LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

Committee: **BUDGET AND PERFORMANCE PANEL**

Date: **TUESDAY, 24 JANUARY 2017**

Venue: **MORECAMBE TOWN HALL**

Time: **6.00 P.M.**

A G E N D A

Councillors are reminded that as Members of Overview and Scrutiny they may not be subjected to the party whip, which is prohibited under the Lancaster City Council Constitution.

Please note that this meeting will be held in Morecambe Town Hall and will start at 6.00 p.m. All Members of the Council and stakeholders have been invited to attend.

1. **Apologies for Absence**

2. **Minutes**

   Minutes of the Meeting held on 8th November 2016 (previously circulated).

3. **Items of Urgent Business authorised by the Chairman**

4. **Declaration of Interests and declarations under Section 106 of the Local Government Act 1992**

   To receive declarations by Members of interests in respect of items on this Agenda.

   Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

   Members are further reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to matters relating to, or which might affect, the calculation of Council Tax.

Any member of a local authority, who is liable to pay Council Tax, and who has any unpaid Council Tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must not vote on any recommendation or decision which might affect the budget or council tax calculation. It is a criminal offence to fail to comply with this requirement.

5. **Budget and Policy Framework Update 2017-21**

Cabinet will present its Budget and Policy Framework Proposals for the period 2017/18 to 2010/21.

The Cabinet Report for the meeting to be held on 17th January 2017 and more information on Cabinet's specific proposals will be circulated prior to the meeting.

6. **Lancashire County Council Consultation on Budget Proposals** (Pages 1 - 92)

Documents from the County Councils Cabinet Meeting to be held on the 19th January 2017 are attached.

7. **Lancashire Police and Crime Commissioner Budget Proposals**

The Panel to consider and comment on the Police and Crime Commissioner's Budget Proposals.

The Budget Proposals to follow.

8. **Lancashire Combined Fire Authority Budget Proposals** (Pages 93 - 111)

The Panel to consider and comment on the Lancashire Combined Fire Authority Budget Proposals.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Dave Brookes (Chairman), Phillippa Williamson (Vice-Chairman), Sam Armstrong, Andrew Gardiner, Janet Hall, John Reynolds, Roger Sherlock, Susan Sykes and Oscar Thynne

(ii) Substitute Membership

Councillors Ron Sands, Andrew Warriner, John Wild, Nicholas Wilkinson and Peter Williamson

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services - telephone 01524 582132 or email smoorghen@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democraticsupport@lancaster.gov.uk.

SUSAN PARSONAGE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Friday, 13th January 2017.

Agenda Item 6

Report to the Cabinet
Cabinet Meeting to be held on 19 January 2017

Report of the Director of Financial Resources

Electoral Divisions affected: All

Money Matters – The Financial Strategy for 2017/18 to 2020/21
(Appendices 'A', 'B', 'C', 'D' and 'E' refer)

Contact for further information:
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Executive Summary

This report provides an update of the forecast outturn Financial Position for 2016/17 on revenue and capital, the County Council's updated Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21, reflecting the provisional settlement for 2017/18, and the position with regard to application of current reserves.

The County Council is facing an unprecedented financial challenge. The Medium Term Financial Strategy reported in December forecast that the council will have a financial shortfall of £146.133m in 2020/21. This is a combination of reducing resources as a result of the government's extended programme of austerity at the same time as the Council is facing significant increases in both the cost (for example, as a result of inflation and national living wage) and the level of demand for its services. The revised position following the provisional financial settlement for 2017/18 is now for a financial shortfall of £153.389m in 2020/21. This revised gap is after the impact of the settlement, new financial pressures, revised council tax projections and includes savings proposals that have previously been agreed by Cabinet.

Recommendations

The Cabinet is asked to:

(i) Note the current forecast underspend of £15.298m on the revenue budget in 2016/17

(ii) Note the revised funding gap of £153.389m covering the period 2017/18 to 2020/21 as set out in the revised financial outlook forecast for the Council.

(iii) Approve the additional budget adjustments for 2017/18, and following years' increases, included in the revised MTFS following the financial settlement.

(iv) To recommend to Cabinet to make recommendations to Full Council on

9th February 2017 the Band D Council Tax for 2017/18 reflecting a 3.99% increase including 2% to be used for social care as per the new flexibilities.

(v) Note the contents of the County Council's Reserves position at 31st December 2016.

(vi) Approve the specific capital programme as presented within the body of the report.

(vii) Approve the increase in prudential borrowing identified within the Capital Programme report.

(viii) To note and have regard to the advice of the Director of Financial Resources in relation to the robustness of the budget and the adequacy of reserves.

1. Background and Advice

The detailed reports at Appendices A, B, C, D and E present the County Council's revenue position, reserves position, an updated financial outlook, a revised Medium Term Financial Strategy for the period 2017/18 to 2020/21 as at 31st December 2016 and an update on the Capital Programme, as at 30th November 2016 and the Capital Programme for future years.

Financial Position as at 31st December 2016 (Appendix A)

A revenue underspend is forecast for the County Council of £15.298m and represents a variance of c2.0% against the overall County Council budget. This is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which 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 with a focus on controlling and reducing costs and the delivery of an improved financial position by year-end.

It is important to recognise that the forecast variance includes the impact of additional income arising from Treasury Management activities, with a surplus of c£26m now being forecast in this area. This, in great part, reflects opportunities in response to external events post Brexit and is an extremely positive position, however without these gains the County Council would be forecasting an overspend of £11.458m across service budgets. Therefore it is critical to note that there remains an underlying pressure within the forecast from service budgets.

The 2016/17 budget of £713.020m includes a significant savings requirement of c£100m, however many savings will not be fully implemented until 2017/18 or 2018/19 and therefore it was agreed that these would be covered by the use of reserves.

The report provides details as to progress on the achievement and delivery of the savings relating to each Head of Service. The level of reserves that were approved to be applied from the transitional reserve 2016/17 in support of the delivery of savings was £46.417m and the amount that is now forecast to be required is £34.231m reflecting early delivery of some agreed savings, although this is partially offset by some budget savings that are delayed and will require reserve funding to cover the delay in implementation.

Delivery of the significant savings programme has been identified as a key risk area and the savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.

The Medium Term Financial Strategy (Appendix B)

A revised MTFS was presented to Cabinet in September with a reported funding gap of £146.133m (cumulative gap of £411.207m).

This report considers the impact of budget decisions to be taken by Cabinet and updates other assumptions in light of the most current information available including the impact of the Local Government Finance Settlement in December. As a result of these reviews the overall estimated funding gap has increased to £153.389m, primarily due to the announcement within the settlement that the 2% Adults Social Care Precept could not be applied in 2020/21, which had previously been assumed in the MTFS. However, the cumulative gap has reduced to £407.988m as a result of a reduced gap in in earlier years primarily resulting from the introduction within the settlement of a non-recurrent Adult Care Support Grant of £5.543m in 2017/18.

The County Council's Reserves Position (Appendix C)

The County Council by 31st March 2018 is expected to have reserves (excluding schools) of £127.699m, of which £36.000m County Fund will remain leaving a residual amount of £91.699m in service reserves. This does however include £8.354m school PFI expenditure and £4.944m which is not LCC money, meaning in effect the available balance of £78.401m.

If the County Council underspends in 2016/17 as currently forecast this will be a further contribution to reserves. This is not currently included within the forecast reserves position.

The report indicates that there are sufficient funds within the Transitional Reserve to deliver a balanced budget in 2017/18 as per the agreed financial strategy. However this is dependent upon a number of key factors and risks which are as follows:

- All values within reserves that are currently reported to be available funds are transferred into the transitional reserves with no further commitments emerging in these areas now that the transfer has taken place.
- There is limited slippage on the agreed savings programme for 2017/18 and 2018/19. As any slippage will result in a requirement for funding from reserves.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix C) the funding requirement to bridge the financial gap in 2018/19 would total £85.162m. Although there are reserves available at 31st March 2018 of £93.699m (if the currently forecast underspend is achieved) there are commitments in 2018/19 of £10.450m (excluding non LCC commitments). The forecast available balance to support the 2018/19 budget is therefore £83.249m which means that there will be insufficient funds within reserves to fully meet the 2018/19 budget gap.

Capital Monitoring and Financing Position as at 30th November 2016 (Appendix D)

This report sets out the November 2016 capital monitoring position for 2016/17 against the re-profiled capital programme 2016/17 budget approved by Cabinet on 6th October 2016.

It also compares the 2016/17 November monitoring position with the equivalent position in 2015/16 in order to give an understanding of the progress being made to date with regard to overall spend level.

Capital Programme 2017/18 -2020/21 (Appendix E)

This report covers the capital programme for the period 2017/18 – 2020/21 and also provides details of the financing of the full multi-year capital programme and the expected associated capital charges.

2. 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 Director of Financial 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. A number of specific risks remain within the budget as follows:

- **Government Funding**

The Local Government Settlement on 17th December 2015 included the Government offering any council that wishes it to take up a four year funding settlement to provide greater certainty around financial planning. The offer only covers Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. These grants in 2017/18 will represent c11% of our resources and are forecast in the MTFS to reduce further and finish completely by the end of this Parliament when full Business Rate Retention comes in, which will be accompanied by an updated funding formula for local authorities and new responsibilities which are yet to be determined.

Whilst the principle of a longer-term settlement is welcome, the Council has not taken up the offer as previous reports to Cabinet have clearly identified an impending scenario whereby the Council will have insufficient resources to meet statutory responsibilities as they are currently provided. Not accepting the multi-year settlement will mean the level of Revenue Support Grant being confirmed on an annual basis and therefore may be subject to change from the assumptions included within the MTFS, although 2017/18 RSG has been confirmed as being in line with the level forecast within the MTFS.

The Statutory Services Budget Review undertaken by PwC and reported to Cabinet in October validated the financial position as reported through the MTFS and confirmed that even should the County Council reduce its expenditure to the median of lowest quartile by 2020/21 an in-year deficit of £79m would remain. One of the considerations raised within the report was whether the current funding model of the Council is disproportionately contributing to the funding gap. The County Council has continued to lobby Central Government and relevant stakeholders regarding the extreme challenges being faced as a result of the local government finance system.

A subsequent business case prepared by PwC has identified proposals relating to a future Lancashire Public Services Delivery Model, which includes estimates of the financial benefits that could be delivered following implementation and the level of transitional funding required to support the major transformation. However, at this stage it is a proposal to go out to consultation with key partners and stakeholders and has not therefore been factored into any of the MTFS assumptions.

The most significant financial challenge facing upper tier Local Authorities is Adult Social Care. Additional funding has been provided via the Adult Care Support Grant (£5.543m) in 2017/18 and the flexibility to raise an additional Adult Social Care precept. Whilst these are a welcome recognition of the significant cost pressures being faced, the Grant is only for one year and together they do not meet the full cost of additional demographic demand and cost pressures within the Care Sector particularly impacted by the National Living Wage.

- **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 and waste services continues to see increases despite the impact of demand management measures.

Over the period 2017/18 to 2020/21 £91m has been provided in the MTFS for demand pressures of which c58% relates to adult social care, c24% children's social care and c15% waste services. 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). Whilst for Adult Social Care the estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year significant and unanticipated increased costs in relation to Children's Social care and Waste have been reported to Cabinet in revenue monitoring reports.

Detailed work is being undertaken in all three areas focused on a better understanding of the causes of the increased demand and what steps can be taken to mitigate the financial impact, which, along with funding reductions, is a major contributing factor towards the funding gap reported in the MTFS.

- **Pay**

The MTFS makes provision for pay of a 1% increase each year. Most of the pay bill will continue to be driven by the national pay agreement and this assumption will be kept under ongoing review. The County Council is committed to paying its employees as an accredited member of the Living Wage Foundation who have announced a 5% increase in the Living Wage. The impact of this initial increase and further 5% increases in subsequent years for those staff directly impacted has been factored into the MTFS. This does not address maintaining current differentials in pay grades which will need to be considered in future years.

- **Inflation**

Actual inflation remains relatively low but analysts are anticipating slight increases over coming years. 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 and the need to absorb additional inflationary costs in year.

A particular issue concerns care markets, primarily residential and homecare, the funding of which is recognised as being a significant issue regionally and nationally. Whilst 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, there remains capacity and sustainability issues within the market which the Adult Social Care Precept and Adult Care Support Grant will only partly help mitigate given the scale.

- **Savings Programmes Delivery**

The Council is already committed to the delivery of a significant savings delivery programme (c£154m over the period 2016/17- 2020/21) including £12m of new savings agreed at Cabinet in December a number of which relate to the outcome of the zero based budget review of services agreed within the financial strategy. There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings will create an additional 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.

The Level 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.
- 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.
- The degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

Previous reports to Cabinet have clearly identified that the revenue budget will be heavily supported by the reserves that are currently available to the County Council. The value of the Council's reserves is currently significant but are non-recurrent and, bar the County Fund, are now fully committed over the next 2 years and will not therefore be available in later years to support managing future year budget pressures.

The level of risk evident within the budget is clearly increasing as set out in the analysis above at a time when it is clear that the revenue budget will have to be supported significantly by reserves. The setting up of a transitional reserve was a recognition of this requirement and the effectiveness of budgetary control is a combination of both systems and processes and the risk environment within which the Council is operating. Budgetary control procedures are strong, however, based on the evidence of the current year and given the increased level of financial risk there is a greater risk that the processes in place would not be adequate to reduce any significant overspend over the course of the following years.

In relation to the Council's general reserve (County Fund Balance), the forecast level at 31 March 2017 remains as £36m.

Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing in 2017/18, but this is unlikely to be the case for 2018/19 and subsequent years. Within the MTFS there is a revised funding gap of £85.162m for 2018/19 and, excluding County Fund and committed reserves but including the projected revenue underspend at the end of quarter 3 of £15.298m, there is estimated to be £83.629m of uncommitted reserves remaining at 1st April 2018.

Even if the 2018/19 gap could ultimately be covered by the use of reserves the forecast funding gap increases to £115.392m in 2019/20 and therefore it is critical that a significant level of additional savings are identified which can be delivered in 2018/19 to minimise the scale of reserves required to support the revenue budget and that utilisation of those reserves remaining should support, wherever possible, activities which reduce ongoing revenue costs. One of the priority areas for new savings will be in seeking to implement the aim within the current financial strategy of seeking to move to lower quartile cost, of the most appropriate comparator group of local authorities, for all services.

The Council has benefited significantly financially over a number of years from its Treasury Management activity including the investment portfolio, with a projected revenue benefit of £26.756m in 2016/17. It is important to note that one of the consequences of utilising reserves is that this effectively reduces the value of cash backed accounts on the balance sheet which support the investment portfolio. Therefore, based on current planned usage of reserves the size of the portfolio will reduce further significantly and it is reasonable to assume that the scope to generate future gains will also therefore reduce.

Conclusion

Following the ongoing detailed budget monitoring, zero base budget review work, identification of £12m of further budget proposals and a detailed review of the current reserves commitments, a balanced budget for 2017/18 with the use of £54.045m of reserves can be recommended. However, this is clearly dependent on all budget options agreed at Cabinet in December being 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 gap. There also remains a funding gap of £85.162m in 2018/19 and an urgent need to identify proposals for additional savings early in 2017/18 that can be delivered in 2018/19.

Whilst the principle has been agreed of reviewing each and every continuing service using a zero based approach, with reference to our benchmark unit costs, and moving towards the lowest quartile of the most appropriate comparator group, this will need to make early progress during 2017/18 to meet the 2018/19 shortfall and consider whether a sustainable financial position will be achievable over a longer period. Taking everything into account, there remains a strong likelihood that the Council will, during the course of this financial strategy period (in 2018/19 at the earliest), be in the position of being unable to set a budget which will meet the cost of its statutory responsibilities.

List of Background Papers

Paper	Date	Contact/Directorate/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Money Matters
The County Council's Financial Position
As at 31st December 2016

Lancashire County Council

Contents	Page

Money Matters – Update on the County Council's Financial Position for 2016/17

1. Introduction

This report provides an update for Cabinet on the County Council's 2016/17 revenue financial position.

2. Summary of the Financial Position

This report provides a view on the Council's current financial performance and the anticipated position at the year end. The forecast is predominantly based on the information up to the end of November 2016 with adjustments made to reflect further information available in December (this is usual practice for Quarter 3 reports due to Cabinet deadlines). The report also contains a comparison to the previously reported financial position as at 30th September 2016. The current forecast outturn for the County Council is an underspend of £15.298m and represents a variance of c2% against the overall County Council budget. This is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which 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 with a focus on controlling and reducing costs and the delivery of an improved financial position by year-end.

It is important to recognise that the forecast variance includes the impact of additional income arising from Treasury Management activities, with a surplus of c£26m now being forecast in this area. This, in great part, reflects opportunities in response to external events post Brexit and is an extremely positive position, however without these gains the County Council would be forecasting an overspend of £11.458m across service budgets. Therefore it is critical to note that there remains an underlying pressure within the forecast from service budgets.

The 2016/17 budget of £713.020m includes a significant savings requirement of c£100m and in addition there are further agreed savings of c£54m predominantly relating to 2017/18 although some of which will not be fully delivered until 2020/21. However, a significant proportion of savings will not be fully implemented until 2017/18 or 2018/19 and as it was agreed that these would be covered by the use of reserves

The narrative provides details as to progress on the achievement and delivery of the savings relating to each Head of Service. The level of reserves that were approved to be applied from the transitional reserve 2016/17 in support of the delivery of savings was £46.417m and the amount that is now forecast to be required is £34.231m. This is due to early delivery of some savings, particularly through staff vacancies and turnover, although this is partially offset by some budget savings that are delayed and will require reserve funding to cover the delay in implementation.

In total the forecast includes £88.434m from reserves which includes the strategic investment reserve, downsizing reserve, risk management reserve, transitional reserve and specific service reserves. (details can be found in Appendix C). In additional there are transfers between reserves and contributions to reserves that total £8.784m.

Delivery of the significant savings programme has been identified as a key risk area and the savings plans are subject to detailed regular scrutiny by the Programme Office and Finance.

The report reflects the organisational structure with detailed budget monitoring undertaken at Head of Service Level and is summarised in the report up to their appropriate management line, e.g. the Director for Development and Corporate Services. All forecast variances +/- £0.1m are explained within the report along with any mitigating actions being put in place.

A significant budget realignment has taken place in relation to staffing budgets in Quarter 1 and enables post by post budget monitoring, this has been a critical piece of work given the importance and value of staffing budgets within the County Council's overall budget. It is currently forecast that the overall staffing underspend will be £3.5m reflecting early delivery of savings, staff turnover and a number of services undergoing restructures and populating their agreed structures including the filling of agreed vacancies.

2.1 Recommendations

Cabinet are asked to:

- Note the current financial revenue forecast based on financial data at the end of Quarter 3.

3. Section A

The summary forecast outturn for 2016/17 is as follows:

Ref	Service Area	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.1	ADULT SERVICES	317.674	319.528	1.854	3.848	1%
3.2	CHILDREN'S SERVICES	119.421	132.729	13.308	10.981	11%
3.3	COMMUNITY SERVICES	134.239	137.044	2.805	4.085	2%
3.4	PUBLIC HEALTH & WELLBEING	28.860	28.867	0.007	1.907	0%
3.5	DEVELOPMENT AND CORPORATE SERVICES	35.574	35.408	-0.166	0.199	2%
3.6	COMMISSIONING	46.649	44.556	-2.093	-0.835	-3%
3.7	CHIEF EXECUTIVE	30.603	-0.410	-31.013	-33.456	-97%
	TOTAL	**713.020**	**697.722**	**-15.298**	**-13.271**	**-2%**

3.1 Operations and Delivery – Adult Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.1.1	ADULT SERVICES	0.135	0.152	0.017	0.017	13%
3.1.2	DISABILITY (adults)	-4.468	-4.399	0.069	0.066	-2%
3.1.3	OLDER PEOPLE	0.629	0.280	-0.349	-0.417	-55%
3.1.4	LEARNING DISABILITIES, AUTISM & MENTAL HEALTH	161.886	158.391	-3.495	-1.321	-2%
3.1.5	SOCIAL CARE SERVICES (adults)	159.492	165.104	5.612	5.503	3%
	TOTAL - ADULT SERVICES	**317.674**	**319.528**	**1.854**	**3.848**	**1%**

The total net approved budget for Adult Services in 2016/17 is £317.674. The service is forecast to overspend by £1.854m, a reduction in overspend of £1.994m compared with the previous Quarter 2 monitoring update to Cabinet.

This forecast includes the impact of the fee increases across homecare services, Learning Disabilities supported living and Physical Support over 65 residential and nursing services. Several further fee uplifts have also been included in the forecast position and future year impact has been considered as part of the MTFS review in Appendix B. The forecast also incorporates budgeted savings of £13.223m. £6.651m of this budgeted savings figures relates to the Transformation work being undertaken with Newton's Europe under the name of Passport to Independence which is considered undeliverable in 2016/17 and therefore has been reconsidered as part of the Quarter 2 MTFS update in terms of re-profiling the timing of these savings.

Adult social care staffing including Mental Health, Learning Disabilities and Autism are currently implementing their approved staffing restructure which is forecast to utilise £1.580m from agreed reserves.

3.1.2 Disability Service

The service is forecast to overspend by £0.069m.

Net expenditure for Day and Domiciliary services is largely in line with 2015/16 spend patterns.

The service have been able to manage the impact of the revised transport to day services policy through changes to staff rotas to extend opening hours where required, this policy change has seen positive results for the majority of service users. The domiciliary service undertook to provide additional hours for provider failure, crisis hours and a supported living service on top of existing provision.

3.1.3 Older People – In-House Care Services

The Service is forecasting a positive variance to budget through an overachievement of its income of £0.349m. This service delivers care through the operation of 17 care homes and 14 day centres across the County.

3.1.4 Learning Disability, Autism & Mental Health

The Service is forecast to underspend overall by £3.495m, compared with £1.321m last quarter. The main reason for the increase in underspend is additional forecast income of £1.446m relating to joint funded packages. The breakdown of the total variance is detailed below.

Learning Disabilities

- Learning Disability services include the provision of care services including residential and nursing care, but predominantly supported living and direct payments. Services are commissioned via a pooled fund arrangement with the six Lancashire CCGs. The LCC share of the service is forecast to underspend by £1.087m.
- Increases in service user activity are forecast to increase spending in 2016/17 by £2.000m which includes the impact of transitions from Children's services, however this is lower than the expected demand build into the budget.
- The forecast includes the impact of agreed fee increases for supported living and domiciliary care valued at £7.400m. Of this, £3.500m of this has been funded by reserves in 2016/17 as agreed with the future impacts built into the MTFS.
- The budget has been reduced by £1.000m to reflect the agreed savings relating to the remodelling packages of care, this saving is forecast to be achieve £0.650m in year as the average saving per tenancy is lower than forecast.

Mental Health – Residential

- Mental Health residential care is forecast to underspend by £2.535m, a further underspend of £1.387m compared to last quarter. Within this an additional £0.690m of income for joint funded packages has been forecast.
- Since April 2016 there has been a 2% increase in the number of service users (April 2016 290; November 2016 296) and the average weekly cost of care packages has increased by 10% from £796 to £875.
- There are currently 296 clients supported via this service.

Mental Health – Nursing

- Mental Health Nursing is forecast to overspend by £0.675m, a reduction of £0.382m compared to Quarter 2 monitoring. Within this additional income of £0.249m has been forecast.
- The overspend is due to the average weekly package costs increasing at a rate higher than budgeted for and the number of nursing placements not reducing in line with the assumptions built into the MTFS.

Mental Health - Home Care

- Mental Health Home Care services are forecast to underspend by £0.641m, a further underspend of £0.410m compared with Quarter 2 monitoring.
- An additional £0.507m of income has been forecast.
- In the year to date service user numbers have increased by 5% (April 2016 472; November 2016 495) which is lower than anticipated.

- Average care package costs have increased by 7% in year.

In addition there are other small variances across Mental Health that result in an additional overspend of £0.093m.

This budget has been reduced by £0.362m as a result of approved savings, however it was agreed that funding from the transitional reserve would fully support this saving in 2016/17. Due to natural turnover and disbandment of the Health Care Systems Development Team the funding is no longer required.

3.1.5 Social Care Services (Adults)

Changes in statutory reporting requirements has meant the previous client groups of 'Older People' and 'Physical Disability' have been combined to form the client group 'Physical Support'. People enter these services via from community settings but a significant proportion come as they are discharged from hospital.

The total budget for this service area is £159.492m. The forecast overspend is £5.612m, an increase of £0.109m compared with last quarter.

The significant areas of variance are detailed below. Additionally, there are also a number of other variances which amount to an overspend of £1.912m in total across equipment and adaptations, reablement and carers and central expenses, as spend is forecast to increase in these preventative areas.

Physical Support

The service is forecast to overspend by £4.738m, a decrease of £0.714m compared to the Quarter 2 update to Cabinet. The forecast overspend is as a result of delayed achievement of savings.

This forecast also includes the drawdown of £1.700m from the Transitional Reserve to support an agreed uplift of residential and nursing home fees in 2016/17. The future year's impact above the level built into the current budget has been built into the MTFS in future years.

Social Care Service Central Costs

This service is forecast to underspend by £0.698m through controlling costs on non-essential spending.

The forecast for 2016/17 includes £10.177m contributions from reserves, offsetting the expenditure in relation to the Newton's design and proposed implementation work estimated at £5.961m and £4.216m for the agreed repayment of outstanding CCG monies held on their behalf.

Supporting People

Supporting People services assist people to live as independently as possible. The range of services include supported and sheltered housing, refuges for women experiencing domestic violence, alarm services for elderly people, and ‘floating support’ where workers visit people in their own homes. The delivery of the service to Lancashire residents is facilitated by a large number of contracts with external providers and agencies directly providing these schemes.

The remaining statutory service is currently forecast to underspend by £0.340m. A full assessment in conjunction with the service consultation has been carried out to review the ongoing budget requirement in 2017/18. Where required extensions to contracts have been granted during 16/17 to ensure appropriate support during the transition period, the service is working towards a reduced service aimed at providing accommodation for homeless 16/17 year olds. The remaining service has close links to the Prevention and Early Help Fund and the aims of this funding stream.

The forecast for 2016/17 includes £8.355m contributions from reserves, for the continuation of the non-statutory services up to the end of March 2017 as per the agreed savings. It was originally anticipated and approved that £10.150m would be drawn down from reserves to support the transitional arrangements of this budget option however the reduced amount is required due to early delivery of savings.

3.2 Operations and Delivery – Children's Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.2.1	CHILDREN'S SERVICES	-0.623	-0.642	-0.019	0.006	3%
3.2.2	SEN & DISABILITY	15.690	13.975	-1.715	-1.487	-11%
3.2.3	SAFEGUARDING INSPEC & AUDIT	9.376	7.731	-1.645	-1.769	-18%
3.2.4	ADOPTION & FOSTERING RESIDENTIAL AND YOT	26.134	24.989	-1.145	-0.696	-4%
3.2.5	CHILDREN SOCIAL CARE	64.719	84.425	19.706	17.736	30%
3.2.6	SCHOOL IMPROVEMENT	6.785	6.158	-0.627	-0.667	-9%
3.2.7	TRADED SERVICES (START WELL)	-2.660	-3.907	-1.247	-2.142	47%
	TOTAL - CHILDREN'S SERVICES	**119.421**	**132.729**	**13.308**	**10.981**	**11%**

The total net approved budget for Children's Services in 2016/17 is £119.421m. As at the end of November 2016, the service is forecast to overspend by £13.308m. An additional £5.000m was included in the 2016/17 budget following the Ofsted inspection in mid-2015/16.

3.2.2 Special Education Needs and Disability (SEND)

SEN and Disability is forecast to underspend by £1.715m in 2016/17.

- Children with Disabilities (CwD) Family Support is forecast to underspend by £0.188m based on spend to date.
- CwD Placements, which includes in-house fostering payments and residential and foster care placements with external providers, is forecast to underspend by £0.346m. Of this forecast underspend, £0.294m relates to in-house fostering payments and is in line with the outturn in 2015/16 and £0.052m to agency fostering placements.
- CwD Direct Payments is forecast to underspend by £0.250m as a result of clawback.
- Forecast underspends of £0.300m relate to budgeted increases in charges for SLA's with Health for Occupational Therapy and Speech and Language Services which are not expected to materialise in 2016/17. This has been adjusted for within the MTFS for future years.
- Underspends of £0.673m are forecast across a number of teams of which £0.439m relates to staff costs, £0.214m to non-staff costs and £0.020m to over recovery of income.
- Overspends of £0.042m are forecast for SEN Traded Services.

The service reported underspends of £1.487m at the end of Quarter 2, compared to the current forecast underspend of £1.715m, an increase in forecast underspend of £0.228m, which largely relates to an improved position on direct payments.

This forecast reflects the achievement of approved budget savings of £0.301m in 2016/17.

3.2.3 Safeguarding, Inspection and Audit

Safeguarding Inspection and Audit (SIA) is forecast to underspend by £1.645m in 2016/17, of which £1.562m relates to staff costs across the service, and in particular vacant posts covered by agency staff for which the costs are included within Children's Social Care, and £0.143m relates to over recovery of income, offset by £0.061m of overspends on non-staff costs. The cost of all agency staff recruited to social work related posts following the Ofsted inspection in 2015/16 and non-staff costs incurred in response to the Ofsted inspection, are recorded against the Children's Social Care budget in order to identify and track additional costs arising from the inspection.

The service reported underspends of £1.769m at the end of Quarter 2, compared to the current forecast underspend of £1.645m, an increase in forecast of £0.124m, which relates to a number of budget areas across the service.

The forecast includes the application of non-recurrent funding of £0.100m from the Strategic Investment Reserve to support the Early Response Service and £0.079m from the Lancashire Safeguarding Children's Board Reserve.

3.2.4 Adoption, Fostering Residential and YOT

Adoption, Fostering, Residential and YOT is forecast to underspend by £1.145m in 2016/17.

- Adoption Service is forecast to underspend by £0.914m. Underspends of £0.368m relate to staff costs and vacant posts some of which are covered by agency staff for which the costs are included within Children's Social Care, and £0.163m to various non-staff costs. Forecast underspends of £0.211m relate to adoption allowances (although forecast spend is in line with spend in 2015/16). Forecast underspends of £0.234m relate to inter-agency adoption fees and the extension of grant funding from October 2016 to March 2017, as well as a number of adoption placements for which grant has been received in line with grant conditions but no fees are payable to other organisations.
- Residential In-house Provision is forecast to overspend by £0.120m, which relates to staff costs.
- In-house foster care allowances are forecast to underspend by £0.078m based on current demand levels. Of this forecast underspend, £0.212m relates to expected increases in allowances that have not increased in 2016/17 (which is in line with national minimum weekly allowances), offset by higher than expected payments of £0.134m. The forecast shows an increase of £0.699m from the outturn in 2015/16 which largely reflects an increase of 36 (6.2%) in-house foster care placements from 535 in August 2015 to 571 in March 2016. Numbers of in-house foster care placements are 1.6% higher in November 2016 than at the same time in 2015/16.

- Net underspends of £0.273m are forecast across a number of teams, of which underspends of £0.319m relate to staff costs in the In-house Fostering Service, SCAYT and the Adoption, Fostering, Residential and YOT Management Team, (some of which relate to posts covered by agency staff for which the costs are included within Children's Social Care) and £0.023m to over recovery of income, offset by overspends of £0.069m on non-staff costs.

The service reported underspends of £0.696m at the end of Quarter 2, compared to the current forecast underspend of £1.145m, an additional forecast underspend of £0.449m. Of this £0.361m relates to the Adoption Service, in particular the extension of interagency fee grant funding from October 2016 to March 2016, a number of adoption placements for which grant has been received in line with grant conditions but no fees are payable to other organisations, and non-staff costs. Additional forecast underspends of £0.088m relate to a number of other budgets across the service.

The budget for Adoption, Fostering, Residential and YOT includes approved budget savings of £0.956m in 2016/17. The forecast reflects the fact that some of the £0.642m savings for YOT are offset by the approved application of non-recurrent funding of £0.041m from the Transitional Reserve, however, whilst use of £0.320m was originally approved, only £0.041m is expected to be required in 2016/17. The forecast reflects non-delivery of £0.006m of savings on ONSB Service and non-delivery of £0.005m of savings on Residential In-house Provision in 2016/17.

The forecast also includes the application of non-recurrent funding of £0.131m from the YOT – General Youth Offending Reserve to cover the cost of projects approved by the Youth Justice Board.

3.2.5 Children's Social Care

Children's Social Care (CSC) is forecast to overspend by £19.706m in 2016/17.

- Overspends of £7.283m are forecast across Social Work Staff and Management CSC.
    - Overspends of £4.415m relate to staff costs (including car allowances) which includes agency staff covering vacant posts, additional temporary staff required for 12 months over 2016/17 and 2017/18 to increase capacity in children's social care and to support the development and implementation of a single operating model across Children's Services being trialled in Fylde and Wyre, and temporary workstarts required for 3 months to provide business support to Project Accuracy, in order to implement agreed actions detailed in the Lancashire Children's Services Improvement Plan following the Ofsted inspection. Of this £2.249m is offset by underspends on staff within Safeguarding, Inspection and Audit Service and Adoption Fostering, Residential and YOT Service as referred to earlier in this report. It is anticipated that this overspend will reduce following recruitment campaigns in 2016/17 as vacant posts are filled by permanent staff reducing the need to cover posts with agency staff which are more expensive.
    - Forecast overspends of £2.915m relate to a number of other expenses arising as a result of work undertaken in response to the Ofsted inspection. Of the additional £5.000m included in the budget in 2016/17 following the Ofsted inspection, circa £4.400m, was budgeted to cover staff costs, with the remaining amount, circa £0.600m, budgeted to cover various non-staff costs, consultant and professional fees. The forecast includes one-off spend of £3.218m for Children's Social Care Referral and Assessment Service Framework, £0.168m for children in need

assessments undertaken by an external social work provider in 2016/17 and £0.162m for consultant and professional fees.

  - Forecast underspends of £0.047m relate to various non staff costs.

- Forecast overspends of £9.729m relate to agency residential placements. Placements have increased by 90 (67%) from 135 in November 2015 to 225 in November 2016. The forecast is based on available financial and activity information and assumes that placements will continue to increase for the remainder of the financial year. Work is continuing as part of the 0–25 Programme Board to review the underlying reasons for increases in numbers of placements, and to estimate likely future demand and the impact of this on the County Council's budget. The capacity of a number of in-house residential units is limited due to the placement of young people with increasingly complex needs that require high staff to child ratio's to support. Consequently young people who would otherwise have been placed in these units have been placed with external providers. As at 28th October 2016 there were 12 vacancies within in-house residential units (based on 6 10-bed units), albeit that 2 units are now operating as 2-3 rather than 6 bed units. It is likely that demand has been effected by work undertaken following the Ofsted inspection, although the pathway diagnostic work has already identified some potential for efficiencies which could reduce costs in the future without affecting levels of service delivery.

- Forecast overspends of £2.264m relate to agency fostering placements. Placements have increased by 62 (16%) from 392 in October 2015 to 454 in November 2016. The forecast is based on available financial and activity information and assumes that placements will increase for the remainder of the financial year. Again work is continuing as part of the 0–25 Programme Board to review the underlying reasons for increases in numbers of placements, and to estimate likely future demand and the impact of this on the County Council's budget.

- Forecast overspends of £1.042m relate to numbers of Special Guardianship Orders (SGO's) which continue to increase which is offset by underspends of £0.267m on Child Arrangement Orders (CAO's).

- Forecast underspends of £0.296m relate to financial assistance for care leavers.

- Forecast underspends of £0.049m relate to a number of items including DBS costs.

The service reported overspends of £17.736m at the end of Quarter 2, compared to the current forecast overspend of £19.706m, an additional forecast overspend of £1.970m. Of this £0.229m relates to SGO's and £0.375m to agency residential placements both of which reflect continuing increases in placements, £1.490m to non-staff costs in particular the Children's Social Care Referral and Assessment Service Framework, offset by a reduction in forecast of £0.124m relating to staff costs.

The budget for Children's Social Care includes approved budget savings of £0.504m in 2016/17. The forecast reflects the fact that delivery of these savings which relate to CSC Placements and Social Worker Teams are delayed due to demand pressures. The forecast includes the following planned application of non-recurrent funding.

- Contribution of £0.275m from the Risk Management Reserve to cover the cost of the LCC Children's Priority Reporting on LCS contract with Newton's (Project Accuracy).
- Contribution of £0.200m from the Transitional Reserve to fund the cost of the Transformation of Children's Services Pathways in Lancashire Assessment/Diagnostic based on payments made to date.
- Contribution of £0.200m from the Former CYP DFM General Reserve to fund risk assessment training and models and quality assurance, auditing and training costs.

3.2.6 School Improvement

The service is currently holding vacancies awaiting the approval of its new structure whilst maintaining income levels which is resulting in a forecast underspend of £0.627m. The income levels for the service are forecast to achieve the target within their budget, however there is potential for this to increase and will be kept under review.

This budget has been reduced by £0.657m with the forecast incorporating that this saving will be achieved.

3.2.7 Traded Services (Start Well)

Traded Services are forecasting a positive variance to budget through the overachievement of income of £1.247m in 2016/17. This relates primarily to the maintenance of income levels within the School Catering Service in line with the 2015/16 outturn position that the service achieved. This also incorporates a saving target that is being achieved of £0.037m.

3.2 Operations and Delivery – Community Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.3.1	CUSTOMER ACCESS	3.779	3.233	-0.545	-0.557	-15%
3.3.2	COMMUNITY SERVICES	0.126	0.126	0.000	0.000	0%
3.3.3	HIGHWAYS	21.268	20.267	-1.001	-0.173	-5%
3.3.4	LIBRARIES MUSEUMS CULTURE & REGISTRARS	9.698	10.063	0.365	0.316	4%
3.3.5	PUBLIC & INTEGRATED TRANSPORT	42.100	42.232	0.133	0.594	0%
3.3.6	WASTE MGT	57.269	61.122	3.854	3.905	7%
	TOTAL - COMMUNITY SERVICES	**134.239**	**137.044**	**2.805**	**4.085**	**2%**

The total net approved budget for Community Services in 2016/17 is £134.239m. As at the end of December 2016 the service is forecast to overspend by £2.805m.

3.3.1 Customer Access

Customer Access is forecast to underspend by £0.545m in 2016/17. Forecast underspends of £0.398m relate to staff vacancies and £0.175m is attributable to the over recovery of income, offset by forecast overspends of £0.028m on non-staff costs. Delays in recruiting to vacant posts could lead to further underspends and these will be kept under review over the coming months.

There is no significant change to the forecast underspend reported to Cabinet at the end of Quarter 2. The forecast reflects the achievement of approved budget savings of £0.234m in 2016/17.

3.3.3 Highways

The service is forecast to underspend by £1.001m.

- This is due to additional income forecast of £1.264m across highways on the permit scheme which includes traffic regulation orders and charges to utilities companies for breaching codes of practice, delays in work and road closures. Additional income was seen in the 2015/16 outturn position and as a result, part of the savings strategy was to increase these income targets in the 2016/17 budget. However, these targets have been exceeded during the course of the year. This is largely due to fee increases and the fact that these fee increases have not resulted in a significant reduction in utilities companies' activity.

- This underspend has been partly offset by a £0.263m pressure on parking services due to a forecast reduction in parking income. This is being reviewed with the service as to the causes and whether this may represent a continuing pressure into future years.

- The service is forecast to spend the agreed highways maintenance and drainage budget within year.

- Staff time charged to capital schemes is significantly lower than expected however this is not shown as a pressure as it is believed that this is due to some initial issues relating to the new time recording system.

There has been a change to the forecast underspend reported to Cabinet at the end of Quarter 2 of £0.828m predominantly resulting from increased fees for traffic regulation orders.

The forecast includes the approved application of non-recurrent funding from the roundabout sponsorship reserve of £0.048m relating to previous years income generation and subsequence reinvestment in specific public realm schemes.

The budget for Highways includes approved budget savings of £3.210m in 2016/17, the forecast reflects the fact that these savings are on track to be delivered in full in 16/17 therefore the approved application of non-recurrent reserve funding of £1.404m from the Transitional Reserve in 2016/17 to support the service as it works towards delivering these savings is not required.

3.3.4 Libraries, Museums, Culture and Registrars

Libraries, Museums, Cultural Services and Registrars (LMCR) is forecast to overspend by £0.365m in 2016/17.

- Cultural Services Museums is forecast to overspend by £0.586m. Following the closure of 5 museums from October 2016 it is expected that the remaining 6 museums will be self-financing, including covering costs associated with collections, with the exception of Gawthorpe Hall for which there is a recurring annual budget (of £0.104m in 2016/17) to cover running costs. It is forecast that it will cost £0.690m to run Museums in 2016/17 after applying non-recurrent funding of £0.500m from the Transitional Reserve. Of the 5 museums which have closed negotiations are underway to transfer 3 of the museums to other organisations by 31st March 2017 and the future of 2 museums is still to be determined. The forecast reflects the fact that the County Council will incur care and maintenance costs following the closure of museums particularly in respect of Helmshore Textile Mill and Queen Street Mill, one-off costs to prepare museums for transfer and will be required to retain collections staff to assist with the work associated with collections held in museums prior to transfer. Given that negotiations are ongoing and the future of 2 museums is still to be determined, the forecast position may change over the remainder of the financial year as further decisions are made and transfer arrangements confirmed.

- County Libraries is forecast to overspend by £0.216m which relates to non-delivery of previously agreed savings. The forecast includes the application of non-recurrent funding of £1.608m from the Transitional Reserve. The forecast reflects the closure of 22 libraries on 30th September 2016 and that these buildings will be cleared and/or transferred by 30th December 2016, and assumes the LMCR restructure will be implemented from February 2017. The future of a number of other libraries is still under consideration and the exact timescales for the closure, transfer and transition to satellites of a number of other libraries is still to be confirmed. Consequently the forecast for 2016/17 may change over the coming months as further decisions are made and closure, transfer and transition arrangements are confirmed.

- Registration Service is forecast to underspend by £0.122m of which £0.146m relates to over recovery of income offset by overspends of £0.024 on staff costs.

- Underspends of £0.314m relate to the remainder of the service which includes Archives, Conservation, Heritage and Arts, Museum School Service, and Support and Development. The forecast includes the application of non-recurrent funding of £0.487m from the Transitional Reserve. Underspends of £0.199m relate to staff costs and £0.155m to non-staff costs, offset by under-recovery of income of £0.040m.

There is no significant change to the forecast underspend reported to Cabinet at the end of Quarter 2.

The budget for Libraries, Museums, Culture and Registrars includes approved budget savings of £5.808m in 2016/17. The forecast reflects the fact that £2.411m of savings have been achieved, £0.802m will not be achieved in 2016/17 and £2.595m of savings are offset by the approved application of non-recurrent reserve funding from the Transitional Reserve in 2016/17 (see below) to support the service as it transitions and works towards delivering these savings.

The forecast includes the following approved application of non-recurrent funding from the Transitional Reserve.

- Contribution of £0.500m from Transitional Reserve to cover the cost of operating 5 museums which closed on 30th September 2016.
- Contribution of £0.347m from Transitional Reserve to cover the continuation of Arts Grants to outside bodies within the Heritage and Arts Service.
- Contribution of £0.140m from the Transitional Reserve to cover staff costs within Cultural Services Support and Development.
- Contribution of £1.608m from the Transitional Reserve to fund transition costs as the County Library Service downsizes.

The forecast also includes the following planned application of non-recurrent funding from reserves.

- Contribution of £0.010m from the Queen St Engine Repair Fund.
- Contribution of £0.001m from the Lancaster City General Acquisitions Fund.
- Contribution of £0.011m from the Former Adults Directorate Grant Funded Reserve to fund a creative writing programme.
- Contribution of £0.020m from the Former Adults Directorate Grant Funded Reserve to fund a Borrowbox scheme.

3.3.5 Public & Integrated Transport

Public and Integrated Transport is forecast to overspend by £0.133m in 2016/17.

- Public Transport Initiatives is forecast to overspend by £0.879m. Of this overspends of £0.932m relate to lower than originally estimated sales from the Todmorden Curve New Rail Scheme. Whilst demand levels (passenger numbers) appear to be in line with the ramp up period predictions, revenues are lower than expected due to discounted fares with student rather than commuter full price fares accounting for the bulk of sales. The forecast is based on current levels of fare revenue and reflects the fact that franchised payments to Northern Rail are largely fixed. This is offset by underspends of £0.053m on Heysham Park and Ride which opened in November 2016 but for which there is a full year budget provision in 2016/17.

- Integrated Transport Travelcare is forecast to overspend by £0.919m. Savings of £2.499m were approved at Full Council in February 2016 in relation to entirely ceasing the provision of free travel to day care from September 2016. However, it has been possible to redesign the service to continue to provide a free service by reconfiguring the transport arrangements and still deliver savings of £1.170m in 2016/17 from September 2016 and £2.006m in future years, resulting in a partial non-delivery of savings of £0.489m, of which £0.389m relates to staff costs and £0.100m to non-staff costs. Savings of £2.200m approved in previous years relate to transport for children and young people with special educational needs (SEN). Of these £0.500m of savings relating to staff cost have been achieved. Delivery of the remaining savings of £1.700m is delayed and these will not be delivered until September 2017 at the earliest. However, this is offset by additional income of £1.000m which has not been budgeted for in 2016/17 or previous years, resulting in an in year underspend. The budget has been adjusted for this additional income in the MTFS from 2017/18. Underspends of £0.320m relates to the impact in 2016/17 of an over accrual in 2015/16, offset by overspends of £0.050m relating to a number of other smaller items across the service.

- Public Transport Concessionary Travel is forecast to underspend by £1.027m, due to a seasonal decline in passenger numbers and changes in eligibility criteria relating to pensionable age (increased from 60 to 65).

- Public Transport School Transport is forecast to underspend by £0.176m. The agreed saving of £0.282m in 2016/17 is not achievable in the way originally planned because denominational transport services cannot cease until September 2017 at the earliest. However, the impact of this has been off-set by actual price inflation being lower than estimated price inflation applied to the 2016/17 budget in the MTFS, lower forecast bus operator costs in real terms than in 2015/16 and an over accrual that took place at the end of 2015/16.

- Public Transport Bus Stations, Interchanges and Information Centres are forecast to underspend by £0.225m. The forecast underspend is non-recurring and relates to Accrington Bus Station. Whilst there is a budget for Accrington Bus Station (Pennine Reach) in 2016/17, this has now been superseded by the introduction of departure fees as the service moves towards all bus stations operated or supported by the County Council becoming self-financing in order to deliver agreed savings and therefore this budget has been removed in the MTFS from 2017/18. The forecast does, however, include the use of £0.587m of Bus Service Operators Grant (BSOG) which it was not anticipated the County Council would receive in 2016/17 following the cessation of the majority of tendered network bus services, to cover the in-year shortfall arising from the phased introduction of departure fees at bus stations over a 2 year period from 2016/17.

- Community transport and tendered network bus services are forecast to underspend by £0.180m, which relates to contracts with bus operators and vehicle costs.

- Forecast underspends of £0.057m relate to other areas including Fleet Services.

The service reported overspends of £0.594m at the end of Quarter 2 compared to the current forecast overspend of £0.133m a decrease in forecast overspends of £0.461m which largely relates to Integrated Transport Travelcare and concessionary travel.

The budget for Public and Integrated Transport includes approved budget savings of £15.133m in 2016/17, and the forecast reflects the fact it is not anticipated that all savings will be made in year (as discussed above) and some savings are offset by the application of non-recurrent reserve funding of £0.836m from the Transitional Reserve in 2016/17 (see below) to support the service as it transitions and works towards delivering these savings.

The forecast includes the following planned application of non-recurrent funding from reserves.

- Contribution of £0.836m from the Transitional Reserve to fund the cost of transport to day centres.
- Contribution of £0.500m from the Transitional Reserve to cover the travel costs for young people not in education, employment or training (NEET).
- Contribution of £0.089 from the Transitional Reserve to cover the naval architect fees employed to carry out a feasibility study on and valuation of the Knott End Ferry and revenue costs in 2016/17 (as approved by Management Team).
- Contribution of £0.977m of Bus Service Operators Grant (BSOG) to transport reserves to be used to fund shortfalls in 2017/18 arising from the phased introduction of departure charges at bus stations.

3.3.6 Waste Management

Waste Management is forecast to overspend by £3.854m in 2016/17.

Forecast overspends of £1.841m can be attributed to assumptions made in the MTFS which have not materialised. In addition, an increase in residual waste arisings of 5.4% is forecast (compared to increases of 1% previously assumed) resulting in forecast overspends of £1.768m, and the forecast one-off cost of landfilling residues from emptying of the composting halls, following cessation of processing activities (as required to deliver agreed savings), is £0.692m. These are offset by forecast savings of £1.703m from diverting waste from landfill to alternative treatment facilities and forecast underspends of £0.328m on green waste such as garden waste composting where work with district councils to remove food waste from garden waste collections has been completed allowing in year reductions in gate prices. Forecast overspends of £1.584m relate to the high cost of insurance premiums at the waste recovery parks which continue to put pressure on the waste budget.

There is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Waste Management includes approved budget savings of £20.337m in 2016/17, and the forecast reflects the fact that some savings are offset by the approved application of non-recurrent funding of £10.258m from the Transitional Reserve to cover the costs of payments to District Councils under cost sharing arrangements and £7.750m also from the Transitional Reserve to cover transition costs associated with the transformation of the waste company.

The forecast also includes the planned application of non-recurrent reserves funding of £1.071m from the Waste Plant Rectification Reserve to cover part of Blackpool Councils contribution to waste costs, £0.100m from the Waste General Reserve for payment of a Lendlease invoice which was in dispute at the end of 2015/16 and £0.014m also from the Waste General Reserve to cover costs relating to Ingol Reuse Shop.

3.3 Operations and Delivery – Public Health and Wellbeing Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.4.1	PUBLIC HEALTH & WELLBEING	-73.727	-71.783	1.944	1.944	-3%
3.4.2	PATIENT SAFETY & QUALITY IMPROVEMENT	4.832	4.591	-0.240	-0.241	-5%
3.4.3	HEALTH EQUITY WELFARE & PARTNERSHIPS	9.399	9.399	0.000	0.000	0%
3.4.4	WELLBEING PREVENTION & EARLY HELP	83.879	82.494	-1.385	0.235	-2%
3.4.5	EMERGENCY PLANNING & RESILIENCE	1.224	0.835	-0.389	-0.109	-32%
3.4.6	TRADING STANDARDS & SCIENTIFIC SERVICES	2.951	3.160	0.208	0.209	7%
3.4.7	DEPUTY DIR PUBLIC HEALTH & CONSULTANTS	0.301	0.170	-0.131	-0.131	-43%
	TOTAL – PUBLIC HEALTH	**28.860**	**28.867**	**0.007**	**1.907**	**0%**

The total net revised budget for Public Health & Wellbeing Services in 2016/17 is £28.860m. As at the end of quarter 3, the service is forecast to overspend by £0.007m.

3.4.1 Public Health & Wellbeing

The overspend reported at £1.944m is largely due to a reduction in the Public Health grant amounting to £1.925m. These grant reductions continue into 2017/18 and have been highlighted and adjusted for within the revised MTFS.

There is no significant change to the forecast overspend reported for Quarter 2.

3.4.2 Patient Safety & Quality Improvement

This service is forecast to underspend by £0.240m as a result of staffing underspends and the delayed restructure of the service.

There is no significant change to the forecast underspend reported for Quarter 2.

The budget for Patient Safety & Quality Improvement includes approved budget savings of £0.788m in 2016/17 which are on track to be delivered through contract reductions and staff restructuring.

The forecast includes the following planned application of non-recurrent funding.

- Contribution of £0.165m from the Public Health Reserve in relation to the Steady On falls prevention strategy.
- Contribution of £0.276m from the Health Reserve in relation to building resilience.
- Contribution of £0.153m from the Health Reserve utilising the Section 256 monies on agreed activities.

3.4.3 Health Equity, Welfare & Partnerships

There is no variance forecast against the service budget. There is no change to the forecast underspend reported to Cabinet at Quarter 2.

The budget for Health Equity, Welfare & Partnerships includes approved budget savings of £2.852m in 2016/17 which are all on track for delivery.

The forecast includes the following planned application of non-recurrent funding.

- Contribution of £0.952m from reserves in relation to the Domestic Abuse strategy to continue this service up to the end of March 2017. This is part funded from the Crime and Disorder reserve £0.714m and part funded from the Transitional reserve £0.238m.
- Contribution of £1.000m to the Transitional reserve in relation to the Prevention & Early Help Fund to facilitate services for care leavers and young people who are homeless into 2017/18 from the underspend of this £3.000m fund in 2016/17.

3.4.4 Wellbeing, Prevention & Early Help

An overall underspend of £1.385m has been forecast for the service.

- The Public Health General budget has experienced a delay in ceasing the Homestart contract £0.170m earmarked to end March 2016 as part of the agreed savings (BOP 48) however this activity aligns with the 0-19 service recommissioning and has therefore been extended to coincide with this full reprocurement of services. There has been a delay in the substance misuse saving strategy causing an in year pressure of £0.911m. These pressures have been partly offset by the early delivery of agreed savings in year of £0.503m in Children's services as the service redesign moves forward.
- Further underspends have been highlighted this quarter in relation to the recommissioned Sexual Health and Healthy lifestyles contracts which now work on a tariff payment mechanism of £1.232m. Data has now been provided to suggest lower uptake than expected in this first year of these new commissions.
- The Public Health Combined Offer budget is forecasting that the underspend seen in 2015/16 will continue into 2016/17 in addition to this as the restructure takes shape staff turnover will mean there is no requirement from reserves to fund the service in its transition year. Troubled Families is forecast to exceed its original income target, and this has again meant that the in-year requirement from reserves to fund the service in its transition year has been eliminated. Payment by results income has now been built into the 2016/17 monitoring position against 320 families. Providing an additional £0.731m underspend overall in the area.

There has been a significant change to the forecast overspend reported to Cabinet in Quarter 2 due to early delivery of the revised early help service model and the realisation of in year savings on the tariff structured public health contracts.

The budget for Wellbeing, Prevention & Early Help includes budget reductions of £9.688m in 2016/17 but offsetting these savings is an approved drawdown from the transitional reserve of £4.755m. However due to early delivery of savings of the Public Health Combined Offer and the additional troubled families monies the drawn down from the transitional reserve to support the Wellbeing & Prevention Service Offer has not been needed.

The forecast includes the following planned application of non-recurrent funding amounting to £0.374m.

- Contribution of £0.111m from the Public Health reserve for small grants YPS
- Contribution of £0.263m from the working together with families reserve for planned workforce development and transition work.

3.4.5 Emergency Planning & Resilience

An underspend of £0.389m has been forecast for the service.

This is due to the over-delivery of income against current targets for Health & Safety work. This income stream has been explored further as part of the services zero based budget review to ensure the fees and budget are set at a sustainable level going forward.

There has been a change £0.280m to the forecast underspend reported to Cabinet at the end of Quarter 2 as a result of more Schools purchasing the Health & Safety services and efficiencies within running costs across the services.

The budget for Emergency Planning & Resilience includes approved budget savings of £0.088m as part of the Health and Safety traded service which are on track to be delivered.

3.4.6 Trading Standards & Scientific Services

An overspend of £0.209m has been forecast for the service.

Overall, Scientific Services are reporting £0.195m shortfall on income levels made up of: a £0.085m reduction on FSA Foods grant, and £0.070m related to the transfer of the asbestos function from Design & Construction where there was no budget provision for the related costs of sampling this work. Design & Construction were able to absorb this pressure within their overall budget, however Scientific Services have no capacity to do this, and have inherited a pressure on their budget. The other income targets show a £0.040m pressure and the remaining small variance of £0.014m is in relation to increased rates at the Laboratory.

There is no significant change to the forecast overspend reported to Cabinet at the end of Quarter 2.

The budget for Trading Standards & Scientific Services includes approved budget savings of £0.363m to be achieved as part of the current restructure.

The forecast includes the following planned application of non-recurrent funding.

- Contribution of £0.060m from equipment renewal reserve for the purchase of food testing/analysis equipment for Scientific Services.
- Contribution of £0.057m from improved outcomes reserve reinvesting crime proceeds into local crime reduction initiatives delivered via the service.

3.4.7 Deputy Dir Public Health & Consultants

This service is forecast to underspend as a result of staffing savings of £0.131m within the management structure due to consultant vacancies and delayed utilisation of this funding in the service staffing redesign.

There is no significant change to the forecast underspend reported to Cabinet at the end of Quarter 2.

3.5 Development and Corporate Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.5.1	DEVELOPMENT AND CORPORATE SERVICES	0.171	0.171	0.000	0.000	0%
3.5.2	LANCASHIRE ADULT LEARNING	-0.075	-0.105	-0.030	-0.030	40%
3.5.3	CORPORATE SERVICES	0.108	0.108	0.000	0.000	0%
3.5.4	CORE BUSINESS SYSTEMS TRANSFORMATION	23.993	23.784	-0.209	-0.090	-1%
3.5.5	FACILITIES MGT	5.625	6.047	0.422	0.868	8%
3.5.6	HUMAN RESOURCES	1.035	0.925	-0.110	-0.110	-11%
3.5.7	ECONOMIC DEVELOPMENT	0.190	0.190	0.000	0.000	0%
3.5.8	BUSINESS GROWTH	0.080	0.080	0.000	0.000	0%
3.5.9	LEP COORDINATION	0.000	0.064	0.064	0.064	100%
3.5.10	STRATEGIC ECONOMIC DEVELOPMENT	0.235	0.080	-0.155	-0.155	-66%
3.5.11	PROGRAMMES & PROJECT MGT	0.119	0.119	0.000	0.000	0%
3.5.12	DESIGN and CONSTRUCTION	-2.019	-1.951	0.068	0.069	-3%
3.5.13	ESTATES	1.552	1.552	0.000	0.000	0%
3.5.14	PLANNING AND ENVIRONMENT	1.459	1.189	-0.270	-0.270	-19%
3.5.15	PROGRAMME OFFICE	-0.073	-0.073	0.000	0.000	-0%
3.5.16	SKILLS LEARNING & DEVELOPMENT	3.173	3.228	0.055	-0.147	2%
3.5.17	HEALTH & CARE SYSTEMS DEVELOPMENT	0.000	0.000	0.000	0.000	0%
	TOTAL - DEVELOPMENT AND CORPORATE	**35.574**	**35.408**	**-0.166**	**0.199**	**2%**

The total net revised budget for Development and Corporate Services in 2016/17 is £35.574m. As at the end of December 2016 the service is forecast to underspend by £0.166m.

3.5.2 Lancashire Adult Learning

No significant variance from budget is forecast for Lancashire Adult Learning in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The forecast includes the planned application of non-recurrent funding of £0.030m from the Lancashire Adult Learning Reserve to cover the cost of back dated pay awards for lecturer staff, £0.007 to cover the costs of Skills funding Agency grant clawback for ESF Programmes from 2007 to 2013 and £0.005m for costs relating to projects dating back to 2014/15.

3.5.4 Core Business Systems/Transformation

Core Systems is forecast to underspend by £0.209m in 2016/17 which largely relates to vacancies and staff costs.

The service reported underspends of £0.090m at the end of Quarter 2 compared to the current forecast underspend of £0.209m, an increase in forecast underspends of £0.119m.

The budget for Core Business Systems/Transformation includes approved budget savings of £0.592m. The forecast reflects the achievement of savings and whilst £0.175m of non-recurrent funding from the Transitional Reserve in 2016/17 was approved, in year underspends has meant that this will not be required.

3.5.5 Facilities Management

Facilities Management is forecast to overspend by £0.422m in 2016/17.

- Forecast overspends of £0.394m relate to delays in delivering savings as a result of the impact of the property strategy and a number of properties transferred to Facilities Management for which there is insufficient budget.
- Forecast overspends of £0.404m relate to staff and civic catering which are largely due to non-delivery of 2015/16 savings and non-delivery of 2015/16 and 2016/17 savings on Reflections The financial position of both Woodlands and Reflections will need to be considered as part of the combined conferencing and catering service at County Hall when Woodlands closes.
- Forecast overspends of £0.077m relate to the non-delivery of service offer savings and changes to the opening hours of County Hall which will not now go ahead.
- Forecast underspends of £0.331m relating to electricity consumption on retained County Buildings.
- Forecast underspend of £0.122m relate to staff costs.

The service reported overspends of £0.868m at the end of Quarter 2 compared to the current forecast overspend of £0.422m, a decrease in forecast overspends of £0.446m which largely relates to electricity consumption and staffs costs.

The budget for Facilities Management includes approved budget savings of £0.286m and progress in delivering savings is referred to above.

3.5.6 Human Resources

Human Resources is forecast to underspend by £0.110m in 2016/17.

Forecast underspends of £0.351m relate to the over recovery of income from schools following the transition to operating on a traded basis during 2015/16 and £0.056m to staff costs, whilst forecast overspends of £0.008m relate to non-staff costs. This is offset by forecast overspends of £0.289m against budgeted use reserves and reflects the fact that in year underspends have reduced the need to draw down reserves.

There is no change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Human Resources includes approved budget savings of £0.289m. Whilst £0.371m of non-recurrent funding from the Transitional Reserve in 2016/17 was approved, in year underspends has meant that this will not be required.

3.5.7 Economic Development

This service is forecast to break-even in 2016/17. This incorporates a saving of £0.650m that was approved, however it was also approved that this would be offset by funding from the transitional reserve of £0.650m in 2016/17.

3.5.12 Design and Construction

No significant variance is forecast for Design and Construction in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The forecast reflects the partial achievement of £0.110m of approved budget savings of £0.220m in 2016/17, although it is anticipated that savings will be achieved in 2017/18. The forecast includes the planned application of non-recurrent reserves funding of £6.210m from the Schools Prop Reserve to cover the cost of schools repairs and maintenance.

3.5.13 Estates

No variance from budget is forecast for Estates in 2016/17 and there is no change to the forecast reported to Cabinet at the end of Quarter 2.

The forecast reflects the achievement of approved budget savings of £0.067m in 2016/17.

3.5.14 Planning and Environment

Planning and Environment is forecast to underspend by £0.270m in 2016/17, which relates to over achievement of income by the Master Planning Team.

There is no change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Planning and Environment includes approved budget savings of £1.016m and the forecast reflects the approved application of non-recurrent funding of £0.305m from the Transitional Reserve to cover the cost of the phased reduction in countryside services.

The forecast also includes the planned application of non-recurrent funding of £0.022m from the Waste General Reserve to recompense Farington residents for odour issues.

3.5.15 Programme Office

No variance from budget is forecast for Programme Office in 2016/17. The forecast includes savings of £2.590m with the planned application of non-recurrent reserves funding of £0.369m from the Transitional Reserve to cover staff costs. It was originally approved that £0.831m would be required to support the 16/17 budget saving, however the service only now require the figure stated above.

3.5.16 Skills, Learning and Development

No significant variance from budget is forecast for Skills, Learning and Development in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Skills, Learning and Development includes approved budget savings of £0.646m in 2016/17. Whilst £1.013m of non-recurrent funding from the Transitional Reserve in 2016/17 was approved, in year underspends and early deliver of savings has meant that this will not be required in 2016/17.

The forecast includes the following planned application of non-recurrent funding from reserves.

- Contribution of £0.287m from the Strategic Investment Reserve to cover the costs of the Ex Service Personnel Mentoring in Schools.
- Contribution of £0.304m from the Strategic Investment Reserves to cover the costs of promoting sustainable employment for young people.
- Contribution of £0.050m from the Former Adults Directorate Grant Funded Reserve relating to North Lancashire Carers.
- Contribution of £0.177m from the Transitional Reserve to cover the cost of approved apprentices and graduates programme.

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3.6 Commissioning Services

Ref	HEAD OF SERVICE	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.6.1	COMMISSIONING	0.163	0.163	0.000	0.000	0%
3.6.2	CORPORATE COMMISSIONING	0.136	0.136	0.000	0.000	0%
3.6.3	ASSET MGT	15.430	14.436	-0.995	-0.037	-6%
3.6.4	POLICY INFO & COMMISSION AGE WELL	0.528	0.527	-0.001	0.000	0%
3.6.5	POLICY INFO & COMMISSION LIVE WELL	0.513	0.511	-0.002	0.006	0%
3.6.6	POLICY INFO & COMMISSION START WELL	0.432	0.462	0.030	0.018	7%
3.6.7	PROCUREMENT	1.271	1.270	-0.001	0.000	0%
3.6.8	BUSINESS INTELLIGENCE	0.809	0.810	0.001	0.000	0%
3.6.9	FINANCIAL RESOURCES	0.113	0.113	0.000	0.000	0%
3.6.10	EXCHEQUER SERVICES	2.530	2.126	-0.404	-0.300	-16%
3.6.11	FINANCIAL MGT (DEVELOPMENT AND SCHOOLS)	0.424	0.207	-0.217	-0.100	-51%
3.6.12	FINANCIAL MGT (OPERATIONAL)	1.572	1.353	-0.219	-0.050	-14%
3.6.13	OFFICE OF THE POLICE AND CRIME COMMISSIONER	-0.015	-0.015	0.000	0.000	0%
3.6.14	CORPORATE FINANCE	6.374	6.374	0.000	-0.050	0%
3.6.15	GOVERNANCE FINANCE & PUBLIC SERVICES	0.139	0.139	0.000	0.000	0%
3.6.16	CORONER'S SERVICE	2.472	2.714	0.242	0.318	10%
3.6.17	INTERNAL AUDIT	0.623	0.593	-0.031	0.060	-5%
3.6.18	LEGAL AND DEMOCRATIC SERVICES	13.034	12.536	-0.497	-0.700	-4%
3.6.19	LEGAL DEMOCRATIC & GOVERNANCE	0.101	0.101	0.000	0.000	0%
	TOTAL - COMMISSIONING	**46.649**	**44.556**	**-2.093**	**-0.835**	**-4%**

The total net revised budget for Commissioning Services in 2016/17 is £46.649m. As at the end of December 2016 the service is forecast to underspend by £2.093m.

3.6.3 Asset Management

Asset Management is forecast to underspend by £0.995m in 2016/17.

- Forecast underspends of £0.965m relates to street lighting. The County Council contributed a £5.000m of capital investment along with the DfT Challenge Fund grant to undertake a large scale replacement of existing less efficient sodium vapour lanterns with LED energy efficient lanterns which has resulted in reductions in energy consumption. In addition the MTFS included price and volume increases within the street lighting budget which have not materialised.
- Forecast underspends of £0.037m relate to Building Schools for the Future (BSF).
- Forecast overspends of £0.007m relate to non-staff costs.

The service reported underspends of £0.037m at the end of Quarter 2 compared to the current forecast underspend of £0.995m, an increase in forecast underspends of £0.958m which largely relates to street lighting costs.

The budget for Asset Management includes approved budget savings of £0.391m in 2016/17 which is offset by the application of non-recurrent reserve funding of £0.341m from the Transitional Reserve. Whilst use of £0.341m was originally approved, vacancies and early delivery of savings has meant that this will not be required in 2016/17.

The forecast includes a contribution from the Schools PFI Reserves of £0.070m and a contribution to the PFI BSF Reserve of £0.560m to fund BSF PFI costs over the life of the PFI contracts and the planned application of £0.727m from the Former OCE General Reserve to cover the cost of repairs and maintenance works.

3.6.4 Policy, Information and Commissioning Age Well
3.6.5 Policy, Information and Commissioning Live Well
3.6.6 Policy, Information and Commissioning Start Well

No significant variance from budget is forecast for the Policy, Information and Commissioning Teams for Start Well, Live Well and Age Well in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Policy, Information and Commissioning includes approved budget savings of £1.337m in 2016/17 which is offset by the application of non-recurrent reserve funding of £0.856m from the Transitional Reserve. Whilst use £1.337m was originally approved, vacancies and early delivery of savings has meant that only £0.856m will be required.

3.6.7 Procurement

No significant variance from budget is forecast for Procurement in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Procurement includes approved budget savings of £0.416m in 2016/17, which is offset by the application of non-recurrent reserves funding of £0.029m from the Transitional Reserve. Whilst use of £0.416m was originally approved, vacancies and early delivery of savings has meant that only £0.029m will be required in 2016/17.

3.6.8 Business Intelligence

No significant variance from budget is forecast for Business Intelligence in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Business Intelligence includes approved budget savings of £0.555m in 2016/17, which is offset by the application of non-recurrent reserves funding of £0.271m from the Transitional Reserve. Whilst use of £0.472m was originally approved, vacancies and early deliver of savings has meant that only £0.271m will be required in 2016/17.

3.6.9 Financial Resources

3.6.10 Exchequer Services
3.6.11 Financial Management (Development and Schools)
3.6.12 Financial Management (Operational)
3.6.13 Office of the Police and Crime Commissioner Treasurer
3.6.14 Corporate Finance

Financial Resources (covering all of the above services) is forecast to underspend by £0.840m in 2016/17, which relates to staff vacancies.

The change to the forecast reported to Cabinet at the end of Quarter 2 of £0.340m is as a result of further staff vacancies.

The forecast reflects the achievement of approved budget savings of £0.911m in 2016/17 and includes the application of £0.060m from the Former CYP DFM General Reserve to cover the cost of ICT developments and £1.830m of from the Former Corporate DFM Reserves.

3.6.16 Coroners

Coroners Service is forecast to overspend by £0.242m in 2016/17 which relates to SLA's with other Local Authorities, various fees for services provided (toxicology, pathology, mortuary fees, etc.) as a result of demand led pressures and coroner related staff costs.

There is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

3.6.17 Internal Audit

No significant variance from budget is forecast for Internal Audit in 2016/17 and there is no significant change to the forecast reported to Cabinet at the end of Quarter 2.

3.6.18 Legal and Democratic Services

Legal and Democratic Services is forecast to underspend by £0.497m in 2016/17.

- Member Grants is forecast to underspend by £0.156m which relates to members expenses and development.
- Legal Services is forecast to underspend by £0.246m of which £0.526m relates to staff costs offset by overspends of £0.113m on non-staff costs including legal fees, and £0.166m relating to under recovery of income across a number of income streams.
- Underspends of £0.094m relate to the remainder of the service which includes Democratic Services and management staff and largely relates to staff costs.

The service reported underspends of £0.700m at the end of Quarter 2 compared to the current forecast underspend of £0.497m, an decrease in forecast underspends of £0.203m which largely relates to an increase in forecast in legal fees and a number of other smaller changes across the service.

The budget for Legal and Democratic Services includes approved budget savings of £0.286m in 2016/17. Whilst use of £0.135m in 2016/17 was originally approved, vacancies and early delivery of savings has meant that this will not be required in 2016/17.

The forecast also includes the application of non-recurrent funding of £0.049m of SEND Implementation/Reform Grant held on the Former CYP Directorate Grant Funded Reserve to cover the cost of a temporary SEN solicitor and a contribution to the County Council Elections reserve of £0.400m to fund the cost of future local elections.

Chief Executive Services

Ref	Cost Centre Description LEVEL D	Approved Budget £m	Current Period Forecast Outturn £m	Current Period Forecast Variance £m	Q2 Cabinet Forecast Variance £m	Current Period Forecast Variance %
3.7.1	CHIEF EXECUTIVE	0.553	-0.567	-1.120	-3.160	-202%
3.7.2	SERVICE COMMUNICATIONS	0.791	0.790	-0.001	0.000	0%
3.7.3	LARGE SPECIFIC GRANTS TO SUPPORT THE AUTHORITY	-14.589	-14.589	0.000	0.000	0%
3.7.4	NON SERVICE ISSUES CORPORATE BUDGETS	43.848	13.937	-29.911	-30.308	-68%
3.7.5	BUSINESS SUPPORT	0.000	0.019	0.019	0.013	0%
	TOTAL - CHIEF EXECUTIVE	**30.603**	**-0.410**	**-31.013**	**-33.456**	**-101%**

The total net revised budget for Chief Executive in 2016/17 is £30.603m. As at the end of December 2016 the service is forecast to underspend by £31.013m.

The budget includes approved budget savings of £0.065m which has reduced the former contingencies budget to nil and is therefore not shown in the table above.

3.7.1 Chief Executive

Chief Executive is forecast to underspend by £1.120m in 2016/17 which relates to staff costs.

The service reported underspends of £3.160m at the end of Quarter 2 compared to the current forecast underspend of £1.120m, an increase in forecast of £2.040m as a result of cleansing of staffing budgets and forecasts.

The budget for Chief Executive includes approved budget savings of £0.930m in 2016/17, which is offset by the approved application of non-recurrent reserves funding of £0.930m from the Transitional Reserve to cover staff costs (specifically Executive Directors, Directors and Executive Support).

The forecast also includes the application of non-recurrent funding of £1.033m from the Transitional Reserve to cover the cost of work being undertaken by PwC.

3.7.2 Service Communications

No significant variance from budget is forecast for Service Communications and there is no change to the forecast reported to Cabinet at the end of Quarter 2.

The budget for Service Communications includes approved budget savings of £0.829m in 2016/17, which is offset by the approved application of non-recurrent reserves funding of £0.434m from the Transitional Reserve. Whilst use £0.760m was originally approved, early delivery of savings has meant that only £0.434m will be required in 2016/17.

3.7.4 Non Service Issues Corporate Budgets

Non Service Issues Corporate Budgets is forecast to underspend by £29.911m in 2016/17.

- The inherited liabilities provision and centralised employers liability have been reviewed and as a result are forecast to underspend by £0.283m which is 0.9% of the total budget.

- Strategic is forecast to underspend by £2.915m. This service area was previously forecast to underspend by £1.620m with the movement in forecast in this report being as a result of borrowing for the annual contribution to the City Deal of £1.295m rather than charging this amount to the revenue budget. This was identified as a saving as part of the zero based budget review.

- Projects is forecast to overspend by £0.043m relating to school closure costs for which there is no budget. Budget of £0.060m has been added in the MTFS from 2017/18.

- Treasury Management is forecast to underspend by £26.756m. Of this £0.572m relates to MRP resulting from changes in the 2016/17 capital programme, £1.954m relates to forecast interest payable being lower than budgeted and the level of borrowings (net of shared investment scheme) reducing along with more favourable interest rates which has thereby reduced interest payable. A further £24.974m relates to a forecast surplus on interest receivable largely due to gains incurred for the sale of core bonds and the volatility of markets since BREXIT, offsetting the reduction in interest receivable on sold bonds which was reflected in the budget. The ability to make a surplus on the sale of bonds generally arises as bond prices rise in reaction to economic uncertainty and monetary policy.

The impact of external events can be shown by the weekly gains with some £15m of the gains coming in just three weeks as follows.

- Some £9.2m of the gains arose in 2 weeks in early August. This followed the Bank of England announcing a package of measures to stimulate the economy based on concerns around the impact on the economy of BREXIT. These measures include the purchase of UK corporate and government bonds thereby increasing the price of GILTS in particular.
- A further £5.5m was generated in early October when markets reacted to Government announcements on the BREXIT timetable and the potential of a so called hard exit which may involve not having free access to trade.

The forecast only includes those gains actually realised. This is a prudent approach because there is no guarantee that market movement will provide the opportunity for future gains. It must also be taken into account that there is actually a potential for some loss. Although the level of investments are kept within approved levels there is a possibility that some of them will need to be sold for liquidity purposes. If this was to be the case then any gain or loss generated would be dependent upon the market at the time of sale.

The gains achieved in recent years may indicate that the budget should include an additional estimated level of gain. However, in addition to the difficulty in predicting future market conditions there are a couple of other factors which need to be considered. Firstly, the ability for the County Council to have an investment portfolio is based on holding reserves and other cash backed accounts on the Balance Sheet. It has been well documented that it is estimated that the County Council is anticipating a significant reduction in these balances over the next two years. The Investment Strategy will need to be altered to meet the changes and it is reasonable to assume that the investment portfolio will then be much smaller. This significantly reduces the ability to generate gains.

The service reported underspends of £30.308m at the end of Quarter 2 compared to the current forecast underspend of £29.911m a decrease in forecast underspends of £0.397m which relates to pension costs and the strategic budget.

The forecast includes the planned application of non-recurrent of £18.286m from the Transitional Reserve and relates to the agreed application funds to support the shortfall in the County Council's revenue budget. This forecast also includes an agreed contribution from capital receipts of £5.000m under new flexibilities to support the revenue budget.

Appendix B

Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy as at 31st December 2016

Lancashire County Council

Financial Outlook for the County Council: Medium Term Financial Strategy

1. Executive Summary

1.1 Introduction

This report outlines the financial position facing Lancashire County Council over the period 2017/18 to 2020/21. The County Council is experiencing an ongoing period of unprecedented financial pressure as a result of the Government's extended programme of austerity combined with significant increases in demand for public services.

In December 2016 Cabinet received a report outlining the latest financial position facing Lancashire Council which covered the period 2017/18 – 2020/21 and estimated an estimated in year funding gap of £146.133m by the end of the 4 year period. The Council being forecast to have a cumulative deficit of £411.209m by the end of 2020/21.

This report provides an updated position following a review of the existing assumptions to reflect the most current information available. As a result of these reviews the funding gap has increased to £153.389m, however the cumulative gap has however decreased to £407.988m as a result of a reduced gap in earlier years. The increase in the financial gap is primarily due the announcement within the provisional financial settlement that the 2% Adults Social Care Precept could not be applied in 2020/21, which had previously been assumed in the MTFS.

1.2 Financial Overview 2017/18 – 2020/21

Under a separate Money Matters report the County Council's financial position for 2016/17 as at 31st December has been outlined (£15.298m forecast underspend). This is a slightly improved variance reported compared to Cabinet in December , but it is important to note that the underspend is primarily the result of Treasury Management activities and the underlying position still contains significant pressures on demand led budgets, particularly Children's Social Care.

The assumptions made in the original MTFS have been reviewed and been updated to reflect the latest information available.

The table below provides a detailed analysis and movements between the previously reported financial gap and the revised financial gap:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Spending Gap as reported to Cabinet December 2016	60.350	26.497	31.032	28.254	**146.133**
Add change to forecast of spending:					
Pay and Pensions	0.000	0.000	0.000	0.000	**0.000**
Price Inflation and Cost Changes	0.502	0.179	0.009	0.115	**0.805**
Service Demand and Volume Pressures	-0.606	-0.536	-0.140	0.030	**-1.252**
Adjustments to Savings Programme	-0.414	0.000	0.000	0.000	**-0.414**
Total change to forecast of spending	**-0.518**	**-0.357**	**-0.131**	**0.145**	**-0.861**
Funding	-5.787	4.977	-0.671	9.598	**8.117**
Total change to forecast of resources	**-5.787**	**4.977**	**-0.671**	**9.598**	**8.117**
Revised funding gap	**54.045**	**31.117**	**30.230**	**37.997**	**153.389**

Aggregated Funding Gap					**Total £m**
2017/18 (£m)	54.045	54.045	54.405	54.405	**216.180**
2018/19 (£m)		31.117	31.117	31.117	**93.351**
2019/20 (£m)			30.230	30.230	**60.460**
2020/21 (£m)				37.997	**37.997**
Total	**54.045**	**85.162**	**115.392**	**153.389**	**407.988**

1.3 Conclusion

Lancashire County Council continues to face, as previously stated, an unprecedented period of financial constraint through to at least 2020/21.

The Statutory Services Budget Review undertaken by PwC and reported to Cabinet in October validated the financial position as reported through the MTFS and confirmed that even should the County Council reduce its expenditure to the median of lowest quartile by 2020/21 an in-year deficit of £79m would remain.

One of the considerations raised within the report was whether the current funding model of the Council is disproportionately contributing to the Lancashire funding gap. The County Council has continued to lobby Central Government and relevant stakeholders regarding the extreme challenges being faced as a result of the local government finance system.

Whilst the principle has been agreed of reviewing each and every continuing service using a zero based approach, with reference to our benchmark unit costs and moving towards the lowest quartile of the most appropriate comparator group, this will need to make early progress during 2017/18 to meet the 2018/19 shortfall and consider whether a sustainable financial position will be achievable over a longer period. Whilst the Lancashire Public Service Deliver Model Business Case produced by PwC includes a level of estimated financial benefits along with requirement for transitional funding, at this stage it remains a proposal to go out to consultation with key partners and stakeholders and has not therefore been factored into any of the MTFS assumptions.

It is important to note that the report prepared by PwC and presented at this meeting has been based on the MTFS position as at 30th June 2016 which was presented to Cabinet in September 2016.

As part of the process of redesigning its services the County Council has previously explicitly recognised that it will need to utilise its reserves. Details on the reserves are detailed in the Money Matters report Appendix C. In this report it is noted that as at 1 April 2016 the County Council had £314.647m of reserves, some of which are already committed. Including the Funding Gap identified in this report, it has been identified that there is an estimated reserves requirement of £54.045m to support the revenue budget in 2017/18. Consequently, by 31st March 2018 it is anticipated that there will only be the £36.000m County Fund and a residual £91.699m of service reserves which includes £8.354m school PFI expenditure and £4.944m which is not LCC money, meaning in effect the available balance of £78.401m. All other reserves will have been spent. If the additional contribution from revenue is available of £15.298m (budget monitoring forecast underspend), this will result in a revised balance of service reserves being available as at 31st March 2018 of £93.699m.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix C) the funding requirement to bridge the financial gap in 2018/19 would total £85.162m. Although there are reserves available at 31st March 2018 of £93.699m (if the currently forecast underspend is achieved) there are commitments in 2018/19 of £10.450m (excluding non LCC commitments) therefore the available balance to support the 2018/19 budget is £83.249m resulting in there not being sufficient funds within reserves to support the 2018/19 budget. The table in Section 3 (Appendix C) clearly demonstrates that there are not sufficient reserves to fully meet the budget gap in 2018/19.

This position is a forecast dependent upon a number of key factors that are detailed within Appendix C.

2. Resources

The MTFS includes government funding based on the Secretary of State's proposed allocations up to 2019/20.

The MTFS approved by Cabinet in December 2016 included the following forecast resources:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	180.861	186.141	192.038	197.255
Council Tax	430.627	452.288	475.036	498.932
New Homes Bonus	5.530	3.475	3.334	3.334
Better Care Fund	3.210	22.656	40.014	40.014
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
Total	**715.390**	**726.539**	**743.316**	**766.463**

The figures above were based on a number of assumptions which have been revisited as part of this report. This report has been updated to include information from the Provisional Finance Settlement announced in December 2016. It is important to note that Council Tax had been increased by 3.99%, however this would have been a Full Council decision when setting the budget for each financial year.

The revised resources position incorporating the details set out below is as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	181.391	186.747	193.323	198.540
Council Tax	430.627	452.288	475.036	489.334
New Homes Bonus	5.244	3.679	3.530	3.530
Better Care Fund	3.210	22.656	40.014	40.014
Adult Care Support Grant	5.543	0.000	0.000	0.000
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
Total	**721.177**	**727.349**	**744.797**	**758.346**

2.1 Provisional Local Government Finance Settlement

The Secretary of State announced the Provisional Local Government Finance Settlement on 15th December 2016. This has resulted in some amendments to the finance assumptions as outlined below. It is important to note that the Settlement only covers the period up to 2019/20. It is currently anticipated that a new system of local government finance will be in place in 2020/21 which involves local government retaining all of the business rates and the impact of a review of the funding formula. (However, details of the scheme and the impact on Lancashire are not known.)

2.2 Settlement Funding Assessment (SFA)

The Secretary of State announces a Settlement Funding Assessment (SFA) for each authority. This is an indication of the level of resources required by an authority which is to be met from business rates and Revenue Support Grant (RSG). On 15th December 2016 the Secretary of State announced details of proposed support for the next 3 years, i.e. up to 2019/20 and the MTFS has been based on this Settlement. These were:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment (SFA)	292.249	258.456	239.621	222.032
Funded by:				
Revenue Support Grant		81.508	56.979	32.894
Business Rate Baseline		176.948	182.642	189.138
Total		**258.456**	**239.621**	**222.032**
Reduction in SFA		-33.793	-18.835	-17.589

The Settlement for 2017/18 to 2020/21 is provisional, however the Secretary of State offered local authorities the opportunity to apply for a four year finance settlement covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant.
In order to accept the four year settlement the County Council would have been required to provide an efficiency plan that could deliver a balanced budget. However as it has been evidenced by work completed on the base budget review and regular reviews of the MTFS, and validated by PwC, there are not sufficient funds within the proposed settlement to support the Council's statutory services. This has resulted in the County Council declining the offer of a four year settlement.

Although the Revenue Support Grant has been confirmed for 2017/18 the decision not to take the four year settlement could result in future years grant being subject to change. As part of this forecast Revenue Support Grant is assumed to reduce each year until ultimately it is phased out completely by April 2021 at the latest.

A further significant risk associated with the figures included in the table above relates to growth. At the time of the Autumn Statement the Chancellor indicated that that the economy was still resilient but forecasted a fall in future economic growth. The forecast of economic growth at the time of the Autumn Statement was 2.1% for 2016 but estimated a worsening position in 2017 (1.4%) and 2018 (1.7%). There is currently still uncertainty both at home and in the world economy, particularly following the United Kingdom's decision to leave the European Union. This will have an impact on Government finances and could potentially result in further public sector expenditure reductions although the Chancellor has announced that the aim to generate a surplus by the end of parliament is no longer sustainable.

Business Rates

The business rates budget consists of:

- Business rate top up grant
- Business rate income from District Councils
- Section 31 grants

As shown in the table above detailing the SFA the business rate income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the County Council the amount anticipated to be received from the business rates collected in the area is less than its assessed need, therefore it receives a top up grant.

The MTFS that was reported to December Cabinet consisted of:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Top Up grant	142.827	147.041	151.741	156.441
Funding from Districts at baseline	33.991	34.994	36.112	36.542
S31 Grants	4.043	4.106	4.185	4.272
Total	**180.861**	**186.141**	**192.038**	**197.255**

Note: 2020/21 does not form part of the indicative settlement announced by the Secretary of State.

Unless there is change in the SFA due to the economic uncertainties referred to above; the level of the top up grant between 2017/18 and 2020/21 is the best basis of the forecast available for business rates figures in the MTFS. There is however some degree of discretion over the locally raised amounts.

It is also possible that business rate income could fall, although there is a safety net within the business rates retention system which ensures that no authority's income will fall by more than a set percentage of their original baseline funding level (and this level will be increased by RPI every year). The Safety Net percentage has been set at -7.5%.

In terms of the MTFS, whether or not to add additional income is difficult to assess. There is little local information and much will depend on the general economic performance of local areas. In addition, there are valuation appeals outstanding, some of which are on large value properties. If successful these will have a negative impact on the ability to generate business rates.

The baseline data already assumes an increase in income derived from local business rates. Therefore given the economic uncertainty, forecast income has been maintained at the baseline funding level.

In 2015/16 the Government compensated authorities for the cost of a number of measures introduced by the Government. These were the multiplier cap, the temporary doubling of small business rates relief, the temporary maintenance of small business rate relief when a second property is occupied, relief given to newly built properties whilst they are empty (herein after referred to as “new empty” property relief), relief given to long-term empty property brought into occupation (“long-term empty relief”), retail relief, flooding relief and payments made in lieu of transitional relief. Compensation is provided by means of a grant paid under Section 31 of the Local Government Act 2003 and the County Council has been notified that its S31 grant in 2016/17 is £3.992m. There is no information in respect of future years but the main elements of the grant relate to the multiplier cap and the doubling of the small business rate relief.

Assuming that the reliefs continue the impact of the multiplier cap is likely to rise with inflation as without the cap the income would have increased. Other reliefs are more likely to relate to the change in the business rate base. It has been assumed that the level of S31 grants is maintained at the current level.

The final aspect of the business rate forecast is the pooling arrangement. The 2017/18 budget now includes an additional £0.400m due to the continuation of the pooling arrangement that is in place for 2016/17. This is agreed on an annual basis and was not included in the previous MTFS reported to Cabinet as a continuation had not been confirmed at that point. The pool is a one year arrangement, therefore the additional income has not been included past 2017/18.

The impact of changes are as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Increase in income	0.530	0.606	1.285	1.285
Impact on Funding Gap	**-0.530**	**-0.076**	**-0.679**	**0.000**

Council Tax

The MTFS presented to Cabinet in December included the assumption that Council Tax would increase by 3.99% per annum which is the current referendum limit; although at that time it was important to note that this had not been confirmed for future years.

The MTFS last presented to Cabinet also assumed an increase to the tax base year on year of 1%, as this level of growth would seem to be reasonable given the economy is growing, and also with the City Deal impacting on the number of households that will be paying Council Tax.

In the provisional settlement issued on 15th December 2016 one of the significant changes confirmed by the Secretary of State was in relation to the referendum limit for the Adult Social Care Precept. When it was introduced in 2016/17 the limit was a 2% increase. However, in recognition of the pressures facing Local Authorities responsible for Adult Social Care it was announced that Local Authorities could bring forward the additional precept (with a cap of 3% rather than 2% each year) but could still only increase Council Tax by a maximum of 6% over the financial years 2017/18 – 2019/20. The settlement also announced that there would be no Adult Social Care Precept in 2020/21.

On reviewing the flexibility given by the secretary of state the impact is minimal on the impact on the financial gap over the 4 years despite the different levels of increases available in in each year:

	2017/18 **£m**	**2018/19** **£m**	**2019/20** **£m**	**2020/21** **£m**		**Total** **£m**
Previous MTFS (2% 2017/18 - 2020/21)	430.627	452.288	475.036	498.932		**1,856.882**
Current Position (2% 2017/18 - 2019/20, 0% 2020/21)	430.627	452.288	475.036	489.334		**1,847.284**
Increase/decrease in income	0.000	0.000	0.000	9.598		
Impact on financial gap	0.000	0.000	0.000	9.598		**9.598**
Scenario A (3% 2017/18 - 2018/19, 0% 2019/20 -2020/21)	434.768	461.027	474.903	489.196		**1,859.894**
Increase/decrease in income	4.142	8.740	-0.133	-9.736		
Impact on Funding Gap	-4.142	-4.598	8.873	9.603		**9.736**

**includes 1% increase in tax base and 1.99% council tax increase*

This MTFS currently contains an Adult Social Care precept increase of 2% for 2017/18, 2018/19 and 2019/20. The significant impact on this MTFS is that it can no longer be forecast that a 2% Adult Social Care Precept can be applied in 2020/21 and this has therefore been reflected.

The estimated impact of not being able to include the Adult Social Care Precept in 2020/21 is as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Council Tax following settlement (3.99% 2017/18, 2018/19, 2019/20 and 1.99% in 2020/21)	430.627	452.288	475.036	489.334
Council Tax – Previous MTFS (3.99% each year)	430.627	452.288	475.036	498.932
Difference	**0.000**	**0.000**	**0.000**	**9.598**
Impact on funding gap	**0.000**	**0.000**	**0.000**	**9.598**

New Homes Bonus

The operation of the New Homes Bonus (NHB) has recently been subject to consultation, with one area for consideration being the number of years for which NHB will be paid. As part of the provisional settlement the Secretary of State announced that payments would be received for 5 years from 2017/18 and 4 years in future years. In addition no NHB will be given for the first 0.4% of growth. These changes have been made to wholly fund the 2017/18 Adult Care Support Grant which has resulted in a new gain for Lancashire overall (County Council, District Council and Unitary Councils) benefitting by £4.033m.

The impact on the previously reported MTFS is shown below:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
New Homes Bonus – provisional settlement	5.244	3.679	3.530	3.530
New Homes Bonus – previous MTFS	5.530	3.475	3.334	3.334
Difference	**-0.286**	**0.204**	**0.196**	**0.196**
Impact on funding gap	**0.286**	**-0.490**	**0.008**	**0.000**

Better Care Fund

Last year the Government announced a new Better Care Fund with an additional £1.5bn being provided by 2019/20 to support the cost of social care. The first allocation was due in 2017/18 with allocations increasing up to 2019/20. The provisional allocations within the provisional settlement remained unchanged.

Adult Care Support Grant

A key announcement by the Secretary of State as part of the provisional settlement was a new £240m Adult Care Support Grant for 2017/18 only with Lancashire County Council's indicative allocation being £5.543m. This has been wholly funded by the changes that the Secretary of State announced in relation to New Homes Bonus allocations. As this is new funding this has not previously been included in the MTFS, with the impact on the financial gap shown below:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Adult Care Support Grant – provisional settlement	5.543	0.000	0.000	0.000
Adult Care Support Grant - previous MTFS	0.000	0.000	0.000	0.000
Difference	**5.543**	**0.000**	**0.000**	**0.000**
Impact on funding gap	**-5.543**	**5.543**	**0.000**	**0.000**

Capital Receipts

As part of the 2015 Autumn Statement the Chancellor of the Exchequer announced that the rules for the use of capital receipts, which is the income received from the sale of the County Council's fixed assets, were to be amended to help local authorities deliver more efficient and sustainable services. Previously the use of capital receipts has been restricted to the funding of capital expenditure or the repayment of debt. From 1 April 2016 capital receipts can be used to fund revenue expenditure which meets qualifying criteria, which is that the revenue expenditure needs to be on any project which is designed to generate ongoing revenue savings or to transform the service so as to make savings or improve the quality of service provision.

Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

Current estimates of the capital receipts to be generated are:

	2016/17 £m	2017/18 £m	2018/19 £m
Capital receipts generated	5.000	12.500	5.000

An estimated £22.500m has previously been agreed to be applied to the revenue budget. It should be noted that the receipts are one-off resources and there is a possibility that the level of receipts to be generated from the sale of assets will not be maintained at these levels for a sustained period of time. The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely. This report does not assume any variation from the existing assumptions. However, receipts received in the year to date total £7.269m with capital receipts over £5.000m being able to be carried forward to support the £12.500m target in 2017/18.

The funding gap shown in section 1.1 already assumes the use of these receipts in supporting the revenue budget under the new flexibilities which Councils can apply

3. Net Spending Pressures

The MTFS covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed savings measures that are either no longer achievable at all or not to the scale or in the timeframes originally planned**.**

3.1 Pay

In the July 2015 Budget the Chancellor announced a 4 year restriction on public sector pay increases at 1% per year. This assumption was built into the current MTFS and remains unchanged, however a full review of the current staffing cohort and future savings that may impact on staffing has been included. This also incorporates a separate calculation for the National Living Wage which the County Council is committed to paying its employees as an accredited member of the Living Wage Foundation. The pay requirement also includes a provisional amount for additional holiday pay to staff.

As part of the review of the MTFS a resource requirement has been built in to fund the cost of increments that will be paid to staff as they progress up their respective grades. The staffing budgets have undergone a full realignment in 2016/17 with budgets being allocated on specific grade points at the start of 2016/17, with the staffing data being regularly reviewed as changes occur, particularly in relation to service restructures.

The pension's element of the pay budget is also included in the MTFS based on the latest information in relation to the County Council's estimated contribution rate and deficit contributions.

The Chancellor has previously announced that an apprenticeship levy would be introduced to help fund employer apprenticeship schemes and "invest in Britain's future." The levy will be introduced in April 2017 at a rate of 0.5% of an employer’s pay bill, therefore an estimate of £1.500m has been included in the MTFS.

The pay estimates in this MTFS have not changed since those reported to December Cabinet as there is no new information available.

The table below presents the amounts built into the MTFS for pay:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Revised Pay Budget Requirement	**9.837**	**5.851**	**6.018**	**5.672**	**27.378**

3.2 Price Inflation and Cost Changes

Contractual price increases represent a significant cost pressure to the County Council. The assumptions have been subject to regular review by services with an increase of £5.212m identified over the 4 year period.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Price inflation – previous MTFS	19.784	14.288	16.552	17.955	**68.579**
Revised price inflation requirements	20.286	14.467	16.561	18.070	**69.384**
Impact on Financial Gap	**0.502**	**0.179**	**0.009**	**0.115**	**0.805**

Some of the key areas of price pressure are:

- A significant part of the price pressures shown in the above table relate to inflationary pressures within Adults Services. This is calculated using a model designed by Laing and Buisson which is commonly used to estimate inflation within social care. It is forecast that a budget requirement of £46.224m over the MTFS period is required for payments to external providers of social care (excluding the impact of the National Living Wage) and it is important that the County Council keeps up with increases in the price of resources for suppliers to ensure the required service provision is delivered.

  The price inflation included in the MTFS for Adults Service is profiled as follows:
    - 2017/18 – £14.734m
    - 2018/19 - £9.847m
    - 2019/20 - £10.404m
    - 2020/21 - £11.239m

  The inflationary pressures included in this MTFS for Adults Services reflects an increase of £0.805m following updated inflationary information figures based on the most up to date information available. The County Council has a legal responsibility to demonstrate that suppliers are able to deliver services with the fees paid to them. This figure also incorporates recent fee increases of £5.200m that were agreed by the Cabinet Member which is the main reason behind the additional requirement in 2017/18.

- Waste Disposal continues to require significant budget to meet inflationary commitments over the next four years. In total the budget requirement for the service is £9.055m. This requirement has not changed since the previous MTFS presented to Cabinet.

- Children's Social Care is the final significant area that requires price inflation within its budget. In the previous MTFS a total of £7.344m was included for items that will inflate such as agency payments, residence orders, foster and other allowances and payments to health and this has remained unchanged for this iteration of the MTFS.

- Other smaller areas of price inflation include transport costs, concessionary travel, highways, winter maintenance, energy and legal fees.

3.3 Demand Pressures

All services have reviewed the demand pressures faced by the County Council in future years. The impact of this review has been identified and is reflected in the revised MTFS and it can be seen that a significant proportion of the funding gap that has been identified is due to demand pressures.

In total it is estimated that the demand pressures are now £91.005m. This is a decrease of £1.251m from the previous MTFS over this time period.

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**Total £m**
Demand – previous MTFS	37.883	15.180	18.068	21.126	**92.257**
Revised Demand Requirements	37.277	14.644	17.928	21.156	**91.005**
Impact on Financial Gap	**-0.606**	**-0.536**	**-0.140**	**0.030**	**-1.252**

Adult Social Care represents a large proportion of the demand pressures. Adult Social Care has long seen annual increases in the demand for services and the MTFS attempts to predict growth in future years largely based on reviewing current and past activity trends but also taking into account future population changes. From "a social care perspective" demand covers both increasing numbers of people eligible for support and the increasing complexity of those supported reflected in higher average costs per service user.

In deriving the estimated cost of demand the following projections have been used:

- Older People – population projections from the ONS for the aged over 85 population.

	2017/18	2018/19	2019/20	2020/21
Total Older People Population Projection Growth	1.92%	2.52%	3.07%	3.57%

The percentages presented above are those that were used within the previous MTFS, and still reflect the best estimate of population increases and have therefore continued to be used within this MTFS.

All other demand assumptions contained within this revised MTFS regarding Adult Social Care have been reviewed based on the most up-to-date trend analysis and also incorporated budget realignments that are reflected within the revenue monitoring report. The previous MTFS contained £56.493m additional budget requirement for demand over the next four years, whereas this MTFS now contains £52.354m. The reduction of £4.140m primarily relates to a detailed review of actual activity in the year to date which supports a lower increase in those demand assumptions reflected in the previous MTFS.

The demand included in the MTFS for Adults Service is profiled as follows:

- 2017/18 – £9.456m
- 2018/19 - £11.369m
- 2019/20 - £14.476m
- 2020/21 - £17.053m

- The cost of Children's Social Care continues to experience increasing demand and has been significantly increased again as part of this iteration of the MTFS (and can be linked to the budget monitoring positon for Children's Social Care). The forecast continues to be £21.420m. This is in addition to significant additional budget that the service has been given to support improvements following the Ofsted inspection. Both previous MTFS' reported to Cabinet in 2016/17 included significant increases to the Children's Social Care budget. However, as part of this MTFS there is not a further additional requirement as previous increases are currently deemed sufficient based on the most recent activity information available.

  The particular area of concern is in relation to Agency Residential placements as demand seems to be particularly high in this area. The forecast is based on available financial and activity information and assumes that placements will continue to increase by 3.4% (the current average monthly increase in the number of children placed in Agency Residential) until the end of the financial year and then after that will increase as per child population increases. Work is underway to review the underlying reasons for increases in numbers of placements and is an area that is being kept closely under review by the 0-25 Board.

A Finance Sub-Group has been established to specifically focus on the cost drivers, unit costs and financial analysis of the costs and demand levels being experienced in Children's Social Care, with their findings being reported back to the 0-25 Board. This analysis and action is vital as the current demand levels represent a significant risk to the MTFS assumptions, as there are only currently population increases (c£0.300m - £0.400m) included in each year from 2018/19 – 2020/21 which are significantly below the current demand levels.

- The revised MTFS for 2017/18 continues to include a significant amount in relation to Waste Services demand pressures as a result of increases in residual waste arisings with 5.4% currently being forecast (compared to a previously assumed 1%) and some additional green waste costs. The budget requirement for waste was previously £11.204m and has now increased to £14.092m as a result of increased projections for waste arisings based on the most recent information available.

3.4 Other

There are no adjustments to this section as part of this revised MTFS.

3.5 Adjustments to Savings Programme

The positive adjustment relates to the planned savings in Highways as a result of a combination of extra savings identified from implementing the new Highways Asset Management System that will be in place by the start of 2017/18, and additional income that it is anticipated the service will receive for pre-application advice.

4. Future Risks

In addition to the economic uncertainty post-Brexit outlined earlier in the report, the following are key future risks, the full impact of which is not yet known at this stage:

4.1 Agreed Savings Plans Delivery

The scale of agreed savings is hugely significant given both the scale and areas covered, and there are inherent risks in their delivery (2016/17 – c£100m, 2017/18 – 2020/21 c£54m). Any significant under-delivery of agreed savings will create an additional funding gap and impact on the ongoing and longer-term financial health of the Council. This has been identified as one of the highest level risks in the Risk and Opportunity Register. There are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

4.2 Identification of Further Savings Opportunities

Cabinet has previously agreed a financial strategy based on:

- Setting an expenditure target for service expenditure levels to move in line with the lower quartile of the most appropriate group of local authorities for individual services.

- Stage 3 of the base budget review being the zero base with a fundamental review of all expenditure within services to ensure the best value for money. The outcome of this work was presented as part of the Money Matters reports at the December Cabinet with the impact included within the MTFS.

- PwC are assisting the council in scoping and undertaking the review prioritising development of a public services operating strategy for the County Council to enable it to be sustainable within its forecast financial resource envelope by 2020/21. This is ongoing with the outcomes from this work to be presented at the same Cabinet meeting as this report. Whilst the Lancashire Public Service Deliver Model Business Case produced by PwC includes a level of estimated financial benefits along with requirement for transitional funding, at this stage it remains a proposal to go out to consultation with key partners and stakeholders and has not therefore been factored into any of the MTFS assumptions.

- Transformational work across Adult Social Care aimed at both improving systems and processes and delivering significant financial savings. The overall scale and phasing of benefits from the review has now been finalised and included in the revised position within this report.

4.3 Business Rates Retention / Changes to Funding Formula

In 2015 the Chancellor announced that local government as a whole would be able to keep 100% of business rates by 2020. Using Office for Budget Responsibility (OBR) forecasts the Government has estimated that additional business rates kept by councils will be c£13bn by 2020/21 with the intention to transfer new responsibilities to local government to ensure cost neutrality overall of the funding changes. There is currently a system of redistribution (top-ups and tariffs) to reflect there are councils with relatively higher needs but lower income from business rates and vice versa. The Secretary of State for Communities and Local Government has also announced a full review of needs and redistribution which will be used as the starting point for the new system when it comes into force.

The County Council currently receives a top-up grant, primarily as a result of having Adult Social Care responsibilities, and there is insufficient information currently, although work is progressing nationally with a number of complete and planned consultations regarding the changes, to model what the financial impact of the changes will be and the financial impact on the County Council.

4.4 STP

Since 2015 the County Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). Building on this is the requirement for every part of the NHS to have a locally led Sustainability and Transformation Plan (STP) in place by 2017. This is within the context of the substantial financial challenges for the health and social care system in Lancashire and will necessarily involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for patients and service users.

4.5 Children's Social Care

Children's Social Care is currently reporting an overspend of £19.706m with demand levels continuing to increase, particularly within agency residential placements. The establishment of the 0-25 Programme Board in addition to a supporting Finance Sub Group are critical in analysing the current and future levels of demand and working to develop demand management across the service. However if demand levels are not controlled then there will be substantial additional costs to the County Council that are not currently reflected within this MTFS.

4.6 Procurement

The MTFS includes general inflationary price increases across impacted areas which are generally based around national statistics such as RPI. It also includes any contractual or other price pressures that are known about. However, there are a number of significant procurement exercises that the County Council (e.g. homecare) will be undertaking over the timeframe of the MTFS (with some over the next 12 months) and any additional price increases will be built into future MTFS revisions.

4.7 Education Services Grant

The Local Authority received £14.5m revenue funding in 2016/17 from this grant. This funding stream will cease in its current form in September 2017 with transitional funding being provided for 2017/18. The exact level of this funding is still to be announced but a reduction in overall funding is anticipated. This will be reviewed as further information becomes available. Generally there is a shift towards LAs being funded for "Central Duties" via a new smaller grant and "Retained Duties being funded out of the Dedicated Schools Grant which will require Schools approval. New regulations and rates are still awaited. The MTFS does not currently reflect a reduction in this grant.

Appendix C

Money Matters
Update on the County Council's Reserves Position as at 31st December 2016

Lancashire County Council

Contents	Page

Money Matters – Update on the County Council's Reserves Position for 2016/17

1. Executive Summary

1.1 Introduction

As at 1st April 2016 the County Council had total reserves of £400.669m. Of this, £86.022m was held for schools and its use is restricted.

This report sets out the reserves position in line with the current budget monitoring report.

1.2 Summary

As part of the process of redesigning its services the County Council has previously explicitly recognised that it will need to significantly utilise its reserves over the next 2 financial years.

At Full Council in February 2016 the revenue budget included an approved commitment from the Transitional Reserve of £46.518m in 2017/18 to support the reported financial gap at that time. However, following a review of the Medium Term Financial Strategy (MTFS) for Cabinet in December 2016 (as at 30th September 2016) it was identified that a revised value of £60.350m was required in 2017/18 which resulted in an additional £13.832m added into the MTFS in total.

A further quarterly review of the MTFS has taken place as at 31st December 2016 (Appendix B) it is now identified that £54.045m is required in 2017/18 (a reduction of £6.305m compared to the figures reported to Cabinet in December). The reduction **has been included within the reserves forecast detailed within this report.**

The budget monitoring position for the financial year 2016/17 (Appendix A) is reporting a forecast underspend of £15.298m. **Please note that this <u>is not</u> currently included within the forecast reserves position in this report.**

In summary, by 31st March 2018 it is expected that there will only be the £36.000m County Fund and a residual £91.699m of service reserves which includes £8.354m school PFI expenditure and £4.944m which is not LCC money, meaning in effect the available balance of £78.401m. All other reserves will have been spent. If the additional contribution from revenue is available of £15.298m (budget monitoring forecast underspend), this will result in a revised balance of service reserves being available as at 31st March 2018 of £93.699m.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix B) the funding requirement to bridge the financial gap in 2018/19 would total £85.162m. Although there are reserves available at 31st March 2018 of £93.699m (if the currently forecast underspend is achieved) there are commitments in 2018/19 of £10.450m (excluding non LCC commitments) therefore the available balance to support the 2018/19 budget is £83.249m resulting in there not being sufficient funds within reserves to support the 2018/19 budget. The table in Section 2 clearly demonstrates that there are not sufficient funds to support the budget gap in 2018/19. In order to set a legal budget therefore further savings will need to be made.

In summary, this report indicates that there are sufficient funds within the Transitional Reserve to deliver a balanced budget in 2017/18 as per the agreed financial strategy. However this is dependent upon a number of key factors and risks which are as follows:

- All values within reserves that are currently reported to be available funds are transferred into the transitional reserves with no further commitments emerging in these areas now that the transfer has taken place.
- There is limited slippage on the agreed savings programme for 2017/18 and 2018/19. Any slippage will result in a requirement for funding from reserves.

2. Reserves

The table below illustrates the summary forecast position in respect of the Council's reserves:

Reserve Name	Opening Balance as at 1 April 2016	2016-17 Forecast Spend	2016-17 Transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund (3.1)	-36.000	0.000	0.000	-36.000	0.000	0.000	0.000	-36.000
Strategic Investment Reserve (3.2)	-10.971	2.351	5.194	-3.426	1.543	0.883	0.060	-0.940
Downsizing Reserve (3.3.1)	-64.841	14.171	28.062	-22.608	13.548	9.060	0.000	0.000
Risk Management Reserve (3.3.2)	-15.784	3.155	4.872	-7.757	7.757	0.000	0.000	0.000
Transitional Reserve (3.4.1)	-141.837	59.863	-54.712	-136.685	74.125	0.530	0.000	-62.031
To facilitate the transition of services (3.4.2)	0.000	0.000	-3.000	-3.000	0.000	0.000	0.000	-3.000
Service Reserves (3.5)	-45.214	8.893	10.800	-25.521	10.325	-0.340	-0.683	-16.219
TOTAL	**-314.647**	**88.434**	**-8.784**	**-234.997**	**107.298**	**10.133**	**-0.623**	**-118.189**
Forecast underspend 2016/17	0.000	0.000	-15.298	-15.298	**0.000**	**0.000**	**0.000**	-15.298
MTFS Funding Gap (for information)						*85.162*	*115.392*	*200.554*
Available reserves to support financial gap	0.000	0.000	0.000	0.000	0.000	83.249	0.000	83.249
TOTAL (not including MTFS Funding Gap included above for information)	**-314.648**	**88.434**	**-24.082**	**-250.295**	**107.298**	**93.382**	**-0.623**	**-50.238**

Note 1: the Service Reserves reflect the inclusion of the actual income and committed expenditure for the Growth Deal of £52.825m. This cannot be seen in the table above as these are funds that come into reserves and are spent during the year and therefore have a net nil impact.

Note 2: £0.415m has transferred from Service Reserves to Schools Reserves which are not included in this report.

The above table demonstrates that following the application of the remaining available reserves of £83.249m to support the financial gap/shortfall within the 2018/19 budget the only remaining balance on reserves are County Fund (£36.000m), non LCC reserves (£13.898m) and 2019/20 commitments (-£0.340m). This draw down from reserves in 2018/19 is not sufficient to cover the whole financial gap in this financial year and provides confirmation that there are no reserves left to support the financial gap in future years.

2.1 County Fund Balance

The County Fund 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 holds a County Fund balance at £36.000m. It is proposed this balance is retained as a prudent safeguard against any unexpected financial pressures.

2.2 Strategic Investment Reserve

This reserve is held to fund an agreed programme of investment in areas including economic development, increasing employment opportunities and green energy.

On 1st April 2016 this reserve held a balance of £10.971m. £2.351m is forecast to be spent in 2016/17, £5.194m is being transferred to the Transitional Reserve and another £2.486m is forecast to be spent by 2019/20 leaving a balance of £0.940m.

Details of the commitments are shown in Annex A.

2.3 Reserves held to deliver Organisational Change

The County Council currently has two reserves to deliver organisational change: the Downsizing Reserve and the Risk Management Reserve.

2.3.1 Downsizing Reserve

The Downsizing Reserve is predominantly used to fund voluntary redundancies arising from the reduction in the size of the organisation.

On 1st April 2016 this reserve held a balance of £64.841m. In 2016/17 spend against the reserve is forecast to be £14.171m of which £8.210m is committed for estimated redundancy costs. In the previous report to Cabinet in December 2016 the profile of redundancy payments was revised resulting in revised commitment estimates of £12.109m in 2017/18 and £9.060m in 2018/19, resulting in £21.470m being transferred to the Transitional Reserve as it was no longer required.

In addition, as part of the review of this reserve a further uncommitted amount of £6.992m has been transferred to the Transitional Reserve, with an additional £0.400m transferred to into the Downsizing Reserve. Expenditure of £1.439m is forecast to be spent in 2017/18 leaving a nil balance on the reserve.

Details of the commitments are shown in Annex B.

2.3.2 Risk Management Reserve

The Risk Management Reserve was created as a result of extraordinary Treasury Management performance during 2014/15 and previous years. This reserve is available to help the authority manage risks to funding and service delivery going forward.

This reserve had a balance of £15.784m on 1st April 2016. It is forecast that £3.155m will be spent in 2016/17 in addition to £4.872m uncommitted reserves transferring to the Transitional Reserve. It is forecast that a further £7.757m is committed in 2017/18 leaving a nil balance at the end of 2019/20.

Details of the commitments are shown in Annex B.

2.4 Transitional Reserve

The plans announced at 26th November Cabinet for the period 1st April 2016 until 31st March 2018 are heavily supported by reserves. A Transitional Reserve has been created to provide a source of funding for these plans and the balance at the 1st April 2016 was £141.837m. Cabinet plans have specifically identified £134.519m use of reserves during the period which includes the funding gap identified in the Medium Term Financial Strategy (MTFS) for 2016/17 and 2017/18 of £72.331m. Additional net transfers in from other reserves and transfer in of surplus balances on the 2015/16 council tax, business rates, new homes bonus, a Clayton Park Conference centre saving, a Prevention and Early Help underspend and a VAT repayment this totals £54.712m. The forecast balance on the reserve at the end of 2019/20 is a surplus of £62.031m. However this will not be available if the balance is utilised in 2018/19 to support the revenue budget gap.

Details of the commitments are shown in Annex C.

2.4.1 Reserve to facilitate the transition of services

At Full Council on 11th February 2016 a budget amendment was approved that requested a £3.000m contingency be made available from reserves to facilitate the transition of services. This has been set aside from the Transitional Reserve because of this specific nature of the approval.

Details are shown in Annex C.

2.5 Service Reserves

The County Council holds numerous reserves for specific service provision.

As at 1st April 2016 service reserves totalled £45.214m. There are forecast costs of £8.893m in 2016/17, transfers to the Transitional Reserve of £10.929m, and a transfer to the schools reserve of £0.415m, in addition to an offsetting transfer into a non- LCC reserve in relation to Health monies of £0.544m. There is forecast spend from these reserves of £9.303m in later years to leave a balance of £16.219m at the end of 2019/20. £9.064m of this balance relates to long term PFI programmes and £4.834m is not LCC money.

Details of the Service Reserves are shown in Annex D.

2.6 Schools

Under statute schools have delegated budgets. It is the responsibility of the individual schools to maintain reserves to cover risks and meet future plans. As schools make their own delegated decisions on when to use reserves, no forecast is made. School reserves cannot be used for any other purpose. The current status of schools' reserves is as follows

Reserve Name	Opening Balance as at 1 April 2016	YTD actual 2016/17	Forecast Closing Balance as at 31st March 2017
	£m	£m	£m
School Reserves	-86.022	3.196	-82.826

3. Impact of 2016/17 Outturn Forecast

The current monitoring report is showing an underspend of £15.298m. Any underspend at the year-end can be transferred to the Transitional Reserve.

4. Transfers between Reserves

In the previous reports to Cabinet in September and December the transfers below were agreed between reserves:

TRANSFERS BETWEEN RESERVES	£m	Transfer from	Transfer To	Reason
Young Person's Travel	-0.194	Strategic Investment Reserve	Transitional Reserve	Additional spend needed
School Crossing Patrols	-1.500	Risk Management Reserve	Transitional Reserve	Not needed
Delay in Wellbeing & Prevention Service Offer	-3.000	Risk Management Reserve	Transitional Reserve	Additional spend needed
Unallocated surplus	-4.664	Dow nsizing Reserve	Transitional Reserve	Not needed
Schools Forum money	-0.415	Service Reserves	1093306 Schools DSG Reserve	Surplus transferred back to Schools
Schools Forum money	-0.884	Service Reserves	Transitional Reserve	Unused
Adult fee increases	-1.365	Service Reserves	Transitional Reserve	Uncommitted balance in Adult Social Care for w ork being funded from Transitional Reserve
To facilitate the transition of services	-3.000	Transitional Reserve	Facilitate of transition of services	To keep separate from Transitional Reserve
Green Energy Fund	-5.000	Strategic Investment Reserve	Transitional Reserve	Capital expenditure to be funded from borrow ing
Transitional costs associated w ith Transformation Programme	-2.328	Dow nsizing Reserve	Transitional Reserve	Not needed
Redundancy Provision	-21.470	Dow nsizing Reserve	Transitional Reserve	Not needed
Occupational Health	0.003	Risk Management Reserve	Transitional Reserve	Not needed
Liquid Logic - Children's Services	-0.125	Risk Management Reserve	Transitional Reserve	Not needed
Liquid Logic - Adult Social Care	-0.250	Risk Management Reserve	Transitional Reserve	Not needed
Children's Services Reserve	-2.143	Service Reserves	Transitional Reserve	Troubled families reserve not needed
Mvs Acc Purcexh Fund	-0.002	Service Reserves	Transitional Reserve	Not needed
Lancashire Adult Learning Reserve	-0.350	Service Reserves	Transitional Reserve	Not needed - includes some capital expenditure that w ill be funded from borrow ing
Former Adults Directorate Grant Fund	-0.072	Service Reserves	Transitional Reserve	Not needed
UK & Ireland Civinet Netw ork	-0.013	Service Reserves	Transitional Reserve	Not needed
Waste PFI Comp Payments Reserve	-0.312	Service Reserves	Transitional Reserve	Not needed
Equipment Renew al Reserve	-0.271	Service Reserves	Transitional Reserve	Not needed
Parking Reserve Fund	-0.144	Service Reserves	Transitional Reserve	Not needed
Building Design & Construction Reserve	-0.020	Service Reserves	Transitional Reserve	Not needed
Energy Surveys Reserve	-0.066	Service Reserves	Transitional Reserve	Not needed
Priorities Contingencies Reserve	-0.010	Service Reserves	Transitional Reserve	Not needed
Waste Plant Rectification	-5.000	Service Reserves	Transitional Reserve	Not needed - capital expenditure that w ill be funded from borrow ing
Finance & Information Dfm	-0.060	Service Reserves	Transitional Reserve	Not needed
Cap Funding Reserve - Resou	-0.147	Service Reserves	Transitional Reserve	Not needed
NoWCard Renew al Reserve	-0.100	Service Reserves	Transitional Reserve	Not needed

A further review of reserves held has identified additional transfer between reserves has been included in this report:

TRANSFERS BETWEEN RESERVES	£m	Transfer from	Transfer To	Reason
Repayment of funds held for East Lancs CCG	0.544	Transitional Reserve	1293756 Health Services - Earmarked	Balance not LCC money
Adults - New tons	0.400	Transitional Reserve	Dow nsizing Reserve	Additional commitment
Farrington Fund Commitments	0.031	Transitional Reserve	Waste PFI Comp Payments Reserve	Commitments made - funds transferred in error

Annex A – Strategic Investment Reserve

STRATEGIC INVESTMENT RESERVE	Opening Balance as at 1 April 2016	2016-17 Forecast Spend	2016-17 Transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
Promoting Sustainable Employment for Young People	-0.304	0.304	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Young Person's Travel	-0.194	0.000	0.194	**0.000**	0.000	0.000	0.000	**0.000**
Economic Development - GAMMA	-0.017	0.017	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Economic Enterprise Zone Strategic Development	-0.500	0.500	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Economic Development - Exertis	-0.500	0.500	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Economic Development - Boost Continuation	-1.929	0.643	0.000	**-1.286**	0.643	0.643	0.000	**0.000**
Armed Forces Apprentice Costs	-1.770	0.287	0.000	**-1.483**	0.243	0.240	0.060	**-0.940**
Early Action /Early Response	-0.100	0.100	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Green Energy Fund	-5.000	0.000	5.000	**0.000**	0.000	0.000	0.000	**0.000**
Core Systems Transformation	-0.657	0.000	0.000	**-0.657**	0.657	0.000	0.000	**0.000**
Total on Strategic Investment Reserve	**-10.971**	**2.351**	**5.194**	**-3.426**	**1.543**	**0.883**	**0.060**	**-0.940**

Annex B – Downsizing and Risk Management Reserves

DOWNSIZING & RISK MANAGEMENT RESERVES	Opening Balance as at 1 April 2016	2016-17 Forecast Spend	2016-17 Transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
Downsizing Reserve	£m	£m	£m	£m	£m	£m	£m	£m
Redundancy provision	-50.849	8.210	21.470	**-21.169**	12.109	9.060	0.000	**0.000**
Transitional costs associated with Transformation Programme	-2.328	0.000	2.328	**0.000**	0.000	0.000	0.000	**0.000**
Review for Adult Social Care (Newtons)	-7.000	5.961	-0.400	**-1.439**	1.439	0.000	0.000	**0.000**
Unallocated surplus	-4.664	0.000	4.664	**0.000**	0.000	0.000	0.000	**0.000**
Total on Downsizing Reserve	**-64.841**	**14.171**	**28.062**	**-22.608**	**13.548**	**9.060**	**0.000**	**0.000**

Risk Management Reserve	£m	£m	£m	£m	£m	£m	£m	£m
Occupational Health	0.003	0.000	-0.003	**0.000**	0.000	0.000	0.000	**0.000**
Adults LD Remodelling Reserve	-0.784	0.000	0.000	**-0.784**	0.784	0.000	0.000	**0.000**
Provision to mitigate against risk DoLS- Deprivation of Liberty Safeguards	-2.900	0.424	0.000	**-2.476**	2.476	0.000	0.000	**0.000**
Impact of Fairness Commission Report Council Welfare Provision and the Care and Urgent Needs	-3.000	0.000	0.000	**-3.000**	3.000	0.000	0.000	**0.000**
School Crossing Patrols	-1.500	0.000	1.500	**0.000**	0.000	0.000	0.000	**0.000**
Social Work Dedicated Review Team	-2.653	1.156	0.000	**-1.497**	1.497	0.000	0.000	**0.000**
Liquid Logic - Children's Services	-0.400	0.275	0.125	**0.000**	0.000	0.000	0.000	**0.000**
Liquid Logic - Adult Social Care	-0.250	0.000	0.250	**0.000**	0.000	0.000	0.000	**0.000**
Payment of additional allowances when staff are on leave	-1.300	1.300	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Transfer to Transitional Reserve for Wellbeing	-3.000	0.000	3.000	**0.000**	0.000	0.000	0.000	**0.000**
Total on Risk Management Reserve	**-15.784**	**3.155**	**4.872**	**-7.757**	**7.757**	**0.000**	**0.000**	**0.000**

Annex C – Transitional Reserve & Transition of Services Reserve

TRANSITIONAL RESERVE	Approved at 1st April 2016	2016-17 Forecast Spend	2016-17 transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
SPEND FROM THE TRANSITIONAL RESERVE								
Use of reserves in future years as per 26th Nov Cabinet paper - revised in Feb 16 (BoP) 16/17 & 17/18 spend	-65.856	34.231	0.000	**-31.625**	16.331	0.000	0.000	**-15.294**
Use of reserves in future years to cover revenue shortfall	-64.804	18.286	0.000	**-46.518**	54.045	0.000	0.000	**7.527**
Delay in Wellbeing & Prevention Service Offer	-4.755	0.000	0.000	**-4.755**	0.000	0.000	0.000	**-4.755**
Children's New tons + Skylake	-0.200	0.200	0.000	**0.000**	0.000	0.000	0.000	**0.000**
To fund shortfall on domestic abuse contracts (C&D)	-0.238	0.238	0.000	**0.000**	0.000	0.000	0.000	**0.000**
To facilitate the transition of services	-3.000	0.000	3.000	**0.000**	0.000	0.000	0.000	**0.000**
Pw C Consultancy packages	0.000	1.033	0.000	**1.033**	0.000	0.000	0.000	**1.033**
Older People's Residential & Nursing Homes	0.000	1.700	0.000	**1.700**	0.000	0.000	0.000	**1.700**
Repayment of funds held for East Lancs CCG	0.000	0.000	0.544	**0.544**	0.000	0.000	0.000	**0.544**
Supported Living and Domiciliary Care Fees for 2016/17	0.000	3.500	0.000	**3.500**	0.000	0.000	0.000	**3.500**
Apprentices & Graduate salaries	0.000	0.177	0.000	**0.177**	2.248	0.530	0.000	**2.955**
Young Person's Travel	0.000	0.500	0.000	**0.500**	0.500	0.000	0.000	**1.000**
Prevention and Early Help Fund	0.000	0.000	0.000	**0.000**	1.000	0.000	0.000	**1.000**
New tons - Adults	0.000	0.000	0.400	**0.400**	0.000	0.000	0.000	**0.400**
Unallocated Balance on Transitional Reserve	-2.984	0.000	0.000	**-2.984**	0.000	0.000	0.000	**-2.984**
TRANSFERS INTO THE TRANSITIONAL RESERVE								
Council Tax Collection Fund surplus 2015-16	0.000	0.000	-7.037	**-7.037**	0.000	0.000	0.000	**-7.037**
Returned New Homes Bonus 2015-16	0.000	0.000	-0.399	**-0.399**	0.000	0.000	0.000	**-0.399**
Business Rates Collection Fund Deficit 2015-16	0.000	0.000	2.334	**2.334**	0.000	0.000	0.000	**2.334**
Clayton Park Conference Centre Limited	0.000	0.000	-0.542	**-0.542**	0.000	0.000	0.000	**-0.542**
VAT Repayment	0.000	0.000	-2.556	**-2.556**	0.000	0.000	0.000	**-2.556**
Prevention and Early Help Underspend	0.000	0.000	-1.000	**-1.000**	0.000	0.000	0.000	**-1.000**
Transfer to / from other Reserves	0.000	0.000	-49.457	**-49.457**	0.000	0.000	0.000	**-49.457**
Total on Transitional Reserve	**-141.837**	**59.863**	**-54.712**	**-136.685**	**74.125**	**0.530**	**0.000**	**-62.030**

TRANSITION OF SERVICES RESERV	Approved at 1st April 2016	2016-17 Forecast Spend	2016-17 transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
To facilitate the transition of services	0.000	0.000	-3.000	**-3.000**	0.000	0.000	0.000	**-3.000**

Annex D – Service Reserves

Reserve Name	Opening Balance as at 1 April 2016	2016-17 Forecast Spend	2016-17 transfers to / from other reserves	2016-17 Forecast Closing Balance	2017-18 Forecast Spend	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
Children's Services Reserve	-5.902	0.914	3.442	**-1.546**	1.249	0.000	0.000	**-0.297**
SEN Reform/Implementation Grant	-1.852	0.049	0.000	**-1.803**	1.803	0.000	0.000	**0.000**
C&D Domestic Abuse	-0.714	0.714	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Mvs Acc Purcexh Fund	-0.002	0.000	0.002	**0.000**	0.000	0.000	0.000	**0.000**
Lancashire Adult Learning Reserve	-0.429	0.042	0.350	**-0.037**	0.000	0.000	0.000	**-0.037**
Former Adults Directorate Grant Fund	-0.537	0.051	0.072	**-0.415**	0.415	0.000	0.000	**0.000**
Adult Social Care - Transitional Res	-4.004	0.050	1.365	**-2.589**	2.589	0.000	0.000	**0.000**
Better Care Fund Reserve	-1.368	0.000	0.000	**-1.368**	1.368	0.000	0.000	**0.000**
Bus Stations Reserve	0.000	-0.977	0.000	**-0.977**	0.600	0.377	0.000	**0.000**
Roundabout Sponsorship Inco	-0.048	0.048	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Improved Outcomes Partnership	-0.057	0.057	0.000	**0.000**	0.000	0.000	0.000	**0.000**
UK & Ireland Civinet Netw ork	-0.030	0.017	0.013	**0.000**	0.000	0.000	0.000	**0.000**
Waste PFI Comp Payments Reserve	-0.482	0.167	0.282	**-0.033**	0.033	0.000	0.000	**0.000**
Equipment Renew al Reserve	-0.331	0.055	0.271	**-0.005**	0.000	0.000	0.000	**-0.005**
Parking Reserve Fund	-0.144	0.000	0.144	**0.000**	0.000	0.000	0.000	**0.000**
Building Design & Construction Reserve	-0.020	0.000	0.020	**0.000**	0.000	0.000	0.000	**0.000**
Energy Surveys Reserve	-0.066	0.000	0.066	**0.000**	0.000	0.000	0.000	**0.000**
Priorities Contingencies Reserve	-0.010	0.000	0.010	**0.000**	0.000	0.000	0.000	**0.000**
Waste Plant Rectification	-7.500	1.071	5.000	**-1.429**	0.491	0.000	0.000	**-0.938**
Finance & Information Dfm	-0.060	0.000	0.060	**0.000**	0.000	0.000	0.000	**0.000**
R&M Planned Property Review Works	-0.727	0.727	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Economic Development	-0.027	0.027	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Grow th Deal Reserve	0.000	0.000	0.000	**0.000**	0.000	0.000	0.000	**0.000**
Champions Funds	-0.003	0.000	0.000	**-0.003**	0.003	0.000	0.000	**0.000**
Local Member & Gatew ay Gran	-0.083	0.000	0.000	**-0.083**	0.083	0.000	0.000	**0.000**
Cap Funding Reserve - Resou	-0.147	0.000	0.147	**0.000**	0.000	0.000	0.000	**0.000**
NoWCard Renew al Reserve	-0.400	0.000	0.100	**-0.300**	0.300	0.000	0.000	**0.000**
CC Election Reserve	-1.251	-0.400	0.000	**-1.651**	1.651	-0.400	-0.400	**-0.800**
Public Health Grant	-0.628	0.276	0.000	**-0.352**	0.108	0.000	0.000	**-0.244**
School PFI								
Schools - Fleetw ood High School PFI Earmarked	-1.014	0.070	0.000	**-0.944**	0.060	0.070	0.080	**-0.734**
Schools – Private Finance Initiative - Building Schools for the Future Phases 1, 2, 2a & 3	-6.311	-0.560	0.000	**-6.871**	-0.600	-0.490	-0.370	**-8.331**
Not LCC Reserves								
Youth Offending Team Reserve	-1.024	0.131	0.000	**-0.893**	0.172	0.103	0.000	**-0.618**
Lancs Safeguarding Children Board Reserve	-0.449	0.089	0.000	**-0.361**	0.000	0.000	0.000	**-0.361**
Queen St Engine Repair Fund	-0.204	0.010	0.000	**-0.194**	0.000	0.000	0.000	**-0.194**
Lancaster City Gen Acqsts Fund	-0.008	0.001	0.000	**-0.007**	0.000	0.000	0.007	**0.000**
Health Services - Earmarked	-4.100	4.644	-0.544	**0.000**	0.000	0.000	0.000	**0.000**
LEP reserve	-1.553	0.000	0.000	**-1.553**	0.000	0.000	0.000	**-1.553**
DfT Funding for P/Ship (not LCC monies)	-1.830	1.830	0.000	**0.000**	0.000	0.000	0.000	**0.000**
School Catering Repair And	-1.743	-0.210	0.000	**-1.953**	0.000	0.000	0.000	**-1.953**
JSNA reserve	-0.104	0.000	0.000	**-0.104**	0.000	0.000	0.000	**-0.104**
MADE reserve	-0.051	0.000	0.000	**-0.051**	0.000	0.000	0.000	**-0.051**
TOTALS	**-45.214**	**8.893**	**10.800**	**-25.521**	**10.325**	**-0.340**	**-0.683**	**-16.219**

Note: included in the LCC Waste Plant Rectification reserve at 31st March 2017 is a forecast £0.491m held for Blackpool Borough Council.

Appendix D

Money Matters - Capital Monitoring and Financing Position as at 30th November 2016

Lancashire County Council

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Money Matters – Capital Monitoring and Financing Position as at 30th November 2016

1. Executive Summary

Cabinet on 8th December 2016 approved a report entitled "Capital Monitoring and Financing Position" as at 30th September 2016. The Quarter 2 capital monitoring position presented in that report showed forecast spend for 2016/17 of £150.264m against a re-profiled budget of £151.510m, a forecast spend less than budget of £1.246m, equating to a variance of 0.8%. This means that 99.2% of the budget is forecast to be spent.

This report sets out the capital monitoring position at the end of November 2016 against the re-profiled capital programme 2016/17 budget approved by Cabinet on 6th October 2016. It does not include any additions to the capital programme in October and November 2016, which were immaterial.

Table 1 shows that the forecast spend for 2016/17 is unchanged from the 8th December report.

Table 1 also shows the cumulative spend to 30 November 2016 and compares it with the equivalent position in 2015/16 in order to give an understanding of the progress being made to date with regard to overall spend level.

In addition, Table 2 contains an analysis of spend between spend on actual project delivery, as distinguished from spend on purely financial matters e.g. passporting of a grant or payment of a final invoice.

Details of progress on some of the larger projects within the programme are provided (Table 3). The full delivery schedule of projects was presented within the 6th October Cabinet report appendices.

2. Quarter 3 Monitoring (as at November 2016)

Table 1 below shows capital expenditure up to the end of November 2016 on the major blocks of the capital programme, with the equivalent 2015/16 figures for comparison.

					2015/16 NOV ACTUALS		2016/17 NOV ACTUALS	
Table 1	**2016/17 full year re-profiled approved budget**	**2016/17 full year Forecast out turn**	**Forecast Variance (under budget)/ over budget**	**Forecast Variance as a percentage of budget**	**2015/16 spend to end Nov**	**% of budget spent at Nov**	**2016/17 spend to end Nov**	**% of budget spent at Nov**
	£m	**£m**	**£m**		**£m**	**%**	**£m**	
Schools (excluding Devolved Formula Capital DFC)	27.318	27.407	0.089	0.33%	13.850	67.8%	20.001	73.2%
Schools DFC	2.545	2.545	0.000	0.00%	1.913	60.3%	1.189	46.7%
Children and Young People	1.491	1.491	0.000	0.0%	3.594	78.7%	0.217	14.5%
Waste and Other	6.091	6.091	0.000	0.00%	0.409	46.5%	1.635	26.8%
Adult Social Care	12.537	12.537	0.000	0.00%	1.137	14.3%	11.500	91.7%
Corporate	13.251	13.251	0.000	0.00%	8.511	46.2%	7.874	59.4%
Vehicle Replacement	1.934	1.884	-0.050	-2.59%	2.347	53.1%	0.063	3.2%
Transport	35.280	35.125	-0.155	-0.44%	32.094	63.4%	23.444	66.4%
Highways	51.063	50.093	-0.970	-1.89%	23.122	57.1%	16.928	33.2%
Total	**151.510**	**150.424**	**-1.086**	**-0.72%**	**86.977**	**57.6%**	**82.851**	**54.6%**

Direct comparison between one year and another is difficult given that capital projects and their profiles of expenditure will vary to some degree from year to year. Spend in the year to date is comparable with the same point last year and 2015/16 outturn was very similar in scale to the size of the 2016/17 programme.

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Forecast variances in excess of £0.1m are analysed below:

- Transport block forecast spend less than budget £0.155m mainly due to delay in Ormskirk Town Centre scheme now to be slipped into 2017/18.

- Highways block forecast spend less than budget £0.970m due to 3 schemes potential underspend, 2 schemes retention monies re-profiled, 2 schemes slippage due to bad weather, 5 s106 schemes slippage due to resource issues, 1 scheme delay due to ongoing cost negotiations.

3. Analysis of Quarter 3 (as at November 2016) spend total between project delivery and financial transactions only

Table 2 below shows the analysis of spend in each block between project delivery and financial transactions such as grants passported to third parties, or payment of final invoices:

Table 2	2016/17 spend to end Nov 16	Passported grant	Non –delivery costs eg. final invoice payments	Project delivery as at November 2016
	£m	£m	£m	£m
Schools (excluding Devolved Formula Capital DFC)	20.001	0.000	0.000	20.001
Schools DFC (Bank account schools only-other schools reimbursed at year end)	1.189	1.189	0.000	0.000
Children and Young People	0.217	0.000	0.000	0.217
Waste and Other	1.635	0.000	0.000	1.635
Adult Social Care	11.500	11.477	0.000	0.023
Corporate	7.874	0.000	0.000	7.874
Vehicle Replacement	0.063	0.000	0.000	0.063
Transport	23.444	0.000	0.610	22.834
Highways	16.928	0.000	1.662	15.266
Total	**82.851**	**12.666**	**2.272**	**67.913**

At the end of November 2016, the percentage of spend comprised of project delivery was 82%.

4. Delivery of Outputs on larger projects

Table 3 below illustrates progress on some of the larger projects within the re-profiled 2016/17 capital programme.

*Figures for the budget are simply 66% of the full year budget, (representing eight months to 30th November 2016 out of twelve months) which in some cases may not be a relevant comparator.

Table 3	Projects	Full Year Budget 2016/17	Budget 2016/17*	Spend to end of Nov 2016	Actual physical delivery
		£m	£m	£m	
Schools (excluding DFC)	15/16 Condition	8.297	5.531	5.291	88 projects of which 41 are complete, 25 are on site and 22 are in design/ tender stage.
	15/16 Basic Need	9.981	6.654	4.390	21 projects of which 12 are operationally complete, 4 are on site and 5 are in design.
	Pre-15/16 Basic Need	9.486	6.324	9.481	16 projects of which 13 are complete, 1 is on site, and 2 are partial possession and are phased.
Schools DFC	15/16 DFC	2.545	1.696	1.189	
Children and Young People	Chorley Youth Zone	1.000	n/a	0.000	Contribution agreed in principle but not paid by end of Nov due to Cabinet report decision due Jan 2017.
	Overnight short breaks Lynhurst	0.065	0.043	0.033	The re-profiled budget for 2017/18 and 2018/19 contains £2.242m and £0.560m respectively to provide 2 further facilities.
	The Bungalow, Fulwood	0.000	0.000	0.000	Cabinet Member report being prepared to approve use of £0.105m of unallocated CYP budget to provide residential placements for young people with complex needs.
Waste and Other	Fire suppression upgrade	2.268	1.512	0.000	Works due to commence late November 2016.
	Asset preservation	3.492	2.328	1.351	Waste company has profiled full budget to be spent by 31.3.17.
Adult Social Care	16/17 Disabled Facilities Grant	11.477	n/a	11.477	Passported to Districts in full in April 2016.
	Chorley Extra Care	1.000	n/a	0.000	Contribution agreed but not paid by end of November. (Cabinet report approved 13/9/16.)
Corporate	Superfast Broadband	3.470	2.313	0.469	BT delivery on track but delay in BT evidencing claims for payment.
	Brierfield Mill / (Northlight)	1.280	0.853	0.094	New programme.
	Core Systems	2.078	1.385	0.719	Delay in Highways Asset Management system

	Customer Access Core Systems County Hall refurb	1.419 3.000	0.946 2.000	0.936 1.969	implementation.
Vehicle Replacement	Ongoing vehicle replacement	1.934	1.289	0.063	A new procurement framework has resulted in vehicle orders being placed in the latter part of the year. Projected 16/17 spend is £1.884m.
Transport	Heysham to M6 Link	20.800	13.800	18.500	Road opening took place on 31 October 2016, with outstanding work on landscaping and motorway communications scheduled for completion by Mar 17.
	Blackpool Tramway	2.681	1.787	0.610	Final Invoice expected in 16/17.
	Burnley Pendle Growth Corridor	3.166	2.111	1.932	Substantive programme to be completed by Mar 2018, but one project has been delayed due land acquisition issues, so this may not complete until Mar 2019.
	Pennine Reach	1.327	0.885	0.762	Majority of work completed. A bus lane, off road parking and Statutory Quality Bus Partnership to be completed.
	Burnley Town Centre	1.522	1.015	0.770	Scheme delivery on programme. Manchester Road complete. The Mall and Curzon Street south substantially complete and St James's Street started. Advanced preparation work ahead of programme.
	East Lancs Strategic Cycle Network	2.668	1.779	0.160	Delivery has been delayed due to five factors: • Objection to tarmac surfacing. • Negotiations with land owners re: route. • Objections to upgrade from PROW to Bridleways. • Resolution of issues raised by flooding last December. • Awaiting decision re Highways England potential delivery of 4

					sections.
	Contribution to City Deal	2.500	0.000	0.000	Annual contribution at year end
	Asset maintenance several years starts **excluding** Bridges and Local Priorities Response Fund(LPRF)	23.574	15.716	9.172	WIP not included
	LPRF	2.500	1.666	0.325	
	Bridges	2.000	1.333	1.136	
	Rawtenstall Bus Station	3.910	2.606	0.000	Planning permission secured. Commuted sum approved to fund future maintenance. A legal agreement is being drawn up which will enable a transfer of monies to Rossendale Borough Council in 16/17.
Highways	DfT grant funded Flood projects	3.796	2.530	1.316	The total DfT grant received in 15/16 was £5m, of which £0.293m was spent in 15/16, £3.796m is forecast to be spent in 16/17 and £0.911 is phased to be spent in 17/18. 65 projects have been completed to date and 27 are due to be completed in 17/18 due to issues re site investigation, land access and underwater surveys. Nb. In their capacity as Risk Management Authorities, Districts are able to submit business cases for submission to EA / DEFRA re further flood related schemes.
	DfT Street Lighting Challenge Fund	6.750	4.500	4.247	To ensure the optimum balance between reduction in revenue energy cost and minimum contractor price, procurement was delayed in order to secure a 25% procurement saving.

Appendix E

Money Matters - Capital Programme 2017/18 – 2020/21

Lancashire County Council

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Money Matters – Capital Monitoring Programme 2017/18 – 2020/21

1. Introduction

Cabinet on 6th October 2016 approved a re-profiled programme for 2016/17 to 2018/19 and beyond, totalling £390.967m, of which £151.510m related to 2016/17. This report restates and updates the 2017/18 onwards element of that re-profiled programme

2. Proposed Programme and Funding

Table 1 below details the re-profiled capital programme for the period 2017/18 to 2019/20 and 20/21, as approved as part of the 2016/17 and beyond re-profiled programme at Cabinet on 6th October 2016, and the funding thereof including an addition to the programme totalling £1.428m added to the Corporate block of the programme. The addition of £1.428m will be spent partly on White Cross Education Centre-Mill 14, Lancaster, and partly on County Hall Old Building essential capital works.

City Deal is included only where LCC make a direct contribution to it or where the County Council is supporting the cash flow requirements of the project in the early years. City Deal and other Lancashire Economic Partnership activity is reported separately via the existing LEP reporting and performance framework. LCC is the accountable body for the LEP.

It should also be noted that the programme below does not include any estimate of spend carried forward from 2016/17, which will be quantified in the 2016/17 outturn report.

TABLE 1	**2017/18 (£m)**	**2018/19 (£m)**	**2019/20 & 2020/21 (£m)**	**Total (£m)**
Schools (excluding Devolved Formula Capital)	29.686	28.562	2.580	60.828
Schools Devolved Formula Capital	2.634	2.634	0.000	5.268
Children and Young People	3.014	4.560	3.586	11.160
Waste and Other	2.023	0.100	1.665	3.788
Adult Social Care	0.562	7.808	6.061	14.431
Corporate	12.276	13.661	11.349	37.286
Vehicle Replacement	3.930	3.460	0.000	7.390
Transport	26.082	14.641	0.840	41.563
Highways	39.604	19.567	0.000	59.171
TOTAL	**119.811**	**94.993**	**26.081**	**240.885**

FUNDED BY:	2017/18 (£m)	2018/19 (£m)	2019/20 & 2020/21 (£m)	Total (£m)
GRANTS RECEIVABLE (shown in year to be received)				
DfT Street Lighting Challenge Fund	-4.800	0.000	0.000	-4.800
DfT Annual Highways Maintenance Grant	-20.514	-18.567	0.000	-39.081
DfT Highways Maintenance Incentive Funding 2017/18 to be determined	TBC	TBC	TBC	TBC
DfT LTP/Integrated Transport Block annual grant	-6.054	-6.054	0.000	-12.108
DfE School Basic Need annual grant	-29.006	-2.580	0.000	-31.586
DfE Schools Condition annual grant	-11.209	0.000	0.000	-11.209
Schools Devolved Formula Capital	-2.634	-2.634	0.000	-5.268
Growing Places	0.000	0.000	-2.479	-2.479
Sub Total	**-74.217**	**-29.835**	**-2.479**	**-106.531**
GRANTS UNAPPLIED BALANCES as at 31st March 2016				
DfT Flood Damage Funding received in 2015/16	-0.911	0.000	0.000	-0.911
Adult Social Care grant	-2.386	0.000	0.000	-2.386
School DfE grants brought forward	-11.690	0.000	0.000	-11.690
Sub Total	**-14.987**	**0.000**	**0.000**	**-14.987**
GROWTH DEAL FUNDING				
Burnley Pendle Growth Corridor	-4.000	-4.000	0.000	-8.000
East Lancs Cycle Network	0.000	-1.550	0.000	-1.550
Sub Total	**-4.000**	**-5.550**	**0.000**	**-9.550**
DISTRICT CONTRIBUTIONS				
Burnley Town Centre	-0.550	0.000	0.000	-0.550
Burnley Pendle Growth Corridor	0.000	-0.485	0.000	-0.485
Blackpool Borough Council contribution to Waste projects (held in designated reserve)	-0.194	0.000	0.000	-0.194
Sub Total	**-0.744**	**-0.485**	**0.000**	**-1.229**
CONTRIBUTIONS FROM OTHER				

EXTERNAL BODIES				
BDUK re SFBB Phase 2	-0.965	0.000	0.000	-0.965
Sub Total	**-0.965**	**0.000**	**0.000**	**-0.965**
USE OF RESERVES				
Asset maintenance earmarked reserve	-0.727	0.000	0.000	-0.727
Sub Total	**-0.727**	**0.000**	**0.000**	**-0.727**
CAPITAL RECEIPTS				
Funding for School Playing Field programme from sale of school approved via Cabinet report	-1.036	0.000	0.000	-1.036
Sub Total	**-1.036**	**0.000**	**0.000**	**-0.965**
TOTAL FUNDING	**-96.676**	**-35.870**	**-2.479**	**-135.025**
NET BORROWING REQUIREMENT	**23.135**	**59.123**	**23.602**	**105.860**

Table 1 above shows that the total borrowing requirement over the life of the programme is expected to be £105.860m. These figures exclude cashflow support to City Deal.

It should be noted however that the mix of borrowing and external funding in each individual year is subject to change in line with factors such as changes in awards from funding bodies, changes in timing of external funding, and changes to programmed spend.

The grants receivable section includes both confirmed and indicative amounts in the year for which they are allocated and paid to the authority by national government. There is currently no indication from the Education Funding Authority (EFA) of any allocation for 2018/19, hence for prudence, no estimate for this year is included in the funding table below, and no expenditure for this allocation is included in the Schools profiled spend.

3. Capital Finance Charges

The County Council has a current debt level of approximately £1bn which has been incurred over a number of years and consists of debt incurred under the current Prudential System as well as under the previous credit control system. Prior to the introduction of the Prudential Code in April 2004 the County Council were given credit approvals from central government. This was a limit on the amount the County Council could borrow and the government included provision for the financing of the debt within the RSG settlements. Traditionally the County Council borrowed up to the maximum permitted. The introduction of the Prudential Code removed these limits enabling authorities to borrow at a level they deem as affordable. It is accepted that all authorities would have a different basis on the concept of affordability based on their differing priorities and the need for capital expenditure.

As at the 31/3/2016 since the inception of the Prudential Code the County Council has incurred £135m of capital expenditure funded from borrowing to meet its capital priorities These prior decisions mean that there is a long term budget commitment in terms of both Minimum Revenue Provision (MRP), which is effectively a charge for the principal repayment, and interest charges. Under the current MRP policy the charge for the debt prior to the introduction of the Prudential Code is £8.887m per annum. In addition, the MRP to cover since the implementation of the Prudential Code is in the region of £11m. This is forecast to rise to £11.7m by 2020/21.

The loans, and therefore interest charges, are not tied to specific expenditure but are managed as a pool. To fund the outstanding debt the interest charges are in the region of £18m per annum although this will vary as interest rates and MRP payments change. Therefore without any additional borrowing being incurred there is a commitment in future years' budgets of some £37.7m by 2020/21. In addition the re-profiled Capital Programme for 2016/17 onwards approved at 6th October 2016 Cabinet included borrowing of £158m over the period of the Programme. By 2020/21 the additional borrowing cost will depend on the estimated economic life of the assets, and the timing of the borrowing. It is currently estimated that by 2020/21, the additional MRP charge will be £4.4m and interest charges £2.4m. The current MTFS includes the estimated impact of the Programme.

Table 2 below shows the borrowing costs for the existing programme and new re-profiled programme, totalling £44.5m.

TABLE 2 **Borrowing costs of existing and new re-profiled capital programme**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**	**20/21** **£m**
MRP				
Current Debt	19.986	19.788	20.188	20.603
New Capital Programme	1.397	2.040	3.683	4.431
Interest				
Current Debt	18.135	17.809	17.458	17.076
New Capital Programme	0.953	1.565	2.186	2.363
Total				
Current Debt	38.121	37.597	37.646	37.679
New Capital Programme	2.350	3.605	5.869	6.794
Grand total borrowing costs old and new programmes	**40.471**	**41.202**	**43.515**	**44.473**

Under the CIPFA Prudential Code consideration must be given as to the affordability of the Capital Programme. A budget of £44.5m represents approximately 6.4% of the estimated resources available to the County Council in 2020/21 (excluding potential Council Tax increases); although once investment income is taken into account the net budget represents 5.6% of revenue. There is no guidance on what is considered to be a reasonable proportion of the revenue budget is used for capital financing purposes. This is a matter for individual authorities and reflects their different aims. It should be noted that financing capital expenditure from borrowing does represent a long term commitment in the revenue budget. If the revenue budgets were to fall then the percentage committed to capital financing would increase.

The National Audit Office produced a report in June 2016 which expressed concern about the levels of debt currently serviced by local authorities. The NAO said: “If authorities cannot reduce their debt servicing costs, this will place further pressure on revenue spending.” It added that minimising the revenue cost of capital programmes is the “primary challenge facing authorities.” The NAO report does not refer to individual authorities' data however the DCLG has recently published information on borrowing at 31/3/16 which shows that Lancashire has the second highest level of borrowing of all the shire Counties. By head of population Lancashire has the highest level of borrowing. There is currently little information on the financing costs. The CIPFA 2014/15 actuals show that the principal repayment and interest charges represent on an average of 8.5% of the budget requirement. Lancashire's figure was shown as 9.8%, which was the 8th highest.

It should be noted that the figures quoted for 2019/20 show that capital financing budget represents a lower proportion of the budget than shown by the CIPFA statistics. This is the result of the change in MRP policy in 2015/16 which has seen significantly lower MRP charges. Excluding any potential Council Tax increases it is estimated that the net capital financing charges will increase to 5.6% of the budget in 2020/21 from 4.33% in 2016/17. Therefore the available statistics suggest that the County Council is facing an increase in financing and that it is starting from a relatively high debt base. It is therefore potentially one of those authorities who face the problem identified by the National Audit Office and future borrowing requirements should be subject to scrutiny.

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 19th December 2016

CAPITAL BUDGET 2017/18-2021/22

Contact for further information:
Keith Mattinson - Director of Corporate Services Tel No: 01772 866804

Executive Summary

The report sets out the draft capital programme for 2017/18-2021/22.

The draft programme allows for items included within various asset management plans, some of which still need to be finalised, such as the replacements of Mobile Fire Stations and Aerial Ladder Platforms.

A final capital programme will be presented to the Authority in February, for formal approval.

Recommendation

The Combined Fire Authority is requested to: -

(i) Give initial consideration to the draft capital budget as presented;
(ii) Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
(iii) Give further consideration to the capital budget at their next meeting on 20 February 2017, in light of the consultation process.

Capital Budget Strategy

The Authority's capital strategy is designed to ensure that the Authority's capital investment:

- assists in delivering the corporate objectives;
- supports priorities identified in asset management plans;
- ensures statutory requirements are met, i.e. Health and Safety issues;
- supports the Medium Term Financial Strategy by ensuring all capital investment decisions consider the future impact on revenue budgets;
- represents value for money.

Capital Requirements

Capital expenditure is expenditure on major assets such as new buildings, significant building modifications and major pieces of equipment/vehicles.

The Service has developed asset management plans which assist in identifying the long-term capital requirements. These plans, together with the operational equipment register have been used to assist in identifying total requirements and the relevant priorities.

A summary of all capital requirements is set out in the table below.

	2017/18	2018/19	2019/20	2020/21	2021/22	TOTAL
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Vehicles	1.659	1.806	2.814	0.962	1.070	**8.311**
Operational Equipment	0.420	0.350	1.550	0.250	0.435	**3.005**
Buildings	4.750	4.000	-	-	-	**8.750**
IT Equipment	1.350	0.545	0.720	0.210	0.200	**3.025**
Total	**8.179**	**6.701**	**5.084**	**1.422**	**1.705**	**23.091**

Vehicles

The Fleet Asset Management plan has been used as a basis to identify the following vehicle replacement programme, which is based on current approved lives:-

	No of Vehicles				
Type of Vehicle	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Pumping Appliance	6	6	6	3	3
Mobile Fire Stations (MFS)	1	1	-	-	-
Aerial Ladder Platform (ALP)	-	-	2	-	-
All Terrain Vehicle	-	-	1	-	1
Prime mover	-	-	-	-	2
Pod	-	1	1	-	-
Operational Support Vehicles	10	15	10	15	11
	17	23	20	18	17

The replacement programme has been adjusted to remove peaks in the number of vehicle replacements in any one year for a number of years now. This ‘smoothing’ has inevitably resulted in some vehicles being replaced marginally ahead of or behind schedule in the past, but provides a better basis for longer term replacement strategies, which is evident in the programme outlined above. As a result of this only one support vehicle due for replacement in the period of the programme will be delayed by one year.

The MFS replacements relate to two vehicles at the end of their current asset life, however a review of requirements for these appliances is planned to commence shortly in order to determine a final design and hence costing estimate for approval.

LFRS currently has several vehicles provided and maintained by CLG under New Dimensions (6 Prime Movers and 2 Incident Response Units), which under LFRS replacement schedules would be due for replacement during the period of the programme. However our understanding is that CLG will issue replacement vehicles if they are beyond economic repair, or if the national provision requirement changes. Should LFRS be required to purchase replacement vehicles, grant from CLG may be available to fund them. Based on the current position, we have not included these vehicles (or any potential grant) in our replacement plan.

In addition, Fleet Services continue to review future requirements for the replacement of all vehicles in the portfolio, hence there may be some scope to modify requirements as these reviews are completed, and future replacement programmes will be adjusted accordingly.

Operational Equipment

The following plan allows for the replacement of items at the end of their current asset lives, based on current replacement cost. In addition we have included a further ongoing provision for innovations in future fire fighting equipment after the £1m budget allocated in 2016/17 has been fully utilised by the end of 2017/18.

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Thermal Imaging Cameras (TICs)	0.220	-	-	-	-
Breathing Apparatus Radios	0.200	-	-	-	-
Breathing Apparatus (BA) and Telemetry equipment	-	0.100	0.700	-	-
Cutting and extrication equipment	-	-	0.600	-	-
Light Portable Pumps	-	-	-	-	0.130
Defibrillators	-	-	-	-	0.055
Future fire fighting	-	0.250	0.250	0.250	0.250
	0.420	**0.350**	**1.550**	**0.250**	**0.435**

Each of these groups of assets is subject to review prior to replacement, which may result in a change of requirements or the asset life.

Buildings

The current level of backlog maintenance has reduced significantly, reflecting the investments the Authority has made in its building stock. Following completion of works budgeted during 2016/17, the Authority will only have Preston fire station classed as in poor condition. In addition, the Emergency Cover Review (ECR) planned for completion during 2017/18 may highlight the requirement to make changes to our stations, hence we have included a sum of £7.5m spread over two financial years to give scope for these changes once known.

In addition to this a further sum of £1.25m has been included in the programme to allow for investment in training assets at two specific service delivery locations and at the Training Centre in order to maximise the efficiency and consistency of staff training, in particular Retained Duty System (RDS) staff. Further work is underway to identify the exact requirement and scope for these hence this sum is an estimate, and will be refined prior to seeking member approval for any large scale projects within it.

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Buildings	3.500	4.000	-	-	-
Training assets investment	1.250	-	-	-	-
	4.750	**4.000**	**-**	**-**	**-**

ICT

The sums identified for the replacement of various ICT systems are in line with the software replacement lifecycle schedule incorporated into the ICT Asset Management Plan.

All replacements identified in the programme will be subject to review, with both the requirement for the potential upgrade/replacement and the cost of such being revisited prior to any expenditure being incurred.

Of particular note are the anticipated replacements for the operational communications assets most of which are affected by the national Emergency Services Mobile Communications Project (ESMCP) to deliver a replacement for Airwave (the wide area radio system currently used for mobilising by all blue light services). The ESMCP has now signed the main contracts with EE and Motorola for the network and network equipment respectively. Since the signing of the contract, there has been considerable work done by the suppliers, central programme team and emergency services in the regions. However there are still some areas that need to be resolved, and therefore the original go live for the North West (the first region go-live) September 2017, has moved on 3 months to January 2018. As there are still further details to be added to the national project plan, all Services await the final programme dates, and the regional programme team will update Services as soon as they receive this updated information. (We anticipate all the costs being met by the government, as reflected in the section in funding below.) As the national situation becomes clearer, forthcoming budget revisions will be updated.

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Replace Existing Systems	**£m**	**£m**	**£m**	**£m**	**£m**
Performance Management	0.100				
Geographic Information System (GIS) Risk Information	0.050				
Vehicle specification crash recovery software		0.020			
Pooled PPE system		0.080			
Rota system (Retained Duty System)		0.050			
Dynamic Mobilising Tool		0.150			
Rota system (Whole-time Duty System and officer cover)			0.050		
Hydrant Management system			0.020		
Finance system			0.250		
HR & Payroll system				0.150	
Incident Command system				0.060	
Community Fire Risk Management Information System (CFRMIS)					0.100
Asset Management system					0.100
	0.150	**0.300**	**0.320**	**0.310**	**0.200**
Operational Communications					
ESMCP (Airwave) replacement (estimated)	0.800				
Station end mobilising system	0.400				
Alerters for RDS/DCP staff	-	0.065			
Incident Ground Radios		0.180			
Vehicle Mounted Data Systems (VMDS) hardware replacement			0.400		
	1.200	**0.245**	**0.400**	**-**	**-**
Total ICT Programme	**1.350**	**0.545**	**0.720**	**0.310**	**0.200**

Capital Funding

Capital expenditure can be funded from the following sources:

Prudential Borrowing

The Prudential Code gives the Authority increased flexibility over its level of capital investment and much greater freedom to borrow, should this be necessary, to finance planned expenditure. However any future borrowing will incur a financing charge against the revenue budget for the period of the borrowing.

Given the financial position of the Authority we have not needed to borrow since 2007 and based on the draft capital programme this position will not change.

Capital Grant

Capital grants are received from other bodies, typically the Government, in order to facilitate the purchase/replacement of capital items.

Capital funding includes an assumed £0.8m capital grant relating to the Emergency Service Mobile Communication Programme (ESMCP)

To date no other capital grant funding has been made available for 2017/18, nor has any indication been given that capital grant will be available in future years, and hence no allowance has been included in the budget.

Capital Receipts

Capital receipts are generated from the sale of surplus land and buildings, with any monies generated being utilised to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The Authority holds £1.5m of capital receipts following the sale of surplus site at Chorley. We do not anticipate using any of this over the life of the programme.

Capital Reserves

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years. Following completion of the 2016/17 capital programme, and allowing for the transfer of the year end underspends the Authority expects to hold £12.1m of capital reserves. Over the life of the programme we anticipate utilising £10.6m, leaving a balance of £1.5m by the end of 2021/22.

Summary Capital Receipts and Reserves position

	Capital Receipts	Capital Reserves	Total
	£m	£m	£m
Balance 31/3/17	12.1	1.5	13.6
Change in year	(2.7)	-	(2.7)
Balance 31/3/18	9.4	1.5	10.9
Change in year	(4.9)	-	(4.9)
Balance 31/3/19	4.5	1.5	6.0
Change in year	(3.3)	-	(3.3)
Balance 31/3/20	1.2	1.5	2.7
Change in year	0.3	-	0.3
Balance 31/3/21	1.5	1.5	3.0
Change in year	-	-	-
Balance 31/3/22	1.5	1.5	3.0

Revenue Contribution to Capital Outlay (RCCO)

Any revenue surpluses may be transferred to a Capital Reserve in order to fund additional capital expenditure either in-year or carried forward to fund the programme in future years.

The revenue contribution reduces from £2.0m in 2017/18 to £1.75m for the remainder of the programme.

Drawdown of Earmarked Reserves

The programme allows for the use of £0.049m of earmarked reserves which relates to the provision of training facilities at STC, and which is linked to a donation received from a member of the public.

Drawdown of General Reserves

Previous versions of the capital programme have shown the Authority utilising all its capital reserves and receipts by the end of the 5 year period, meaning that any longer term capital requirements would need to be met from either capital grant, revenue contributions or from new borrowing. Potentially this will leave a problem in future years as the on-going revenue contribution of £1.75m is insufficient to meet the vehicle and ICT replacement programme, let alone any other capital requirements. As such it is proposed to utilise £2.6m of general reserves over the 5 year programme, resulting in the Authority still holding £3.0m of capital receipts and reserves at the end of the period, and therefore being in a stronger position to meet recurring capital requirements.

Total Capital Funding

The following table details available capital funding over the five year period:

	2017/18	2018/19	2019/20	2020/21	2021/22	TOTAL
	£m	£m	£m	£m	£m	£m
Capital Grant	0.800	-	-	-	-	**0.800**
Capital Receipts	-	-	-	-	-	**-**
Capital Reserves	2.730	4.951	3.334	(0.328)	(0.045)	**10.642**
Revenue Contributions	2.000	1.750	1.750	1.750	1.750	**9.000**
Earmarked Reserves	0.049	-	-	-	-	**0.049**
General Reserves	2.600	-	-	-	-	**2.600**
	8.179	**6.701**	**5.084**	**1.422**	**1.705**	**23.091**

Summary Programme

Therefore the summary of the programme, in terms of requirements and available funding, is set out below:

	2017/18	2018/19	2019/20	2020/21	2021/22	TOTAL
	£m	£m	£m	£m	£m	£m
Capital Requirements	8.179	6.701	5.084	1.422	1.705	**23.091**
Capital Funding	8.179	6.701	5.084	1.422	1.705	**23.091**
Surplus/(Shortfall)	**-**	**-**	**-**	**-**	**-**	**-**

Over the next five years the capital programme is currently balanced, however it should be noted that the following assumptions could change:-

- Operational Communications replacements (ESMCP) are subject to a great deal of uncertainty in terms of both timing and costs as they are related to a national replacement project, in addition there may be grant funding available for this which is also unknown at this time;
- Buildings budgets are subject to uncertainty until the outcomes of the stock condition survey, the forthcoming Emergency Cover Review, and the review of training assets are known;
- Capital grant may be made available in future years, in order to assist service transformation and greater collaboration;
- Replacement of both the Mobile Fire Stations and Aerial Ladder Platforms are subject to a review and vehicle requirements could be amended;
- New Dimensions vehicle replacements are expected to be carried out by the Government, however this position may change;
- All operational equipment item replacements are at estimated costs, and would be subject to proper costings nearer the time;
- ICT software replacements are based largely on the ICT asset management plan, and are subject to review prior to replacement, which has led in the past to significant slippage;

The programme is balanced, and as such should be considered prudent, sustainable and affordable. Although it must be recognised that future funding levels, both in terms of revenue and capital, will inevitably impact upon the achievability of the programme as identified.

Impact on the Revenue budget

It is worth noting that the capital programme and it's funding directly impacts on the revenue budget in terms of capital financing charges and in terms of the revenue contribution to capital outlay. Based on the provisional 4 year funding settlement the position in respect of the revenue contribution appears sustainable until at least March 2020. Dependent upon future funding position the revenue contribution to capital may come under increasing pressure.

Prudential Indicators

The Authority is required to calculate various prudential indicators to demonstrate that the proposed capital programme is affordable, prudent and sustainable. These have not yet been calculated, but will be included in the Authority report in February.

Financial Implications

The financial implications are set out on the report.

Human Resources Implications

None

Equality and Diversity Implications

The capital programme in respect of replacement/refurbishment of existing property will include some element of adaptations to ensure compliance with the Disability Discrimination Act.

Environmental Impact

The environmental impact of decisions relating to the capital programme will be considered as part of the project planning process, and where possible we will look to minimise the environmental impact of this where it is considered practical and cost effective to do so.

Business Risk Implications

The capital programme is designed to ensure that the Service has the appropriate assets in order to deliver its services; as such it forms a key element in controlling the risk to which the Authority is exposed.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

LANCASHIRE COMBINED FIRE AUTHORITY
Meeting to be held on 19th December 2016

REVENUE BUDGET 2017/18-2021/22

Contact for further information: Keith Mattinson - Director of Corporate Services
Telephone Number 01772 866804

Executive Summary

The report sets out the draft revenue budget for 2017/18-2021/22 and the resultant council tax implications.

Budget requirement has been re-assessed taking account of known/anticipated changes, incorporating current year-end forecast projections, and forecast vacancy factors based on anticipated recruitment.

Funding takes account of the draft 4 year settlement and assumes a cash freeze in subsequent years (2020-2022).

In terms of council tax we have modelled three scenarios:

- increasing council tax by 2% each year;
- 1% increase in council tax in 17/18 and subsequently a 2% increase thereafter;
- freezing council tax in 17/18, and subsequently increasing it by 2% thereafter.

These models produce a variety of results ranging from a breakeven position to a deficit of £0.6m in 17/18, increasing to a deficit of between £1.5m and £2.1m by the end of the four year settlement period, and thereafter increasing up to a potential gap of £3.9m by 2021/22.

Based on this it is apparent that the requirement to achieve savings is manageable over the over the remainder of the settlement period, but increasingly challenging in subsequent years (this being reflective of anticipated pay awards post the settlement period).

Reserves are in a healthy position and could be utilised to bridge any shortfall and timing issues over the remainder of the settlement period, although this would not be the case throughout the five year period based on current forecasts.

A final revenue budget will be presented to the Authority in February, for formal approval.

Recommendations

The Authority is requested to: -

1. Give initial consideration to the draft revenue budget as presented;
2. Authorise consultation with representatives of non-domestic ratepayers and Trade Unions on the budget proposals;
3. Give further consideration to the revenue budget at their next meeting on 20 February 2017, in light of the consultation process.

Information

In line with the Authority's objective to deliver affordable, value for money services the Authority's Budget Strategy remains one of:-

- Maintaining future council tax increases at reasonable levels, reducing if possible;
- Continuing to deliver efficiencies in line with targets;
- Continuing to invest in improvements in service delivery;
- Continuing to invest in improving facilities;
- Setting a robust budget;
- Maintaining an adequate level of reserves.

Draft Budget

In order to determine the future budget requirement, the Authority has used the approved 2016/17 budget as a starting point, and has uplifted this for inflation and other known changes and pressures, to arrive at a draft budgetary requirement, prior to utilising any reserves, as set out below:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Preceding Years Draft Budget Requirement	55.6	53.9	54.5	55.8	57.5
Inflation	0.8	0.8	0.7	1.7	2.0
Other Pay Pressures	(0.7)	0.1	0.8	-	-
Committed Variations	(0.87)	(0.1)	0.1	-	-
Growth	0.4	(0.1)	(0.2)	-	-
Efficiency Savings	(1.4)	(0.1)	(0.1)	-	-
Budget Requirement	53.9	54.5	55.8	57.5	59.5

Inflation

The following amounts have been added to the budget in respect of inflationary pressures, in line with current estimates:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
A 1% allowance has been built in for all pay-awards for the next 3 years, based on the Governments budget proposals. The 2020/21 and 2021/22 budget allows for 3.8% pay-awards based on latest estimates.	0.4	0.4	0.4	1.4	1.7
Non-pay inflation, average of 2.5% each year	0.4	0.4	0.3	0.3	0.3
	0.8	0.8	0.7	1.7	2.0

Other Pay Pressure

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
As referred to on a separate report on this agenda future service contributions in respect of the Local Government Pension Scheme (LGPS) have increased by 1.9%	0.1				
The Chancellor of the Exchequer has previously announced that the discount rate used in unfunded public sector pension schemes will change, which will add a further £2bn of costs to these schemes. This will be reflected in the next tri-annual valuation which will set the contribution rate payable from 1 April 2019. Whilst no details of the specific impact on any unfunded scheme are available at the present time, an allowance for a 3% increase has been built into the budget in 2019/20.	-	-	0.7	-	-
The government will introduce the apprenticeship levy in April 2017 set at a rate of 0.5% of an employer's pay bill. Whilst there is a potential for some or all of this to be drawn down to support training further work is required in this area and hence for the purpose of the budget I have not assumed any of this is used to fund apprentice training	0.2	-	-	-	-
The budget in respect of whole-time personnel has been updated to allow for:- • Natural wastage due to retirements • 1 early leaver per month, due to resignation, early retirement etc. • Continuing recruitment in future years, the exact timing and number of recruits required will be reviewed on an on-going basis. However the budget includes an allowance for recruitment taking us over establishment by up to 25 personnel. This ensures that we have sufficient personnel to ride fire appliances and provides sufficient lead in time for recruitment campaigns and recruit courses. Furthermore it provides greater capacity to	(0.5)	0.1	0.1	-	-

deal with new initiatives that arise in year. • personnel being paid at development rates of pay • the final mix of personnel in each of the different FF pension schemes, each of which have different contribution rates.					
A vacancy factor of 2.5% has been built in to reflect turnover within support staff.	(0.3)	-	-	-	-
The vacancy factor in respect of RDS personnel has been increased to 15% in line with current levels. Future recruitment campaigns may reduce this, particularly in light of any agreed changes to remuneration, and hence the budget will be monitored throughout the year with the vacancy factor adjusted accordingly. Cost reductions from personnel being paid at development rates of pay are also reflected in this budget.	(0.3)	-	-	-	-
	(0.8)	0.1	0.8	-	-

Committed Variations

Committed variations are those items which are unavoidable, or which arise from previously agreed policy decisions.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
In order to balance the draft capital programme the Revenue Contribution to Capital Outlay was increased in 2016/17, hence the reduction brings this back in line with future requirements, as reflected in the draft capital programme.	(0.8)	(0.2)	-	-	-
Reduction in interest receivable reflecting the historically low rate of interest and based on anticipated cash balances	0.1	-	0.1	-	-
Removal of the temporary additional budget built in last year in respect of secondees to facilitate enhanced partnership working	(0.1)	-	-	-	-
Details relating to grant in respect of New Dimensions are not yet available, however the level of grant was reduced last year, and hence a	0.1	0.1			

further reduction is anticipated in future years.					
	(0.7)	(0.1)	0.1	-	-

Growth

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
The budget for recruits in training has been adjusted to take account of the anticipated timing and number of recruits in each year, assuming all recruits undertake a 13 week course. The budget for the Training and Operational Review Department has also been increased to provide sufficient trainers to meet the on-going requirement.	0.2	(0.1)	(0.2)	-	-
The Service is currently reviewing its use of apprenticeships, and will report to the Resources Committee in due course. As such a provision has been set aside to meet any costs falling out of this review.	0.2				
	0.4	(0.1)	(0.2)	-	

Efficiency Savings

The Authority has a good track record of delivering efficiency savings. Between April 2011 and March 2017 we will have delivered £16.5m of savings. Further savings of £1.6m have been identified below, bring the overall level to £18m:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Full year effect of removal of whole-time appliance at Lancaster and creation of RDS unit	(0.5)	-	-	-	-
Savings identified from reviewing non-pay budgets, the main ones being • Fleet • Property • Utilities • Area • Smoke Detectors	(0.6)	-	-	-	-
As referred to on a separate report on this agenda the Service has more than paid off its LGPS deficit and as such the budget has been adjusted to remove the deficit recovery payments included in previous years budgets. At the present time we have assumed that the surplus is left in-	(0.3)	-	-	-	-

situ and have therefore not built any allowance into the budget for this.					
Savings relating to transfer from Airwave to ESMCP, note the timing of the transfer is subject to review and hence the savings identified may be delayed.	-	(0.1)	(0.1)	-	-
	(1.4)	(0.1)	(0.1)	-	-

Net Budget Requirement

As set out above the overall net budget requirement for each year is as follows:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Draft Budget Requirement	53.9	54.5	55.8	57.5	59.5
Budget (Decrease)/Increase	(3.0%)	1.0%	2.5%	3.0%	3.4%

Grant Funding

As a major precepting authority the Authority receives funding in the form of:-

2016/17	
Settlement Funding Assessment (Grant)	
Revenue Support Grant, direct from the Government	£13.2m
Individual Authority Business Rates Baseline	£4.7m
Business Rates Top-Up, from the Government	£9.7m
Business Rates collection fund deficit	(£0.3m)
Section 31 Grant - Business Rates Capping	£0.5m
	£27.8m
Council Tax	
Council Tax	£27.4m
Council Tax collection fund surplus	£0.4m
	£27.8m
Total Funding	**£55.6m**

Future funding is based on the four year settlement figures previously identified (at the time of writing the report we had still not received any response from the Home Office in respect of our bid for 4 year funding settlement, nor has the draft Local Government Finance Settlement been published.) It is assumed that that funding is frozen in 2020/21 and beyond, although in the recent Autumn Statement the Government reaffirmed that Departmental resource (revenue) spending will continue to grow with inflation in 2020/21, as set out in Budget 2016, and that Departmental spending will also grow with inflation in 2021/22, but obviously there will be significant variation between departments due to how the overall funding is distributed.

		Reduction	
2015/16	£29.6m		
2016/17	£27.8m	£1.8m	6.4%
2017/18	£25.4m	£2.4m	8.3%
2018/19	£24.5m	£0.9m	3.8%
2019/20	£24.1m	£0.4m	1.6%
2020/21	£24.1m	-	-
2021/22	£24.1m	-	-
		£5.5m	18.7%

(the above figures include an assumption that both Section 31 Grant - Business Rates Capping and Business Rates collection fund deficit remain at their current levels.)

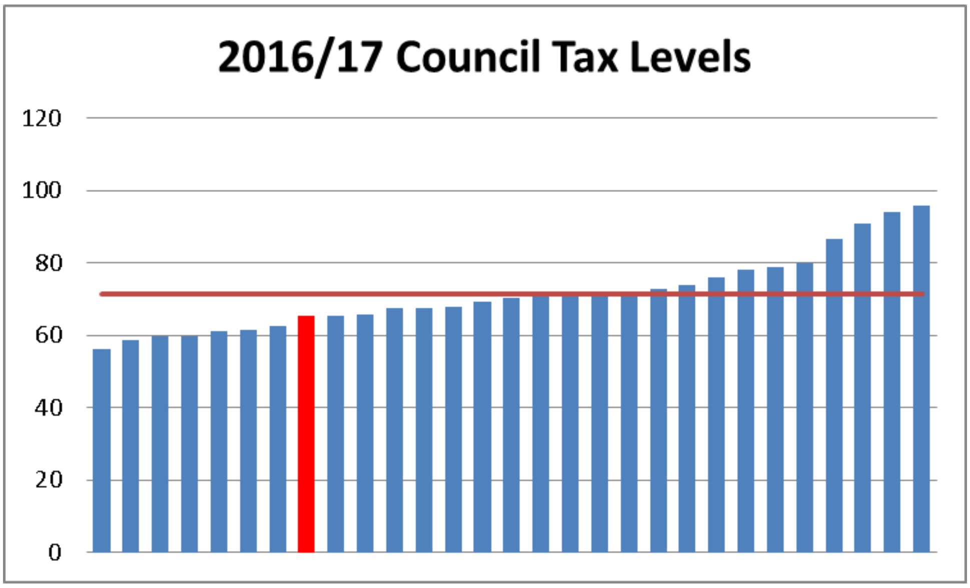
The Spending Review also confirmed that by 2020/21 Local Authorities will retain 100% of business rates, but no details are available as to how this will work and what the impact on the fire sector is, and hence for the purpose of financial planning we have assumed that this will be cost neutral.

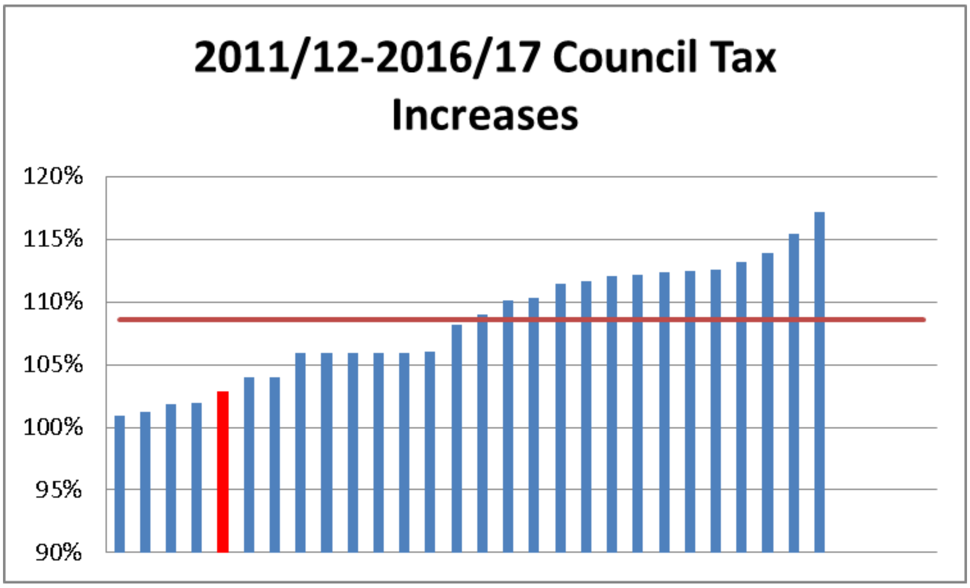
Funding projections will be updated once the Local Government Finance Settlement provides further details which are anticipated in late December, and as Billing Authorities provide more detail re business rates.

Council Tax

In setting the council tax, the Authority aims to balance the public's requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

The Authority became a precepting authority on 1 April 2004. Since this our council tax increases have been limited by either capping or the current referendum thresholds set by the Government. As such our council tax increases and hence budget increases have been constrained by these and our desire to deliver value for money services, culminating in a council tax freeze between 2011/12-2014/15 and a 1.9% and 1.0% increase in the last two years. Our council tax of £65.50 is still below the national average of £71.50, and our increase of just 2.9% over the last 6 years compares with an average increase of 8.60% over the same period and is the fifth lowest of any Fire Authority.





The Government has already indicated its intention to maintain the council tax referendum limit at 2%.

Council Tax-Base

We have assumed that the council tax base continues to grow at the rate of 1% per year, which is broadly in line with historic trends.

In terms of the council tax collection fund we are still awaiting draft figures from billing authorities, and hence we have included an allowance for a £300k surplus each year. (note this is broadly in line with the last three years).

Both the tax base and collection fund deficit will be updated once figures are received from billing authorities.

Draft Council Tax Requirements

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Draft Budget Requirement	53.9	54.5	55.8	57.5	59.5
Less Total Grant	(25.4)	(24.5)	(24.1)	(24.1)	(24.1)
Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Equals Precept	28.2	29.7	31.4	33.1	35.1
Estimated Number of Band D equivalent properties	422,063	426,283	430,546	434,852	439,200
Equates to Council Tax Band D Property	£66.82	£69.68	£73.05	£76.22	£79.87
Increase in Council Tax	2.0%	4.3%	4.8%	4.3%	4.8%

(For information, a 1% change to the council tax equates to £0.250m.)

As can be seen the increase in 2017/18 is in line with the referendum limit but increases in future years are more significant and will potentially exceed the referendum limit.

As in previous years we have modelled three scenarios based on

- A 2% increase in council tax each year
- A council tax increase of 1% in 2017/18 with a 2% increase thereafter
- A council tax freeze in 2017/18 with a 2% increase thereafter

The following table sets out the funding gap based on these:-

	2017/18	2018/19	2019/20	2020/21	2021/22
A 2% increase in council tax each year	-	(£0.6m)	(£1.5m)	(£2.3m)	(£3.3m)
A council tax increase of 1% in 2016/17 with a 2% increase thereafter	(£0.3m)	(£0.9m)	(£1.8m)	(£2.6m)	(£3.6m)
A council tax freeze in 2016/17 with a 2% increase thereafter	(£0.6m)	(£1.2m)	(£2.1m)	(£2.9m)	(£3.9m)

Reserves

A reasonable level of reserves is needed to provide an overall safety net against unforeseen circumstances, such as levels of inflation/pay awards in excess of budget provision, unanticipated expenditure on major incidents, and other “demand led” pressures, such as increased pension costs, additional costs associated with national projects, etc. which cannot be contained within the base budget. In addition, they also enable the Authority to provide for expenditure, which was not planned at the time the budget was approved, but which the Authority now wishes to implement.

As such a review of the strategic, operational and financial risk facing the Authority is undertaken each year to identify an appropriate level of reserves to hold, this incorporates issues such as higher than anticipated pay awards, increased number of ill health retirements, etc.

Until such time as the draft settlement has been announced it is impossible to carry out this review, as such this will be undertaken, and reported on at the CFA budget setting meeting in February. However, in order to give an overview of this area, we identified a minimum uncommitted reserve requirement of £3.0m last year. Based on the budget forecast for 2016/17, and assuming any in-year underspend transfers to capital reserves, we anticipate holding £10.2m of general reserves at 31 March 2017. The draft capital programme allows for a further transfer of £2.5m from general reserve to the capital programme in 2017/18, leaving a forecast balance of £7.7m, providing scope to utilise approx. £4.7m of reserves. As such they could be used to meet the funding gap across the remainder of the four year settlement period, up to 31/3/2020.

The following table shows our anticipated reserve position based on the draft revenue and capital budget as presented and assuming that a 2% increase in council tax is agreed each year and that any funding gap is met by a drawdown of general reserves:-

	General Reserve	Earmarked Reserve	Capital Reserves & Receipts	Provisions	Total Reserves & Balances
	£m	£m	£m	£m	£m
Balance 31/3/17	10.2	7.2	13.6	1.9	32.9
Change in year	(2.5)	(0.2)	(2.7)	0.0	(5.4)
Balance 31/3/18	7.7	7.0	10.9	1.9	27.5
Change in year	(0.7)	(1.2)	(4.9)	0.0	(6.8)
Balance 31/3/19	7.0	5.8	6.0	1.9	20.7
Change in year	(1.5)	(0.2)	(3.3)	0.0	(5.0)
Balance 31/3/20	5.5	5.6	2.7	1.9	15.7
Change in year	(2.3)	(0.1)	0.3	0.0	(2.1)
Balance 31/3/21	3.2	5.5	3.0	1.9	13.6
Change in year	(3.3)	(0.2)	-	0.0	(3.5)
Balance 31/3/22	(0.1)	5.3	3.0	1.9	10.1

As can be seen general reserves remain above the minimum target level until April 2021. Whilst the forecast indicate that there would not be sufficient reserves to bridge the potential funding gap in that year, it must be noted that this is based on a number of assumptions that will change over time, such as the level of savings identified in future years, pay and price inflation, future funding levels, drawdown of LGPS surplus etc., and that these forecast budgets will be subject to several revisions before that time.

Summary Council Tax options 2017/18

Based on the scenarios outlined the council tax options for 2017/18 are as follows:-

	2% Increase	1% Increase	Freeze
	£m	£m	£m
Gross Budget Requirement	53.9	53.9	53.9
Utilisation of reserves/additional savings	-	(0.3)	(0.6)
Final Budget Requirement	53.9	53.6	53.3
Less Revenue Support Grant & Baseline Funding	(25.3)	(25.3)	(25.3)
Less Section 31 Grant re Business Rates Capping	(0.4)	(0.4)	(0.4)
Add Business Rates Collection Deficit	0.3	0.3	0.3
Less Council Tax Collection Surplus	(0.3)	(0.3)	(0.3)
Equals Precept	28.2	27.9	27.6
Estimated Number of Band D equivalent properties	422,063	422,063	422,063
Equates to Council Tax Band D Property	£66.80	£66.15	£65.50
Increase in Council Tax	2.00%	0.99%	0.00%

The increases equate to:-

- 1% is £0.65 per annum, £0.01 per week
- 2% is £1.30 per annum, £0.03 per week.

Summary

The draft budget shows the Authority being able to set a balanced budget in 2017/18, based on the draft 4 year settlement, and allowing for a 2% increase in council tax (this does not take account of any potential draw down against the LGPS surplus). This position will be updated once the actual funding settlement is announced and once billing authorities provide clarification on outstanding business rates and council tax issues.

From a medium term financial perspective the funding gap in both 2018/19 and 2019/20 could be met by either reserve utilisation or identifying further savings.

The real financial pressure comes in 2020/21 and beyond, however even in those years we remain in a reasonable position given our current level of reserves and our track record of delivering savings.

Financial Implications

As outlined in the report.

Human Resource Implications

None

Equality & Diversity Resource Implications

The budget as set should enable the Authority to continue to make progress against its equality and diversity targets.

Environmental Implications

The budget as set takes account of the need to invest in environmental issues.

Business Risk

The final approved budget forms a key element of the Authority's risk management process, as it is designed to minimise any financial risks, which the Authority may face. The Treasurer feels that the budget has been prepared in a robust manner and that the level of reserves held is sufficient to meet any potential risks.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact
Local Government Finance Settlement	February 2016	Keith Mattinson - Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		