Annex 'A'

Cabinet – 6 January 2011

Report of the Executive Director for Resources and Deputy Chief Executive and County Treasurer (Designate)

Part I - Item No 3 (a)
Electoral Division affected: All

The County Council's Financial Position as at 30 November 2010
(Appendix 'A' refers)

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Executive Summary

In order to maintain overall strategic control of the County Council's finances, the Cabinet receives regular Budget Monitoring reports. These highlight financial risks and the likely position at the end of the financial year. The report attached at describes the position as at the end of November 2010.

Although the revenue budget is forecast to underspend by £6.7m, (c1%); this includes a forecast overspending of £3.5m across directorate revenue budgets. Executive Directors are committed to maintaining the urgent corrective action implemented to ensure any overspend is minimised by the year end.

The overall financial situation is mitigated by the successful delivery of the new treasury management strategy and the review of insurance contributions. These provide significant savings in 2010/11 and beyond.

This net underspend of £6.7m, in conjunction with £10.2m of approved commitments from the County Fund, gives a forecast County Fund balance at 31 March 2011 of £50.9m. The approved commitments from the County Fund include £9.8m of redundancy costs. Further severance costs will arise as the County Council manages the significant budget reductions being faced over the next three years.

In setting the revenue budget for 2010/11, Executive Directors committed to achieving £22.4m of efficiencies savings; it is forecast that additional savings above the target will be delivered, increasing the level of savings made to £24.8m by the year end. In addition the Council has identified a further £22m of savings required in 2010/11 as a result of the government's Emergency Budget.

The County Council's original Capital Programme for 2010/11 was set at £197.9m, reflecting a substantial investment in the County's infrastructure and assets. After taking into consideration slippage from last year's programme,

planned expenditure and additional approvals, the programmed figure has increased by £12.9m to £210.8m, which is now the basis for monitoring.

At the end of November the end of year position is anticipated to be c£195.9m, £14.9m lower than anticipated.

The attached provides Cabinet with a detailed view of this position: highlighting where key priorities will be delivered and providing explanations for variations against the programme. At this stage it is important to stress that although spending on capital projects is, by its very nature, difficult to determine due to the number of external factors governing spending, e.g. planning requirements, adverse weather conditions, etc, every effort has been made to reflect a realistic spend profile and forecast out-turn.

The position will be continuously monitored throughout the year and regular updates will be provided.

Recommendation

The Cabinet is asked to note the November budget monitoring report for 2010/11.

Background

Appendix 'A' refers.

Consultations

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

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 2010/11 and the main implications for future years.

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

Paper	Date	Contact/Directorate/Ext
Financial Plan 2010/11	2010	George Graham, Resources Directorate, (01772) 538102
Budget Monitoring Working Papers	2010	

Appendix 'A'

MONEY MATTERS

THE COUNTY COUNCIL'S

FORECAST FINANCIAL POSITION

AT 30 November 2010

Phil Halsall
Deputy Chief Executive
and Executive Director
for Resources

Gill Kilpatrick
County Treasurer Designate

January 2011

SECTION 1: INTRODUCTION

"Money Matters" presents the County Council's current financial position in a single document, covering both the revenue budget and capital programme. This report gives an update on the County Council's forecast outturn position, as at the end of November 2010 based on changes in financial and service trends in the first eight months of the financial year, compared with the assumptions and underlying data used to compile the 2010/11 budget.

SECTION 2: EXECUTIVE SUMMARY

The headlines relating to the forecast of the year end position for 2010/11 are:

A forecast overspend against Directorate revenue budgets of £3.9m, the breakdown of which is set out in the table below. Whilst significant this reflects an improved position since that reported in July (£8.1m overspend) and is mitigated by the impact of the new treasury management strategy; despite the progress this position remains unsustainable given the challenging financial context in the years ahead.

Portfolio	Forecast outturn Variance (£m)
Adult and Community Services	+2.5
Children and Young People	+2.2
Office of the Chief Executive	-0.7
Resources	-0.5
Total for Directorates - overspend	**3.5**
Corporate Expenditure	-2.0
Financing costs	-8.3
LCCG surplus	-0.6
Non Service underspend	**-10.9**
Net Underspend	**-7.4**
Contribution to the 2010/11 in year savings	0.7
Contribution to County Fund	**-6.7**

£24.8m of efficiencies will be achieved this year (compared to a target of £22.4m built into the budget). However, the challenge remains to deliver the 2010/11 budget, including the in year savings with a backdrop of significant overspends that must be brought under control.

There is significant ongoing pressure within social care budgets in this and future financial years. It is critical that the underlying pressures are addressed. Failure to bring these budgets under control will result in an increased pressure on the Council's budget in 2011/12 and beyond, significantly increasing the level of savings required and impacting on the ability of the County Council to deliver its priorities.

Executive Directors must continue to identify all possible opportunities for reducing spend and increasing the opportunity for the delivery of savings so that the Council can be in the best possible position to face the challenges ahead.

The requirement from County Council balances as a result of voluntary redundancies in 2010/11 stands at £9.8m and therefore at the end of the financial year County Fund Balance is forecast to stand at £50.9 million (excluding provision for any further severance costs in 2010/11 and future years). This level of balances will be key in enabling the County Council to secure the necessary savings over the next three years.

In relation to the capital programme, the revised capital programme for 2010/11 is £210.8m and it is expected that £195.9m will be spent in 2010/11. The £14.9m shortfall on spend is due to £12m of slippage, £0.8m underspending and £2.1m resulting from a claw back of non-contractually committed early years and childcare capital grant as part of the central government savings drive in 2010/11.

It is also vital that in the current economic climate the County Council pays suppliers promptly, and collects the income due. In the first three months of the financial year, the Council paid 99% of invoices within 30 days and 63% within 10 days. With regard to income, the average number of debtor days (a measure of the speed of income collection) is currently 54.5 days compared to this stage last year at 61.0 days. Further improved performance remains a priority.

SECTION 3: THE REVENUE BUDGET

The County Council set its revenue budget of £726.7m in February 2010. The forecast outturn for the year is £720.0m, reflecting a net under spend of £6.7m, the breakdown of which is summarised in the table below:

Directorate	Cash Limit £m	Forecast £m	Variances £m	Variances %
ACS	366.053	368.566	2.513	0.69%
CYP	180.369	182.552	2.183	1.21%
Environment	133.477	133.437	-0.040	-0.03%
OCE	15.029	14.308	-0.721	-4.80%
Resources	26.396	25.869	-0.527	-2.00%
R&M	4.832	4.832	-	-
Corporate	10.258	8.979	-1.279	-12.47%
LCCG	-0.814	-1.350	-0.536	-65.85%
Capital Financing	46.753	38.442	-8.311	-17.78%
Other	-55.649	-55.649	-	0.00%
Total	**726.704**	**719.986**	**-6.718**	**-0.92%**

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

Adult and Community Services Directorate - £2.5m overspend (£3.6m overspend previously)

Service Grouping	Cash Limit £m	Forecast £m	Variances £m	Variances %
Adult Social Care	339.738	342.730	2.992	0.88%
Community Services	22.256	21.787	-0.469	-2.11%
Public Protection Services	4.059	4.049	-0.010	-0.25%
Total	**366.053**	**368.566**	**2.513**	**0.69%**

Whilst a number of initiatives are already in place or are being developed to reduce demand within adult social care, they will not be sufficient in themselves to manage the level of growth currently being experienced. Therefore, the Directorate is taking a number of actions aimed at both addressing the increased demand and eliminating the forecast overspend by the year end. The impact of these recovery plans is being closely monitored by the Directorate's Senior Management Team.

Adult Social Care - £3.0m overspend (£3.9m previously)

The current forecast includes a net overspend on Older People services of £2.9m arising mainly from £2m on domiciliary care and direct payments through increased demand due to improved access to services, the policy of supporting individuals living independently in their own home and new and more person centred care. The development of self-directed support, a national and local priority, which is proving to be a flexible and attractive service offer, has also caused an increase in demand. The number of service users with Direct Payments/Personal Budgets has shown an increase of 32% in the year to date. Also included is a forecast overspend of £0.8m on nursing care due to increased long term placement numbers as a result of rising discharges from hospitals into nursing homes.

Physical Disability services are forecast to overspend by £1.7m. This is primarily due to additional demand for direct payments/personal budgets. Direct payments service user numbers have risen by 23% in the 8 months to November 2010. This reflects a continuing significant increase in service user numbers through both improved access to services and the attractiveness of direct payments and personal budgets.

Mental Health services are forecast to overspend by £1.2m arising from both increases in residential care user numbers presenting with complex needs (resulting in increases in the care package size) and a reduced number of packages being funded by the PCTs, with the termination of funding for existing packages and the reduction in new approvals.

The increase in residential care numbers is particularly evident in the east of the county. Review activity is being taken so that, where appropriate, cases can be progressed into rehabilitation and supported living arrangements.

Other Areas

Strict management control of costs and focus on efficient working is resulting in underspends of £3.5m over a range of areas including support services.

Children & Young People Directorate - £2.2m overspend (£5.3m previously)

Service Grouping	Cash Limit £m	Actual £m	Variance £m	Variance %
Targeted & Early Intervention Services	107.637	115.240	7.603	7.1%
Specialist & Direct Delivery Services	22.603	22.700	0.097	0.4%
Universal & Prevention Services	30.011	28.337	-1.674	-5.6%
Commissioning, Performance & Business Support	12.469	12.031	-0.438	-3.5%
Capital Investment & Resources	6.445	6.107	-0.338	-5.2%
DLT / Admin Recharges	1.204	-1.863	-3.067	0.0%
Total	**180.369**	**182.552**	**2.183**	**1.2%**

The Directorate is currently forecasting an overspend of £2.2m (1.2%) compared to a previously reported overspend of £5.3m at the end of July. The overspend is largely due to demand for agency placements and social worker assessments. Whilst demand exceeded initial budget forecasts there has been a recent 'levelling off' in meaning agency costs have stabilised over the last 5 months.

The Directorate's recovery strategy focuses around: vacancy management; limiting the use of agency; restricting supplies and service expenditure and a general spend less approach. As part of this approach all services have been allocated an additional efficiency target which if achieved will act as a hedge against the overspend. Careful monitoring of the Directorate's efficiency plan is also in place to ensure efficiencies are delivered in year.

Outlined below is an explanation of the significant variances for each individual service area:

Targeted & Early Intervention Services - £7.6m overspend (£8.9m previously)

The service continues to experience increased demand for Children's Social Care services. Overall it is forecast to overspend by £7.6m of which £5.7m relates to the additional cost of external agency placements. Some of this is attributable to the Southwark judgement in relation to young people becoming homeless. This is partially offset by a continuing underspend on in-house fostering allowances.

The additional demand for agency placement is further exacerbated by the fact that children are staying in care for longer. There are difficulties in increasing the number of in house foster carers, and the very significant delays in the adoption process caused by the failure of CAFCASS to appoint guardians for children and young people. The Local Government Association (LGA) and Association of Directors of Children's Services (ADCS) have also highlighted the delays caused by court requests for independent assessments of social worker evidence following a highly critical Barnardo's report that says that they add little but costs and delays.

Other key variances include:

- Increased take up of direct payments (£0.1m) with a further £0.9m on Assistance to Families and Residence and Special Guardianship Orders.
- An increase in the number of referrals is impacting on legal services (£0.6m).

Universal & Prevention Services - £1.7m underspend

The majority of this underspend relates to a lower than anticipated level of demand and take-up of mainstream home to school transport and discretionary transport (£1.1m) and an underspend on the early Years Service (£0.6m).

DLT /Contingency / Admin Recharges to Schools Budget - £3.1m underspend

This is largely due to management action to create an additional contingency by placing increased efficiency targets placed on all teams. The creation of the contingency is part of the recovery strategy acting as a hedge against increases in demand for services over and above the available budget.

Environment Directorate – Break-even on budget (£0.1m underspend previously)

The Environment directorate is forecast to broadly spend at budgeted levels. Whilst there is a level of risk (of £1m) within the 2010/11 budget, the strong management action taken by the directorate in delivering the restructure ahead of schedule has mitigated this risk.

Office of the Chief Executive - £0.7m underspend (£0.6m underspend previously)

The major factors contributing to the underspend are savings relating to vacant posts in the HR Group and Policy Unit. These savings are being partly offset by additional costs associated with the development of the new HR payroll system.

Resources Directorate - £0.5m underspend

The main factors contributing to the forecast underspend are vacancy savings, reduced expenditure on multifunctional devices and increased revenue combined with reduced expenditure on car parking.

Corporate Expenditure - £1.3m underspend

In 2010/11 a review has been undertaken into the level of insurance contributions. Due to effective risk management, the level of annual contributions will reduce from 2010/11 onwards by £2m. This will also reduce the budget gap in 2011/12.

It is proposed that £0.75m of this saving be used to support the achievement of the 2010/11 in year savings as a one off contribution only.

Capital Financing - £8.3m underspend

This improved position is due to the successful implementation of the new treasury management strategy. The strategy has delivered additional investment income of £5m and over £3m in reduced borrowing.

It is anticipated that further savings will be achieved in future years and these have been factored into the financial strategy.

Lancashire County Commercial Group - £0.6m underspend

The projected underspend reflects improved operational efficiency and efficiencies in overheads.

SECTION 4: THE CAPITAL PROGRAMME

The revised capital programme for 2010/11 is £210.8m and it is expected that, of this, £195.9m (93%) will be spent.

The forecast spend as at November 2010 for the year is £195.9m:

	Capital Budget £m	Forecast July £m	Forecast November £m	Variance In year £m	Variance %
ACS	15.224	11.126	9.278	-5.946	-39.1
CYP	115.468	106.315	106.508	-8.960	-7.8
Environment	65.749	63.944	65.185	-0.564	-0.9
Resources	11.094	9.769	10.693	-0.401	-3.6
Corporate	0.169	0.155	0.155	-0.014	-8.3
LCCG	3.103	4.071	4.103	1.000	32.2
Total	**210.807**	**195.380**	**195.922**	**-14.885**	**-7.1**

There has been only a limited change in the forecast since last reported to Cabinet.

As previously reported, the main elements of the £14.9m variance include £12m slippage into 2011/12 due to specific project delays, £0.8m underspending and £2.1m resulting from a claw back of non-contractually committed Early Years and childcare capital grant.

The claw back of grant has resulted from the government's drive to cut spending. As a result, any Early years and childcare capital grant funding that did not have a contractual commitment has been withdrawn.

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

Adult and Community Services - £0.8m underspend, £5.1m slippage

Service Grouping	Capital Budget £m	Forecast July £m	Forecast November £m	Variance In year £m	Variance %
Adult Social Care	10.865	8.792	7.358	-3.507	32.3
Community Services	4.359	2.334	1.920	-2.439	56.0
Total	**15.224**	**11.126**	**9.278**	**-5.946**	**-39.1**

The main reasons for slippage in the year are:

- Delays in the development of the Learning Disability day care facilities which has resulted in expenditure being less than anticipated by some £2m. This is the result of:

    - Delays due to problems treating Japanese Knotweed at the proposed site for the Moss Lea day centre;
    - Difficulties finding a suitable building for the provision of a satellite facility in East Lancashire
    - Delays due to a longer than anticipated pre – contract commencement period on the Bankside replacement day centre project

- Difficulties in finding a suitable site for the re-provision of the respite centre at the Mount Burscough - £0.7m.

- The refurbishment of the Museum of Lancashire has been delayed due to the need for listed building planning consent. Also, as the neighbouring property is a prison, there have had to be detailed negotiations regarding security during the works - £0.5m.

- Delay in the start of the work to update facilities at the Record Office due to a need to review the project - £0.8m.

Children and Young People - £2.1m underspend, £6.8m slippage

Service Grouping	Capital Budget £m	Forecast July £m	Forecast November £m	Variance In year £m	Variance %
Schools	54.818	48.510	48.995	-5.823	-10.6
Schools DFC	9.752	10.000	10.796	1.044	10.7
Academies	12.566	13.566	13.566	1.000	8.0
BSF	16.674	17.137	16.308	-0.366	-2.2
Sure Start	11.023	8.823	8.907	-2.116	-19.2
Children's Social Care	3.990	3.236	2.082	-1.908	-47.8
Faith Sector	1.000	-	-	-1.000	-
Other Non Schools	5.645	5.043	5.854	0.209	3.7
Total	**115.468**	**106.315**	**106.508**	**-8.960**	**-7.8**

The slippage of £6.9m is made up of:

- Schools single capital pot £4.2 million, and
- Schools Access Initiatives £1.8 million as some of the funds are being held for the special education review.
- £1m payments to the voluntary and faith sector now anticipated to be made in 2011/12

The underspend of £2.1m is in respect of the claw back of non-contractually committed Early Years and childcare capital grant.

Environment - £0.6m slippage

The transport Programme is higher than previously forecast with expenditure on the Blackpool tramway initially anticipated to be incurred in 2011/12 now forecast to be spent in 2010/11

Resources - £0.4m slippage

The variance of £0.4m has arisen mainly due to

- Only a small number of Energy and Water Conservation projects meeting the payback period.
- Additional expenditure required at Lancaster Travellers site

Corporate and LCCG - £1m rephasing of programme

The vehicle replacement programme for 2010/11 has £1 million of expenditure re-phased into 2011/12.

SECTION 5: THE ACHIEVEMENT OF EFFICIENCY SAVINGS

The Council has agreed efficiency savings in 2010/11 of £22.4 million, which are anticipated to be overachieved.

SECTION 6: COUNTY FUND BALANCE

County Fund Balance at 31st March 2011 is forecast to be £50.9m made up as follows:

		£m
Balance at 31.03.10		54.274
	Contribution to capital – ACS	-0.091
	Contribution for abortive capital fees	-0.035
	Commitments previously agreed through former DFM balances process	-0.250
	Severance Costs to be met from Balances	-9.789
	Movement from other reserves	0.035
	Net revenue underspend	6.718
Forecast balance at 31.03.11		50.863

The County Fund balance provides a key resource in the delivery of the Council's financial strategy. The level of saving needed in this, and future, years has required the development of a number of on-going savings proposals. Such proposals are likely to require one-off investment and it is vital that resource is available.

It is also reasonable to expect that severance costs will continue to have a considerable impact as savings are implemented. In addition, the Government has committed itself to a review of the Local Government Funding process over the next two years. Consequently, the current level of the County Fund is considered prudent in the face of such potential cost and risk.