

Report to the Cabinet

Meeting to be held on Thursday, 3 September 2020

Report of the Chief Executive and Director of Resources

Part I

Electoral Divisions affected:
(All Divisions);

Money Matters 2020/21 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 2020/21 revenue and capital financial position, as at the end of June 2020 and an updated medium term financial strategy (MTFS) covering the period 2021/22 to 2023/24.

There is ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency has exacerbated the problem.

Accordingly significant assumptions are required to underpin our forecasts. While these can be made with a level of confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies, benchmarking and discussion with peers.

The Chancellor launched the 2020 Comprehensive Spending Review (CSR) in July 2020. This is due to be published in the autumn and will set out the Government's revenue spending plans for 2021/22 to 2023/24.

The Chancellor has not set a 'spending envelope' because of the uncertainty caused by COVID19, and has asked Departments to identify opportunities to reprioritise and deliver savings, however he did confirm that departmental spending will grow in real terms across the CSR period.

The outcome of the CSR will be fundamental to the future financial position of the council. To address our forecast pressures officers, working with our national organisations, particularly in adults and children's services which are the most significant areas of financial pressure due to the increasing demand and cost of services going forward, will develop an evidence base and narrative to influence the review.

Whilst the Q1 forecast is for a relatively small overspend of £3.737m for the current financial year, there remains a level of uncertainty about the longer term impacts of the ongoing pandemic. There will certainly be ongoing impacts relating to the collection fund that force a pressure, currently estimated at £10m per annum, into at least the next three years.

The wider impacts on economic activity remain uncertain at present and as a result we have assumed no growth in our tax base and share of non-domestic rates for 2021/22 the effects of which impact significantly upon our MTFS.

Any latent impact on price or demand for our services also remains unclear.

The current MTFS indicates an aggregated funding gap of £79.306m by 2023/24, an increase of £40.904m from the previously reported position. This is due primarily to the impacts of Covid-19 on our collection fund deficit and tax base, increased pay costs and service demand and inflationary pressures.

In summary:

- (i) The 2020/21 revenue forecast outturn is £848.588m, representing a projected overspend of £3.737m (0.44%) of the agreed budget.
- (ii) The MTFS has been updated for our current expectations of increased demand and volume. The revised forecast position has deteriorated in the light of our expectations of future funding levels, the impact of a higher than forecasted increase on the cost of our commissioned adult social care and an updated forecast on pay and pensions following the rejection of the latest pay proposals.
- (iii) At Full Council in February 2020 the MTFS showed a deficit of £38.401m in 2023/24. The forecast now indicates a financial deficit of £79.306m by 2023/24.
- (iv) 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.
- (v) The council is forecast to hold £150.295 of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap for financial years 2021/22 and 2022/23 only.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast overspend of £3.737m on the revenue budget in 2020/21.

- (ii) **Note** the revised funding gap of £79.306m covering the period 2021/22 to 2023/24 as set out in the revised financial outlook forecast for the council.
- (iii) **Note** the contents of the county council's reserves position.
- (iv) **Note** the expected capital expenditure outturn of £149.709m.
- (v) **Note** the revised 2019/20 capital delivery programme of £149.510m as presented within the body of the report.

Background and Advice

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

- Appendix A - the 2020/21 forecast revenue position.
- Appendix B - revised medium term financial strategy for the period 2021/22 to 2024/25, including reserves position.
- Appendix C - the 2020/21 re-profiled capital delivery programme and forecast outturn.

2020/21 Revenue Position as at 30 June 2020 (Appendix A)

A revenue overspend is currently forecast at £3.737m and represents a variance of 0.44% against the overall revenue budget of £844.851m. 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. Officer activity has been diverted away from savings as a result of the response to the Covid emergency. This has resulted in savings to the value of £25.568m being delayed until 2021/22 and beyond. Despite this the position at the end of quarter 1 was that 93.8% of the financial value of all agreed savings were rated as on track for delivery before the end of 2022/23, albeit some having to undertake work to mitigate against delays in delivery.

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

At Full Council in February 2020 the MTFS set out a forecast funding gap of £38.401m. The updated funding gap contained within the report has increased to £79.306m by 2023/24 primarily as a result of an updated view of the impact of Covid -19 on our funding, the impact of a higher than forecast National Living Wage rate for 2021/22 and the impact on staff costs of an estimated additional 1% pay settlement for 2020/21. The MTFS position includes additional costs relating to staff pay

inflation, transport and demand assumptions, and the impact of some savings that are deemed undeliverable.

The value of the uncommitted transitional reserve is currently forecast to be £150.295m by the end of March 2021. This does not include the impact of any variation as a result of the final 2020/21 outturn position. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24, but the intention is to identify further savings, thereby securing a sustainable financial position for the council.

Capital delivery programme for 2020/21 (Appendix C)

A 2020/21 capital delivery programme of £133.541m was agreed at Full Council in February 2020. 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 2019/20 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 2020/21 capital delivery programme increasing to £149.510m 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 support for the additional pressures as a result of the Covid-19 pandemic, revenue support grant, social care grant, business rates and the fairer funding settlement which has been delayed for a further year. At this point in time there is insufficient detailed information regarding the changes to be certain of the funding assumptions within the MTFS. We will continue to monitor government guidance and await the outcome of the CSR in the autumn and will update the MTFS accordingly. As a result of these uncertainties we have 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 including those delayed as a result of Covid-19 will be delivered in the period 2021/22 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
None		
Reason for inclusion in Part II, if appropriate		
N/A		