

Cabinet Meeting to be held on 26 November 2015
Report of the Acting Director of Financial Resources

Electoral Divisions affected: All

Money Matters – The Financial Strategy for 2016/17 to 2020/21
(Appendices 'A', 'B', 'C', 'D' and 'E' refer)

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Executive Summary

This report provides an update of the forecast outturn Financial Position for 2015/16 on revenue and capital as at 30th September 2015, the County Council's updated Medium Term Financial Strategy for the period 2016/17 to 2020/21 and both initial budget proposals and longer-term approach to the financial sustainability of the Council.

The County Council is facing an unprecedented financial challenge. The updated Medium Term Financial Strategy forecasts that the council will have a financial shortfall of £262m in 2020/21. This 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. Over the five years 2016/17 to 2020/21 the Council is facing the need to make savings of £262m on top of those already agreed within previous budget processes.

The Base Budget Review analysis has demonstrated that from April 2018 the council will not have sufficient financial resources to meet its statutory obligations. The Review has also indicated that the 2016/17 and 2017/18 budgets will need to rely heavily on reserves in order to set a balanced budget.

The Chancellor's Autumn Statement has the potential to add to this financial challenge, as Local Government expenditure is an unprotected area within the Comprehensive Spending Review (CSR).

Financial Position as at 30th September 2015

An overspend is currently forecast on the revenue budget of £19.666m. This is due to a base budget pressure from 2014/15 of £24.838m and additional 2015/16 emerging pressures of £12.424m. These are offset by gains of £17.596m. This position is reflected in the Financial Outlook and Medium Term Financial Strategy.

The Financial Outlook and Medium Term Financial Strategy

A revised MTFS was presented to Cabinet in August which extended the period covered to 2020/21 and a funding gap of £223.2m was noted. This report has further revised the assumptions in the MTFS for expenditure in light of later information. The funding gap for the period up to 2020/21 is now estimated to be £262.0m.

Recommendations

The Cabinet is asked to:

- (i) Note the forecast overspend of £19.666m on the revenue budget in 2015/16 and ongoing pressure of £37.161m.
- (ii) Note the revised funding gap of £262.0m covering the period 2016/17 to 2020/21 as set out in the revised financial outlook forecast for the Council.
- (iii) Approve the budget adjustments for 2016/17 and 2017/18, and following years' increases, included in the MTFS reflecting the phased financial impact of the national living wage.
- (iv) Approve the adjustment of previously approved savings targets to reflect the £52.8m of undeliverable savings identified within the MTFS and that the 2016/17 budget be prepared on that basis.
- (v) Approve the principle of reserves supporting the revenue budget in 2016/17 and 2017/18.
- (vi) Approve the principle of replacing revenue support to the capital programme with capital borrowing.
- (vii) Approve the attached budget proposals set out in Appendices 'D' and 'E', authorise officers to proceed with their implementation, and agree that the 2016/17 budget be prepared based upon these revenue decisions.
- (viii) Approve a financial strategy that sets a spending target for service expenditure levels to move in line with the lower quartile of the most appropriate comparator group of local authorities for individual services.
- (ix) Approve key stakeholders and partners being formally advised of the outcome of the budget decisions.

Background and Advice

The detailed reports at Appendices 'A' and 'B' present the County Council's revenue position as at 30th September and an updated financial outlook and Medium Term Financial Strategy for the period 2016/17 to 2020/21.

2016/17 – 2020/21 Budget Strategy and Proposals

The County Council is facing an unprecedented financial challenge. The assumptions made in the original MTFs have been reviewed and been updated to reflect the latest information available. The revised forecast funding gap is now estimated to be £262.0m by 2020/21 and an aggregated total of unavailable resources of £851.1m across the five year period. The funding gap reflects an adjustment within the MTFs for prior year agreed budget savings that have been now assessed as undeliverable as part of the budget risk assessment work that has been undertaken, totalling £53.2m. c£148m of currently agreed savings remains as still needing to be delivered over the period 2015/16 to 2017/18 to ensure no increase in the updated funding gap.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Total Expenditure	795.2	706.1	725.0	711.4	710.2	
Resources	705.0	684.2	669.0	663.8	663.9	
Funding Gap	90.2	21.9	56.0	47.6	46.3	262.0

The Base Budget Review analysis has demonstrated that from April 2018 the council will not have sufficient financial resources to meet its statutory obligations without additional financial support from Central Government. The Review has also indicated that the 2016/17 and 2017/18 budgets will need to rely heavily on reserves in order to set a balanced budget.

The Chancellor's Autumn Statement has the potential to add to this financial challenge, as Local Government expenditure is an unprotected area within the Comprehensive Spending Review (CSR).

This report sets out both immediate budget proposals and an approach to the long term financial sustainability of the council.

The Financial Sustainability of the Council

Lancashire County Council is not alone in this financial challenge. The whole of the public sector in Lancashire is facing severe financial conditions that give rise to fundamental questions as to the nature, scale and sustainability of public services in the county. Health and social care services in Lancashire are forecast to have a budget shortfall by 2020/21 of £800m. The Police and Fire and Rescue Service face significant reductions in expenditure over this period, as do the district and unitary councils across Lancashire.

It is clear that the county council, in its present form, is not a financially sustainable organisation in the medium term.

In the Base Budget Review Report, considered by Cabinet in August 2015, it was proposed that there was a need for a fundamental review of the council's operating model. This work needs to commence early in 2016, however, it cannot be done in isolation and needs to consider the entire public service context within which the council operates.

The outcome of the CSR will provide the overarching financial context within which public services in Lancashire will need to operate. There is a rapidly changing financial context for local government with changes to its funding mechanisms and the government's devolution and decentralisation agenda. The integration of health and social care and the way local government and the NHS work together will be a fundamental consideration. The growing service demands of an aging population and the dominance of social care expenditure within the county council's budget will require the council to consider its future operating model in conjunction with the NHS.

The proposed Combined Authority for Lancashire also provides an embryonic governance context for consideration of pan-Lancashire public service issues.

It is proposed that external consultants be appointed in the New Year to assist the county council in scoping and undertaking the review of its operating model. A key part of the brief will be the development of a public service operating model for the council to enable it to be sustainable, within its forecast financial resource envelope, by 2020/21.

A Corporate Spending Policy

The Peer Review of the council undertaken in 2014 identified the council as a high spending authority. Further work as part of the Base Budget Review has identified significant areas where the council spends on a per-capita basis at a significantly higher level than other similar authorities.

LGFutures has produced benchmarking reports on council expenditure using councils' budget returns for 2015/16. The report for Lancashire is attached at Appendix C, which compares Lancashire County Council with its 15 nearest neighbour county councils. The summary in the report indicates that the council could save a notional £163.3m if it were to spend at the current level of the lowest quartile of the nearest neighbour councils in the group.

Whilst such benchmarking has limitations, including being based on budgeted rather than outturn analysis and the comparator group used above may not be the most appropriate in all cases, it does provide an overall spending context for the council. Given the need for the council to significantly reduce its expenditure it is proposed that the county council should adopt a formal Corporate Spending Policy that sets a target to operate at an expenditure level for the council equivalent to the lowest quartile of the 16 council's. Further, it is proposed that on service by service basis expenditure levels be set relative to the lowest quartile expenditure for that service category.

There are many and complex factors underlying the level of the council's current expenditure. Making the changes needed to achieve such a reduction in the council's

expenditure levels, associated with such an expenditure benchmark, will be difficult and could take a considerable time to achieve. It is proposed that the target date for the final achievement of the overall council target should be by April 2020, although significant progress against the target will need to be made in earlier years given the significant funding gaps of £56m in 2018/19 and £47.6m in 2019/20 identified within the MTFs, and the remaining funding gap in 2017/18 of £47.2m that would remain if all the budget proposals attached at Appendices 'D' and 'E' are agreed.

The Base Budget review report agreed at Cabinet in August identified stage 3 of the review as the zero base from February, when detailed work will commence to undertake a fundamental line by line zero base budget review of all expenditure within the retained services. This would also involve a review of the business model of how services are delivered to ensure the best value for money. It is anticipated that this work will release resources to help meet the budget shortfalls identified above.

Specific Budget Proposals

Attached at Appendices 'D' and 'E' are specific budget proposals which include a summary of the overall impact of all the proposals. A number of the proposals would take some lead-in time to deliver and initial estimates of reserve requirements to support the delivery of those savings has been identified where required.

The table below sets out the summary position of budget proposals against the gap identified within the MTFs and the overall reserves requirement.

	2016/17 £m	2017/18 £m
MTFS Funding Gap	90.2	112.1
Savings Proposals	64.2	0.7
Funding Gap if Proposals Agreed	26.0	47.2
Estimated Reserve Requirement*	72.5	71.5

** Note: following publication of the agenda on 16 November, 2015 the estimated reserves requirement has been amended to include the proposed use of Council reserves in respect of BOP 052 (Cultural Services – Heritage and Arts) that was omitted by officers from the original report.*

A further change was made to the BOP 52 proposal on 23 November. This revision is now reflected in the above table.

Sufficient reserves to fund this requirement would need to be identified and allocated to meet the overall requirement to enable balanced budgets to be set in 2016/17 and 2017/18. Proposals will be brought to Cabinet at its meeting in January to agree a reprioritisation of current reserve commitments necessary to provide the identified resource requirement to support the revenue budget, which will include maximising the scope for prudential borrowing rather than revenue reserve funding of the capital programme.

In addition, several budget proposals are also based on utilising the flexibility for services or staff to be funded via the capital programme, where the expenditure is agreed as being eligible under capital guidelines. Cabinet will consider the overall

impact on the capital programme of the budget proposals and revenue reserve replacement at its meeting in January 2016.

Consultations

A number of the budget proposals will, because of the nature of their potential impact on individuals and communities, be subject to specific consultations as set out in the proposals regarding implementation.

A variety of stakeholders and partners, as set out below, will also be informed of the outcome of the Cabinet decisions.

- Lancashire County Council Elected Members
- The Office of the Police and Crime Commissioner
- The Lancashire Combined Fire Authority
- Recognised Trade Unions
- Borough, City and Unitary Councils in Lancashire
- Third Sector Lancashire
- Lancashire Association of Local Councils (LALC)
- Lancashire Safeguarding Children's and Adults Boards
- Lancashire Care Association
- Lancashire Parent Carer Forum
- The Older People's Forum
- The Chamber of Commerce
- The Lancashire Enterprise Partnership
- Healthwatch Lancashire
- The Clinical Commissioning Groups
- Young People's Engagement Forums
- Members of Parliament
- Society of Local Council Clerks
- MEPs
- NHS Hospital Trusts
- HE/FE establishments
- Commissioners on the Lancashire Fairness Commission

Implications:

This item has the following implications, as indicated:

Equality Act 2010

Members are asked to note that a separate report for this meeting has been prepared by the Director of Governance, Finance and Public Services. The report outlines in detail our obligations in terms of the Equality Act 2010 and specifically highlights section 149 of the act that refers to the Public Sector Equality Duty (PSED). In addition, the report explains how the legislation is applied in practice.

For each of the proposals outlined in Appendices 'D' and 'E' of this report a supporting Equality Analysis has been prepared in relation to our obligations in respect of the PSED. The Equality Analysis for each proposal is available electronically by hyperlink and hard copies of the documents have been provided to Political Groups and are also available in the Members' Retiring Room. Further hard copies can be made available on request. Where the proposals outline that there is to be some form of consultation then the EA acknowledges that it will need to be updated following the results of any consultation. In some cases, where the implementation date is not due until 2017, the analysis will identify that more data or information is required before the EA can be fully completed, to identify in more detail the likely/possible impacts and potential mitigating factors.

Some proposals will result in more negative impacts than others for example, Transport to Day Centres, Schools transport and Public Transport Services are likely to have a substantial impact on people with protected characteristics, particularly older and younger people, disabled people and, in the case of schools transport, religion or belief. The combined or cumulative effect on groups of people with protected characteristics has also been identified but will again be updated in the light of consultation responses.

Risk management

The County Council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks that could affect the position outlined in the report primarily cover the following:

Level of Future Resources from Central Government

Risks remain in relation to the level of resources the Council receives from the government in terms of Revenue Support Grant and the impact of the statement by the Chancellor of the Exchequer regarding the retention of 100% business rates and the ending of RSG by the end of this Parliament. At this point in time there is insufficient detailed information regarding the changes to amend the funding assumptions within the MTFS.

Demand

There is continued pressure on the Council's budget, particularly around Adults and Childrens social care, and the most up to date demand forecast have been included. However any increase in demand over above that forecast will add additional pressure to future years.

Inflation

A significant level of additional resource has been included in the MTFS, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the MTFS includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of meeting new national living wage levels for their employees.

Delivery

The MTFS reflects the risk assessment of service offer and other agreed savings that have been now being assessed as being undeliverable. c£148m of existing agreed savings remains as needing to be delivered in the period 2015/16 to 2017/18 to ensure the current forecast gap does not increase. There are a significant number of factors, both internal and external which may impact upon delivery and the impact of these on new and existing budget proposals being taken forward will need to be clearly identified and minimised.

Assessment of Reserves and Availability of one-off resources

The Base Budget Review identified that there will be a requirement for revenue funding to support the revenue budget over the following two years. On 1 April 2015 the County Council had total reserves of £424.650, but £95.952m is held for schools and £25.954m relates to other organisational funds, leaving LCC available reserves of £302.744m. Whilst the vast majority of the reserves are committed for various purposes or covering risks, only a proportion will be at a financially binding stage and sufficient reserve and one-off funding will need to be identified and committed in supporting the revenue budget in 2016/17 and 2017/18.

List of Background Papers

Paper	Date	Contact/Tel
Budget Working Papers	November 2015	Neil Kissock (01772 536154) Abbi Leech (01772 530808)

Reason for inclusion in Part II, if appropriate

N/A