environment	168.846	158.657	-10.189	-6.0
Office of the Chief Executive Including BTLS	47.706	52.399	4.693	9.8
County Treasurer	5.657	5.490	-0.167	-3.0
Corporate	38.426	36.904	-1.522	-4.0
Strategic Items	-6.265	-4.532	1.733	-27.7
Lancashire County Commercial Group (LCCG)	-6.378	-7.760	-1.382	21.7
Year End Position for Spending on Services	**721.459**	**717.343**	**-4.116**	**-0.6**

Capital Financing	37.842	-14.158	-52.000	-137.4
Budget Requirement	**759.301**	**703.185**	**-56.116**	**-7.4**

The key issues emerging are as follows:

3.2 Adult Services, Health and Wellbeing Directorate

Overall the forecast position for Directorate has improved by £1.228m since the previous cabinet report resulting in a small overspend forecast.

There are a number of relatively small changes in the financial position across services within the Directorate, this report highlights the issues which have the greatest impact on the Council.

The largest change relates to Personal Social Care, which includes both commissioned care for all client groups and the social work staffing teams (excluding Mental Health in both cases) and is the most material area in expenditure terms and is largely demand led. The reduction in forecast relates largely to Older People services which is primarily the result of reduced admissions to residential and nursing care and in the overall volume of domiciliary care being commissioned reflecting, in part, the impact of preventative measures such as the expansion of the reablement service.

There is also increasing pressure of £0.45m on in house Adult Disability Services due to increased demand for day services, and increasing pressure of £0.351m on the Mental Health service from increases in demand for non-residential care services, although this in part reflects some success in reducing the numbers of people being supported in residential and nursing care which has been subject to significant growth in previous years. These are offset by savings as a result of management action to reduce costs across Business Support, Commissioning and Community Services.

Whilst the Public Health position is forecast as being in line with budget there is now expected to be an underspend against the Public Health Grant in the region of £1.5m. As per the requirements of the grant this will be carried over to the next financial year as part of the existing ring fenced Public Health reserve. The same conditions of use that apply to the grant will continue to apply to this reserve. The under spend is primarily the result of unforeseen delays in the commissioning of services.

Management Action

The directorate leadership team have been aware of the ongoing pressures and have taken steps to manage within existing budget provision through effective demand management and the identification of offsetting underspends where possible, including involving health partners through the development of the Better Care Fund and more integrated working with the formal pooled budget to be in place from April 2015.

A number of work streams are also in place to mitigate, as far as is possible, the financial impact of the various national changes affecting the directorate including Ordinary Residence, Winterbourne and Deprivation of Liberty Safeguards (DOLS) as well as financially modelling the financial impact of the Care Act with the first set of changes taking effect from April 2015.

Delivery of Revenue Savings

A robust monitoring framework is in place for the critical challenge project areas and the only area currently flagged as a significant risk to date is transport with under-achievement of savings estimated at £1m, this is accounted for in the overall revenue position. In addition, it may not be possible to deliver the full £0.5m skills review savings within Lancashire Adult Learning due to changes to the levels of grant funding and linked conditions, but any under-achievement has assumed to be met through funding from reserves and will need to be addressed as part of the lifelong learning project.

3.3 Directorate for Children and Young People

The Directorate is currently forecasting an over spend of £2.442m, which is an improvement of £1.220m since the last report to cabinet. The most significant pressure to emerge is in the area of agency placement costs and work is in hand to strengthen the management and monitoring of the placement approval and funding processes.

In line with previous reported details, there is a significant overspend forecast of £10.340m due largely to Children's Social Care agency placement costs (£7.3m) with Special Educational Needs (£1.1m), Mainstream Transport (£1.0m), Children Looked After (£0.9m).

Factors that have led to the Children's Social Care agency placement costs projected overspend include:

- The recent implementation of the Liquid Logic case management system has presented a number of challenges that have had a significant impact on the invoicing and forecasting processes across both children and adults services. With the support of Management Team some time limited resource is now in place to clear the invoice backlog. Support for social care staff is needed to ensure that care packages are recorded accurately and in a timely manner and a training programme is in development and will be delivered to staff from November.

- Some weaknesses have been identified at various points in the end to end decision-making, placement-finding and procurement process. The Directorate has invested heavily in a number of initiatives focused on providing services in a different way to prevent young people coming into care where appropriate, and to reduce the number of young people placed in long term care. Budget reductions are linked to the success of these projects and there is evidence supporting positive impact. The number of young people starting to be looked after in 2014/15 to date is lower than 2013/14 at the same point. However it is recognised that the number of young

people returning home is not at the desired level which is impacting on the Directorate's ability to deliver services within budget. Reducing spend on a permanent basis to operate within the reduced funding envelope demands robust and consistent placement decision-making to ensure needs are met by providing the right services and that a targeted commissioning approach is adopted to focus on individual placement costs and the utilisation of existing capacity. Specific actions are detailed under 'Management Actions' below.
However, this significant overspend has been offset by management action to reduce costs across the business. An underspend of £7.9m is forecast across a number of areas, which has reduced the overall overspend to £2.4m.

The agency provider spend for children with disabilities is projected to under spend by £1.951m and £0.393m on in house fostering. School Improvement continues to forecast a £1.2m underspend and schools termination costs £1.0m. Due to the level of overspend being experienced the directorate has been undertaking a squeeze on non-essential expenditure creating savings of £2.5m, an increase of £0.583m plus targeting expenditure reductions in a number of services including, Young Peoples Service £0.300m, Children's Centres £0.550m.

Management Action

The challenges from the implementation of the Liquid Logic case management system along with identified weaknesses in the end to end decision-making, placement-finding and procurement process are being addressed as a corporate priority and additional staffing resource is in place directed at resolving the invoice and system-user issues across both children and adults services

The cost associated with looked after children placement presents a key budget risk. A review was recently carried out by a member of the Institute of Public Care into the Council's systems and services in support of placement outcomes. Based on the findings, actions to address the agency placement projected overspend include:

- Development of a 'brokerage' model to source and commission suitable placement and support services. Evidence has shown that introducing a team that understands demand and knows the market well has achieved cost savings through placement stability and better commissioning of services;

- Focusing on the recruitment and retention of Lancashire foster carers, including further development of a peer-network approach to supporting new carers.

- An external review of Children Social Care is to be commissioned, to seek to work with a partner who has successfully worked with other authorities in this area. It is envisaged that this will significantly contribute to efficiency improvements moving forward.

- The placement decision-making process will be changed to ensure a more stringent and consistent approach across the service.

- Work is also currently underway to benchmark costs against other local authorities to ensure we are aligned with the recorded industry performance.

Delivery of Revenue Savings

In 2014/15 there is a planned saving of £2.8m linked to developing and reshaping services to children, young people and families to ensure that services are aligned efficiently and effectively. Of this £2.8m planned saving, an estimated £0.7m is considered to be at risk and therefore contributes towards forecast revenue overspend of £2.4m.This planned saving is linked to a number of commissioned services targeted at de-escalation and prevention of Children and Young People going into care. Detailed monitoring of outcomes at service user level is carried out to assess the incremental impact over and above the benchmark 'norm'. Evidence indicates clear success; however, achievement of the savings is linked to general demand. Therefore, if referral rates increase significantly despite these interventions there is a risk to achieving the full savings target. The Directorate has taken measures to mitigate the risk as much as possible by e.g. targeting Youth Services and Early Years with front-loading some of the 2015/16 savings targets.

£0.4m of saving in 2015/16 is linked to the monitoring of Early Years providers which was considered not to be statutory allowing a reduced level of monitoring. However, this saving is now at risk due to changes in Early Years guidance from the Department of Education which is likely to make monitoring a statutory responsibility of the Local Authority.

£0.088m of savings from Charging for Post 16 Transport for Young People with Special Educational Needs and Disabilities will be delayed plus £0.070m from ceasing adoption allowances for current adopters are at risk. The relevant services are identifying efficiencies elsewhere to address these issues.

While savings from reducing new demand entering the system would appear to be being delivered based on current activity there are clearly some considerable financial risks around how needs that are presenting are being addressed which the Directorate are prioritising for attention. Updates will be provided to Cabinet as the work progresses.

3.4 The Environment Directorate

- There is an increase in underspend since the last cabinet period of £2.111m and this has moved due to a number of service movements, as follows:

- Lancashire Highway Service underspend of £0.375m - Due to a review of the allocation of the resources to Capital, additional revenue staff costs in relation to street lighting and structural drainage work have been identified.

- There is a forecast underspend in Transport and Environment of £2.0m which is made up of a number of elements, including a reduction in an adjustment from 2013/14 in relation to subsidised bus services which has now been assessed as unnecessary, releasing £0.837m. The additional £0.5m investment into Community Transport provided as part of the 2014/15 budget is unlikely to be committed this financial year due to commissioning delays caused by a review of service provision being undertaken and the difficulties now being faced in relation to tendering of this service. The position on Concessionary Travel expenditure has also reduced since last reported due to a continued fall in passenger numbers.

- There is a reduction in the underspend in relation to waste of £0.554m due to essential lifecycle maintenance work at the Farington/Thornton Waste treatment facilities being brought forward into 2014/15 resulting in additional costs in this financial year. This has been partially offset by savings achieved against the landfill disposal budget as more waste has been diverted from landfill than originally anticipated.

Delivery of Revenue Savings

With regards to the cost of energy on Street Lighting, prices have increased by approximately 11% on average for the period July 2014 to March 2015 which is considerably in excess of that contained within the budget of £6.2m. The total additional cost of this increase is estimated to be £0.800m and as a consequence the £0.270m savings reduction in the 2014/15 budget will not be achieved. This issue has been incorporated into the 2015/16 budget process.

Lancashire Permit Scheme £0.165m - in line with Department for Transport guidelines the new Highway Permit Scheme will only come into operation from 1st March 2015 as opposed to the original date of 1st January 2015. This will result in a reduction in permit income against the original target of £0.200m for 2014/15, but will not affect future years.

Highway Infrastructure Sponsorship £0.050m - It is likely that the ongoing contractual dispute will prevent the achievement of target income in the current financial year. This should not affect future years.

Sustainable Drainage Consenting and Enforcement £0.150m- consultation is ongoing which puts enactment of the Sustainable drainage Approving Body (SAB) at risk. Local implementation is now on hold and will not achieve any application fee income this year, and is a risk for future years. Alternative income streams are being sought to seek to mitigate this, but is unlikely to be fully mitigated this financial year.

3.5 The Office of the Chief Executive Including BTLS

The Office of the Chief Executive (OCE)

A net £0.787m underspend position is forecast within the Office of the Chief Executive. The underspend has increased by £0.459m since last reported to cabinet, and is largely as a vacancy management savings.

BTLS

The reported position for BTLS reflects forecast pressure of £5.480m, which has increased by £0.577m from the previous reporting period. Income for Cumbria

Lancashire Education Online (CLEO), payroll and ICT s are forecast to be below budget, with external clients reducing services. Westfield income is forecast to over achieve against that budgeted. From 2015/16 the CLEO and Westfield services, will transfer to BTLS thereby reducing the financial risk on the Council due to falling levels of income.

3.6 The County Treasurer's Directorate

The County Treasurer's Directorate is showing an overall forecast underspend of £0.167m. The under spend has increased by £0.146m since last the report to Cabinet and relates to staffing savings arising from vacancy management.

3.7 Lancashire County Commercial Group

Lancashire County Commercial Group is forecasting an under spend of £1.382m, an increase of £1.232m since the last report to cabinet due to close control of costs which has reduced the cost of service provision.

3.8 The Corporate Budget

Overall the corporate budget is forecast to underspend by £0.027m which is an improvement of £1.093m since the last Cabinet report.

Previously, it was forecast that pension costs would be overspent by £1.331m due to an increase in historic pension costs, in line with Consumer Prices Index. The pensions forecast overspend has been revised at £0.578m.

In relation to the Care and Urgent Needs service, the forecast underspend remained unchanged at £1.495m, relating to lower than anticipated payments to claimants.

3.9 Strategic Items

This budget contains a number of strategic items, including:

- Property and Facility management savings to be allocated as realized;
- Business Intelligence Review savings
- Public Health Overhead Contributions
- Lancashire County Commercial Group Pay award.
- Contributions to/from Reserves.

The forecast overspend is currently at £1.733m and this is unchanged since the last cabinet report and have been incorporated into the financial strategy going forward.

3.10 Capital Financing Costs

Current projections indicate that there will be an extra-ordinary position of £52m within the capital financing costs budget. This underspend has been developing rapidly over recent months and has increased by £45m since the last position was reported to cabinet.

This extra-ordinary position is largely due to gains realised following the sale of bonds. The market has become substantially more volatile as a result of market expectations of deflation in the Eurozone and potentially the rest of the developed world, and the expectation of further Eurozone Quantitative Easing. The sales of certain bonds have been made as the Chief Investment officer has been rebalancing the investment portfolio to maintain a cautious low risk position.

£8m of the surplus is as a result of HM Treasury recalling investments in UK Government War loan stock in the Autumn Statement. The Council invested in these in 2012 as a de-risking exercise to reduce the exposure to bank credit.

Section B - The 2014/15 Capital Investment Programme

In February 2014 the Council agreed a capital investment programme of £198.675m. Adjusting for changes to the programme due to slippage carried forward from 2013/14 and new approvals, the programme is currently £232.328m. The new approvals are principally due to new grants being received for highways maintenance, an increase in the expenditure on the Superfast Broadband project to reflect the grants received and an increase in the provision for the work on the fire damage to Leyland St Mary's to better reflect the latest estimates with the insurance company.

	£m
Original Programme	198.675
Approvals brought forward from 2013/14	4.085
New Approvals	33.153
Programme 2014/15	**235.913**

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

	Programme	**Forecast for the year as at December**		**Change in Forecast since previous report**	
	£m	**£m**	**%**	**£m**	**%**
Adult Health & Wellbeing	3.185	1.344	42.2	0.002	0.2
Children & Young People	59.022	45.950	77.9	-4.161	-8.3
Environment	110.768	107.441	97.0	3.113	3.0
Corporate	57.905	34.551	59.7	-5.670	-14.1

LCCG	5.033	3.305	65.7	0.145	4.6
Total	**235.913**	**192.591**	**81.6**	**-6.571**	**-3.3**

It is currently anticipated that the reduction in expenditure of £6.571m represents slippage and will be carried forward into later years. Some of the key reasons for the change are:

Adult Services, Health and Wellbeing

- There is some slippage on the Libraries Regeneration scheme largely due to the re-profiling of expenditure at the Bolton-Le-Sands library due to final clarification to design solutions and resourcing. However this is offset by expenditure on improving information systems now anticipated in this year rather than next.

Children and Young People

- The expected reduction in expenditure on Children and Young People is mainly due to an estimated reduction in school expenditure in the year. This is the result of:

  - The new primary school at Weeton Primary has seen further delays in agreeing heads of terms for the land sale with Ministry of Defence (MOD). There have also been issues relating to rights of way with MoD and utilities companies. (£0.575m)

  - Barnoldswick West Craven major extensions/re-modelling. The phasing of the re-modelling works are more complex than initially thought resulting in a revised spending profile (£0.580m)

  - Nelson Lomeshaye School is a major extensions/re-modelling for a 1 Form Entry expansion. The forecast now reflects a more realistic phasing of the works in an occupied school (£0.200m)

  - Preston Sir Tom Finney School – Significant structural work was required to the corridors to facilitate movement of pupils and specialist equipment around the building. Once on site and the existing structures were exposed additional design work was required. In addition specialist drainage designers have had to be appointed to assist in drainage design for the hydrotherapy pool. (£1.490m).

Environment

- Strong progress has been made on obtaining the necessary land or gaining the necessary licences to deliver the Pennine Reach project. As a consequence the programme of works is being accelerated, where practical, to bring the project further into line with the original funding profile submitted to the Department for Transport. In addition the implementation of the Compulsory Purchase Order for the land needed to construct Accrington Bus Station, means that initial compensation will be paid in 2014/15 to the affected interests in the site. Forecast spend for 2014/15 has, therefore risen by approximately £1.2 million.

- There is an increase of some £2.5m in expenditure on Section 278 highway schemes as the upturn in the economic situation continues to prompt increased development activity and a consequential rise in Section 278 highway works. The estimated costs on these types of works has increased significantly although all costs are recoverable from developers.

Corporate

- The Economic Development expenditure is lower by £4.3m than previously expected with it now reflecting the new phasing of the expenditure following the review of the Superfast Broadband project, that has been undertaken with the delivery partners and funding bodies. The additional approval to the Capital Programme in the year of £23.183m reflects grants approved being added to the Programme. It was anticipated that the project would be completed in the current financial year and the previous forecast reflected this. Since the last forecast and after discussions with the delivery partner and the funding organisations the project has been extended into the next financial year to June 2015. The underspend in year reflects the revised delivery timetable.

- Growing Places which represents loans provided to outside bodies for development purposes is less than previously forecast as one of the projects is not now expected to proceed.(£1.5m)

In addition to the forecast above since the Capital Programme was set in February 2014 the City Deal has been signed and the phasing of the expenditure indicates that expenditure in 2014/15 will be in the region of £14.8m.

4. Section C – Impact on Reserves

This section of the report deals with the impact of the forecast variations identified above on the Council's major reserves and makes recommendations for adjustments between reserves.

County Fund

Taking the forecast set out in this report, together with the budgeted use of County Fund balance into account the forecast position for County Fund at year end is:

	£m
Opening Balance	**36.0**
Less : Budgeted Use	-2.7

Add : Service Underspend	4.1
Closing Balance before adjustments	37.4
Transfer to Downsizing Reserve in line with previous resolution	-1.4
Forecast Year End Position 31.3.15	**36.0**

Cabinet agreed in September that any balance above £36m at the end of the year should be transferred to the Downsizing Reserve, and in line with this resolution £1.4m would be transferred.

Strategic Investment Reserve

The Strategic Investment Reserve was created to finance a range of projects over a considerable period of time, largely, but not exclusively in relation to economic development. The forecast position at the end of 2014/15 on the reserve is set out below. Spending is due to continue over future years. However, the Cabinet Member for Children, Young People and Schools, and the Cabinet Member for Adult and Community Services were recommended to consider a revised financial allocation to the Early Response during 2015/16 and 2016/17, ranging from no investment up to a maximum investment of £1.3m, and as a result, one-off resources of £1.7m can be released from this reserve.

	£m
Opening Balance 1 April 2014	**26.8**
Forecast spend in 2014/15	-6.6
Closing Balance at the end of 2014/15	**20.2**

Downsizing Reserve

The Downsizing Reserve exists to support the costs of change which results from the need to make savings of over £300m over the period 2014/15 to 2017/18. The table below provides a forecast of the year end position for this reserve, taking into account the resources transferred in, together with the anticipated use in the year.

	£m
Opening Balance 1 April 2014	**99.2**
Previously reported additional resources and transfers	2.3
Anticipated Drawdown 2014/15	-25.4
Anticipated Forecast Position 31 March 2015	**76.1**

5. Section D – Conclusion

As a result of the impact of one off benefits, mainly from the management of the investment portfolio, the Council is forecast to end the year with an under spend of £56m. This underspend has been developing rapidly over recent months due to gains being realised on the sale of bonds.

In addition there are a number of pressures which continue, while some of these are essentially one off, others do indicate longer term demand pressures which have been reflected in the revenue budget report elsewhere on the Cabinet's agenda.