

The County Council's Revenue Budget and Council Tax for 2020/21 and Capital Delivery Programme for 2020/21

1. Introduction

The council has faced an unprecedented period of financial challenge since austerity began in 2010. Like all councils, we are facing financial pressures across the period of our medium term financial strategy. Whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period as a result of significant savings programmes and the improved funding envelope for social care, further work is required to ensure the council can achieve a financially sustainable position over the medium term.

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£58m over the period 2020/21 to 2022/23) primarily agreed in the 2019/20 budget cycle following the initial service challenge process.

We are now investigating the scope for further savings. The initial service challenge process necessarily focused on individual service reviews supported by benchmarking data which identified a number of areas where the council was high cost compared to a number of other county councils. The aim was to deliver the same or better outcomes at reduced cost wherever possible and phase 1 of the service challenge process identified a range of savings proposals which were included both within the 2019/20 budget and the MTFS position.

Phase 1 also identified a number of cross-cutting work streams and areas for investigation and review which is being taken forward as part of the service challenge phase 2 process. These work streams are more complex, requiring a fundamental challenge of, in many cases, longstanding organisational wide approaches, systems and processes to enable both service improvements and cost savings to be identified. Work is progressing on phase 2 with demand management, commissioning, organisational development, property management, commercialisation, schools traded services, transport and digital being key areas of focus. Projects on these areas and the savings options will be shared with cabinet for consideration as and when available and when timescales for their delivery are agreed. Relevant projects will be a focus for relevant finance monitoring boards as appropriate.

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.

Should any of our existing savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the funding gap.

The medium term financial strategy (MTFS) includes government funding as announced in the provisional settlement on 20th December 2019, and we await the final settlement which is expected in mid-February 2020.

The announcement confirmed that there would be a one year settlement in 2020/21 and that the fair funding review would be delayed until April 2021. There are no funding levels confirmed post 2019/20. Assumptions have therefore been made based on the provisional finance settlement for funding levels from 2020/21 – 2023/24.

During 2020, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement confirmed that 2020/21 would effectively be 'rolled over' from 2019/20, giving councils the stability they need to set a budget.

In the provisional settlement, the Chancellor announced that councils will have access to new social care funding of £1.5bn in 2020/21. This consists of grant funding and up to a 2% adult social care precept.

The provisional settlement also confirmed that revenue support grant would continue at 2019/20 inflated amounts, and that the social care funding allocated in 2019/20 would continue into 2020/21. It was also confirmed that the 2019/20 75% business rates pilots would not continue into 2020/21

The MTFS reported to cabinet in February 2020 included a 2% adult social care precept in 2020/21 as a result of flexibilities offered by Government. This flexibility is not currently being offered in subsequent years.

From 2021/22 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.

Taking account of updated resources information a balanced budget position with no recourse to reserves is forecast for 2020/21. However, this is clearly dependent on all service challenge savings agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles.

There also remains an overall funding gap of £33.299m by 2023/24. Current forecasts indicate that there will be sufficient funds within the transitional reserve to support the identified budget gap through to and beyond 2023/24. However the intention is to identify further savings and thereby reduce any call on the transitional reserve, for 2021/22 and beyond.

This report presents for consideration by the full council the recommendations of the cabinet for:

- The revenue budget for 2020/21;
- A revised capital delivery programme for 2020/21;
- The council tax and precept for 2020/21.

In addition the report sets out the advice of the Chief Executive and 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.

Reports will be provided regularly to cabinet in 2020/21 to update the financial position for the county council based on the latest information.

2. The Budget Process

The county council's approach is driven by a formal requirement to deliver a balanced budget in 2020/21. This needs to be undertaken whilst recognising the position for future years. The cabinet has considered the budget for 2020/21 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 Revenue Budget 2020/21 to 2023/24

The county council's medium term financial strategy (MTFS) was approved by full council in February 2019 covering the 2019/20 budget and the forecast position for 2020/21 to 2022/23. This identified the funding gap in each year as follows:

Table 1

Aggregated Funding Gap	2019/20	2020/21	2021/22	2022/23
2019/20 (£m)	10.245	10.245	10.245	10.245
2020/21 (£m)		20.125	20.125	20.125
2021/22 (£m)			5.518	5.518
2022/23 (£m)				11.438
Total	10.245	30.370	35.888	47.326

During 2019/20 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 including an additional year of 2023/24. The latest MTFs shows a revised spending gap of £33.299m. The profile of the funding gap is shown in table 2:

Table 2

Aggregated Funding Gap	2020/21	2021/22	2022/23	2023/24
2020/21 (£m)	-6.251	-6.251	-6.251	-6.251
2021/22 (£m)		7.926	7.926	7.926
2022/23 (£m)			13.548	13.548
2023/24 (£m)				18.076
Total	-6.251	1.675	15.223	33.299

Although the financial gap has reduced, from the £47.326m reported last February, the county council's budget is still facing a challenging future with savings of £58m to achieve as part of the 2020/21 budget and beyond, with significant additional pressures. These include the impact of the national pay award, national living wage and inflationary and demand pressures across children's social care and adult social care.

4. The level of resources available to support the 2020/21 revenue budget

The level of resources reflected in the MTFS for 2020/21 and future years is as follows:

Table 3

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Revenue Support Grant	33.430	33.430	33.430	33.430
Business Rates	202.318	200.947	203.182	205.453
Council Tax	519.648	538.999	559.070	579.889
New Homes Bonus	3.503	2.405	1.635	0.799
Better Care Fund	45.532	45.532	45.532	45.532
Social Care Grant	33.417	33.417	33.417	33.417
Collection Fund Surplus	7.003	3.750	3.750	3.750
Total	844.851	858.480	880.016	902.270

As the final settlement has not been announced, these figures reflect the provisional settlement and have been adjusted for the impact of the final council tax base figures and surplus and deficit position (across council tax and business rates collection funds) as discussed below.

4.1 The resources received through the local government finance settlement

The Secretary of State announced the provisional local government finance settlement on 20th December 2019, and at the time of writing the final settlement has not been announced. This is expected in mid-February. It is important to note that the settlement only covers the period up to 2020/21, therefore assumptions have been made for 2021/22 onwards. It is currently anticipated that a new system of local government finance will be in place in 2021/22, which involves local government retaining 75% 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 stage.

4.2 Council Tax in 2020/21

On 6th February 2020 cabinet recommended to full council that Band D council tax for 2020/21 has a 3.99% increase, including 2% to be used for the adult social care

precept. The council tax figures within the MTFS include the impact of a 3.99% increase in council tax in 2020/21, 1.99% increase in 2021/22, 2022/23 and 2023/24.

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 taxbase and the surplus/deficit on the collection fund by 31st January 2020. The information provided by district councils has resulted in a tax base increase of 1.18% for 2020/21. This is less than the taxbase growth that has been built into the MTFS, therefore the reduced growth has been reflected in this report, with reduced funding of £2.699m. The growth for future years remains at 1.7% with future year council tax base increases kept under review with district councils.

As part of the budget setting process district councils must confirm the surplus/deficit on the council tax collection fund by 31st January 2020. The information received from district councils state that a surplus has been achieved on the council tax collection fund of £6.036m. This has therefore been included in the funding position for 2020/21.

4.3 Business Rates in 2020/21

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 £202.318m from business rates. This amount is an improvement on the forecast and includes an estimated £0.680m the authority should receive as part of the Lancashire Business Rates Pool.

As part of the budget setting process district councils must confirm the surplus/deficit on the business rates collection fund by 31st January 2020. The information received from district councils state that a surplus has been achieved on the business rates collection fund of £0.967m. This has therefore been included in the funding position for 2020/21, and is an improvement of £0.429m from the amount reported in the Quarter 3 MTFS.

4.4 Specific Grants and contributions to be received by the County Council in 2020/21

The following table summarises the more significant specific grants to be received by the council in 2020/21:

Table 4

Grant	Estimated Allocation 2020/21 £m	Description
Improved Better Care Fund	45.5	The Better Care Fund is a pooled budget to help improve the integration of health and care services.
Public Health	66.6 (unconfirmed)	Ring fenced funding only able to be spent in accordance with the conditions of the grant.

4.5 Reserves

The latest reserves position agreed by Cabinet is shown in Table 5 this does not include the impact of the forecast revenue outturn.

Table 5

Reserve Name	Opening balance 2019/20	2019/20 Forecast Expenditure	Forecast Contribution to/from Reserves (Other Revenue e.g. Schools)	2019/20 forecast transfers to/from other reserves	Forecast Closing balance 2019/20	2020-21 Forecast Spend	2021-22 Forecast Spend	Forecast closing balance 31 March 2022
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	0.000	-23.437	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	-23.437	0.000	0.000	0.000	-23.437	0.000	0.000	-23.437
Strategic Investment Reserve	-2.096	-1.491	0.000	0.000	-3.586	2.305	0.246	-1.036
Downsizing Reserve	-7.445	4.605	0.000	0.000	-2.840	2.840	0.000	0.000
Risk Management Reserve	-2.804	1.241	0.000	0.000	-1.562	0.763	0.800	0.000
Transitional Reserve	-164.254	16.278	0.000	-0.013	-147.989	3.086	0.244	-144.659
Service Reserves	-13.251	7.846	0.000	-2.266	-7.671	5.959	0.921	-0.791
Treasury Management Reserve	-10.000	0.000	0.000	0.000	-10.000	0.000	0.000	-10.000
SUB TOTAL - LCC RESERVES	-199.849	28.479	0.000	-2.279	-173.648	14.953	2.211	-156.485
Schools/Non-LCC Service Reserves	-17.528	1.740	0.000	0.000	-15.788	-0.018	1.790	-14.015
SUB TOTAL SCHOOLS/NON LCC RESERVES	-17.528	1.740	0.000	0.000	-15.788	-0.018	1.790	-14.015
GRAND TOTAL	-240.814	30.219	0.000	-2.279	-212.873	14.935	4.001	-193.937

The county fund shown at the top of table 5 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 maintain its County Fund balance at £23.437m.

The value of the uncommitted transitional reserve is currently forecast to be £144.659m by the end of March 2022 providing there is no requirement for structural funding support from reserves to the 2020/21 or 2021/22 budgets.

The current forecast position for 2019/20 outturn has not been reflected in the transitional reserve position.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps through to and beyond 2023/24 as set out in table 6. However, the intention is to identify further savings to reduce the gap, and hence the call on reserves, in the future.

Table 6

Transitional Reserve	2020/21	2021/22	2022/23	2023/24
Opening Balance	147.989	151.154	149.235	134.012
Gap funding	-6.251	1.675	15.223	33.299
Commitments	3.086	0.244	0.000	0.000
Closing balance	151.154	149.235	134.012	100.713

Whilst the forecast for 2020/21 shows available resources of £6.251m there is currently a forecast provision to utilise these resources in 2020/21 to support the organisational improvement journey review work which is currently underway.

5. The Overall Revenue Budget Position for 2020/21

5.1 Summary of cabinet's revenue budget proposals

The overall impact of the cabinet's recommendations to full council for the 2020/21 revenue budget and the potential changes are set out in Table 7.

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 3.99% in 2020/21; and
- the provision of estimated figures by the city and borough councils in respect of council tax base and business rates income.

Table 7

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Spending Gap as reported to Cabinet (Quarter 2)	0.000	-5.188	14.150	19.477	28.438
Add change to forecast of spending:					
Pay & Pensions	-1.195	0.222	-0.042	0.385	-0.630
Inflation and Cost Changes	2.104	-0.216	-0.209	-0.057	1.622
Service Demand and Volume Pressures	-1.874	-0.999	-0.565	-0.917	-4.355
Other	0.372	0.204	-0.144	0.000	0.432
Additional Grant	-3.098	1.147	1.070	0.881	0.000
Savings Adjustments	0.100	0.100	0.100	-0.300	0.000
Total Change to Forecast of Spending	-3.591	0.458	0.210	-0.008	-2.931
Change to forecast of resources:					
Funding	-0.453	10.463	-0.812	-1.393	7.805
Total Change to Forecast of Resources	-0.453	10.463	-0.812	-1.393	7.805
Revised Funding Gap reported to Cabinet 6th February 2020 (Quarter 3)	-4.045	5.733	13.548	18.076	33.312
Funding Update	-2.206	2.193	0.000	0.000	-0.013
Expenditure Update	0.000	0.000	0.000	0.000	0.000
Revised Funding Gap	-6.251	7.926	13.548	18.076	33.299

5.2 Revenue Budgets for Services in 2020/21

The budget outlined below results in a net revenue budget of £844.851m. The budget by service is summarised below:

Table 8

Revenue Budget 2020/21	Net Budget £m
Adult Services	365.591
Chief Executive Services	16.317
Children's Social Care	149.510
Corporate Services	18.790
Education and Skills	49.546
Finance Services	42.154
Growth, Environment and Planning	4.787
Waste Management	65.956
Highways and Transport	63.436
Public Health and Wellbeing	1.155
Strategy and Performance	33.903
Sub-Total	811.145
Financing Charges	27.455
Available Resources	6.251
Revenue budget 2020/21	844.851

6. The Capital Delivery Programme

This section of the report sets out the following:

- An outline of the 2020/21 capital delivery programme including known projects; and
- A summary of the proposed funding of the 2020/21 capital delivery programme and the revenue implications of the increased use of prudential borrowing.
- An indicative capital delivery programme for the 2 further years 2021/22 and 2022/23

6.1 Capital Delivery Programme for 2020/21

Table 9 below details a summary of the proposed capital delivery programme for 2020/21 with indicative programmes for the further two years.

The proposals for 2020/21 include the provisions to complete works already in the programme, those already approved for inclusion, and those identified for utilising the capital grant funding to be received in 2020/21.

The proposals for 2021/22 and 2022/23 are indicative based on the likely grant funding to be received and will be developed fuller through 2020/21.

Table 9

	2020/21 delivery budget	2021/22 delivery budget	2022/23 delivery budget
	£m	£m	£m
Schools	27.089	36.791	24.201
CYP	4.382	0.000	0.000
Highways	40.121	3.455	3.455
Transport	15.302	10.053	0.000
Externally Funded	6.574	1.471	1.456
Waste and Other	0.000	0.000	0.000
Adults	16.231	14.731	14.731
Corporate	19.243	29.000	6.000
Vehicles	4.600	3.000	3.000
Total Delivery Plan	133.542	98.501	52.843

The programmes and projects within the above blocks will be developed fully before the start of the new financial year and will be taken to cabinet for approval before work commences.

6.2 Proposed Funding

The capital delivery programme is currently funded by a variety of funding streams, the funding by block for each of the 3 years is shown below

Table 10

	Draft 2020/21 delivery budget	Draft 2021/22 delivery budget	Draft 2022/23 delivery budget
	£m	£m	£m
Borrowing	26.472	35.455	12.455
Grant	91.796	60.508	38.932
Contributions	15.274	2.538	1.456
Total Funding	133.542	98.501	52.843

6.3 Revenue Implications

The table below identifies how the revenue budget implications for financing charges are reflected within the medium term financial strategy.

Table 11

	2020/21 £m	2021/22 £m	2022/23 £m
Minimum Revenue Provision	14.936	16.316	17.389
Interest Paid	24.962	24.768	23.104
Grants Received	-0.200	-0.200	-0.200
Total	39.698	40.884	40.293

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 in 2020/21.

The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to cabinet.

7. Council Tax for 2020/21

The recommendation of the cabinet to full council on the council tax requirement is that the band D council tax for 2020/21 be increased by 3.99% which includes the 2% social care precept. The impact of these increases are:

Table 12

	Band D Council Tax	Council Tax income
Adult Social Care Precept increase at 2%	£26.93	£9.994m
General Council Tax increase at 1.99%	£26.80	£9.944m

The overall position is summarised as follows:

Table 13

	£m
Budget Requirement	844.851
Less Revenue Support Grant	33.430
Less Business Rates	202.318
Less New Homes Bonus	3.503
Less Improved Better Care Fund	45.532
Less Social Care Grant	33.417
Less Collection Fund Surplus	7.003
Equals council tax cash	519.648
Divided by tax base	371,092.21
Gives Band D council tax for 2020/21	£1,400.32
2019/20 council tax	£1,346.59
Percentage increase	3.99%

8. 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, showing the potential impact of both a positive and negative movement of 1% across the main areas within the MTFS:

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.196
Pay (1%)	+/- 2.758
Price Inflation (1%)	+/- 4.974
Demand (1%)	+/- 6.030

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

- **Government Funding**

The funding included within this report reflects the provisional settlement for 2020/21 that was announced on 20th December 2019. The announcement confirmed that there would be a one year settlement in 2020/21 and that the fair funding review would be delayed until April 2021. There are no funding levels confirmed post 2019/20. Assumptions have therefore been made based on the provisional finance settlement for funding levels from 2020/21 – 2023/24.

During 2020, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement confirmed that 2020/21 would effectively be 'rolled over' from 2019/20, giving councils the stability they need to set a budget.

In the provisional settlement, the Chancellor announced that councils will have access to new social care funding of £1.5bn in 2020/21. This consists of grant funding and up to a 2% adult social care precept.

The provisional settlement also confirmed that revenue support grant would continue at 2019/20 inflated amounts, and that the social care funding allocated in 2019/20 would continue into 2020/21. It was also confirmed that the 2019/20 75% business rates pilots would not continue into 2020/21.

As a result of the uncertainty of future funding during Q2 we carried out some scenario analysis around possible funding profiles. In total 9 scenarios were modelled (this is not an exhaustive analysis of all funding options but consisted of the most obvious measures which could be taken) which resulted in forecast funding gaps between a surplus of £6m to a deficit of £85m. Following a review of these scenarios by the corporate management team, including the consideration of advice from external advisors, a core and most likely funding scenario on which to base the medium term financial strategy was agreed and this scenario remains the most appropriate for the MTFS.

As a result of the above the assumptions around funding are that:

- Revenue support grant or funding at the equivalent value through any new fair funding formula will be ongoing for the currency of this plan
- An adult social care precept of 2% will be levied in 2020/21 only
- The social care grant announced in the provisional settlement will continue for the length of the parliament which covers the MTFS period and beyond.

At the time of writing the final settlement has yet to be confirmed. The settlement is likely to be published before parliament rises for half term and so this is expected in mid-February.

- **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 continue to see increases despite the impact of demand management measures and additional funds being built into the budget to reflect forecast pressures.

Over the period 2020/21 to 2023/24 £63m has been provided in the MTFS for demand pressures of which £47.3m relates to adult social care and £11.7m 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).

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 majority of the pay bill is driven by the national pay agreement. A 2% increase has been factored into the 2020/21 budget and subsequent years MTFS (2021/22, 2022/23 & 2023/24). The county council also remains committed to paying its employees as an accredited member of the Living Wage Foundation, who have announced a 3.33% increase in the living wage. The impact of this initial increase and

further 2.90% (2021/22, 2022/23 & 2023/24) 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% as measured by Consumer Prices Index (CPI). The CPI has been below this level since August 2019 decreasing further to 1.3% in December 2019. The Bank of England anticipate that inflation will be within 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. Given the government's commitment to raise the national living wage to £10.50 by the end of this parliament should economic conditions permit, we will need to monitor the rate at which the national living wage grows and whether there is any additional funding to support this growth. It is fair to say that we would anticipate additional funds would need to be made available to meet these costs. Our current assumption is that we will see net growth of 3.06% per annum in years 2021/22 onwards. This compares with the 6.1% increase announced in December 2019. Should the net impact of any future increase be greater than forecast then there will be an increased pressure in the budget of c£2.200m for each additional 1%.

- **Interest Rates**

The Bank of England base rate remains stable at the rate set in August 2018 of 0.75%.

The base rate continues to be at historically low levels and the Bank of England has maintained expectations for slow and steady rate rises in line with the performance of the economy. The county council's treasury advisors predict stable interest rates for the foreseeable future.

- **Savings Programme Delivery**

The council is committed to the delivery of a significant savings programme (c£58m over the period 2020/21 to 2022/23). 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,
- a 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 2020 is £23.437m. In addition the council continues to hold £10m as 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 is there hedge against that volatility, including interest rate changes and associated risks over the short-term without directly impacting the revenue account.

The 2019/20 revenue budget has been supported by £10.245m of reserves. This is significantly improved position when compared with the 2017/18 & 2018/19 financial years which were supported by £57.106m and £47.619m respectively. With the 2020/21 budget set without recourse to reserves this is a much more positive outlook, although we recognise there remains a structural funding gap in the later years of our medium term financial strategy. The value of the council's uncommitted transitional reserve by the end of the financial year is currently forecast to be £144.659m, although this is before the effect of the 2019/20 final outturn position.

The level of risk evident within the budget has been significant in recent years and remains so. 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 continues to ensure that processes are effective in managing in year expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

As part of the preparation of the MTFs, scenario analysis and stress tests of the current financial gap and reserves position have been undertaken. Given the uncertainty surrounding government funding arrangements beyond 2020/21 a range of potential funding scenarios were identified with the most likely one selected utilising advice from leading sector funding specialists. On the basis of the most likely funding scenario which forms the basis of the current MTFs there are sufficient reserves to support the budget for several years beyond the existing MTFs period. In the two most pessimistic and unlikely scenarios then there would be sufficient reserves to support the budget until part way through 2023/24.

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2020/21 to 2023/24. However, despite the ongoing delivery of savings identified through the service challenge process of c£58m in the period between 2020/21 and 2022/23 it is necessary that additional savings are identified to be delivered to bring the council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

Conclusion

There has been a significant focus nationally on the financial resilience of councils and one of the key areas of concern has been the utilisation of reserves in supporting budgets and the levels of reserves remaining. A key indicator identified by Chartered Institute of Public Finance and Accountancy (CIPFA) in flagging up potential issues is the level of reserves used by a council to meet any funding shortfall in setting the budget compared to the average level of reserves used to fund any structural deficit over the previous 3 financial years.

The average over the last 3 years in Lancashire has been c£38m, however this does not show the positive direction of travel as the requirement for reserves in setting the 2019/20 budget being much lower than the 3 year average at £10.245m. This and the proposed balanced budget for 2020/21 without recourse to reserves represents a significant improvement in this regard. This follows strong financial control during the current financial year as evidenced by the forecast revenue underspend which would enable a transfer into reserves. However, this is clearly dependent on all the agreed service challenge savings 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.