

Cabinet

Meeting to be held on 14 April 2016

Report of the Corporate Director of Commissioning and Deputy Chief Executive

Electoral Divisions affected: All

The Financial Sustainability of the Council and the Review of the Council's Operating and Business Model

(Appendices 'A' and 'B' refer)

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Executive Summary

The budget report to Cabinet in November 2015 identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed in the New Year to assist the Council in scoping and undertaking the review of its operating model. The report identified that a key part of the brief would be the development of a public service operating model for the Council to enable it to be sustainable, within its forecast financial resource envelope, by 2020/21.

A separate report to the Leader of the Council sets out the results of the procurement exercise to appoint such consultants.

This report sets out the context for this review, the proposed initial brief for the consultants and recommends that the remit of the Political Governance Working Group be extended to include the future public service operating model for the council and for it to make recommendations to the Cabinet and Full Council.

Recommendations

The Cabinet is asked to:

- (i) To agree the initial brief for the review of the Council's business and operating model set out at Appendix 'A'; and
- (ii) To agree additional term of reference for the Political Governance Working Group, set out at Appendix 'B'.

Background and Advice

2016/17 – 2020/21 Budget Strategy

In making his budget recommendations to Cabinet on 21st January 2016, based upon the Medium Term Financial Strategy (MTFS), the Council's S151 Officer, concluded that:

"There is a strong likelihood that the County Council will during the course of this financial strategy period (in 2017/18 at the earliest) be in the position of being unable set a budget to meet the cost of the statutory responsibilities."

The budget and MTFS approved by Full Council in February is based upon:

- £129m of those savings being delivered in 2016/17 and 2017/18
- The use of £117.2m of one-off reserves to support the Council's budgets in 2016/17 and 2017/18.

If all these savings are achieved there remains an underlying (MTFS) funding gap of £46.5m gap in 2017/18 and £51.7m gap in 2018/19 ; a cumulative gap of £98.2m.

By 2020/21 the gap is forecast to rise to £196.6m

The Council has made no decision on the level of council tax over the three years; 2017/18 to 2020/21. However, the maximum increase in the resource base that could be achieved from increases in council tax and the Social Care Precept by April 2018 is £33m and £69m by April 2020.

There are ongoing risks in respect of delivery of the £129m of savings built into the Council's approved budget, particularly given the scale and nature of the services impacted and the continuing demand pressures on the Council's services. Any under-delivery of those savings will further increase the funding gaps.

It is within this context that the budget report to Cabinet in November 2015 identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed in the New Year to assist the Council in scoping and undertaking the review of its operating model.

A separate report to the Leader of the Council sets out the out the results of the procurement exercise to establish a single provider framework from which such consultants could be appointed.

The Financial Sustainability of the Council and the Review of the Council's Operating and Business Model.

Lancashire County Council is not alone in this financial challenge. The whole of the public sector in Lancashire is facing severe financial conditions that give rise to fundamental questions as to the nature, scale and sustainability of public services in

the county. Health and social care services in Lancashire are forecast to have a budget shortfall by 2020/21 of at least £805m. The Police and Fire and Rescue Service face significant reductions in expenditure over this period, as do the district and unitary councils across Lancashire.

It is clear that the County Council, in its present form, is not a financially sustainable organisation in the medium term; neither is the National Health Service in Lancashire.

As part of the Spending Review and Autumn Statement the Chancellor of the Exchequer acknowledge the growing demands of adult social care in particular and announced plans for an integrated health and social care system. His announcement of the Social Care Precept and the £1.5 billion for the Better Care Fund through local authorities were targeted at the integration agenda. Whilst our analysis of the totality of the Council's settlement demonstrated the total inadequacy of the resources provided to the Council, this is the clear fiscal and policy environment within which the Council must plan its future.

The Chancellor announced that every part of the country is required to have a locally-led plan for health and social care integration in place by 2017, for implementation by 2020. Areas will be able to graduate from the existing Better Care Fund programme management once they can demonstrate that they have moved beyond its requirements, meeting the government's key criteria for devolution.

In Lancashire this is being developed in the form of the Lancashire and South Cumbria Sustainability and Transformation Plan, which is the subject of a separate report on the agenda.

The Combined Authority for Lancashire also provides an embryonic governance context for consideration of pan-Lancashire public service issues.

In this context the Council cannot plan its future in isolation and must develop a future public service model for Lancashire in conjunction with its partners.

It is also important that the Council is not constrained in its thinking and has the benefit of independent challenge and a breadth of knowledge and experience of alternative business and operating models to draw upon in planning its future.

For this reason it is proposed that independent consultants be appointed to assist the Council in reviewing and developing its future business and operating model. An initial brief for this work is set out at Appendix A. A key part of the brief is to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21.

Efficiency Review

Part of meeting the financial challenge will be a continuous review of efficiency. Within its current operating model the Council is undertaking its Zero Base Budget Review, looking at every service to identify the potential for removing non-essential

expenditure. The efficiency agenda has now been pursued for many years and the scope to find further efficiencies within individual organisations diminishes year by year. There will, however, be greater opportunities for efficiencies when looking across all public services in Lancashire and the brief at Appendix A includes a scoping exercise to identify those potential efficiencies. In the health sector, for example, Lord Carter's review of efficiency in hospitals has identified the potential for £5 billion of savings within the acute hospital sector in England.

The financial sustainability of all public services in Lancashire will require all such opportunities to be looked at within a future public service model for the county.

Political Governance Working Group.

The options that are developed are likely to result in proposals for a fundamental reconfiguration of the Council. It is considered vital that the governance of this work is overseen by Elected Members. It is therefore proposed that the scope of the Political Governance Working Group be extended to incorporate this agenda. Proposed additions to the terms of reference of the Working Group are set out at Appendix B.

Level of Future Resources from Central Government

The challenge to the government following the consultation on the Provisional Local Government Financial Settlement and its subsequent response brought recognition that Shire Counties, in particular, faced an unviable future.

The plans to end the Rate Support Grant and allow 100% retention of business rates create a major financial risk environment of the county council. However, in responding to the consultation on the Provisional Settlement, the Secretary of State for Communities and Local Government (DCLG) stated that:

On the needs formula itself, it is nearly 10 years since the current formula was last looked at thoroughly.

There is good reason to believe that the demographic pressures affecting particular areas – such as the growth in the elderly population – have affected different areas in different ways, as has the cost of providing services.

So I can announce that we will conduct a review of what the needs assessment formula should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention.

It is important that the Council positions itself well to feed into that review and argue not just on the allocation formula but also on the absolute level of resources required to meet statutory services. It is therefore proposed that the consultants' brief also includes support for the Council in presenting our argument to the Treasury and DCLG. Appendix B is drafted to include this requirement.

Implications:

This item has the following implications, as indicated:

Risk management

The Council's Risk and Opportunity Register, Ref CR2 identifies the "Risk to the ongoing longer-term financial viability of the County Council" as one of its highest level risks, scoring the maximum 25 on the risk evaluation matrix.

The proposed actions set out in the report are seen as key mitigation measures to address this risk.

Financial

The appointed consultancy under the single provider Framework will be asked to provide a price for the delivery of the brief set out at Appendix A. This will be based upon the contractor's tendered rates under the framework. A further report will be submitted to the Leader of the Council, seeking authority to enter into the contract on the basis of the price submitted. The cost of the work would be met from the Transitional Reserve.

List of Background Papers

Paper	Date	Contact/Tel
Cabinet Reports	August & November 2015, January 2016.	Neil Kissock (01772 536154) Abbi Leech (01772 530808)

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Consultant's Brief:

Context

The Council has identified within its Medium Term Financial Strategy that it is unlikely to be able to set a budget to meet its statutory obligations beyond April 2018, and possibly before that date.

The Council's current budget is set upon the basis of delivering £129m of planned savings during 2016/17 and 2017/18

Assuming the delivery of these savings the Council has forecast a funding gap of £46.5m in 2017/18 and £51.7m in 2018/19 rising to £196.6m by 2020/21.

Requirements

The consultants appointed by the Council under the Single Provider Framework for Consultancy Services are requested to submit detailed proposals for undertaking the following work package:

- Review the Council's Medium Term Financial Strategy and its Base Budget Review and advise upon the sustainability of the Council's current business and operating model.
- Review the Council's current business and operating model in the wider public service context across Lancashire and the financial sustainability of public services in the county.
- To advise on options and actions needed to create a sustainable public service operating model for the Council to enable it to be sustainable, within its forecast financial resource envelope, by 2020/21.
- To make recommendations as to options available to the Council with respect to future business and operating models, with particular reference to the integration of health and social care.
- To prepare a report for submission to the Secretary of State for Communities and Local Government and the Treasury on the funding base of the Council in relation to its statutory obligations and the resources needed to sustain a minimum level of statutory public services in Lancashire. The report will advise the Council and inform the Secretary of State of the emergency actions that would need to be taken in the event of the Council not being able to set a legal budget.
- To prepare a scope of work and project plan to deliver a future sustainable operating model for the Council.

Appendix 'B'

Amendments to the Terms of Reference of the Political Governance Working Group

The following items are added to the Terms of Reference of the Political Governance Working Group:

- To review the Council's business and operating model in the context of the forecast financial envelope set out in the Medium Term Financial Strategy and the wider financial viability of public services in Lancashire.
- To consider options in respect of the future delivery of public services in Lancashire.
- To make recommendations as to the future configuration of the Council in the context of potential future public service business and operating models.