



Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy
December 2017 Cabinet

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Financial Outlook for the County Council: Medium Term Financial Strategy

1. Executive Summary

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 significant financial pressure as a result of the Government's extended programme of austerity combined with significant increases in demand for public services.

In September 2017 Cabinet received an updated medium term financial strategy (MTFS) summary outlining that the County Council was forecast to face an in year funding gap of £161.217m by the end of the 4 year period (2018/19 – 2021/22). At the meeting of Cabinet a saving relating to the Foundation Living Wage was removed, therefore the restated financial gap was £162.260m.

This report provides an updated position for the period 2018/19 - 2021/22 incorporating new savings, the implications of retaining the Foundation Living Wage (as confirmed at Cabinet in November 2017) and the inclusion of a further undeliverable saving. As a result of these changes the funding gap has reduced to £157.786m.

A further MTFS and 2017/18 budget monitoring position will be presented to Cabinet in January representing the position at Quarter 3 following a full review of all assumptions contained in the MTFS based on the latest information available.

It is important to note that the funding gap is not evenly spread, with a gap of £60.313m forecast for 2018/19, £85.623m in 2019/20, £139.253m in 2020/21 and £157.786m in 2021/22.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Spending Gap as reported to Cabinet Q2 (including removal of the proposed FLW saving)	65.279	26.055	53.133	17.793	162.260
Add change to forecast of spending:					
Foundation Living Wage	0.276	0.339	0.597	0.740	1.952
Undeliverable Savings	0.686	0.000	0.000	0.000	0.686
Additional Savings	-5.928	-1.084	-0.100	0.000	-7.112
Total Change to Forecast of Spending	-4.966	-0.745	0.497	0.740	-4.474
Funding Gap	60.313	25.310	53.630	18.533	157.786

Aggregated Funding Gap					Total £m
2018/19 (£m)	60.313	60.313	60.313	60.313	241.253
2019/20 (£m)		25.310	25.310	25.310	75.930
2020/21 (£m)			53.630	53.630	107.259
2021/22 (£m)				18.533	18.533
Total	60.313	85.623	139.253	157.786	442.976

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

The previous MTFS presented to Cabinet in September 2017 (restated to incorporate the removal of the saving relating to the FLW) forecast a financial gap totalling £162.260m by 2021/22. The revised position reported in this MTFS indicates an improved financial gap of £157.786m 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 were provided in the Money Matters report Appendix 'C' presented to Cabinet in September.

When reviewing the County Council's Reserves in conjunction with the Medium Term Financial Strategy the funding requirement to bridge the financial gap in 2018/19 would total £60.313m. It is important to note that reserves are a one off resource, which excluding County Fund, based on the current forecast will be exhausted by 2019/20, and then not available to support a financial gap thereafter.

3. Adjustments to the MTFS

3.1 Pay and Pensions

A proposed saving of c£1m was included in the November Cabinet report in relation to ceasing the current commitment to Foundation Living Wage (FLW) pay rates for Council staff. This was confirmed by Cabinet at the meeting as not being taken forward and therefore the MTFS at Quarter 2 was restated to reflect this.

In addition, the new Foundation Living Wage rates were recently announced, with an increase of 3.6% agreed that increased the hourly rate to £8.75. In the previous MTFS a forecast increase of 2.5% had been included and therefore the additional costs have also been included in this MTFS for 2018/19 onwards. Also, as the FLW is increasing at a higher rate than the current pay award there has been an additional pressure included in following years to reflect that future FLW increases are likely to mean that FLW rates will overtake some of lower scale points within the main pay spine.

3.2 Undeliverable Savings

Cabinet recently approved a new Management Structure for the County Council that will deliver savings of £0.244m. This will result in proportion of the previously agreed saving relating to Directors of £0.930m no longer being achieved and is built back into the MTFS as an undeliverable saving (£0.686m).

3.3 Additional Savings

As the County Council continues to have a significant and increasing financial gap over future financial years a detailed review was completed of service budgets. This resulted in initial savings totalling £45.628m (over the next 3 financial years) being included and agreed as part of the MTFS reported to Cabinet in September 2017, with a further £11.534m included within the restated Quarter 2 position following Cabinet in November 2017.

These were the first phases of savings that will be put forward with further phases to follow at future Cabinet meetings.

As part of this revised MTFS further savings totalling £7.112m are included, with details provided in Appendix 'B'.