Appendix 'A'

Money Matters – Update on the County Council's Financial Position for 2014/15

1. Introduction

This report provides an update for Cabinet on the County Council's current financial position. The report is in three parts:

Section A – Sets out the forecast end of year position for the 2014/15 revenue budget

Section B – Sets out progress on the Capital Investment Programme

Section C – Sets out the impact of the current monitoring position on the County Council's reserves and County Fund balance.

Section D – Sets out the County Treasurer's conclusion on the overall financial health of the County Council

2. Summary of the Financial Position

This report provides Cabinet with a view on the Council's current financial performance and the anticipated position at the year end. The forecast is based on information to the end of September 2014 and shows in summary:

Section A - For the Revenue Budget

- A potential underspend on the revenue budget of £4.203m, which has increased the underspend position previously reported by £0.066m.

Section B - For the Capital Investment Programme

- Forecast capital spending in year of £199.162m which is 84.4% of the programme.
- Estimated slippage of £36.751m into future years.

Section C - For Reserves and Balances

- The current forecast leaves the balance on County Fund at £36m.
- Resources currently uncommitted within the Downsizing Reserve amount to £73m.

3. Section A - The 2014/15 Revenue Budget

3.1 The Overall Summary

In February 2014 the County Council approved a revenue budget of £758.310m, which when adjusted for in year changes, results in a cash limit for monitoring purposes of £759.301m. The monitoring position against this budget at 30 September 2014 is broken down below, and shows that overall, an underspend of £4.2m is forecast.

Budget Area	Cash Limit	Forecast End of Year Position	-Under/Over spend	
	£m	£m	£m	%
Spending on Services				
Adult Services, Health and Wellbeing	326.715	328.220	1.505	0.5
Children and Young People	147.756	151.418	3.662	2.5
Environment	169.217	161.139	-8.078	-4.8
Office of the Chief Executive Including BTLS	46.779	51.354	4.575	9.8
County Treasurer	5.619	5.598	-0.021	-0.4
Corporate	38.426	37.997	-0.429	-1.1
Strategic Items	-6.665	-4.932	1.733	-26.1
Lancashire County Commercial Group (LCCG)	-6.388	-6.538	-0.150	-2.3
Capital Financing	37.842	30.842	-7.000	-18.5
Budget Requirement	**759.301**	**755.098**	**-4.203**	**-0.6**

The key issues emerging are as follows:

3.2 Adult Services, Health and Wellbeing Directorate

Overall the Directorate is forecast to overspend by £1.505m. The forecast overspend has marginally increased since the previous cabinet report reflecting a number of small shifts across services.

As previously reported, the main areas of pressure are within the major demand led adult social care budgets, where forecasting is also being made difficult due to the transition to the new working practices brought in by the introduction of the Liquid Logic system.

There is particular pressure in the areas of Learning Disability (overspend £2m) and Physical Disability (£1.8m overspend). Specific contributory factors here include the continuing impact of the ordinary residence changes and the additional costs of resettlement arising from the Winterbourne concordat. These overspending areas are partially offset by a £2.9m forecast underspending on services for older people primarily as a result of reducing the rate of new admissions to residential and nursing care coupled with an increase in reablement activity which is impacting on the cost of individual care packages.

There is also a forecast overspend of £2m on staffing within the Personal Social Care Teams, which results from the delayed implementation of Liquid Logic coupled with the growing pressure from the impact of the new responsibilities in relation to Deprivation of Liberty Safeguards (DOLS), which were highlighted earlier in the year.

Management action has already resulted in a £0.4m improvement in the position within the Community Services budget, although it is still currently forecasting an overall overspend of £0.660m and work is continuing to deliver a balanced outturn in this area.

In house disability services continue to forecast an underspend of £0.633m, however there is a discernible increase in demand for these services which may impact on the scale of the final position in this area.

The Directorate is achieving managed underspends of £2.004m in the Resources area, largely due to savings forecast to be achieved across a number of previously grant-funded or non-statutory areas of service, including Help Direct.

Increases in demand have been reflected in the forecast for 2015/16 to 2017/18 going forward. However, as highlighted within the forecast report, it is currently assumed that the impact of the Deprivation of Liberty Safeguards will be funded through the new burdens mechanism going forward.

Management Action

The directorate leadership team are aware of the ongoing pressures and are taking steps to manage these within existing budget provision, through a combination of effective demand management and the identification of offsetting underspends where possible. Some examples of this include

- The increased number of referrals to the reablement service which are reducing spending on older people's services via a combination of people not requiring ongoing services or requiring a lower cost care package. Linked to this there is also an agreement via the Health and Wellbeing Board for some additional s256 funding for the cost of the reablement service.
- The management of staff vacancies within In-House Adult Disability day services to offset pressures on domiciliary services.

- Involving health partners through the development of the Better Care Fund and more integrated working with the formal pooled budget to be in place from April 2015.

A number of work streams are also in place to mitigate, as far as is possible, the financial impact of the various national changes affecting the directorate including ordinary residence, Winterbourne and DOLS, as noted earlier, as well as modelling the financial impact of the Care Act with the first set of changes taking effect from April 2015. Examples of these work streams are-

- On Winterbourne, the issue here is about seeking to maximise the contributions from individual CCG's towards the cost of individuals assessed as being suitable for moving back into the community which is a matter for individual negotiation and we are seeing a number of cases being 50/50 funded.

- The DOLS issue continues to be a problem for all authorities and whilst there is a significant increase in the amount of activity, this is very much being targeted to cases that are essential / unavoidable and being absorbed as far as is practicable but is having an impact on personal social care productivity overall.

Delivery of Revenue Savings

A robust monitoring framework is in place to track the progress and delivery of key savings programmes across the Directorate. The only area currently flagged as a significant risk to date is transport, with an under-achievement of savings estimated at £0.9m. In addition, it may not be possible to deliver the full £0.5m skills review savings within Lancashire Adult Learning due to changes in the levels of grant funding and linked conditions, but any under-achievement will be met through funding from reserves and will need to be addressed as part of the lifelong learning project.

There are no agreed savings identified as being delivered significantly ahead of target. These issues are incorporated into the forecast overspend for the Directorate.

3.3 Directorate for Children and Young People

The Directorate is currently forecasting an over spend of £3.662m, which represents a significant shift from the balanced position previously reported. The most significant pressure to emerge is in the area of agency placement costs and work is in hand to strengthen the management and monitoring of the placement approval and funding processes.

As previously reported there are forecast overspends on both SEN (£1.097m) and Mainstream (£1.003m) transport due to demand pressures. Options for further savings such as using single suppliers for Special Schools and further route optimisation are currently being considered to address the underlying issues.

Overspends continue to be forecast on costs associated with looked after children (£0.629m) and on legal fees (£0.409m), although the latter is significantly lower than in previous years due to cases now being dealt with more quickly.

Agency placements for looked after children are forecast to be £5.967m above budget. Factors that have led to the increase in projected spend include:

- The recent implementation of the Liquid Logic case management system has presented a number of challenges that have had a significant impact on the invoicing and forecasting processes across both children and adults services. With the support of Management Team some time limited resource is now in place to clear the invoice backlog. Support for social care staff is needed to ensure that care packages are recorded accurately and in a timely manner and a training programme is in development and will be delivered to staff from November.

- Some weaknesses have been identified at various points in the end to end decision-making, placement-finding and procurement process. The Directorate has invested heavily in a number of initiatives focused on providing services in a different way to prevent young people coming into care where appropriate, and to reduce the number of young people placed in long term care. Budget reductions are linked to the success of these projects and there is evidence supporting positive impact. The number of young people starting to be looked after in 2014/15 to date is lower than 2013/14 at the same point. However it is recognised that the number of young people returning home is not at the desired level which is impacting on the Directorate's ability to deliver services within budget. Reducing spend on a permanent basis to operate within the reduced funding envelope demands robust and consistent placement decision-making, to ensure needs are met by providing the right services, and that a targeted commissioning approach is adopted to focus on individual placement costs and the utilisation of existing capacity. Specific actions are detailed under 'Management Actions' below.

- A short-term reduction of residential in-house capacity. Social care teams have been unable to place two young people with external providers due to the complexity of their needs. In one of those cases the national decommissioning of secure provision meant the Council needed to place the young person as the sole occupant in one of our homes. Whilst this decision has significantly impacted on spend, the Judge recently praised the Council's efforts to address the national resource issue.

The continuing pressure on agency placements has been incorporated in the forecast for 2015/16 to 2017/18 to ensure the Council's budget going forward is robust.

Whilst Children's Social Care are experiencing the issues outlined above the agency provider spend for children with disabilities is currently projected to underspend by £1.9m, with further forecast underspend of £0.7m on in house fostering.

Management Action

The system and procurement processes highlighted above are being addressed as a corporate priority and additional staffing resource is now in place directed at resolving the invoice and system-user issues across both children and adults services.

The cost associated with looked after children placement presents a key budget risk. A review was recently carried out by a member of the Institute of Public Care into the Council's systems and services in support of placement outcomes. Based on the findings, actions to address the agency placement projected overspend include:

- Development of a 'brokerage' model to source and commission suitable placement and support services. Evidence has shown that introducing a team that understands demand and knows the market well has achieved cost savings through placement stability and better commissioning of services;

- Focusing on the recruitment and retention of Lancashire foster carers, including further development of a peer-network approach to supporting new carers.

The placement decision-making process will be changed to ensure a more stringent and consistent approach across the service.

Work is also currently underway to benchmark costs against other local authorities to ensure we are aligned with the recorded industry performance.

Due to the issues being experienced above the directorate is undertaking a squeeze on non-essential expenditure expected to generate savings of £1.9m as well as targeting expenditure reductions in a number of services. As part of this, School improvement is being targeted to generate an underspend of £1.2m, in addition to the above general savings.

Given that recent termination payments for schools' staff have been able to be funded from the schools budget it is now forecast that the Directorate budget for these costs will underspend by £1m.

Delivery of Revenue Savings

As previously reported savings of £0.158m from Charging for Post 16 Transport for Young People with Special Educational Needs and Disabilities and from ceasing adoption allowances for current adopters are at risk and the relevant services are identifying efficiencies elsewhere to address these issues.

While savings from reducing new demand entering the system would appear to be being delivered based on current activity there are clearly some considerable financial risks around how needs that are presenting are being addressed which the Directorate are prioritising for attention. Updates will be provided to Cabinet as the work progresses.

3.4 The Environment Directorate

The most significant area of underspend continues to result from the in-year changed contractual arrangements for the operation of the two waste plants of £6.9m.

However, there is a small increase in the level of underspend forecast since the last Cabinet of £0.114m, with continuing pressures in Highways Services offset by increased forecast underspends in other areas, particularly Waste.

There are a range of savings arising from changes to contractual and partnership arrangements in Road Safety (£0.2m), parking enforcement (£0.2m), and the re-tendering of subsidised bus services (£0.3m). There has also been a further reduction of nearly 5% in activity against the concessionary fares budget generating a forecast underspend of £0.5m.

The increase in development activity across the County is generating additional s.106 and s.38 income currently forecast at £0.84m, while staff vacancies continue to produce forecast savings of £0.7m.

These underspending areas are offset by a number of areas of pressure, the most significant of which results from increases in the unit price of street lighting energy which is forecast to result in an overspend of £0.8m. This has been reflected in the forecast going forward and therefore the risk in future years is to some extent mitigated, although this does remain a volatile area in terms of prices.

As previously reported capital fees are forecast to under recover by £0.2m in Building Design and by £0.1m in the rest of the directorate, the former caused by issues with the flow of work and the latter due to staff vacancies.

Other pressures relate to the delayed implementation of savings proposals, set out below (£0.176m) and pressures on a number of income budgets including for Traffic Orders and pay and display income (£0.195m).

Management Action

Discussions are under way to minimise the under recovery of capital fees in this year. The issue of the capital programme not being large enough to fully utilise the current staff cohort is only temporary therefore workforce planning is underway to ensure specialist skills are not lost and can be flexed to meet capital programme needs going forward.

The additional S106 contributions are part of the Council's strategy to try to maximise third party contributions to help provide the best possible services to the residents of Lancashire with the resources available.

Delivery of Revenue Savings

The issues around the savings from the Sustainable Urban Drainage system and highways permits have been previously reported. The latter is delayed by 2 months while in the former case officers are looking into establishing a local scheme in the absence of progress on the national scheme.

3.5 The Office of the Chief Executive Including BTLS

OCE

A net £0.328m underspend position is forecast within OCE, with previously reported spending pressures in the County Secretary and Solicitor's Legal practice relating to child protection work of £0.286m now being more than offset by the impact of vacancy savings across the rest of the service.

The most significant newly reported areas of forecast underspend are from vacancy savings across the Directorate of £0.322m.

BTLS

The reported position for BTLS reflects a worst case assumption in relation to various income budgets, including the areas of risk previously highlighted which give rise to a total pressure of £4.903m. Of this £4.442m relates to CLEO, and reflects reductions in prices to schools, as well as reductions in the numbers of schools subscribing to the service. This is a one off issue in the current year. The remaining sum (£0.461m) is the result of more routine variances in income levels caused for example by schools buying less services than has previously been the case.

In line with the agreement made when the contract with BT was renegotiated, BTLS are due to bring forward proposals for the future of CLEO before the end of October 2014. Any impact of these proposals will be reflected in future reports.

3.6 The County Treasurer's Directorate

The small £0.021m underspend is in relation to staffing costs.

3.7 Lancashire County Commercial Group

Operational efficiencies in the services are showing generating an underspend of £0.150m for the year spread across all areas of the service. While the forecast reflects some assumptions about the level of activity generated by free school meals it is, as yet, too early to estimate the likely long term impact of this initiative on the trading position.

Delivery of Revenue Savings

£0.200m of the £0.770m management cost savings target has been achieved. As indicated in the reported position the balance should be achievable from additional surpluses on contracts, but this is not guaranteed as the savings are not being achieved through planned cost reduction.

3.8 The Corporate budget

Corporate

Overall the corporate budget is forecast to overspend by £1.066m which is an increased overspend position of £0.816 since the last cabinet report. This is primarily due to an increase in historic pensions costs, due to a increase in payments in line with Consumer Prices Index, which has added £1.331m. This is offset by a forecast underspend on Local Council Tax Support Hardship Payments, based on current levels of claim from the billing authorities.

In relation to the Care and Urgent Needs service, the forecast underspend has increased from £1.2m to £1.495m, due to lower than anticipated payments to claimants.

3.9 Strategic Items

This budget contains a number of strategic items, including -

- Property and Facility management savings to be allocated as realized;
- Business Intelligence Review savings
- Public Health Overhead Contributions
- LCCG Pay award.
- Contributions to/from Reserves.

The forecast overspend which is currently at £1.733m, has increased by £0.620m since last cabinet report due to the following areas of movement-

The completion of the review of Business Intelligence has generated the full savings target of £0.400m, which was previously reported as an overspend as it was not anticipated that the savings would be achieved in year.

The realignment of technical budgets for corporate overheads and depreciation related to grant aided and traded services, together with the allocation of resources for pay awards to LCCG generates a net underspend of £0.170m.

The Short Break provision budget of £1.2m, which was previously forecast not to be required has now been transferred to Children and Young People.

3.10 Capital financing costs

Current projections indicate that there will be underspend of £7m within the Council's Treasury Management activities.

The forecast underspend is largely due to gains realised following the sale of several bonds sold to both take advantage of the favourable market conditions and to rebalance the investment portfolio, with the express aim of managing the Council's exposure to investment risk effectively.

Gains on the sale of Bonds, offset by the reduction in interest receivable on these bonds, equates to an underspend of £5.391m. This represents an exceptional one off gain due to current market conditions.

There is a reduction in the level of interest payable as a result of refinancing the Waste PFI project and a lower interest rate on the initial PFI borrowings than expected which results in a further £1.304m underspend. This is again a one off issue and this sum will need to be refinanced as part of the Council's overall long term financing strategy previously discussed by the Cabinet.

There is also a reduction in the Minimum Revenue Provision costs expected in 2014/15 due to a change in the capital financing requirement in year, this has generated an underspend of £0.305m. This reflects the level of capital expenditure now forecast in the year and therefore as the programme is completed there will be a catch up effect in future years.

Section B - The 2014/15 Capital Investment Programme

In February 2014 the Council agreed a capital investment programme of £198.675m. Adjusting for variations from 2013/14 and new approvals the programme is currently £232.328m. The new approvals are principally due to new grants being received for highways maintenance, an increase in the expenditure on the Superfast Broadband project to reflect the grants received and an increase in the provision for the work on the fire damage to Leyland St Mary's to better reflect the latest estimates with the insurance company.

	£m
Original Programme	198.675
Approvals brought forward from 2013/14	4.085
New Approvals	33.153
Programme 2014/15	**235.913**

The forecast position by Directorate is shown in the table below:

	Programme £m	Forecast Outturn July £m	Forecast Outturn September £m	Forecast Variance £m	Forecast Variance %
Adult Health and Wellbeing	3.185	1.960	1.342	-0.618	-31.5
Children and Young People	59.022	52.064	50.111	-1.953	-3.8
Environment	110.768	104.035	104.328	0.293	0.3
Corporate	57.905	44.103	40.221	-3.882	-8.8
LCCG	5.033	3.160	3.160	0	0
Total	**235.913**	**205.322**	**199.162**	**-6.159**	**-3.0**

The additional reduction in expenditure represents slippage and will be carried forward into later years. Some of the key reasons for the change are:

Adult Services, Health and Wellbeing

- The libraries regenerate scheme includes projects which have been put on hold due to the corporate property review. It is now anticipated that these will not start in 2014/15 and therefore the forecast has been further reduced (£0.413m).

Children and Young People

- Pear Tree Special School, Kirkham has a delay in spend as a result of a planning application having to be re-submitted leading to a later start date and anticipated outturn costs less than originally forecast (£0.782m).

- The residential redesign project is showing slippage largely as the result of later starts at two sites. The new build in Lancaster is being delayed as a result of site issues relating to the utilities and the project in Skelmersdale is being delayed due to reallocation of contractor and project management resources to meet summer 2014 targeted projects (£0.827m).

- The Youth Zones project has seen some further slippage. The previous forecast assumed that projects at Chorley, Kirkham and Accrington were to start in the financial year. However, the need to ensure that these resources are utilised in a way which is consistent with the estate strategy for the new organisation has led to some further delay in scheme starts. Therefore the forecast now assumes that these projects will start in 2015/16 (£0.302).

Environment

- Forecast expenditure on the Heysham to M6 Link has slipped (£3.2m) as the forecast has been brought in line with a revised spend profile from the contractor.

- Broughton Bypass is subject to slippage due to a more detailed and up to date spend profile and works programme being developed (£2m).

- There is an increase in expenditure on Section 278 schemes as the upturn in the economic situation has prompted increased development activity and a consequential rise in S278 works. The estimated costs on these types of works has increased significantly. All costs are recoverable from developers. (£2.8m)

- The forecast expenditure on the Pennine Reach project has increased (£1.6m) in line with external income anticipated. A detailed profile of the work involved and costs associated with the scheme is currently being developed.

Corporate

- There is an anticipated slippage on structural maintenance expenditure of £1.2m. This is largely due to delays on work on four Heritage buildings. Tenders for the work have exceeded the available resources therefore the scope of the projects are being revisited. The nature of the work means that the work can't be undertaken until spring. There has also been some slippage as the prioritisation of work has been reviewed.
- There is a reduced anticipated spend in the year on economic development with forecast expenditure on the Superfast Broadband project being lower than initially forecast as the details on how the scheme is to be provided and those areas which are subject to the commercial roll out are constantly being updated.

4. Section C – Impact on reserves

This section of the report deals with the impact of the forecast variations identified above on the Council's major reserves and makes recommendations for adjustments between reserves.

County Fund

Taking the forecast set out in this report, together with the budgeted use of County Fund balance into account the forecast position for County Fund at year end is:

	£m
Opening Balance	**36.0**
Less : Budgeted Use	-2.7
Add : Forecast Underspend	4.2
Closing Balance before adjustments	**37.5**
Transfer to Downsizing Reserve in line with previous resolution	-1.5
Forecast Year End Position	**36.0**

Cabinet agreed in September that any balance above £36m at the end of the year should be transferred to the Downsizing Reserve, and in line with this resolution £1.5m is available for transfer.

Strategic Investment Reserve

The Strategic Investment Reserve was created to finance a range of projects over a considerable period of time, largely, but not exclusively in relation to economic development. The costs of a range of projects have now been finalised and/or projects have concluded and consequently a balance not required to meet the original policy objectives set of £0.140m has been identified, which is less than previously reported following the receipt of further information on the levels of commitment to a number of schemes.

	£m
Opening Balance	**26.8**
Additions (ex Modern Apprentices Reserve)	0.1
Future Commitments	-26.8
Closing Balance	**0.1**

Given the need to ensure that the Council has sufficient resources to support its overall Transformation Programme it is recommended that the balance on the Strategic Investment Reserve not required to meet the original policy objectives of £0.140m be transferred to the Downsizing Reserve.

Downsizing Reserve

The Downsizing Reserve exists to support the costs of change which result from the requirement to reduce the size of the organisation by £300m over the period to 2017/18. Taking into account the recommendations above the table below provided a forecast of the year end position for this reserve.

	£m
Opening Balance	**99.2**
Previously reported additional resources and transfers	2.4
County Fund Surplus	1.5
VR Costs Incurred to date	-17.2
Future Commitments	-16.3
Closing Balance	**69.6**

In line with the resolution at the September meeting of the Cabinet the Chief Executive has approved the release of the following sums from the £3.2m of the Downsizing Reserve allocated for use in supporting the Transformation Programme, these commitments are also reflected within the table above:

	Cost £m
Your Pension Service – Additional temporary staffing resource to handle the increased volume of Voluntary redundancy applications until March 2016	0.135
Learning and Development Service – To provide support for staff in the Stage 1 cohort both in being able to take advantage of opportunities and to prepare themselves for life outside the organisation	0.068
Human Resources Service – Additional professional resources to support the restructuring process as it moves into the second stage covering the vast majority of the Council's staff and resources to support the organisation of a very large scale recruitment process.	0.716
Total	**0.919**

5. Section D – Conclusion

As a result of the impact of the changes to the Waste Disposal contract in the current year and further one off benefits from the management of the investment portfolio the Council is forecast to end the year with an underspend. However, there are a number of pressures which have emerged - while some of these are essentially one off, others do indicate longer term demand pressures which have been reflected in the forecast for future years elsewhere on the Cabinet's agenda.