Report to the Cabinet
Meeting to be held on Thursday, 3 November 2022

Report of the Chief Executive & Director of Resources

Part I

Electoral Division affected: (All Divisions);

Corporate Priorities: Delivering better services;

Budget Report and Savings Proposals for 2023/24

(Appendix 'A' (including 'A1') refers)

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Brief Summary

The County Council has a net budget of £967m and in setting the budget for 2022/23 included a contribution from reserves of c£19m to support the structural deficit with the budget.

The financial forecast reported to Cabinet in September, identified an estimated financial gap of £87.054m in 2023/24, with this rising to £159.678m by 2026/27 which reflect financial pressures common across local government as a whole.

To address the structural financial deficit significant work has been undertaken by Directorates, with an emphasis on savings and efficiencies that can be made to support Lancashire County Council's overall financial position. This is a difficult time economically for all councils with higher than anticipated inflationary pressures, a higher than budgeted pay award and increasing demand for services, particularly social care following the pandemic. Levels of Government funding will not be released until the late Autumn; therefore, we have had to make significant assumptions regarding the funding that will be available in 2023/24.

This report highlights savings proposals for consideration to be included in the overall 2023/24 budget, with more detailed information provided in Appendix 'A'. These are generally focused on areas which will reduce cost or generate additional income without impacting negatively on service quality. Strong financial stewardship over recent years has resulted in reserve levels which allow a

considered and strategic approach to the identification of proposals to address the forecast funding.

There are several cross cutting strategic targets that are included that will further support reducing the financial gap and improve the efficiency and effectiveness of the organisation. However, even if all the proposals put forward are agreed there is still forecast to be a financial gap and therefore the final section of the report outlines potential options for achieving savings to ultimately reach a balanced budget over the lifetime of the medium term financial strategy (2026/27).

Recommendation

Cabinet is asked to:

(i) **Approve** the budget proposals set out in Appendix 'A', authorise officers to proceed with their implementation (subject to appropriate consultation where required and approval by Budget Full Council) and agree that the 2023/24 budget is based on these revenue decisions.

(ii) **Note** the reduced funding gap of £41.428m should the budget proposals be agreed covering the period 2023/24 to 2026/27 as set out in the revised financial outlook forecast for the council, in addition to a reduced funding gap for 2023/24 of £19.951m.

(iii) **Agree** the approach to strategic targets set out in Section 3, and that these form part of the 2023/24 budget and updated medium term financial strategy position.

(iv) **Note** the methodology of allocating further savings targets across the County Council with further proposals to be presented for approval at a future Cabinet meeting.

Detail

1. Overview of the financial position

The council is considering its budget and savings in a challenging and currently volatile global economic context that has affected local government as a whole with most councils reporting similar percentage increases to their funding gaps due to factors beyond our direct control. Work started on addressing the financial challenge soon after setting the current year budget in February and this, aligned with strong financial stewardship in recent years which has led to good levels of reserves, has enabled a considered and strategic approach to the budget focused on efficiencies, additional income generation and more effective use of resources.

At the start of 2022, UK GDP had maintained a positive recovery however the impact of rising energy prices on consumer incomes and industrial performance in the wake of the war in Ukraine continues to slow growth forecasts globally. In response, with inflation at multi-decade highs, central banks such as the Bank of England have tightened monetary policy. The UK's GDP fell in August and economists continue to forecast recession in the UK from Q4 2022.

Economists advise that Government intervention has the potential to reduce the headline inflation rate, but underlying pressures remain. UK vacancies in the job market remain at record high levels, as does the number of payrolled employees (maintaining unemployment rate at the lowest rate since the 1970s). However, wages aren't keeping pace with inflation thereby squeezing household incomes for many and impacting consumer confidence at the lowest levels since records began.

At the time of writing, the latest UK economic forecasts remain subject to the latest Government fiscal and policy announcements. On 17 October, the Chancellor brought forward a number of measures from the planned Medium-Term Fiscal Plan and reversed almost all of the tax measures set out in the Growth Plan that have not been legislated for in parliament, stating these changes are designed to ensure the UK’s economic stability and provide confidence in the government’s commitment to fiscal discipline. The Government's energy price guarantee is intended to continue to April 2023. The Chancellor will publish the government’s fiscal rules alongside an OBR forecast, and further measures, on 31 October.

The combination of rising spending demands on services, particularly in adult and children`s social care, coupled with inflation/National Living Wage and legislative changes, mean we need to accelerate our transformation programme of change. We will manage demand more effectively embarking on a programme of innovative transformation with aim of achieving better outcomes at lower costs and employ a relentless effort to drive out every penny from efficiencies.

Whilst we see an unprecedented demand for our services, our number one priority remains to ensure we will support the most vulnerable in our communities. We will continue to do everything in our power to protect frontline services. The approach we will take to manage the increased demand means we will take a more transformational approach, embracing complexity and tackling reconfiguration across the system as a whole. This is an ambitious strategy which will achieve large-scale change much more rapidly.

The planned changes will lead to shifts in demand for health and social care, and in patterns of service usage, which will result in efficiencies and savings. We will provide services targeted on need, aimed at preventing problems leading to better coordinated care closer to people’s homes.

In these times of financial constraint, an ever ageing population and growing demand for support, our core approach will emphasise wellness and the maintenance of independence. We will increasingly focus on what people are able to do for themselves and support individuals, families and communities to take the initiative. As we transform the way we work, we will maximise the role that technology plays and invest further in modernising our services.

As part of the Money Matters reports to Cabinet in September, an overspend was forecast across the revenue budget of £17.740m, which by way of context is 1.87% of the county council's net budget. The forecast overspend was caused by a number of factors that have had a significant impact on costs following the budget being set in February, including a higher than anticipated pay award, increased demand for services and significant inflationary increases. These pressures are common across local government as whole.

All services have been undertaking detailed reviews of their assumptions and cost drivers to identify management actions to reduce costs to within budget. Updated monitoring activity since the quarter 1 forecast has already identified a significant improvement to the forecast position of over 45% based on actions already put in place, with further work ongoing to deliver a balanced financial position by the end of the financial year. A full update will be provided to Cabinet in the Quarter 2 Money Matters report in December.

Position at Quarter 1

The County Council has a net budget of £967m and in setting the budget for 2022/23 included support from reserves of c£19m to support the structural deficit with the budget.

At Cabinet in September 2022, an updated position was provided as to the structural deficit within the revenue budget that is forecast for future years and builds on the financial pressures being experienced in the current year. The Quarter 1 forecast financial gap had increased to £87.054m in 2023/24 and £159.678m by 2026/27. The increase is the result of a number of factors including modelling the impact of rising levels of inflation including interest rate increases, a significantly higher than anticipated suggested national pay award and increasing demand for adult and children's services.

Table 1 shows the medium term financial strategy reported to Cabinet in September with the different elements of changes to the budget required for future financial years and the subsequent forecast pressure/financial gap.

Table 1

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Baseline expenditure	**967**	**1,069**	**1,127**	**1,186**
Pay	25	9	9	9
Price	44	29	33	35
Demand	34	16	14	15
Additional Grant	-7	1	0	0
Reprofiled savings	-11	-2	-1	-1
Capital financing	13	5	4	0
Other	4	0	0	0
Budget requirement	**1,069**	**1,127**	**1,186**	**1,244**
Funding	982	1,014	1,048	1,084
Budget Gap (reported Q1)	**-87**	**-113**	**-139**	**-160**

The value of the uncommitted transitional reserve reported at Quarter 1 was forecast to be sufficient to meet the forecast funding gap in 2023/24 but not later years due to the significant increase.

Reducing the Funding Gap

1. Savings Templates (Appendix 'A')

Whilst the scale of the forecast funding gap has increased during the year due to factors outside our direct control, work has been ongoing since March to identify proposals that will reduce the forecast funding gap and the requirement for reserves to support the revenue budget in future years. Our good financial position and financial stewardship in recent years has enabled this to be done in a planned and structured way and has involved looking in detail at budget trends over the last 5 years to identify opportunities for efficiencies, additional income, and more effective working, focusing activity on areas where our costs benchmark more highly compared to our comparator authorities.

There is a significant value of proposals across both adult and children's social care reflecting that they represent both a significant proportion of the current overall budget as well as the future forecast financial pressures of rising inflation and increasing demand for services resulting in the increased gap.

Appendix 'A' contains net efficiencies and savings proposals totalling £85.834m and would have addressed the original funding gap prior to the updated medium term financial strategy.

2. Strategic Targets

Despite the significant value of proposals identified by Directorates, there has been a significant increase in the forecast funding gap since the budget work started in March, due to the factors outlined in the report. The strategy to close the remaining financial gap is to introduce sustainable change, but this will take time to bring into effect. To achieve this ambition, several largely cross cutting workstreams have been identified that target efficiency and productivity gains and more effective service delivery. The detailed plans are not yet fully developed but targets have been identified which are believed to be achievable based on experience of similar programmes of activity in other organisations. The targets outlined in the report have been adjusted to reflect an assessment of current confidence levels and risks linked to their delivery, which will reduce as the detailed plans are developed and may lead to workstream savings targets increasing over time and updates provided to future Cabinet meetings.

- ***Contracts***

The contract workstream target represents a 2% reduction in the cost of ongoing revenue contracts being targeted though strategic review of the contracts register to identify options for contract aggregation, rationalisation and reduction in the volume or cost of the services or goods being contracted for going forward.

- ***Workforce***

The workforce workstream target is based on reductions in agency staff expenditure, improved sickness absence levels, robust vacancy management and a review of management spans and layers to reflect best practice.

The council continues to experience significant workforce pressures across a number of occupational roles and services and specifically in the care sector in line with most other authorities.

Due to the essential nature of the support and services care professionals provide to some of the most vulnerable Lancashire residents, including within the council's own residential homes for older people, it has been necessary to rely on agency staff to fill vacancies in order to meet safe staffing levels. This is not a desired position as it does not necessarily afford the continuity of care and relationship with residents or represent good value for money.

Although facing shortages of permanent staff the agency market is reasonably buoyant and this is contributing to further financial pressures on social care service budgets particularly. There is a similar position in children services where the cost of care placements has escalated significantly. Work continues to mitigate the financial risks to the authority whilst simultaneously protecting the interests and welfare of our most vulnerable citizens.

- ***Digital and Technology***

The digital workstream is identifying opportunities for the application of technology solutions to drive service efficiencies and will be a significant contributor to savings along with the business process workstream. A review of all digital and technology projects is taking place with a focus on the benefits to be realised within services from system implementation and to build benefits realisation plans into business cases for future technology investments.

- ***Property***

The property workstream is targeting a reduction in the size and cost of our property holdings through the strategic property review and will also help to deliver a level of one-off capital receipts which will be used to support the revenue budget over the next 2 financial years as outlined in the report. The property review is being delivered in line with the principles of the approved Property asset management Strategy which was approved in February 2020. The strategy contains objectives to review our property portfolio to ensure that it is appropriate for service delivery to ensure that we maximise use of our properties to maintain value for money. The ongoing review is taking full account of opportunities arising from new ways of working and the use of technology, which is reducing the demand for property. The review is also taking property condition, and decarbonisation ambitions into account as well as ensuring that service needs are properly understood and provided for as part of the process.

- ***Business Processes***

The business processes workstream will target process change and improvements through targeted activity to improve efficiency and reduce effort and cost by changing processes.

As part of the refinement of the proposals further work will be needed to reduce the risks associated with each savings element. Work will be undertaken to ensure any overlaps between savings are accounted for and that the profile of the savings is ambitious but achievable. In some cases, there will be a requirement for investment to deliver the work streams, but as yet this has not been quantified.

Targets will be reviewed as work progresses, detailed implementation plans developed and the level of confidence in the value of savings that can be delivered increases. The current targets are shown in Table 2.

Table 2

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Contracts	-2.3	-5.6	-7.1	-7.7
Workforce	-4.7	-7.8	-8.7	-9.6
Digital and Technology	-0.3	-0.6	-0.9	-1.2
Property	0.0	-0.2	-0.4	-0.6
Business Processes	-1.7	-6.7	-13.3	-13.3
Total	**-9.0**	**-20.7**	**-30.4**	**-32.4**

3. Capital Receipts

From 1 April 2016 the Government introduced the flexibility for capital receipts (income derived from the sale of long-term assets) to be used to fund revenue expenditure, which meets certain criteria. Previously their use had been restricted to funding capital expenditure or the repayment of debt. 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 service provision. The existing flexibility has been extended up to and including the year 2024/25.

The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. In addition, our strategic plan will change as we release assets aligned to business need. Therefore, there is a probability that in any given year the receipts received will be higher or lower than forecast the situation will be monitored closely.

A further review has been undertaken of the level of future capital receipts and an increased target included in the medium-term financial strategy. The target has increased from £2m of receipts already built into the strategy at Quarter 1 to £5m in both 2023/24 and 2024/25.

4. Revised Medium Term Financial Strategy

Table 3

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Spending Gap as reported at Q1	**87.054**	**112.763**	**138.812**	**159.678**
Add change to forecast of spending:				
Net Savings Proposals (Appendix A)	-55.085	-66.575	-78.096	-85.834
Strategic Targets (Section 3)	-9.018	-20.866	-30.419	-32.419
Funding (Capital Receipts)	-3.000	-3.000	0.000	0.000
Funding Gap	**19.951**	**22.322**	**30.300**	**41.428**

The impact on the Transitional Reserve is shown in the table below. This indicates that the reserves are sufficient to cover the funding gap for next 4 years. However, by identifying further savings and/or delivering savings earlier than currently planned we would seek to address the gap sooner and ensure reserves are maintained for further service transformation and improvement.

Table 4

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Opening Balance	191.093	166.590	141.784	111.485
Gap funding	19.951	22.322	30.300	41.428
Commitments	4.552	2.484	0.000	
Closing balance	**166.590**	**141.784**	**111.485**	**70.057**

5. Next Steps

Following the application of the savings templates, strategic targets and additional capital receipts shown above there remains a structural deficit of c£41m. The county council has healthy reserves as shown in Table 4 that can support the development of savings proposals and provide investment and resources.

In order to achieve a balanced budget position various other workstreams are in progress to identify and secure further savings. It is however worth noting that we expect this gap to reduce as we secure better data to drive our ambition and confidence in the strategic targets set.

As a county council we regularly compare ourselves through benchmarking to other local authorities, particularly county councils. The data suggests that despite the savings proposals put forward in this report, in some service areas we remain high cost. Although there are always some limitations to benchmarking data, it is a good indicator of how we are performing in comparison to other county councils, therefore this data, along with other intelligence and evidence, will be used to set further targets for Directorates, with the target being to provide services at, or below, the unit cost of the median county council for each service area.

In addition, a further workstream that is looking to generate further savings/income relates to commercialisation. Work is ongoing to explore the potential of our existing companies to yield better returns or move into the private sector. All fees and charges are being reviewed and benchmarked to ensure we remain aligned to our markets. We will also review and identify opportunities to generate more income including offering best practice services to a wider market. All traded activities need to demonstrate appropriate returns and manage risk as set out in the commercial blueprint approved by Cabinet.

Consultations

Proposals will be subject to appropriate consultation where required. The outcomes of consultations will be reported back to Cabinet for consideration in due course.

Implications:

This item has the following implications, as indicated:

Equality and Cohesion

Cabinet must ensure that they comply with the requirements of the Public Sector Equality Duty as set out in s.149 of the Equality Act 2010.

The budget proposals are set out in this report. In some cases, they may have a negative impact on persons with protected characteristics and initial Equality Analysis reports are included where required. These must be taken into account as part of the decision-making process.

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 economic pressures, revenue support grant, social care grant, business rates and the fairer funding settlement which has been delayed for a further year. The current funding assumptions in effect roll forward the current year's confirmed funding but the actual funding position will not be known until late autumn.

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 medium term financial strategy based on inflation and interest rate assumptions, primarily on capital debt financing, utility costs and contractual price increases, particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the medium includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the national living wage. Should inflationary pressures increase above those included in the current forecast position this would represent an additional financial pressure. Similarly, and reduction in inflation rates from our assumptions would have a positive impact.

Delivery

The medium term financial strategy assumes that already agreed savings including those delayed as a result of Covid-19 will be delivered in the period 2022/23 to 2024/25. 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.

The county council has a good track record for delivering savings and this has been supported by a strong governance structure. As this paper presents many new savings proposals the governance structure will be reviewed to ensure it will support the higher volume of savings in addition to strategic targets.

Legal

Cabinet should be aware that these budget proposals are presented as suggestions which are likely to give rise to impactful efficiencies. It is likely that further work will be required to take forward the proposals including in some cases consultation, and where this is the case the outcome of the consultation and impact on the proposal itself will need to be considered at Cabinet. Where consultation is considered necessary, it must be meaningful and the decision-maker must approach the issue with an open mind and take into account relevant representations.

List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

Appendix 'A1' is not for publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. The appendix contains information relating to the financial or business affairs of any particular person (including the authority holding that information). It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.