

Report to the Cabinet

Meeting to be held on Thursday, 5 September 2019

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Money Matters 2019/20 Position - Quarter 1

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

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Executive Summary

This report provides an update to Cabinet on the county council's 2019/20 revenue and capital financial position as at the end of June 2019 and an updated Medium Term Financial Strategy (MTFS) covering the period 2020/21 to 2022/23.

There is currently an unprecedented amount of uncertainty relating to future funding across local government. Accordingly significant assumptions are required to underpin our forecasts. While these can be made with reasonable confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies and discussion with peers. As a result of this uncertainty the MTFS has not, at this stage, been extended to 2023/24 as we would normally do.

The funding gap for 2020/21 has reduced to £5.895m. This is largely due to current information suggesting the continuation of the equivalent value of revenue support grant into 2020/21, although this remains to be confirmed. However the future forecast gap has increased to £64.755m by 2022/23 due primarily to increased pay costs and service demand pressures. Work continues to build on last year's service challenge work and a separate report is included on the agenda to address some of the outcomes from that initial phase 2 work.

In summary:

- (i) The 2019/20 revenue forecast outturn is £801.771m, representing a projected underspend of £0.506m (0.06%) of the agreed budget.
- (ii) The MTFS has been updated and revised upwards by £17.429m and now indicates a financial deficit of £64.755m in 2022/23.

(iii) The Council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing c3% of net budget, which is unchanged from the previously reported position.

(iv) The Council is forecast to hold £150.250m of uncommitted transitional reserve which is sufficient to meet the forecast gap through to 2022/23.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £0.506m on the revenue budget in 2019/20.
- (ii) **Note** the increased funding gap of £64.755m covering the period 2020/21 to 2022/23 as set out in the revised financial outlook forecast for the Council.
- (iii) **Approve** the budget adjustments for 2020/21, and following years' changes, included in the revised MTFS.
- (iv) **Note** the contents of the county council's reserves position.
- (v) **Approve** a reprofiled 2019/20 capital delivery programme of £143.090m as presented within the body of the report.

Background and Advice

The detailed reports present the quarter 1 position are appended as follows:

- Appendix A – the 2019/20 forecast revenue position.
- Appendix B - Revised Medium Term Financial Strategy for the period 2020/21 to 2022/23, including reserves position.
- Appendix C – the 2019/20 re-profiled capital delivery programme

2019/20 Revenue Position as at 30th June 2019 (Appendix A)

A revenue underspend is currently forecast of £0.506m and represents a variance of 0.06% against the overall revenue budget of £802.277m. The forecast outturn position is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which, as always, is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review. There are also a number of underspending service areas and where these have been validated as reflecting a level of recurrent underspend these have been picked up as management action savings within the MTFS. The focus will remain on continuing to tightly control and drive down costs wherever possible.

As part of monthly monitoring the savings that have been agreed to date are monitored by finance monitoring boards. The position at the end of quarter 1 was that 95% of the financial value of savings were rated as on track, albeit some potentially having to undertake work to avoid potential delays. The remaining 5% are the most challenging to deliver currently, but services are working hard to deliver those savings and are regularly reporting progress.

The Medium Term Financial Strategy (MTFS) and Reserves Position (Appendix B)

At full council in February 2019 the MTFS set out a forecast funding gap of £47.326m by the end of the 4 year period (2019/20 – 2022/23). The updated funding gap contained within the report has increased to £64.755m by 2022/23, however a reduced budget gap is forecast for 2020/21 of £5.895m. The MTFS position includes additional costs relating to staff pay inflation, transport and children's social care demand assumptions and the impact of some savings that are deemed undeliverable, offset by some service cost adjustments due to changes to service configuration, particularly in relation to support service delivery models, and a change to the funding assumptions in 2020/21. The previous MTFS position had assumed revenue support grant (RSG) would end in 2019/20, however the likelihood of a one year settlement and roll forward budget in 2020/21 has led to an assumption that RSG will be included within the baseline funding level for 2020/21. This position has been recommended by CIPFA and other professional advisers but has not been categorically confirmed by the government.

The value of the uncommitted transitional reserve is currently forecast to be £150.250m by the end of March 2020 if there was no requirement for structural funding support from reserves to the 2020/21 or 2021/22 budgets. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps through to 2022/23, but the intention is to identify further savings and thereby reducing the gap and call on the transitional reserve, for 2020/21 and beyond.

Capital Delivery Programme for 2019/20 (Appendix C)

A 2019/20 capital delivery programme of £130.289m was agreed at full council in February. This was based on the best forecast available at that point in time with the need to review and update to reflect the impact of the final 2018/19 outturn position and associated slippage and advance delivery, additions to the programme subsequently agreed by cabinet and an updated assessment of deliverability within the year. The review has resulted in the 2019/20 capital delivery programme increasing to £143.090m and this will be used as the basis for monitoring progress over the rest of the financial year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

The financial risks that could affect the position outlined in the report primarily cover the following areas. Many of these risks equally present opportunities:

- **Level of Future Resources from Central Government**
Risks remain in relation to the level of resources the council receives from the government in terms of Revenue Support Grant, business rates and the fairer funding settlement yet to be announced. At this point in time there is insufficient detailed information regarding the changes to amend the funding assumptions within the MTFS and they have been maintained at a prudent level. Future funding levels could therefore be higher or lower than currently forecast.
- **Demand**
There is continued pressure on the council's budget, particularly around adult and children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.
- **Inflation**
A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the new national living wage.
- **Delivery**
The MTFS assumes that agreed savings will be delivered in the period 2019/20 to 2022/23. There are also a significant number of other factors, both internal and external, which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A