

Appendix 'A'

The County Council's Revenue Budget and Council Tax for 2018/19 and Capital Investment Programme for 2018/19 and future years

1. Introduction

The Council has faced an unprecedented period of financial challenge since austerity began in 2010. Like all councils, Lancashire County Council is facing significant financial pressures, and whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period, further work is required to ensure the council can achieve a financially sustainable position.

In reports throughout the financial year to Cabinet, it is clear that the Council is committed to the delivery of a significant savings programme (c£135m over the period 2017/18 to 2021/22) including £81m of new savings proposals agreed by Cabinet during 2017/18. There are inherent risks with saving plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the Council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Taking account of updated resources information a funding gap of £47.619m remains and, in order to set a balanced budget, reserves of £47.619m are therefore required to fund the gap. However, this is clearly dependent on all budget options agreed by Cabinet being delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles. Should any of these savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the gap. A number of them are also still subject to the outcome of specific consultation exercises and will go back to Cabinet for final decisions to be made.

There also remains a funding gap of £69.252m in 2019/20. Current forecasts indicate that there may be sufficient funds within the transitional reserve to support the identified budget gap in 2018/19 and 2019/20. However, further savings will need to be made and fully implemented by 2020/21, at the latest, to deliver a sustainable financial position going forward.

The County Council has previously agreed as part of the financial strategy to benchmark unit costs, and move towards the lowest quartile of the most appropriate comparator group. The data is now being updated to reflect the latest information available to review how the County Council now compares to other Councils with the same responsibilities. Further work is being planned and scheduled over coming months to identify proposals for further budget savings for 2019/20 and beyond.

The Medium Term Financial Strategy includes government funding as announced in the provisional settlement on 19th December 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 later years. It is anticipated that a new system of Local Government finance will be in place in 2020/21 which involves Local Government operating with an increased level of business rates retention (75%) and a review of the funding formula. In December 2017 the first significant consultation was published in relation to the funding formula with further technical consultations expected over coming months.

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 and therefore the grants position will be announced annually.

The provisional settlement has given the Council scope to increase general council tax by an additional 1%, without the need for a referendum, in both 2018/19 and 2019/20 on the grounds that it keeps pace with inflation and CPI is currently running at 3%. Adult social care precept arrangements remained unchanged and Councils with adult social care responsibilities are able to add up to a 3% increase in council tax up to a maximum of 6% over the period 2017/18 to 2019/20.

The County Council continues to face significant challenges from rising costs; from pay award, national living wage, contractual inflation and an increasing demand for its services, particularly in both adult and children's social care services and waste services.

The current Medium Term Financial Strategy estimates that in 2021/22 the County Council will have a net budget available of £777m. This compares to £759m in 2018/19. By 2021/22 the County Council will need to have identified and delivered further savings of £144.492m, in addition to previously agreed savings, for a balanced budget to be set.

This report presents for consideration by the Full Council the recommendations of the Cabinet for:

- The revenue budget for 2018/19;
- A revised capital investment programme for 2018/19 and future years;
- The Council Tax and precept for 2018/19.

In addition the report sets out the advice of the Director of Resources, as the Council's statutory Chief Finance Officer, on the robustness of the budget and the adequacy of reserves as required by Section 25 of the Local Government Act 2003.

2. The Budget Process

The County Council's approach is driven by a formal requirement to deliver a balanced budget in 2018/19. This needs to be undertaken whilst recognising the position for future years and that there will be a requirement for a significant level of reserves to support the 2018/19 budget. The Cabinet has considered the budget for 2018/19 and future years at a number of its meetings. The reports considered can be found at:

<http://council.lancashire.gov.uk/ieListMeetings.aspx?Committeeld=122>

3. The Context for Setting the 2018/19 Budget

The Cabinet's recommendations for the 2018/19 revenue budget and capital investment programme are framed within the context of the on-going environment of austerity across the public sector.

The challenge facing the County Council is unprecedented. The proposed 2018/19 budget of £759.067m includes £55m of savings to be delivered in total, £43m of them being new savings proposals. Despite these reductions, the MTFS shows that there is still a funding gap of £47.619m in 2018/19. Over the period 2018/19 to 2021/22 it is estimated that the County Council needs to make further savings of £144.492m. Delivering this level of saving whilst seeking to deliver effective services for our communities cannot be achieved without a radically different approach which focuses on service delivery within a reducing budget envelope.

The pressures identified for this period reflect the continuing increase in demand for council services, in particular those services delivering social care to both older people and children as well as increases in contractual prices, pay and the impact of the National Living Wage.

The County Council's reduction in government funding has still to be formally confirmed for 2018/19 with the final local government finance settlement expected to be announced during February 2018. However, the provisional settlement has indicated that Revenue Support Grant will be as previously forecast in 2018/19 and 2019/20. In addition the Government announced adjustments to business rates (inflation, the multiplier and the impact of revaluations) and the MTFS has been adjusted to reflect updated information regarding the impact. It is not anticipated that there will be any significant changes in the final announcement.

The MTFS reported to Cabinet in January 2018 included a 3% Adult Social Care Precept in 2018/19 and therefore a 1% increase in 2019/20 as a result of flexibilities offered by Government. In addition, following the new flexibilities for general council tax announced by the Secretary of State in December 2017, the MTFS also includes

a 2.99% general council tax increase in 2018/19 and 2019/20. This flexibility is not currently being offered in subsequent years.

From 2020/21 onwards, it is therefore assumed that the maximum increase will revert back to 1.99%, as the option to raise an Adult Social Care precept will no longer be available. Council Tax increases are 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.

The provisional settlement gives indicative figures for future years and it is clear that austerity will continue. The forecast of resources for 2018/19 to 2021/22 reflects the reductions indicated in the provisional settlement. However, the level of future resources is subject to change and therefore future funding remains a risk.

Reports will be provided regularly to Cabinet in 2018/19 to update the financial position for the County Council based on the latest information.

4. The Revenue Budget 2018/19 to 2021/22

4.1 The financial challenge

The County Council's Medium Term Financial Strategy (MTFS) was approved by Full Council in February 2017 covering the 2017/18 budget and the forecast position for 2018/19 to 2020/21. This identified the funding gap in each year as follows:

Table 1

	£m	£m	£m	£m	Total £m
2017/18 (£m)	57.106	57.106	57.106	57.106	228.424
2018/19 (£m)		30.934	30.934	30.934	92.802
2019/20 (£m)			30.037	30.037	60.074
2020/21 (£m)				37.876	37.876
Total	57.106	88.040	118.077	155.953	419.176

During 2017/18 Cabinet has received a number of MTFS reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period. The latest MTFS shows a revised spending gap of £144.492m. The profile of the funding gap is shown in Table 2:

Table 2

	£m	£m	£m	£m	Total £m
2018/19 (£m)	47.619	47.619	47.619	47.619	190.476
2019/20 (£m)		21.633	21.633	21.633	64.899
2020/21 (£m)			49.280	49.280	98.560
2021/22 (£m)				25.960	25.960
Total	47.619	69.252	118.532	144.492	379.895

Although the financial gap has reduced, from the £155.953m reported last February, it is important to note that this reflects different funding assumptions to those presented previously, including the impact of a 5.99% council tax increase in 2018/19. The County Council's budget is still facing a hugely challenging future with savings of £55m to achieve as part of the 2018/19 budget and significant additional pressures including the impact of the national pay award, national living wage and inflationary and demand pressures across Children's Social Care, Adults Social Care and Waste Services.

4.2 Meeting the challenge

The financial gap reported to Full Council in February 2017 totalled £155.953m by 2020/21. The revised forecast gap is £144.492m by 2021/22. During 2017/18, savings proposals have been agreed by Cabinet totalling £81m, with £43m scheduled for delivery within the 2018/19 budget (the remainder of the savings profiled to be achieved over 2019/20 and 2020/21).

The County Council has previously agreed that part of the financial strategy is to benchmark unit costs, and move towards the lowest quartile of the most appropriate comparator group. The data is now being updated to reflect the latest information available to review how the County Council now compares to other Councils with the same responsibilities. Further work is being planned and scheduled to identify proposals for the budget savings for 2019/20 and beyond, whilst also seeking to maintain or improve service outcomes for end users.

Delivery of the significant savings programme has been identified as a key risk area and current savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.

As part of the process of redesigning its services the County Council has previously explicitly recognised needing to utilise reserves to support the revenue budget.

Reserves are non-recurrent and their value has reduced significantly in recent years. They are now forecast to be sufficient only to support the budget gaps in 2018/19 and 2019/20 if further savings are not identified.

5. The level of Resources Available to support the 2018/19 Revenue Budget

The revenue resources which support the County Council's 2018/19 budget are:

- Revenue Support Grant;
- Business Rates;
- Council Tax;
- New Homes Bonus;
- Better Care Fund; and
- Capital receipts.

In addition to these the County Council receives a number of ring-fenced grants.

The level of resources reflected in the MTFs for 2018/19 and future years is as follows:

Table 3

	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	188.972	194.421	198.989	204.431
Council Tax	468.170	494.153	511.547	529.552
New Homes Bonus	3.765	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	18.525	8.475	9.672	0.000
Total	759.067	773.670	763.429	777.204

These figures are subject to change once the final settlement is given but have been adjusted for the impact of the final Council tax base figures as discussed below.

5.1 The resources received through the Local Government Finance Settlement

The Secretary of State announced the Provisional Local Government Finance Settlement on 19th December 2017. This has resulted in some amendments to the

MTFS in relation to council tax, business rates and new homes bonus. It is important to note that the Settlement only covers the period up to 2019/20. It is currently anticipated that a new system of local government finance will be in place in 2020/21 which involves local government retaining 75% of the business rates a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known.

The business rates figures in the Table 3 have been adjusted compared to those reported to Cabinet in January 2018 as a result of further information has been released in relation to the s31 grants that the County Council is expecting to receive. However it is important to note that written confirmation has not been received, therefore there is a risk that these figures could still potentially change, but these are the best estimates that are currently available.

5.2 Options for Council Tax in 2018/19

On 18th January 2018 Cabinet recommended to Full Council that the Band D Council Tax for 2018/19 has a 5.99% increase including 3% to be used for the adult social care precept. The Council Tax figures within the MTFS include the impact of a 5.99% increase in Council Tax in 2018/19, 3.99% increase in 2019/20 and a 1.99% increase in 2020/21 and 2021/22.

There is a requirement for Section 151 officers in those authorities levying the adult social care precept to provide information demonstrating that an amount equivalent to the additional Council Tax has been allocated to adult social care.

Any proposals for a Council Tax increase above these thresholds will be subject to a referendum.

As part of the budget setting process District Councils must confirm both the Council Tax-base and the surplus/deficit on the Collection Fund by 31st January 2018. Due to the publication dates of the reports for Full Council this final information cannot be included in this report and therefore tax base figures are based on estimates provided in December 2017. This resulted in an estimated tax base increase for 2018/19 from 1.5% to 1.7%.

A further update will be provided at the meeting of Full Council on 8th February 2018.

5.3 Business Rates resources

From 2013/14 an element of the County Council's funding is received from the locally retained element of Business Rates collected by the District Councils. It is estimated that the County Council will receive funding of £188.972m from Business Rates (including top up grant).

As part of the budget setting process District Councils must confirm the surplus/deficit on the business rates Collection Fund by 31st January 2018. Due to the publication dates of the reports for Full Council this final information cannot be included in this report and therefore the figures are based on estimates provided in December 2017.

A further update will be provided at the meeting of Full Council on 8th February 2018.

5.4 Capital receipts

In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt. However, 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.

As part of the Provisional Settlement in December 2017 it was announced that flexibility to use capital receipts to help meet the revenue costs of transformation programmes will continue for a further three years.

Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of service reform.

The current estimates of the capital receipts to be generated, and utilised in supporting revenue expenditure, are as follows:

Table 4

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Capital receipts generated	18.525	8.475	9.672	36.672

The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely. However, receipts received as at 31st December 2017 capital receipts were broadly on track to achieve the 2017/18 target, however as the value has not yet been achieved this remains a risk, with any variance carried forward into 2018/19 and any in year shortfall met from the transitional reserve.

There is suitable forecast expenditure within the revenue budget to enable the estimated £18.525m to be applied in 2018/19. These receipts would normally be applied to the Capital Programme and therefore the impact is to effectively increase the level of borrowing required to support the approved Capital Programme.

The capital receipts in 2018/19 will be applied to the following areas (shown in Table 6) to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

Table 6

Service Area	Value (£m)
Children's Social Care	4.204
Waste Services	0.717
Exchequer Services	2.186
Human Resources	0.900
Programme Office	0.632
Policy, Information and Commissioning	0.828
Procurement	0.700
Financial Management (Operational)	0.850
Corporate Finance	0.280
Estates	0.391
Facilities Management	0.457
Asset Management	1.028
Core Business Systems Transformation	1.799
Adults Services	3.086
Customer Access	0.381
Public and Integrated Transport	0.086
Grand Total	18.525

At Full Council in February each year the County Council's prudential indicators are reviewed and approved. As part of the Treasury Management Strategy, that is requesting approval at this Full Council meeting, the level of indicators incorporate the budgeted level of capital receipts that will be used to support the revenue budget rather than the capital programme. The indicators are reviewed on a regular basis and reported to Members on a quarterly basis.

5.5 Specific Grants and contributions to be received by the County Council in 2018/19

The following table summarises the more significant specific grants to be received by the Council in 2018/19:

Table 7

Grant	Estimated Allocation 2018/19 £m	Description
Better Care Fund	64.1	<p>The Better Care Fund is a pooled budget to help improve the integration of health and care services. This includes the additional, but non-recurrent iBCF allocation announced in February 2017 (£15.7m).</p> <p>An additional £22.656m in relation to improved better care fund is shown in Table 3 and is included as part of funding rather than grant.</p>
Public Health	68.4	Ring fenced funding only able to be spent in accordance with the conditions of the grant.

5.6 Reserves

The latest reserves position agreed by Cabinet is shown in Table 8 and this includes the impact of the forecast revenue underspend.

Table 8

Reserve Name	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
County Fund	-36.000	2.373	10.000	-23.627	0.000	0.000	-23.627
SUB TOTAL - COUNTY FUND	-36.000	2.373	10.000	-23.627	0.000	0.000	-23.627
Strategic Investment Reserve	-4.446	1.283	0.037	-3.126	1.240	0.410	-1.476
Downsizing Reserve	-18.913	2.653	1.431	-14.829	3.762	0.000	-11.067
Risk Management Reserve	-10.439	3.768	3.001	-3.670	3.670	0.000	0.000
Treasury Management Reserve	0.000	0.000	-10.000	-10.000	0.000	0.000	-10.000
Transitional Reserve	-159.014	39.695	-9.920	-129.239	5.860	0.578	-122.801
To facilitate the transition of services	-3.000	0.000	3.000	0.000	0.000	0.000	0.000
Service Reserves	-13.038	2.604	2.441	-7.993	3.571	0.501	-3.921
SUB TOTAL - LCC RESERVES	-208.850	50.002	-10.010	-168.858	18.103	1.489	-149.266
Schools/Non-LCC Service Reserves (3.5)	-18.989	1.263	0.010	-17.716	1.011	-0.687	-17.392
SUB TOTAL SCHOOLS/NON LCC RESERVES	-18.989	1.263	0.010	-17.716	1.011	-0.687	-17.392
GRAND TOTAL	-263.839	53.638	0.000	-210.201	19.114	0.802	-190.285

Table 9

	2018-19 £m	2019-20	2020-21 £m	
<i>MTFS Funding Gap</i>	47.619	69.252	118.532	
Available reserves to support financial gap	47.619	69.252	5.930	122.801

The County Fund shown at the top of Table 8 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the County Council is forecast to hold a County Fund balance at £23.627m by the end of 2017/18.

Part of this reserve has been used to support the budget amendment agreed by Full Council in July 2017 totalling £3.995m in 2017/18, which now requires a reduced balance of £2.373m. In addition £10.000m has been set aside within a reserve to mitigate possible risks within the Treasury Management investment portfolio.

This reduction to the County Fund balance was on the basis that this is still a prudent and reasonable amount to keep in the County Fund for emergency situations as described above with benchmarking of other Local Authorities completed to support the reduction.

Table 8 shows that the forecast value of the uncommitted Transitional Reserve is currently £122.801m and whilst it is anticipated that further revenue savings for 2018/19 and beyond will be identified, the impact of utilising the Transitional Reserve to fund the £47.619m gap would leave £69.252m available for use in 2019/20 based on current forecasts. Table 9 within the report demonstrates the funds that are forecast to be available to support the budget gap in 2018/19 and 2019/20. However, in order to set a legal budget further savings will need to be made.

6. The Overall Revenue Budget Position for 2018/19

6.1 Summary of Cabinet's Revenue Budget Proposals

The overall impact of the Cabinet's recommendations to Full Council for the 2018/19 revenue budget and the potential changes are set out in Table 10.

The table reflects the following:

- Impact of further cost pressures;
- Changes in the level of resources that are currently known;
- The Cabinet's recommendation of a council tax increase of 5.99% in 2018/19;

- The anticipated use of one-off resources in 2018/19; and
- The provision of estimated figures by the City and Borough Councils in respect of Council Tax base and Business Rates income.

Table 10

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Spending Gap as reported to Cabinet December 2017	60.313	25.310	53.630	18.533	157.786
Add change to forecast of spending:					
Pay and Pensions	4.661	3.919	-1.383	-1.856	5.341
Price Inflation and Cost Changes	-0.365	0.107	-0.170	-0.235	-0.663
Service Demand and Volume Pressures	3.435	0.235	0.231	0.224	4.126
Specific Grants	0.128	0.000	0.000	0.000	0.128
Additional Savings	-6.449	-2.591	-2.100	0.000	-11.140
Total change to forecast of spending	1.410	1.670	-3.422	-1.868	-2.210
Funding	-12.837	-5.981	-1.561	9.296	-11.084
Total change to forecast of resources	-12.837	-5.981	-1.561	9.296	-11.084
Revised funding gap reported to Cabinet 18th January 2018	48.886	20.999	48.647	25.960	144.492
Funding (Business Rates)	-1.267	0.634	0.633	0.000	0.000
Revised funding gap	47.619	21.633	49.280	25.960	144.492

6.2 Revenue Budgets for Services in 2018/19

The budget outlined above results in net expenditure on services of £759.067m. The budget by service is summarised below:

Table 11

Revenue Budget 2018/19	Net Budget £m
Adult Services	347.435
Education and Children's Services	157.910
Community Services	134.792
Customer Access	3.382
Corporate Services	19.218
Economic Development and Planning	3.669
Chief Executive Services	20.102
Finance Services	31.229
Programmes and Projects	0.784
Property Services	27.437
Public Health	20.855
Service Communications	0.834
Sub-Total	767.647
Financing Charges	39.039
Use of one off resources	-47.619
Revenue budget 2018/19	759.067

7. The Capital Investment Programme

This section of the report sets out the following:

- an outline of the 2018/19 – 2020/21 capital programme including known projects; and
- summary of the proposed funding of the 2018/19 capital programme and the revenue implications of the increased use of prudential borrowing.

7.1 Capital Programme for 2018/19 – 2020/21

Table 12 below details the proposed provisional capital programme for the period 2018/19 to 2020/21.

City Deal is included only where LCC make a direct contribution to it or where the County Council is supporting the cash flow requirements of the project in the early years. City Deal and other Lancashire Economic Partnership activity is reported separately via the existing LEP reporting and performance framework. LCC is the accountable body for the LEP.

Table 12

	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)
Schools (excluding DFC)	32.612	20.188	0.000
Schools DFC	5.156	0.000	0.000
Children and Young People	4.560	3.588	0.000
Highways	53.415	4.551	4.797
Transport	25.692	0.840	0.000
Waste and Other	0.100	0.000	0.000
Adults Social Care	7.808	6.061	0.000
Corporate	28.139	24.700	0.000
Vehicles	3.910	0.000	0.000
Totals	161.392	59.928	4.797

The table above does not include the impact arising from variances in expenditure and funding during 2017/18. Analysis of this impact will be undertaken as part of the year end accounting process.

7.2 Funding Implications

The capital programme is currently funded by a variety of funding streams including specific government capital grants, capital receipts, LCC revenue funds and prudential borrowing.

7.2.1 Capital Receipts

In line with Government legislation that took effect from 1st April 2016, capital receipts are included in the MTFs Strategy to support revenue.

7.2.2 Proposed funding

Table 13 provides details of funding sources for the capital programme up to 2020/21:

Table 13

	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)
Borrowing	73.610	38.644	3.455
Grants	85.655	21.284	1.342
Developer contributions	2.097	0.000	0.000
3 rd Party contributions	0.031	0.000	0.000
Total funding	161.392	59.928	4.797

Table 14 identifies the revenue budget for financing charges as reflected within the Medium Term Financial Strategy:

Table 14

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Minimum Revenue Provision	21.337	23.432	25.902	27.521
Interest Paid	23.533	23.143	22.214	21.918
Interest Earned	-7.912	-7.316	-6.854	-6.676
Grants Received	-0.240	-0.220	-0.200	-0.180
Total	36.718	39.039	41.062	42.583

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. Provision has also been made for changing some of the borrowing to a long term fixed rate rather than the existing short term rates.

The position will be closely monitored by the section 151 officer and any changes will be reflected in a revised forecast and included in budget monitoring or MTFS reports presented to Cabinet.

The revenue implications of the forecast borrowing levels have been included within the MTFS.

8. Council Tax for 2018/19

The recommendation of the Cabinet to Full Council on the council tax requirement is that the Band D Council Tax for 2018/19 be increased by 5.99% which includes the 3% social care precept. The impact of these increases are:

Table 15

	Band D Council Tax	Council Tax income
Adult Social Care Precept at 3%	£36.65	£13.251m
General Council Tax increase at 2.99%	£36.53	£13.207m

The overall position is summarized as follows:

Table 16

	£m
Budget Requirement	759.067
Less RSG	56.979
Less Retained Business Rates	188.972
Less New Homes Bonus grant	3.765
Less Better Care Fund	22.656
Less Capital Receipts	18.525
Equals council tax cash	468.170
Divided by tax base	361,544.11
Gives Band D council tax for 2018/19	£1,294.92
2017/18 council tax	£1,221.74
Percentage increase	5.99%

9. The Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the Council's Chief Finance Officer (in the case of the County Council the Chief Executive and Director of Resources) on the robustness of the estimates and the adequacy of the Council's reserves.

Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the Council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the Council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur.

The table below demonstrates the scale of just a small variance in the assumptions made in the MTFs, showing the potential impact of both a positive and negative movement of 1% across the main areas within the MTFs and the potential impact of a further 0.25% variation on interest rates:

	Potential Full-Year Impact (£m)
Funding (1%)	+/- 4.716
Pay (1%)	+/- 3.226
Price Inflation (1%)	+/- 5.952
Demand (1%)	+/- 6.323
Interest Rates (0.25%)	+/- 1.250

A number of specific risks remain within the budget as follows:

- **Government Funding**

The Council did not take up the offer in 2016 of a multi-year finance settlement covering Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. However, there were no changes to the 2018/19 allocations, announced in the Local Government Settlement on 19th December 2017, previously reported to Cabinet. Revenue Support Grant is expected to end in 2019/20 and the impact on the Council of the Business Rate Retention Scheme and Fair Funding Review from 2020/21 is not yet known. For the purpose of the budget and MTFs a neutral position has been assumed including no Revenue Support Grant from 2019/20 and will be updated when further information is known.

No additional funding was announced for either adult social care or children's services, nor to cover the proposed 2% two year pay offer for local government workers. These additional cost pressures have been included in the strategy.

The settlement has given the Council scope to increase council tax by an additional 1% in both 2018/19 and 2019/20 on the grounds that it keeps pace with inflation, CPI is currently running at 3%. Adult social care precept arrangements also remain unchanged for Councils with adult social care responsibilities able to add up to a 3% increase in council tax up to a maximum of 6% over the period 2017/18 to 2019/20. These flexibilities have now been included in the strategy as part of this report.

- **Service Demand**

This is a key risk facing the Council in both preparing future budgets and managing budgets during the year. As reported in the budget monitoring reports presented to Cabinet over the year, demand for both adult and children's social care services and waste services continue to see increases despite the impact of demand management measures.

Over the period 2018/19 to 2021/22 £85m has been provided in the MTFs for demand pressures of which £55.7m relates to adult social care and £22m children's social care. These have been identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of Adult Social Care). Whilst for Adult Social Care the estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year significant and unanticipated increased costs in relation to Children's Social care have occurred and have been reported to Cabinet in revenue monitoring reports.

Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and what steps can be taken to mitigate the financial impact, which, along with grant funding reductions, is a major contributing factor towards the funding gap reported in the MTFS.

- **Pay**

The previous MTFS has made provision for a pay award of 1% each year. Most of the pay bill is driven by the national pay agreement and the announcement of the 2% 2 year pay offer represents a significant additional cost pressure reflected in the updated MTFS. The County Council also remains committed to paying its employees as an accredited member of the Living Wage Foundation who have announced a 3.6% increase in the Living Wage. The impact of this initial increase and further 3.6% increases in subsequent years for those staff directly impacted has been factored into the MTFS.

- **Inflation**

The Monetary Policy Committee (MPC) of the Bank of England has been set an inflation target by the Government of 2%. However, in September 2017 the CPI inflation increased to 3% and rose again to 3.1% in November. It is considered that inflation has been pushed above the target by the increase in import prices that resulted from the depreciation of sterling. The MPC has stated that it judges that inflation is likely to be close to its peak, and will decline towards the 2% target in the medium term.

Provision made within the budget is limited to areas where the Council has no choice but to pay increased prices e.g. due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation or the need to absorb additional inflationary costs in year.

A particularly significant area is the care market, primarily residential, nursing and homecare, the funding of which is recognised as a significant issue regionally and nationally. A significant amount of resource has been included within the MTFS to fund price increases and the estimated impact of the national living wage on care providers.

- **Interest Rates**

The MPC has also raised the base interest rate for the first time in a decade. At its meeting on 1 November 2017, the MPC voted by a majority of 7-2 to increase the Bank Rate by 0.25 percentage points, to 0.5%. Reasons cited for the increase were concern over inflation and the reduction of slack in the economy.

Despite the increase in the base rate the short term interest rates continue to be at historically low levels. It is not anticipated that the increase in November is the start of

a period of large increases. All indications are that any future increase will be at a very gradual pace. Indeed, the County Council's Treasury advisors predict no further changes in the base rate for this financial year due to the uncertainty for the UK economy arising from the Brexit negotiations and the fall in real wages.

• **Savings Programme Delivery**

The Council is committed to the delivery of a significant savings programme (c£135m over the period 2017/18 to 2021/22) including £81m of new savings agreed by Cabinet during 2017/18. There are inherent risks with saving plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the Council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Adequacy of Reserves

The Council holds reserves for a number of reasons:

- to enable the Council to deal with unexpected events such as flooding or the destruction of a major asset through fire;
- to enable the Council to manage variations in the demand for services which cause in year budget pressures; and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- the level of risk evident within the budget as set out above;
- judgement on the effectiveness of budgetary control within the organisation; and
- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2018 is £23.627m. This is after £10m is transferred to a formal treasury management reserve to reflect that, whilst the Council's Treasury Management performance (covering both investment activity and financing costs) has been positive over an extended period, the outlook post-Brexit is particularly uncertain and volatile. The reserve will therefore help to manage quickly responding to that volatility, including interest rate changes and associated risks, over the short-term, without directly impacting the revenue account.

The revenue budget has been heavily supported in recent years by the reserves that have been available to the County Council and their value has therefore reduced significantly. The value of the Council's uncommitted transitional reserve is currently forecast to be £122.801m (including the 2017/18 forecast underspend). Assuming all of the savings proposals up for consideration at this meeting are agreed there still remains a gap between available funding and forecast expenditure of £47.619m in 2018/19, which will further reduce reserves.

The level of risk evident within the budget has been significant in recent years and remains so at a time when it is clear that the revenue budget for 2018/19 will also need to be supported significantly by reserves. The Council acknowledges that it needs to move to a sustainable financial position and also that this will take time to implement. The transitional reserve allows decisions to be made in a more measured and considered way but does not of itself negate the need for a sustainable budget to be achieved. While the Council's budgetary control procedures are strong in terms of managing in year expenditure, the effectiveness of budgetary control is a combination of systems and processes as well as the risk environment within which the Council is operating. It therefore remains an essential requirement that the Council continue to ensure that processes are effective in maintaining a grip on in year expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing in 2018/19, but this is highly unlikely to be the case in future years. It is critical that a significant level of additional savings are identified to be delivered and fully implemented by 2020/21 to bring the Council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs. One of the priority areas for new savings will be in seeking to implement the aim within the current financial strategy of seeking to move to lower quartile cost, of the most appropriate comparator group of local authorities, for all services.

Conclusion

Following the ongoing detailed budget monitoring, identification of £81m of further budget proposals and a detailed review of the current reserves commitments, a balanced budget for 2018/19 with the use of £47.619m of reserves can be recommended. However, this is clearly dependent on all the budget options being agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles. Should any of these budget options ultimately not be taken forward they will need to be replaced with alternative savings to avoid increasing the size of the financial gap.

While it is possible to confirm the robustness of budgets using £47.619m of reserves for 2018/19, the position for 2019/20 is critical to addressing the issue of financial sustainability as there remains a funding gap of £69.252m. Urgent work is required to identify proposals for additional savings early in 2018/19 that can be delivered in 2019/20 and for the remaining MTFS period.