

Report to the Cabinet

Meeting to be held on Thursday, 16 January 2020

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Money Matters 2019/20 Position - Quarter 2

(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 September 2019 and an updated medium term financial strategy (MTFS) covering the period 2020/21 to 2023/24.

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. A number of funding scenarios were assessed and the most likely scenario selected as the basis for this forecast.

The provisional local government finance settlement for 2020/21 announced on the 20th December, was largely in line with the technical consultation that was published in October. It announced the continuation of the revenue support grant and significant additional funding for adult social care. As a result a balanced financial position without recourse to reserves is expected in 2020/21.

The settlement is for one year only and the figures are expected to be confirmed in late January 2020 (within the final settlement announcement). The 2020/21 announcement is the first and only year of the Spending Round 2019, with future years' announcements dependent on a number of factors, including: spending review 2020, the outcome of the fair funding review, the business rates retention reset, the move to 75% business rates retention and any reform of the new homes bonus scheme.

Given the uncertainty regarding the future funding for local government, we have modelled a number of scenarios to reflect a range of possible funding measures.

Whilst we expect to deliver a balanced budget in 2020/21 without recourse to reserves and after a contribution of £800,000 from revenue to organisational development work, commencing in January 2020. Forecasting based on the most likely funding scenario indicates a significantly reduced future funding gap of £28.438m by 2023/24. This compares favourably with the funding gap reported at Q1 of £64.755m. This is due primarily to increased pay costs and service demand pressures. Work continues to build on last years' service challenge work to deliver further efficiencies and close the funding gap. Further reports will follow as firm costed proposals become available.

In summary:

- (i) The 2019/20 revenue forecast outturn is £790.140m, representing a projected underspend of £12.135m (1.51%) of the agreed budget.
- (ii) The MTFS has been updated and revised and the forecast position has improved significantly in the light of our expectations of future funding levels. At Q1 the MTFS showed a deficit £64.755m to 2022/23 and our most likely scenario now indicates a financial deficit of £28.438m in 2023/24.
- (iii) The Council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 3% of net budget, which is unchanged from the previously reported position.
- (iv) The Council is forecast to hold £150.358m of uncommitted transitional reserve which is sufficient to meet the forecast gap beyond the end of the current MTFS period.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £12.135m on the revenue budget in 2019/20.
- (ii) **Note** the revised funding gap of £28.438m covering the period 2020/21 to 2023/24 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 re-profiled 2019/20 capital delivery programme of £147.107m as presented within the body of the report.

Background and Advice

The detailed reports present the quarter 2 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 2023/24, including reserves position.
- Appendix C – the 2019/20 re-profiled capital delivery programme

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

A revenue underspend is currently forecast at £12.135m and represents a variance of 1.51% against the overall revenue budget of £802.275m. 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 the monthly monitoring process savings that have been agreed to date are reviewed by finance monitoring boards. The position at the end of quarter 2 was that 94.2% of the financial value of savings were rated as on track, albeit some having to undertake work to mitigate against delays in delivery.

The medium term financial strategy (MTFS) and reserves position (Appendix B)

At cabinet in September 2019 the MTFs set out a forecast funding gap of £64.755m by the end of the 3 year period (2019/20 – 2022/23). The updated funding gap contained within the report has decreased to £28.438m by 2023/24 primarily as a result of funding changes, with a balanced budget forecast for 2020/21. 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 value of the uncommitted transitional reserve is currently forecast to be £150.358m by the end of March 2020. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the end of the current MTFs, but the intention is to identify further savings and thereby securing a sustainable financial position for the council.

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 £147.107m and this will be used as the basis for monitoring progress over the rest of the financial year.

Consultations

N/A

Implications:

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 and opportunities 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, social care 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 certain of the funding assumptions within the MTFs, as a result these have been modelled following scenario analysis on the most likely funding scenario. 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 national living wage.

- **Delivery**

The MTFs assumes that agreed savings will be delivered in the period 2020/21 to 2023/24. 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
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None

Reason for inclusion in Part II, if appropriate

N/A