**Cabinet**

Meeting to be held on Thursday, 8 September 2016

**Report of the Director of Financial Resources**

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| Electoral Divisions affected:  All |

**Money Matters – 2016/17 Financial Position and Medium Term Financial Strategy**

(Appendix 'A', 'B' and 'C' refer)

Contact for further information:

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| Executive Summary This report provides the financial position as at 30th June 2016, the latest position in respect of the County Council's reserves and the County Council's updated financial outlook (Medium Term Financial Strategy) for period 2017/18 to 2020/21.  Financial Position as at 30th June 2016 (Appendix A)  An overspend is forecast for the County Council of £11.267m and represents a variance of c1.6% against the overall County Council budget. This is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review with a focus on controlling and reducing costs and the delivery of an improved financial position by year-end.  The 2016/17 budget of £713.020m includes a significant savings requirement of c£100m, however many savings will not be fully implemented until 2017/18 or 2018/19 and therefore it was agreed that these would be covered by the use of reserves.  The report provides details as to progress on the achievement and delivery of the savings relating to each Head of Service. The level of reserves that were approved to be applied from the transitional reserve 2016/17 in support of the delivery of savings was £46.417m and the amount that is now forecast to be required is £40.720m reflecting early delivery of some agreed savings, although this is partially offset by some budget savings that are delayed and will require reserve funding to cover the delay in implementation.  Delivery of the significant savings programme has been identified as a key risk area and the savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.  The Medium Term Financial Strategy  Cabinet have received reports throughout the 2015/16 financial year on the MTFS to cover the period 2016/17 to 2020/21. The last report that highlighted the financial gap to Members was at Full Council in February 2016 where the shortfall in funding by 2020/21 was identified as £194.854m, however following an agreed adjustment at Full Council the revised gap was £196.644m.  This report considers the impact of budget decisions taken by Cabinet and updates other assumptions in light of the most current information available. As a result of these reviews the funding gap has reduced to £147.944m. Whilst this appears positive overall this reflects different funding assumption to that presented previously in that the impact of a 3.99% increase (including the 2% Adult Social Care precept) for each of the next 4 financial years is shown, which is partially offset by increasing spending pressures to those previously identified and agreed, particularly around children's social care.  The financial commitment required to fund statutory demand led services as they are currently delivered is almost certain to result in using up all the available resources available at a point within the timeframe covered by this financial strategy. We cannot be certain of the point at which funding may not cover statutory demand led services as, for example, the resources available to the County Council have yet to be confirmed for future years. However, indications from previous base budget review tied in with the outturn position delivered in 2015/16 suggest that there will be insufficient resources to cover statutory services from 2018/19.  The County Council's Reserves Position  The County Council by 31st March 2018 is expected to have reserves (excluding schools) of £70.660m, of which £36.000m County Fund will remain leaving a residual amount of £35.058m in service reserves. This does however include £8.355m school PFI expenditure and £4.931m which is not LCC money, meaning in effect the available balance of £21.772m.  If the County Council overspends in 2016/17 this will be a further commitment on reserves. This is not currently included within the forecast reserves position in this report due to this being an early forecast within the 2016/17 financial year.  The report indicates that there is potentially sufficient funds within reserves to deliver a balanced budget in 2017/18. However this is dependent upon a number of key factors:   * The forecast in year overspend is minimised. * All values within reserves that are currently reported to be uncommitted funds are transferred into the transitional reserves with no further commitments emerging in these areas following the transfer. * There is limited slippage on the agreed savings programme for 2017/18 and 2018/19. As any slippage will result in a requirement for funding from reserves.   When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix B) the funding requirement to bridge the financial gap in 2018/19 would total £83.900m. Therefore from the forecast contained within this report there will not be sufficient funds within reserves to support the 2018/19 budget. Recommendation The Cabinet is asked to:   1. Note the forecast overspend of £11.267m on the 2016/17 revenue budget; 2. Note the position in respect of the Council's reserves and to agree the transfers outlined in the report; 3. Delegate authority to the Director of Financial Resources, in consultation with the Deputy Leader of the County Council, to authorise appropriate use of the Transitional Reserve within the parameters of the level of funding agreed by Cabinet and Full Council in setting the budget; 4. Note the revised funding gap of £147.944m as set out in the Medium Term Financial Strategy |

**Background and Advice**

The detailed reports at Appendices 'A', 'B' and 'C' present the County Council's revenue position as at 30th June 2016, Medium Term Financial Strategy for the period 2017/18 – 2020/21 and the latest position in respect of the County Council's reserves.

**Consultations**

N/A

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The County Council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

##### List of Background Papers

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| Paper | Date | Contact/Tel |
| The County Council's Budget  Money Matters – The Financial Strategy for 2016/17 to 2020/21 | 11th February 2016  21st January 2016 | Neil Kissock/ x36154  Neil Kissock/ x36154 |
| Reason for inclusion in Part II, if appropriate  N/A | | |