

Report to the Cabinet

Meeting to be held on Thursday, 2 February 2023

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected: (All Divisions);
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Corporate Priorities: N/A;

Money Matters Quarter 3 Report 2022/23

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

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Brief Summary

This report provides an update to Cabinet on the county council's 2022/23 revenue and capital financial position and makes recommendations for Full Council in respect of the 2023/24 budget and council tax levels, including the proposed capital delivery programme.

Like all councils, we continue to experience increases in demand, particularly in relation to Adults and Children's Social Care, and increasing cost pressures. Many of the underlying causes are outside of the council's control however through proactive management the forecast outturn for 2022/23 has reduced from £7.991m to £2.521m and we are focused on driving this down further.

The Provisional Financial Settlement for 2023/24 was announced on 19 December 2022. The final settlement will be confirmed in February 2023 although in previous years there has been very little change. The medium term financial strategy was updated for the Provisional Settlement plus other known changes and reported to Cabinet on 19 January 2023. This indicated an improved position.

Following consultation with Cabinet, an updated medium term financial strategy is provided within this report. The primary change relates to a revision to the proposed council tax level for 2023/24, now proposed at 3.99% a reduction from the previous assumption of 4.99%. The revised forecast funding gap for 2023/24 is £9.501m, an increase of £7.760m, with an updated structural deficit of £23.286m by 2026/27.



Recommendation

Cabinet is asked to:

- (i) **Agree** to make recommendations to Full Council on 9 February 2023 for a Band D Council Tax for 2023/24 reflecting a 3.99% increase including 2% to be used for adult social care in line with the new flexibilities.
- (ii) **Note** the revised funding gap of £9.501m in 2023/24 and **Agree** to make recommendations to Full Council on 9 February 2023 for this to be met from the uncommitted transitional reserve.
- (iii) **Agree** to make recommendations to Full Council on 9 February 2023 for an indicative capital delivery programme of £239.859m in 2023/24.
- (iv) **Note** the current forecast overspend of £2.521m on the revenue budget in 2022/23, the revised 2022/23 capital delivery programme of £222.900m with a forecast outturn of £163.566m.
- (v) **Note** the advice of the council's Chief Finance Officer with the regard to the robustness of the budget and the adequacy of reserves.

Detail

The detailed reports present the Quarter 3 position and are appended as follows:

- Appendix 'A' - the 2022/23 forecast revenue position.
- Appendix 'B' - revised medium term financial strategy for the period 2023/24 to 2026/27, including reserves position.
- Appendix 'C' - the 2022/23 re-profiled capital delivery programme and forecast outturn and indicative capital delivery programme for 2023/24.

2022/23 Revenue Position as at 30 November 2022 (Appendix 'A')

A revenue overspend is currently forecast at £2.521m and represents a variance of 0.27% against the overall revenue budget of £948.107m. This is an improvement across all Directorates of almost £5.5m from the c£8m overspend that had been forecast at Quarter 2 and reported to Cabinet in December. The improvement reflects services having undertaken detailed reviews of their cost drivers, identifying actions to reduce costs and improve income levels including tighter control of vacancy management. The focus will remain on increasing efficiency and productivity as well as increasing income wherever appropriate with the aim of delivering within our financial envelope.

Pay, price and demand pressures have led to the forecast overspend. There remains a risk that the current volatility in actual demand could lead to a more significant variance from the current forecast by the end of the year, however with cost control measures remaining in place it is expected that there will be further



improvement over the final quarter as in previous years. The primary area of overspend is Children's Social Care at c£12m. Underspends are forecast in most other service areas including Adult Services where the position has been supported by some one-off savings and initiatives, particularly in relation to additional income.

The savings that have been agreed to date are being closely monitored. These are a combination of savings that were planned to be delivered in 2021/22 or earlier and were delayed due to the pandemic, and the budgeted savings agreed to be reprofiled for 2022/23. There is a strong management focus on delivery of these savings.

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

The current medium term financial strategy indicates a forecast funding gap of £9.501m in 2023/24, an increase of £7.760m on the previously reported position. The structural deficit is forecast to rising to £23.286m by 2026/27. The increased gap predominantly relates to a revision to the proposed council tax level for 2023/24 from 4.99% to 3.99%. There are also some additional investments proposed in sustainable travel and ICT security. To offset some of the increased pressures, funding from capital receipts will be included to support the 2023/24 budget.

The value of the uncommitted transitional reserve is currently forecast to be £188.533m by the end of March 2023. This does not include the impact of the forecast overspend within the 2022/23 outturn position, as the variance is relatively small, and work is being undertaken by services to achieve a break-even position. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gap for the next 4 years. Work continues on identifying further savings proposals to reduce the structural deficit and associated demand on reserves. These will be brought to future Cabinet meetings as appropriate.

Capital Delivery Programme for 2022/23 and Indicative Capital Delivery Programme for 2023/24 (Appendix 'C')

The forecast outturn as at December 2022 is £163.566m against a revised delivery plan of £222.900m, an expected variance of £59.334m. Key items of variance include slipped delivery in the rolling program of operational buildings repairs and maintenance and on various economic development projects particularly the Salmesbury Enterprise Zone

An indicative capital delivery programme for 2023/24 of £239.859m has been prepared using agreed annual budgets in addition to the forecast delivery of any remaining prior year slippage net of any accelerated delivery. The indicative programme will be reported back to Cabinet for approval early in the new financial year following a review in light of the final outturn position and updated assessment of delivery plans.



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, currently the Chief Executive and Director of Resources, on the robustness of 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 underpin the budget. The basis of these estimates, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council, and any changes in national policies. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks and capitalise on financial opportunities arising from changes in the forecasts.

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 medium term financial strategy:

	Potential Full - Year Impact of 1% movement (£m)
Funding - Council Tax	+/- 5.983
Pay	+/- 4.408
Price Inflation	+/- 8.161
Demand	+/- 5.546
Interest on borrowing	+/- 5.000

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

- **Government Funding**

The Provisional Settlement was announced on 19 December 2022 and confirmed the funding streams that had previously been announced as part of the Autumn Statement.

Whilst the Provisional Settlement aims to provide some certainty to councils over the next 2 years, this mainly relates to the confirmation of flexibility in the level of council tax increase rather than confirmation of grant values in 2024/25. Estimates have been made of 2024/25 allocations using the same distribution formula being applied to funding streams in 2023/24. In addition, there remains uncertainty with regard to both the financial position and particularly funding levels from 2025/26 onwards. The medium term financial strategy makes the assumption that those grants provided in 2023/24 and 2024/25 will continue at existing levels over the lifetime of the strategy, whether that be as a specific grant or as part of a new funding formula.



The Provisional Settlement contained detailed figures for additional social care funding and provided confirmation of the ability to increase council tax by 4.99% in 2023/24 and 2024/25 including a ringfenced 2% adult social care precept. Some information was provided as to what it is expected that the additional funding would be spent on, with more detail being provided in due course. The review of the funding formula and business rates retention remains delayed. Indications are that the earliest opportunity for this to be introduced would be 2025/26.

Consequently, the biggest risk exposure, and potential opportunity, is with regard to the uncertainty on future funding levels from 2025/26.

- **Service Demand and Service Price Pressures**

Common to all upper tier councils we continue to experience pressures on adult and children's social care, particularly with regard to homecare services in adult social care and the cost of residential placements in children's social care. As a consequence, increased demand and inflationary price pressures have been factored into the medium term financial strategy. For adult social care services an additional £59m has been built in for increasing demand and a further £155m built in for expected price and inflationary fee pressures. Additional grant funding has been received as part of the Provisional Settlement to support both demand pressures and price increases including market sustainability and facilitating hospital discharge.

Demand pressures are 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 when it is likely that demand will return to more usual levels as the current high levels of demand have been a key contributing factor to the funding gap.

Levels of inflation have been increasing during the year with the UK Consumer Price Index for November registered 10.7% year on year, although recent figures announced for December indicate that levels could have potentially reached their peak.

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 has been included within the estimates to fund price increases as well as the impact of the national living wage on care providers. As part of the Provisional Settlement, additional funding was provided through various grants to support some of the additional costs across social care services. While further details are required on the conditions to this funding, it has been assumed within the estimates that those conditions can be satisfied.



- **Pay**

The majority of the pay bill is driven by the national pay agreement at £1,925 per full-time equivalent. At an average increase of 7% on the salary bill, this additional cost has been reflected in the budget.

Further to the announcement of the agreed pay award, assumptions relating to pay were increased, with budget provision made for an increase of 5% in 2023/24, 3% in 2024/25 and 2% in both 2025/26 and 2026/27. This change in assumption was made based on consideration of benchmarking information provided from other county councils, although the actual pay award will be in line with the outcome of the annual National Joint Council pay negotiations.

The county council remains an accredited member of the Living Wage Foundation.

- **Interest Rates**

As a result of the inflationary pressures there have been steady increases in the level of interest rates throughout 2022/23, with rates starting the financial year at 0.75% and the interest rate from December 2023 being 3.5%.

The increase particularly impacts on the borrowing costs in support of the capital programme. Increases in forecast costs have been built into the estimates based on forecasts provided by our treasury management adviser Arlingclose.

- **Savings Programme Delivery**

The scale of savings agreed to be delivered in previous budget rounds remains significant with c£30m budgeted to be delivered in 2022/23 and a further c£18m in later years. A further c£86m of additional savings proposals and £32m in strategic targets were agreed by Cabinet in November to form part of the 2023/24 budget proposals.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. There are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required. We have a strong track record of delivery of our saving plans and in delivering balanced budgets over recent years, however this remains a significant risk on our risk register.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council. However, there is a strong management focus on delivery of agreed savings and accelerated delivery will help to improve confidence as well as create opportunities for alternative investments.

Overall, I am satisfied that the council's budgets are robust being underpinned by appropriate assumptions based on a variety of external and internal experts. We have also benchmarked data with other councils for added confidence. Of course, there are no absolutes and risk cannot be removed in its entirety. However, for all assumptions there are both upside and downside risks and the council has robust



monitoring and management arrangements to ensure early identification of emerging risks and opportunities enabling appropriate action taken.

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 or cost of 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 and opportunity 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 2022 is £23.437m. In addition, the council is forecast to hold £36.3m by the end of the financial year as a formal treasury management reserve to hedge against the uncertainty and volatility inherent in these markets. The reserve will enable the council to manage unpredicted interest rate changes and associated risks over the short-term without directly impacting the revenue account.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, is currently forecast to be £188.533m at the end of 2022/23 and is sufficient to meet the forecast funding gap within the current medium term financial strategy covering 2023/24 to 2026/27.

The level of risk evident within the budget has been significant in recent years due to uncertainty in the macro economic outlook and funding levels. However as part of the Provisional Settlement the Government provided relative certainty as to the levels of funding for the next two years. The revenue budget for 2023/24 will need to be supported by reserves with an increasing gap forecast in subsequent years. The transitional reserve allows decisions to be made in a more measured and considered way while a sustainable budget is achieved.

As part of the medium term financial strategy report, scenario analyses of the forecast financial position and impact on reserves has been undertaken. Overall, I am satisfied that the council has an appropriate level of reserves to cover the balanced risk assessment of our financial position from 2023/24 to 2026/27. However, it will be necessary for additional efficiencies, income generation and reduced costs to be achieved to bring the council to a financially sustainable position.



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 including mitigation strategies. 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.

Legal

Matters referred to in this financial forecast will be subject to council consideration where appropriate.

List of Background Papers

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		

