Money Matters
Financial Outlook for the County Council Medium Term Financial Strategy as at 30th June 2017

Lancashire County Council

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	Contents	Page
1	Executive Summary	3
2	Funding	6
3	Net Spending Pressures	12
4	Future Risks	18

Financial Outlook for the County Council: Medium Term Financial Strategy

1. Executive Summary

1.1 Introduction

This report outlines the financial position facing Lancashire County Council over the period 2018/19 to 2021/22. The County Council is experiencing an ongoing period of unprecedented financial pressure as a result of the Government's extended programme of austerity combined with significant increases in demand for public services.

In February 2017 Full Council received an updated medium term financial strategy (MTFS) summary outlining the latest financial position facing Lancashire Council which covered the period 2017/18 – 2020/21 and estimated an in year funding gap of £155.953m by the end of the 4 year period. The Council being forecast to have a cumulative deficit of £419.176m by the end of 2020/21.

This report provides an updated position for the rolling 4 year period to include 2021/22 and a review of the existing assumptions to reflect the most current information available. As a result of these reviews and the identification of £45.628m of new savings the funding gap has increased to £167.132m. The increased gap is also as a result of the inclusion of an additional year's funding, demand and inflationary pressures. The forecast funding gap increases in each of the next 4 years, but it is important to note that the increases are not evenly spread, with a gap of £90.205m forecast for 2018/19, £98.637m in 2019/20, £150.495m in 2020/21 and £167.132m in 2021/22.

1.2 Financial Overview 2018/19 – 2021/22

Under a separate Money Matters report the County Council's financial position for 2017/18 as at 30 June 2017 has been outlined (£5.022m forecast underspend), although this is based on a revenue budget heavily supported by reserves.

The assumptions made in the original MTFS have been reviewed and been updated to reflect the latest information available.

The table on the next page provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Spending Gap as reported to Full Council in February 2017	30.934	30.036	37.876	0.000	**98.846**
Add change to forecast of spending:					
Pay and Pensions	-2.693	-0.537	2.172	5.264	**4.206**
Price Inflation and Cost Changes	1.757	-4.627	0.437	21.662	**19.229**
Service Demand and Volume Pressures	4.486	5.063	-0.524	13.982	**23.008**
Other	8.054	0.562	0.000	0.000	**8.616**
Loss of specific grant	5.311	0.000	0.000	0.000	**5.311**
Undeliverable Savings	5.746	0.000	0.000	0.000	**5.746**
Additional Savings	-20.290	-16.870	-12.944	-1.200	**-51.304**
Reprofiled Savings	2.557	-2.557	0.000	0.000	**0.000**
Total change to forecast of spending	**4.928**	**-18.965**	**-10.858**	**39.708**	**14.812**
Funding	-2.763	-2.639	24.840	-23.071	**-3.633**
Total change to forecast of resources	**-2.763**	**-2.639**	**24.840**	**-23.071**	**-3.633**
2017/18 Funding Gap	57.106				**57.106**
Revised funding gap	**90.205**	**8.432**	**51.858**	**16.637**	**167.132**

Aggregated Funding Gap				
2018/19 (£m)	90.205	90.205	90.205	90.205
2019/20 (£m)		8.432	8.432	8.432
2020/21 (£m)			51.858	51.858
2021/22 (£m)				16.637
Total	**90.205**	**98.637**	**150.495**	**167.132**

1.3 Conclusion

Lancashire County Council continues to face, as previously stated, an unprecedented period of financial constraint during the period covered by this MTFS.

The Statutory Services Budget Review undertaken by PwC and reported to Cabinet in October 2016 validated the financial position as reported through the MTFS and confirmed that should the County Council reduce its expenditure to the median of lowest quartile by 2020/21 an in-year deficit of £79m would remain.

The previous MTFS presented to Cabinet and Full Council covered the financial years 2017/18 – 2020/21. The financial gap reported totalled £155.953m by 2020/21. The revised position reported in this MTFS indicates an improved financial gap of £150.495m by 2020/21, predominantly as a result of the inclusion of new savings proposals offset by increasing demand (particularly within Children's Social Care) and the anticipated removal of the Revenue Support Grant (RSG). However, the MTFS traditionally looks to the next 4 years which forecasts a financial gap of £167.132m by 2021/22.

As part of the process of redesigning its services the County Council has previously explicitly recognised the need to utilise its reserves. Details on the updated reserves position are provided in the Money Matters report Appendix C.

When reviewing the County Council's Reserves in conjunction with the Medium Term Financial Strategy (Appendix C) the funding requirement to bridge the financial gap in 2018/19 would total £90.205m. This position is a forecast dependent upon a number of key factors that are detailed within Appendix C. It is important to note that reserves are a one off resource, based on the current forecast profile of usage will be exhausted by 2019/20, other than County Fund, and then not available to support the financial gap from 2019/20 onwards.

2. Funding

The MTFS includes government funding as announced in the Final Settlement in February 2017. It is important to note that the proposed allocations issued from the Government only cover the period up to 2019/20 and assumptions have had to be made for 2020/21 – 2021/22. It is currently anticipated that a new system of Local Government finance will be in place in 2020/21 which involves Local Government retaining all of the business rates and a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time therefore the current business rates and grants structure has been forecast for future years.

The Secretary of State offered Local Authorities the opportunity to apply for a four year financial settlement covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. The County Council declined this offer as there was evidence to suggest that the proposed settlement did not provide sufficient funding to support the Council's statutory services.

The MTFS approved by Full Council in February 2017 included the following forecast level of resources:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	181.391	186.747	193.323	198.540
Council Tax	434.271	456.115	479.056	493.475
New Homes Bonus	5.244	3.679	3.530	3.530
Better Care Fund	3.210	22.656	40.014	40.014
Adult Care Support Grant	5.543	0.000	0.000	0.000
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
Total	**724.821**	**731.176**	**748.817**	**762.487**

The figures above were based on a number of assumptions which have been revisited as part of this report. This report has been updated to include information from the Final Financial Settlement announced in February 2017 (after Full Council). It is important to note that these figures show Council Tax increasing by 3.99% up to 2019/20 and 1.99% thereafter, however this would be a Full Council decision each year when setting the budget.

The revised resources position incorporating the details set out below is as follows:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rates	187.206	193.788	198.989	204.431
Council Tax	458.371	483.810	500.839	518.468
New Homes Bonus	3.727	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	5.000	0.000	0.000	0.000
Total	**733.939**	**754.219**	**743.049**	**766.120**

2.1 Settlement Funding Assessment (SFA)

The Settlement Funding Assessment (SFA) is an indication of the level of resources required by an authority which is to be met from business rates and Revenue Support Grant (RSG). On 20th February 2017 the Secretary of State announced details of proposed support for the next 3 years, i.e. up to 2019/20 and the MTFS has been based on this Settlement. Assumptions have been made that the funding follows a similar pattern in 2020/21. However, in this revision to the MTFS an assumption has been made that there will not be a Revenue Support Grant from 2020/21 as a result of the latest information available following the final financial settlement in February 2017.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
SFA Funded by:				
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rate Baseline	182.642	189.138	194.249	199.597
Total	**239.621**	**222.032**	**194.249**	**199.597**
Reduction in SFA	-18.835	-17.589	-27.783	5.348

The County Council opted not to accept the four year settlement offered in 2016/17, so although the Revenue Support Grant has been confirmed for 2017/18, the decision

not to take the four year settlement could result in future years grant being subject to change. As part of this forecast Revenue Support Grant is assumed to reduce each year until ultimately it is phased out completely by April 2020 at the latest. Although it is hoped that as part of the new funding formula and 100% business rates retention that the impact to the County Council of the removal of RSG will be compensated by the new scheme that is put and place and will be cost neutral, this will become clearer as more information becomes available.

The forecast of economic growth at the time of the Budget was 2% for 2017 but a worsening position was forecast in 2018 (1.6%). The uncertainty following the United Kingdom's decision to leave the European Union, will undoubtedly have an impact on Government finances and could potentially result in further public sector expenditure reductions.

2.2 Business Rates

Business Rates income consists of:

- Business Rates Top Up Grant
- Business Rates income from District Councils
- Section 31 Grants

As shown in the table above detailing the SFA the business rate income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the County Council, the amount anticipated to be received from the business rates collected in the area is less than its assessed need, therefore it receives a top up grant.

The table below shows an updated forecast of business rates. When the Final Settlement was confirmed in February 2017, the Council's allocation of S31 grant was slightly higher than the forecast at Full Council.

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Business Rates – Full Council Feb 2017	**181.391**	**186.747**	**193.323**	**198.540**	**0.000**
Business Rates – Updated Forecast					
Top Up Grant	147.042	151.773	157.172	162.123	167.311
Income from District Councils	29.906	30.868	31.966	32.126	32.286
Section 31 Grant	4.475	4.565	4.650	4.740	4.834
Business Rates Pooling Income	0.407				
Total	**181.830**	**187.206**	**193.788**	**198.989**	**204.431**
Difference	**0.439**	**0.459**	**0.465**	**0.449**	**204.431**
Impact on gap	-0.439	-0.020	-0.006	0.016	-204.431

Business Rates Income for the County Council is heavily dependent upon cooperation from the District Councils, and much will depend on the general economic performance of local areas. In addition, there are valuation appeals outstanding, some of which are on large value properties. If successful these will have a negative impact on the ability to generate business rates. With this in mind a minimal amount of growth has been built into the local share.

The baseline data from the government already assumes an increase in income derived from local business rates. Therefore given the economic uncertainty, no further growth has been built in on top of this.

The Government compensates authorities for the cost of a number of measures which they have introduced via Section 31 grant. Some of these reliefs are likely to rise with inflation as without the measure introduced, the income would have increased, whereas the other reliefs are more likely to relate to the change in the business rate base. It is assumed that the level of these reliefs is maintained at the current level.

The Lancashire Business Rates Pool

The final aspect of the business rate forecast is the pooling arrangement. The 2017/18 budget includes an additional £0.407m due to the continuation of the Lancashire Pool. This is agreed on an annual basis, therefore the additional income has not been included past 2017/18.

It is important to note that due to Lancashire County Council being part of a pooling arrangement it has forfeited the right to a safety net payment should our business rates income decline significantly, by more than 7.5%.

2.3 Council Tax

In the Provisional Financial Settlement in December 2016, in recognition of the pressures facing Local Authorities responsible for Adult Social Care, the Secretary of State announced that Local Authorities could bring forward the Adult Social Care Precept, moving from a limit of 2% to 3%, but with a maximum of 6% over the three year period (2017/18 – 2019/20). It was also announced that there would be no Adult Social Care Precept in 2020/21.

In February 2017, at Full Council, a Council Tax increase of 1.99% and an Adult Social Care Precept of 2% was agreed resulting in a Council Tax increase of 3.99% in total.

The MTFS presented to Full Council in February included the assumption that Council Tax would increase by 1.99% per annum which is the current referendum limit, plus a 2% Adult Social Care Precept increase in 2018/19 and 2019/20. It is possible that the County Council could take the decision to raise a 3% Adult Social Care Precept in 2018/19 and therefore a 1% increase in 2019/20 due to the flexibilities offered by the Government, which would result in £4.4m of income being generated earlier, but by 2019/20 the cumulative position of income raised through Council Tax would be similar to the current MTFS projections. From 2020/21 onwards, it is assumed the maximum increase will revert back to 1.99%, as the option to raise an Adult Social Care precept will no longer be available. These assumptions continue to be reflected within this

iteration of the MTFS. It is important to note that these increases would be subject to a Full Council decision each year when setting the budget, but any decisions taken not to increase council tax as per the assumptions above would increase the financial gap.

Tax Base

The MTFS last presented to Full Council also assumed an increase to the tax base year on year of 1%. Analysis of Lancashire's tax base over recent years indicates an average council tax base increase of 1.7% therefore a tax base increase of 1.5% has been built in to these figures as a prudent increase. This will be discussed further with District Councils throughout the year, and amended in future MTFS reports if required.

The table below indicates the impact of a further 0.5% increase in tax base.

	2018/19 £m	**2019/20 £m**	**2020/21 £m**
Council Tax – Updated forecast	458.371	483.810	500.839
Council Tax – Full Council Feb 2017	456.115	479.056	493.475
Difference	**2.256**	**4.754**	**7.364**
Impact on gap	-2.256	-2.498	-2.610

The impact of the tax base increase in 2021/22 is not included above, as, in the previously reported MTFS, 2021/22 was not projected and therefore there is no impact on the financial gap as a result of this change. A full year's Council Tax, including the increased growth figure has been included within Council Tax projections within this report.

2.4 New Homes Bonus

As part of the provisional settlement, the Secretary of State announced that payments would be received for 5 years from 2017/18 and 4 years in future years. In addition no New Homes Bonus will be given for the first 0.4% of growth. These changes have been made to wholly fund the 2017/18 Adult Care Support Grant which resulted in a net gain for Lancashire overall (County Council, District Council and Unitary Councils) benefitting by £4.033m. This is one off funding that is within the 2017/18 budget.

Following the Final Financial Settlement, the New Homes Bonus within the MTFS has been revised slightly and now includes 2021/22:

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
New Homes Bonus – Updated Forecast	3.727	3.713	3.207	3.207
New Homes Bonus – Full Council Feb 2017	3.679	3.530	3.530	0.000
Difference	**0.048**	**0.183**	**-0.323**	**3.207**
Impact on gap	-0.048	-0.135	0.506	-3.530

2.5 Better Care Fund

The provisional allocations of the Better Care Fund remain unchanged from those reported to Full Council in February 2017. It is important to note that provisional funding information has only been provided up to 2019/20 therefore the MTFS assumes that this funding will continue into future years and/or be replaced by alternative funding at the same level.

2.6 Capital Receipts

From 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

The 2018/19 budget includes £5.000m funding from capital receipts to support the revenue budget. Any amounts over the amount forecast can be carried over towards the following year.

2.7 Improved Better Care Fund (iBCF)

At the 2017/18 Budget announcement a total of £2.021bn was announced as supplementary funding to the improved Better Care Fund (iBCF). This was to recognise that all local authorities face pressure on the provision of adult social care.

This resulted in Lancashire County Council receiving the following allocations:

- 2017/18 – £24.886m
- 2018/19 - £15.736m
- 2019/20 - £7.799m

The grant is non-recurrent and may only be used for the purposes of meeting adult social care needs, reducing pressure on the NHS including supporting more people to be discharged form hospital when they are ready and in ensuring that the local social care provider market is supported. Lancashire Health and Wellbeing Board on 7th August 2017 agreed spending plans that were put forward with regard to the grant for 2017/18 and 2018/19. The agreed schemes will now progress into implementation and future money matters reports will identify the financial impact of these activities.

3. Net Spending Pressures

The MTFS covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed savings measures that are either no longer achievable at all or not to the scale or in the timeframes originally planned and new savings proposals.

3.1 Pay and Pensions

In the July 2015 Budget the Chancellor announced a 4 year restriction on public sector pay increases at 1% per year. This assumption was built into the current MTFS and remains unchanged, however a full review of the current staffing cohort and future savings that may impact on staffing has been included. This also incorporates a separate calculation for the National Living Wage which the County Council is committed to paying its employees as an accredited member of the Living Wage Foundation. The pay requirement also includes a provisional amount for additional holiday pay to staff.

As part of the review of the MTFS a resource requirement has been built in to fund the cost of increments that will be paid to staff as they progress up their respective grades.

In March 2017 Cabinet agreed to a re-profiling of the Council's pension contributions resulting in a saving over a 3 year period. This is now reflected within the MTFS based on the latest information available in relation to the County Council's estimated contribution rate and deficit contributions.

The Chancellor has previously announced that an apprenticeship levy would be introduced to help fund employer apprenticeship schemes and "invest in Britain's future." The levy was introduced in April 2017 at a rate of 0.5% of an employer's pay bill, therefore an estimate of £1.500m was been included in the MTFS. This has been reviewed based on Quarter 1 payments to the levy and the 2018/19 budget provision has been slightly reduced.

The table below presents the amounts built into the MTFS for pay and pensions:

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**Total £m**
Pay and Pensions previous MTFS	5.851	6.018	5.672	0.000	**17.541**
Revised Pay and Pension requirements	3.158	5.481	7.844	5.264	**21.747**
Impact on Financial Gap	**-2.693**	**-0.537**	**2.172**	**5.264**	**4.206**

3.2 Price Inflation and Cost Changes

Contractual price increases represent a significant cost pressure to the County Council. The assumptions have been subject to regular review by services with a reduction of £2.433m identified when comparing the values within the previous MTFS (2018/19 – 2020/21) and a further £21.662m included in 2021/22 to reflect an additional year of price and inflation costs that have been added to this MTFS.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Price inflation – previous MTFS*	22.754	24.395	25.479	0.000	**72.628**
Revised price inflation requirements	24.511	19.768	25.916	21.662	**91.857**
Impact on Financial Gap	**1.757**	**-4.627**	**0.437**	**21.662**	**19.229**

**National Living Wage increases now included in price rather than "other" category within the MTFS and re-categorisation of some other smaller service lines.*

Some of the key areas of price pressure are:

- A significant part of the price pressures shown in the above table relate to inflationary pressures within Adults Services. This is calculated using the best estimates of inflationary levels that are forecast within social care based on 2016/17 fee increases that were agreed. It is forecast that a budget requirement of £64.122m over the MTFS period is required for payments to external providers of social care and it is important that the County Council keeps up with increases in the price of resources for suppliers to ensure the required service provision is delivered.

  The price/inflationary increases for Adults Services now incorporates the National Living Wage (previously contained within the "other" section of the MTFS report) as this is generally included within price increases that the service experiences.

  The price inflation included in the MTFS for Adults Service is profiled as follows:
  - 2018/19 - £15.723m
  - 2019/20 - £16.161m
  - 2020/21 - £18.442m
  - 2021/22 - £13.796m

  The inflationary pressures included in this MTFS for Adults Services reflects an decrease of £4.809m following updated inflationary information figures based on the most up to date information available when comparing the 3 years (2018/19 – 2020/21) that were in the previous MTFS. The table also reflects an

additional year's price inflation to reflect the inclusion an additional year within the MTFS of £13.796m.

- Waste Disposal continues to require significant budget to meet inflationary commitments over the next four years. In total the budget requirement for the service is £6.947m. This requirement has reduced by £2.220m when comparing those years contained within the previous MTFS, and a new full year cost of £2.927m for 2021/22.

- Children's Social Care is a further significant area that requires price inflation within its budget. In total the budget requirement for the service is £5.815m. This includes items that will inflate such as agency payments, residence orders, foster and other allowances and payments to health. This requirement has reduced by £1.265m when comparing those years contained within the previous MTFS, and a new full year cost of £1.470m for 2021/22.

- Inflationary increases for premises running cost budgets have been included in this MTFS as they have not previously been included. As charges such as energy costs increase estimates of price rises have been included within this MTFS with 2018/19 including 2 years inflation as no provision was made in the 2017/18 budget. The total budget requirement is £3.992m over the 4 year period of the MTFS.

- Other smaller areas of price inflation include transport costs, concessionary travel, highways, winter maintenance, energy and legal fees.

3.3 Demand Pressures

All services have reviewed the demand pressures they face in future years. The impact of this review has been identified and is reflected in the revised MTFS. It can be seen that a significant proportion of the funding gap that has been identified is due to demand pressures.

In total it is estimated that the demand pressures are now £77.575m. This is an increase of £9.025m when comparing those years contained within the previous MTFS, and a new full year demand pressure of £13.982m for 2021/22.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Demand – previous MTFS*	15.235	18.134	21.198	0.000	**54.567**
Revised Demand Requirements	19.721	23.197	20.674	13.982	**77.575**
Impact on Financial Gap	**4.486**	**5.063**	**-0.524**	**13.982**	**23.008**

* *Re-categorisation of some service lines has taken place to better reflect nature of budget benefit/pressure.*

- Adult Social Care represents a large proportion of the demand pressures. Adult Social Care has long seen annual increases in the demand for services and the MTFS attempts to predict growth in future years largely based on reviewing current and past activity trends but also taking into account future population changes. From "a social care perspective" demand covers both increasing numbers of people eligible for support and the increasing complexity of those supported reflected in higher average costs per service user.

  All demand assumptions contained within this revised MTFS regarding Adult Social Care have been reviewed based on the most up-to-date trend analysis. The MTFS now contains the same amount over the comparable period, but includes an additional year (2021/22) which has the value of £10.834m.

  The demand included in the MTFS for Adults Service is profiled as follows:
    - 2018/19 – £11.922m
    - 2019/20 - £14.642m
    - 2020/21 - £17.055m
    - 2021/22 - £10.834m

- The cost of Children's Social Care continues to experience increasing demand and has been significantly increased again as part of this update of the MTFS. The forecast requirement is £17.058m over the next 4 years. This is in addition to significant additional budget that the service has been given to support improvements following the Ofsted inspection in both 2016/17 and 2017/18, but it an assumption is also made that demand will plateau in future years, with a reducing demand increase built into future year's budget. In previous MTFS reports an increase has only been included for the next financial year, whereas in this revision 4 years of forecast demand levels has been included. This forecast is based on current demand levels and uses benchmarking information from other County Council's and national data in relation to Children Looked After (CLA) budgets to project future funding requirements.

  The demand included in the MTFS for Children's Social Care is profiled as follows:
    - 2018/19 - £7.922m
    - 2019/20 – £6.502m
    - 2020/21 - £1.237m
    - 2021/22 - £1.397m

  A Finance Sub-Group has been established to specifically focus on the cost drivers, unit costs and financial analysis of the costs and demand levels being experienced in Children's Social Care, with their findings being reported back to the 0-25 Board.

- The revised MTFS continues to include a significant amount in relation to Waste Services demand pressures, however this has reduced as a result of decreased forecasts for residual waste arisings with 3.2% currently being forecast (compared to a previously assumed 5.4%). The budget requirement for waste

was previously £8.011m for the period 2018/19 – 2020/21 and now contains £3.246m which is a reduction of £4.765m (the 2018/19 reduction reflects reduced demand in both 2017/18 and 2018/19). The MTFS includes an additional year which is forecasting a demand requirement of £1.691m

3.4 Other

This section of the MTFS has seen an increased budget requirement of £8.054m in 2018/19. The majority of this relates to a budget amendment which totals £6.115m that was agreed by Full Council in July 2017. In addition, a further Cabinet report relating to reopening libraries was recently agreed which required a further £0.166m to be built into the MTFS.

The revised MTFS also contains an amount of £1.140m relating to SEN home to school transport following a review of charges that are able to be made to the schools budget meaning that these costs must now be funded from the County Council's budget.

A revision has been made in respect of Troubled Families budget to better reflect the levels of income that the service will achieve for the element that is classified as "payments by results". This estimate has been based on performance in 2016/17 and the current forecast at Quarter 1 as part of budget monitoring.

Finally, an additional amount of £0.197m has been built into this section of the MTFS in relation to funding for countryside sites following a report and decision by the Cabinet Member for Environment, Planning and Cultural Services in March 2017 outlining the additional funds needed to run the service.

3.5 Loss of Specific Grant

The Local Authority currently has budgeted income of £7.784m for the Education Services Grant in 2017/18. However, this funding stream will cease in its current form in September 2017 with transitional funding being provided for 2017/18. Generally there is a shift towards LAs being funded for "Central Duties" via a new smaller grant and "Retained Duties" being funded out of the Dedicated Schools Grant which will require Schools' approval. The MTFS reflects the removal of the grant from 2018/19 (£5.193m) with budget only including the funding relating to related to retained duties which is subject to the approval of the Schools Forum each financial year.

A further adjustment has been made to reflect that the Authority has a recurring pressure in relation to the Food Safety Grant of £0.118m.

3.6 Undeliverable Savings

The savings previously agreed are constantly under review with the current remaining programme totalling c£54m in 2017/18 and beyond. Whilst the majority of savings are being delivered within the timeframes identified, and in some cases earlier than planned, there are several cases where it has now been identified that the saving is not fully deliverable which total £5.746m.

Within the Council's budget there have been a number of savings agreed for the Libraries Service in 2017/18 and several financial years prior to that. The service have reported that they are unable to achieve the 2017/18 saving in addition to some earlier smaller savings, therefore a value of £2.361m has been built back into the MTFS.

A further saving that has been declared as partly undeliverable that relates to property rationalisation. The saving originally agreed was £5.000m by 2018/19. Across the County Council savings of £1.542m have been achieved to date. Further rationalisation of the property portfolio is therefore required to deliver further savings and at this point £1.458m is identified as undeliverable in 2017/18 and has been built into the MTFS, with further investigation required to confirm if the further saving of £2.000m in 2018/19 can be achieved.

Further areas where savings are deemed to be undeliverable are Older People (£0.427m) and Waste Services (£1.500m) as reported in the current revenue monitoring position for 2017/18. Both areas have delivered significant savings against those originally agreed but these values remain undeliverable against the original plan.

3.7 Additional Savings

As the County Council continues to have a significant and increasing financial gap over future financial years a detailed review has been completed of service budgets. This has resulted in initial savings totalling £45.628m (over the next 3 financial years) being included within this MTFS from 2018/19 onwards.

This is the first phase of savings that will be put forward with further phases to follow. These savings are deemed to be deliverable from 1st April 2018, with some savings reflecting work that is already underway within services. Many of these savings are relatively straightforward to deliver with some already being shown as underspending areas within 2017/18 budget monitoring. These savings primarily cover efficiencies, recurrent underspends, income generation and service changes which are not expected to have a negative impact on front line service delivery.

It is anticipated that further savings proposals will be presented for approval at future Cabinet meetings, reflecting that there remains an estimated shortfall of £90.205m in 2018/19 should savings in this report be agreed and delivered.

Please see Appendix D within the Money Matters Reports presented to Cabinet for further details.

In addition, transformational activity to achieve savings that is already underway within Adults Services called "Passport to Independence" is now forecasting increased savings of £4.476m that have been included in this section of the MTFS.

A further additional saving of £1.200m has been included in the financial year added to this revision of the MTFS (2021/22) relating to the continued remodelling of LD supported living services that was included within MTFS reports to Cabinet during 2016/17, as it is expected that this activity will continue into this additional year.

3.8 Re-profiled Savings

Following further detailed work in relation to the Passport to Independence transformation programme within Adults Saving programme the saving has been re-profiled. This results in a savings value of £2.557m moved from 2018/19 to 2019/20 in the MTFS.

4. Future Risks

In addition to the economic uncertainty post-Brexit outlined earlier in the report, the following are key future risks, the full impact of which is not known at this stage:

4.1 Agreed Savings Plans Delivery

The scale of agreed savings is hugely significant given both the scale and areas covered, and there are inherent risks in their delivery (2017/18 – 2020/21 c£54m). Any significant under-delivery of agreed savings will create an additional funding gap and impact on the ongoing and longer-term financial health of the Council. This has been identified as one of the highest level risks in the Risk and Opportunity Register. There are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

4.2 Identification of Further Savings Opportunities

As detailed earlier in this report, additional potential savings have been prepared for every area of the council's expenditure. In this report c£50m of savings are proposed to be implemented with further savings to be presented to Cabinet at future meetings, reflecting that there remains an estimated shortfall of £87.221m in 2018/19 should savings in this report be agreed and delivered.

The County Council has previously agreed to set an expenditure target for service expenditure levels to move in line with the lower quartile of the most appropriate group of local authorities for individual services. This remains part of the financial strategy of the organisation, and will be updated to reflect the 2016/17 outturn and 2017/18 budget information once available that Authorities now have and which will identify where the Council now benchmarks in comparison to other Local Authorities.

4.3 Business Rates Retention / Changes to Funding Formula

In 2015 the Chancellor announced that local government as a whole would be able to keep 100% of business rates by 2020. Using Office for Budget Responsibility (OBR) forecasts the Government has estimated that additional business rates kept by councils will be c£13bn by 2020/21 with the intention to transfer new responsibilities to local government to ensure cost neutrality overall of the funding changes. There is currently a system of redistribution (top-ups and tariffs) to reflect there are councils with relatively higher needs but lower income from business rates and vice versa. The Secretary of State for Communities and Local Government has also announced a full review of needs and redistribution which will be used as the starting point for the new system when it comes into force.

The County Council currently receives a top-up grant, primarily as a result of having Adult Social Care responsibilities, and there is insufficient information currently, although work is progressing nationally with a number of complete and planned consultations regarding the changes, to model what the financial impact of the changes will be and the financial impact on the County Council.

It is important to note that although the recent General Election may have caused some delays in progressing the scheduled timetable surrounding 100% business rates retention and funding formula review a representative from DCLG recently stated that: "Ministers remain committed to local government taking greater control of their income, as outlined in the Manifesto. We [DCLG] are engaging Ministers on the options for future reform without an immediate Bill and we will be in touch once we are in a position to resume working with you on the future of local government finance reform".

4.4 Sustainability and Transformation Plan (STP)

Since 2015 the County Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). Building on this is the requirement for every part of the NHS to have a locally led STP in place by 2017. This is within the context of the substantial financial challenges for the health and social care system in Lancashire and will involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for patients and service users.

The County Council will receive additional funding of £24.886m in 2017/18, £15.735m in 2018/19 and £7.799 announced in the spring budget to form part of the Improved Better Care Fund (iBCF). The grant is non-recurrent and may only be used for the purposes of meeting adult social care needs, reducing pressure on the NHS including supporting more people to be discharged form hospital when they are ready and in ensuring that the local social care provider market is supported. Lancashire Health and Wellbeing Board on 7th August agreed spending plans that were put forward with regard to the grant for 2017/18 and 2018/19. The agreed schemes will now progress into implementation and future money matters reports will identify the financial impact of these activities.

4.5 Children's Social Care

Children's Social Care demand levels are currently forecast to continue to increase, particularly within agency residential placements. The establishment of the 0-25 Programme Board in addition to a supporting Finance Sub Group are critical in analysing the current and future levels of demand and working to develop demand management across the service.

Significant additional budget was allocated to Children's Social support improvements and demand pressures following the Ofsted inspection in both 2016/17 and 2017/18 An assumption is also made that demand will plateau in future years, with a reducing demand increase built into future year's budget. In previous MTFS reports an increase has only been included for the next financial year, whereas in this revision 4 years of forecast demand levels has been included. This forecast is based on current demand

levels and uses benchmarking information from other County Council's and national data in relation to Children Looked After (CLA) budgets to project future funding requirements and will continue to be regularly reviewed.