



**Money Matters**  
**Financial Outlook for the County Council**  
**Medium Term Financial Strategy as at**  
**31st December 2017**

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## **Financial Outlook for the County Council: Medium Term Financial Strategy**

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### **1. Executive Summary**

#### **1.1 Introduction**

This report outlines the financial outlook for the Council over the period 2018/19 to 2021/22. The County Council is experiencing an ongoing period of significant financial pressure as a result of the Government's extended programme of austerity combined with continuing increases in demand for public services.

In December 2017 Cabinet received an updated medium term financial strategy (MTFS) summary outlining that the County Council was forecast to face an in year funding gap of £157.786m by the end of the 4 year period (2018/19 – 2021/22).

This report provides an updated position for the period 2018/19 - 2021/22 and a review of the existing assumptions to reflect the most current information available. Overall the funding gap has reduced to £144.492m. Improvements include increases to the council tax levels (both as a result of increase in council tax base and a 2% increase due to flexibilities offered by the Secretary of State), increases in the level of capital receipts and the identification of £11.140m of new savings. Offsetting these improvements are demand and inflationary pressures, particularly in relation to the recently announced increase in pay levels of 2% and further demand pressures within Children's Social Care.

It is important to note that the funding gap is not evenly spread, with a gap of £48.886m forecast for 2018/19, £69.885m in 2019/20, £118.532m in 2020/21 and £144.492m in 2021/22. In addition, there is greater uncertainty about funding post 2018/19 with changes being made to business rates retention and the funding formula, that are currently being developed and going through various pilot and consultation processes.

#### **1.2 Financial Overview 2018/19 – 2021/22**

Under a separate Money Matters report the County Council's financial position for 2017/18 as at Quarter 3 has been outlined (£15.758m forecast underspend), although this is based on a revenue budget heavily supported by reserves.

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

The table on the next page provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
<b>Spending Gap as reported to Cabinet in December 2017</b>	<b>60.313</b>	<b>25.310</b>	<b>53.630</b>	<b>18.533</b>	<b>157.786</b>
Add change to forecast of spending:					
Pay & Pensions	4.661	3.919	-1.383	-1.856	<b>5.341</b>
Inflation and Cost Changes	-0.365	0.107	-0.170	-0.235	<b>-0.663</b>
Service Demand and Volume Pressures	3.435	0.235	0.231	0.224	<b>4.125</b>
Specific grants	0.128	0.000	0.000	0.000	<b>0.128</b>
Additional Savings	-6.449	-2.591	-2.100	0.000	<b>-11.140</b>
<b>Total Change to Forecast of Spending</b>	<b>1.410</b>	<b>1.670</b>	<b>-3.422</b>	<b>-1.868</b>	<b>-2.210</b>
Change to forecast of resources:					
Funding	-12.837	-5.981	-1.561	9.295	<b>-11.084</b>
<b>Total Change to Forecast of Resources</b>	<b>-12.837</b>	<b>-5.981</b>	<b>-1.561</b>	<b>9.295</b>	<b>-11.084</b>
<b>Funding Gap</b>	<b>48.886</b>	<b>20.999</b>	<b>48.647</b>	<b>25.960</b>	<b>144.492</b>

<b>Aggregated Funding Gap</b>					<b>Total £m</b>
<b>2018/19 (£m)</b>	48.886	48.886	48.886	48.886	<b>195.545</b>
<b>2019/20 (£m)</b>		20.999	20.999	20.999	<b>62.997</b>
<b>2020/21 (£m)</b>			48.647	48.647	<b>97.293</b>
<b>2021/22 (£m)</b>				25.960	<b>25.960</b>
<b>Total</b>	<b>48.886</b>	<b>69.885</b>	<b>118.532</b>	<b>144.492</b>	<b>381.796</b>

The 2018/19 budget assumes that the financial gap of £48.886m detailed above will be met from the transitional reserve which currently has a forecast available balance of £122.801m.

### **1.3 Conclusion**

Lancashire County Council continues to face, as previously stated, an unprecedented period of financial constraint during the period covered by this MTFS.

As part of the process of redesigning its services the County Council has previously explicitly recognised the need to utilise its reserves. Details on the updated reserves position are provided on Page 18 of this report.

When reviewing the County Council's Reserves in conjunction with the Medium Term Financial Strategy the funding requirement to bridge the financial gap in 2018/19 would total £48.886m.

## 2. Funding

The MTFs now includes government funding as announced in the Provisional Settlement on 19<sup>th</sup> December 2017. It is important to note that the proposed allocations issued from the Government only cover the period up to 2019/20 and assumptions have had to be made for 2020/21 – 2021/22. 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 a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time therefore the current business rates and grants structure has been forecast for future years.

The Secretary of State offered Local Authorities the opportunity to apply for a four year financial settlement covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. The County Council declined this offer and therefore the grants position will be announced annually.

The MTFs approved by Cabinet in December 2017 included the following forecast level of resources:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rates	187.206	193.788	198.989	204.431
Council Tax	458.371	483.810	500.839	518.468
New Homes Bonus	3.727	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	16.025	0.000	0.000	0.000
<b>Total</b>	<b>744.964</b>	<b>754.219</b>	<b>743.049</b>	<b>766.120</b>

The figures above were based on a number of assumptions which have been revisited as part of this report and the latest information available has been included. It is important to note that the revised figures shown below show Council Tax increasing by 5.99% in 2018/19, 3.99% in 2019/20 and 1.99% thereafter, however this will be a decision made by Full Council each year when setting the budget.

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

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Revenue Support Grant	56.979	32.894	0.000	0.000
Business Rates	187.706	193.788	198.989	204.431
Council Tax	468.170	494.153	511.547	529.552
New Homes Bonus	3.765	3.713	3.207	3.207
Better Care Fund	22.656	40.014	40.014	40.014
Capital receipts	18.525	8.475	9.672	0.000
<b>Total</b>	<b>757.801</b>	<b>773.037</b>	<b>763.429</b>	<b>777.204</b>

## 2.1 Settlement Funding Assessment (SFA)

The Settlement Funding Assessment (SFA) 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 19<sup>th</sup> December 2017 the Secretary of State announced details of proposed support for the next 3 years as part of the Provisional Settlement, i.e. up to 2019/20 and the MTFs has been based on this Settlement. Assumptions have been made that the funding follows a similar pattern in 2020/21. In the MTFs an assumption has been made that there will not be a Revenue Support Grant from 2020/21 as a result of the latest information available following the provisional financial settlement in December 2017.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
<b>SFA Funded by:</b>	258.456	239.244	219.201	189.570	192.896
Revenue Support Grant		56.980	32.894	0.000	0.000
Business Rate Baseline		182.264	186.307	189.570	192.896
<b>Total</b>	258.456	239.244	219.201	189.570	192.896
Cumulative reduction in SFA		-19.212	-39.255	-68.886	-65.560

As the County Council opted not to accept the four year settlement offered in 2016/17, the decision 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 2020 at the latest. It is hoped that, as part of the new funding formula and 100% business rates retention the County Council will be compensated for the removal of RSG and the new scheme that is put in place will be cost neutral. This will become clearer as more information becomes available.

In his Budget in November, the Chancellor of the Exchequer announced growth for 2018 is forecast to be 1.4%, down from a previous forecast of 1.6%. Growth, in future years, is forecast to hit a low of 1.3% in 2019-20, and is not expected to improve until 2021-22. The uncertainty following the United Kingdom's decision to leave the European Union, will undoubtedly have an impact on Government finances and could potentially result in further public sector expenditure reductions.

## **2.2 Business Rates**

Business Rates income consists of:

- Business Rates Top Up Grant
- Business Rates 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. There have been changes to the business rates baseline as part of the provisional financial settlement due to changes to the multiplier calculation, however any change to the grant is anticipated to be met by an increase in Section 31 grants.

Business Rates income for the County Council is heavily dependent upon cooperation from the District Councils, 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. With this in mind a minimal amount of growth has been built into the local share.

The baseline data from the government already assumes an increase in income derived from local business rates. Therefore given the economic uncertainty, no further growth has been built in on top of this.

The Government compensates authorities for the cost of a number of measures which they have introduced via Section 31 grant such as small business rates relief and the multiplier cap. Some of these reliefs are likely to rise with inflation as without the measure introduced, the income would have increased, whereas the other reliefs are more likely to relate to the change in the business rate base. It is assumed that the level of these reliefs is maintained at the current level in addition to the extra grants anticipated noted above.



### The Lancashire Business Rates Pool

The final aspect of the business rate forecast is the pooling arrangement. The 2017/18 budget included an additional £0.407m due to the continuation of a Lancashire Pool. This was recently agreed for 2018/19, with an additional district re-joining the pooled arrangement. An estimated income of £0.500m has been included in the 2018/19 budget to reflect this arrangement.

It is important to note that due to the County Council being part of a pooling arrangement it has forfeited the right to a safety net payment should our business rates income decline significantly, by more than 7.5% (this is considered to be a low risk given the current membership of the pool).

### **2.3 Council Tax**

In the Provisional Financial Settlement in December 2016, in recognition of the pressures facing Local Authorities responsible for Adult Social Care, the Secretary of State announced that Local Authorities could bring forward the Adult Social Care Precept, moving from a limit of 2% to 3%, but with a maximum of 6% over the three year period (2017/18 – 2019/20). It was previously announced that there would be no Adult Social Care Precept in 2020/21.

As part of the Provisional Financial Settlement in December 2017, also in recognition of the growing pressures for local government services, the Secretary of State announced that Council's had the ability to increase Council Tax by a further 1% without a local referendum for both 2018/19 and 2019/20 bringing the available increase in line with inflation.

The MTFS presented to Cabinet in December included the assumption that Council Tax would increase by 1.99% per annum which is the current referendum limit, plus a 2% Adult Social Care Precept increase in 2018/19 and 2019/20.

As part of this MTFS a 3% Adult Social Care Precept is included in 2018/19 and therefore a 1% increase in 2019/20 is included as a result flexibilities offered by the Government, and will result in c£4.4m of income being generated earlier, but by 2019/20 the cumulative position of income raised through Council Tax will be similar to the current MTFS projections. In addition, following the new flexibilities announced by the Secretary of State in December 2017, this MTFS also includes a further 1% that can now be added without the requirement for a referendum. This has also been included for 2019/20, but in no further years, as this was not offered as part of the additional flexibility.

From 2020/21 onwards, it is assumed that the maximum increase will revert back to 1.99%, as the option to raise an Adult Social Care precept will no longer be available and the additional 1% flexibility without the requirement for a referendum is also not currently permitted. Council Tax increases are subject to a Full Council decision each year when setting the budget, but any decisions taken not to increase council tax as per the assumptions above would increase the financial gap.

## Tax Base

Analysis of Lancashire's tax base over recent years indicates an average council tax base increase of 1.7% therefore, in the MTFS at Quarter 1 a prudent tax base increase of 1.5% was built in to the figures.

At the end December estimates of the 2018/19 tax base for district councils were received that indicate a c1.7% increase, these figures will be finalised on 31<sup>st</sup> January 2018. For the purposes of this MTFS these early estimates have been included, resulting in an improved position of £0.965m in 2018/19.

### **2.4 New Homes Bonus**

As part of the provisional settlement, the Secretary of State confirmed that, as consulted on in 2016, that payments would be received for 5 years from 2017/18 and 4 years in future years. In addition no New Homes Bonus will be given for the first 0.4% of growth. As part of the Provisional Settlement there was an increased allocation of £0.038m in 2018/19 with all other years remaining unchanged.

### **2.5 Better Care Fund**

The provisional allocations of the Better Care Fund remain unchanged from those reported to Cabinet in December 2017. It is important to note that provisional funding information has only been provided up to 2019/20 therefore the MTFS assumes that this funding will continue into future years and/or be replaced by alternative funding at the same level.

### **2.6 Capital Receipts**

From 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

As part of the Provisional Settlement in December 2017 it was announced that flexibility to use capital receipts to help meet the revenue costs of transformation programmes will continue for a further three years.

Following a review of the potential capital receipts that could be achieved the MTFS has been updated to reflect additional capital receipts that the County Council is forecast to achieve in addition to those receipts that can be achieved in later years, given the additional flexibility recently announced.

The MTFS previously reported a value of £16.025m was included for capital receipts to support the revenue budget in 2018/19, with no receipts in future years. In this revision of the MTFS £18.525m is now included in 2018/19 and £8.475m in 2019/20 and £9.672m in 2020/21. Any amounts over the amount forecast can be carried over towards the following year.

## **2.7 Improved Better Care Fund (iBCF)**

At the 2017/18 Budget announcement a total of £2.021bn was announced as supplementary funding to the improved Better Care Fund (iBCF). This was to recognise that all local authorities face pressure on the provision of adult social care. There were no amendments to these figures announced as part of the provisional settlement in December 2017.

This resulted in Lancashire County Council receiving the following allocations:

- 2017/18 – £24.886m
- 2018/19 - £15.736m
- 2019/20 - £7.799m

The grant is non-recurrent and may only be used for the purposes of meeting adult social care needs, reducing pressure on the NHS including supporting more people to be discharged from hospital when they are ready and in ensuring that the local social care provider market is supported. Lancashire Health and Wellbeing Board on 7<sup>th</sup> August 2017 agreed spending plans that were put forward with regard to the grant for 2017/18 and 2018/19.

### **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 and new savings proposals.

#### **3.1 Pay and Pensions**

In December 2017 it was announced by the National Employers for Local Government Services that, following negotiations a new pay offer covering the period 1 April 2018 and 31 March 2020.

The new pay offer for 2018/19 includes higher increases on the lower pay points (with a view to closing the gap with the National Living Wage) and includes a 2% increase for those at SCP20 and above (for information SCP20 is currently the top of a Grade 5).

In 2019/20 the new pay offer proposes that Local Government organisations move to a new pay spine with the most key change being at the lower end of the pay spine, where the bottom twelve pay points are put into pairs to come up with six new pay points. This has been done to maintain the differentials within the pay spine. The new pay spine also includes a higher number of increments within some pay grades. This also meets the National Living Wage target at £9.00 per hour for the bottom scale point.

In the previous MTFs a forecast increase of 1% for all employees except those employees on the Foundation Living Wage, for which a higher increase of 3.55% was included to reflect the recently announced increase for 2018/19. This has resulted in an additional £4.661m being built into the MTFs in 2018/19, with a further £3.919m in 2019/20. A reduction of £1.383m is shown in 2020/21 and a further £1.856m in 2021/22 as a result of salary increases being brought forward by the new pay increase and pay spine.

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.

In March 2017 Cabinet agreed to a re-profiling of the Council's pension contributions resulting in a saving over a 3 year period. This is reflected within the MTFs based on the latest information available 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 was introduced in April 2017 at a rate of 0.5% of an employer's pay bill, therefore an estimate of £1.500m was been included in the MTFs. This was reviewed at Quarter 1 based on payments to the levy and the 2018/19 budget provision was slightly reduced. There have been no further adjustments at Quarter 2 or 3.

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

	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>Total £m</b>
<b>Pay and Pensions - previous MTFS</b>	3.998	6.448	8.799	6.661	<b>25.906</b>
Employee Costs	11.293	10.280	4.723	4.411	<b>30.707</b>
Pensions Costs	0.361	0.374	0.374	0.374	<b>1.483</b>
Apprentice Levy	-0.248	0.025	0.013	0.013	<b>-0.197</b>
Holiday Pay	-0.767	0.007	0.007	0.007	<b>-0.746</b>
Pension Prepayment Saving	-1.980	-0.319	2.299	0.000	<b>0.000</b>
Revised Pay and Pension requirements	8.659	10.367	7.416	4.805	<b>31.247</b>
<b>Impact on Financial Gap</b>	<b>4.661</b>	<b>3.919</b>	<b>-1.383</b>	<b>-1.856</b>	<b>5.341</b>

### 3.2 Price Inflation and Cost Changes

Contractual price increases represent a significant cost pressure to the council. The assumptions have been subject to regular review by services with a reduction of £0.663m identified when comparing the values within the previous MTFS reported to Cabinet in December 2017.

	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>Total £m</b>
<b>Price inflation – previous MTFS</b>	24.263	19.848	25.992	21.730	<b>91.833</b>
Revised price inflation requirements	23.898	19.955	25.822	21.495	<b>91.170</b>
<b>Impact on Financial Gap</b>	<b>-0.365</b>	<b>0.107</b>	<b>-0.170</b>	<b>-0.235</b>	<b>-0.663</b>

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 the best estimates of inflationary levels that are forecast within social care based on 2017/18 fee increases that are subject to approval at Cabinet in January 2018. It is forecast that a budget requirement of £64.122m over the MTFS period is required for payments to external providers of social care 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/inflationary increases for Adults Services incorporates the National Living Wage as this is generally included within price increases that the service experiences.

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

- 2018/19 - £15.723m
- 2019/20 - £16.161m
- 2020/21 - £18.442m
- 2021/22 - £13.796m

There are no changes to the forecast price increases across Adults Services at Quarter 3.

- 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 £6.135m. This reflects a reduction of £0.811m over the period of the MTFS compared to the MTFS at Quarter 3.
- Children's Social Care is a further significant area that requires price inflation within its budget. In total the budget requirement for the service is £5.815m. This includes items that will inflate such as agency payments, residence orders, foster and other allowances and payments to health. There are no changes to the forecast price increases across Children's Social Care at Quarter 3.
- A further significant inflationary increase that is included in the MTFS relates to premises running cost budgets which were included at Quarter 1. As charges such as energy costs increase estimates of price rises have been included within this MTFS with 2018/19 including 2 years inflation as no provision was made in the 2017/18 budget. The total budget requirement is £3.992m over the 4 year period of the MTFS. There are no changes to the forecast price increases across premises running costs at Quarter 3.
- 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 they face in future years. The impact of this review has been identified and is reflected in the revised MTFS. 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 £84.999m. This is an increase of £4.236m when comparing those years contained within the previous MTFS reported to Cabinet in December 2017.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
<b>Demand – previous MTFS</b>	22.980	23.194	20.617	13.972	<b>80.763</b>
Revised Demand Requirements	26.415	23.429	20.848	14.196	<b>84.888</b>
<b>Impact on Financial Gap</b>	<b>3.435</b>	<b>0.235</b>	<b>0.231</b>	<b>0.224</b>	<b>4.125</b>

- 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.

All demand assumptions contained within this revised MTFS regarding Adult Social Care have been reviewed based on the most up-to-date trend analysis. There is a small increase to the forecast demand levels across Adults Services at Quarter 3 based on the most up to date information available.

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

- 2018/19 – £12.287m
- 2019/20 - £14.957m
- 2020/21 - £17.358m
- 2021/22 - £11.098m

It is important to note, that whilst the above are the levels of demand contained within the MTFS, in addition a saving has been agreed that will reduce demand over the next 3 years, as shown below:

- 2018/19: - £5.022m
- 2019/20: - £7.279m
- 2020/21: - £9.201m

- The cost of Children's Social Care continues to experience increasing demand and has been increased again as part of this update of the MTFS. The forecast requirement is £21.920m over the next 4 years. This is in addition to significant additional budget that the service has been given to support improvements following the Ofsted inspection in both 2016/17 and 2017/18, but an assumption

is also made that demand will plateau in future years, with a reducing demand increase built into future years' budgets. In previous MTFS reports an increase has only been included for the next financial year, whereas in this revision 4 years of forecast demand levels has been included. This forecast is based on current demand levels and uses benchmarking information from other County Council's and national data in relation to Children Looked After (CLA) budgets to project future funding requirements.

The increase that has been included in the MTFS at Quarter 3 relates to additional levels of demand across placements based on the most recent demand figures that are being experienced. This has resulted in increased demand of £2.800m being included in 2018/19. This will continue to be monitored and reviewed.

The demand included in the MTFS for Children's Social Care is profiled as follows:

- 2018/19 - £12.784m
- 2019/20 – £6.502m
- 2020/21 - £1.237m
- 2021/22 - £1.397m

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 (now renamed the Improvement and Accountability Board).

- The revised MTFS continues to include a significant amount in relation to Waste Services demand pressures, however this has reduced as a result of decreased forecasts for residual waste arisings with 3.2% currently being forecast (compared to a previously assumed 5.4%). The budget requirement for waste is forecast to be £4.511m over the next 4 years, and is a reduction of £0.426m compared to MTFS reported to Cabinet in December 2017.
- Other smaller areas of increased demand at Quarter 3 include transport (£0.378m) and street lighting energy, which have both seen increases in demand at Quarter 3 (£0.251m).

### **3.4 Loss of Grant**

As part of the revised MTFS at Quarter 3 a small adjustment was made to reflect an income pressure within Scientific Services and Trading Standards of £0.128m.

### **3.5 Additional Savings**

As the County Council continues to have a significant and increasing financial gap over future financial years a detailed review has been completed of service budgets. This resulted in savings of £51.304m being included and agreed as part of the MTFS at Quarter 1, savings of £11.534m agreed at Quarter 2 and a further £7.112m agreed at December Cabinet. The total agreed savings to date is therefore £69.950m.



This process has resulted in additional proposed savings totalling £11.140m (over the next 3 years) set out in Appendices C and D. The figures presented within the revised MTFS from 2018/19 onwards are presented on the assumption that these budget proposals are agreed by Cabinet, subject in the case of the budget proposals set out in Appendix C to appropriate consultation, the outcomes to be reported back to Cabinet for a final decision in due course.

It is anticipated that further savings proposals will be presented for approval at future Cabinet meetings, reflecting that there remains an estimated shortfall of £48.886m in 2018/19 should savings in this report be agreed and delivered.

## 4. Reserves

Table 1

Reserve Name	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
County Fund	-36.000	2.373	10.000	-23.627	0.000	0.000	-23.627
<b>SUB TOTAL - COUNTY FUND</b>	<b>-36.000</b>	<b>2.373</b>	<b>10.000</b>	<b>-23.627</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.627</b>
Strategic Investment Reserve	-4.446	1.283	0.037	-3.126	1.240	0.410	-1.476
Downsizing Reserve	-18.913	2.653	1.431	-14.829	3.762	0.000	-11.067
Risk Management Reserve	-10.439	3.768	3.001	-3.670	3.670	0.000	0.000
Treasury Management Reserve	0.000	0.000	-10.000	-10.000	0.000	0.000	-10.000
Transitional Reserve	-159.014	39.695	-9.920	-129.239	5.860	0.578	-122.801
To facilitate the transition of services	-3.000	0.000	3.000	0.000	0.000	0.000	0.000
Service Reserves	-13.038	2.604	2.441	-7.993	3.571	0.501	-3.921
<b>SUB TOTAL - LCC RESERVES</b>	<b>-208.850</b>	<b>50.002</b>	<b>-10.010</b>	<b>-168.858</b>	<b>18.103</b>	<b>1.489</b>	<b>-149.266</b>
Schools/Non-LCC Service Reserves (3.5)	-18.989	1.263	0.010	-17.716	1.011	-0.687	-17.392
<b>SUB TOTAL SCHOOLS/NON LCC RESERVES</b>	<b>-18.989</b>	<b>1.263</b>	<b>0.010</b>	<b>-17.716</b>	<b>1.011</b>	<b>-0.687</b>	<b>-17.392</b>
<b>GRAND TOTAL</b>	<b>-263.839</b>	<b>53.638</b>	<b>0.000</b>	<b>-210.201</b>	<b>19.114</b>	<b>0.802</b>	<b>-190.285</b>

The County Fund shown at the top of Table 1 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 is forecast to hold a County Fund balance at £23.627m by the end of 2017/18.

Part of this reserve has been used to support the budget amendment agreed by Full Council in July 2017 totalling £3.995m in 2017/18, which now requires a reduced

balance of £2.373m. In addition £10.000m has been set aside within a reserve to mitigate possible risks within the Treasury Management investment portfolio.

This reduction to the County Fund balance was on the basis that this is still a prudent and reasonable amount to keep in the County Fund for emergency situations as described above with benchmarking of other Local Authorities completed to support the reduction.

The table above shows that the forecast value of the uncommitted Transitional Reserve is currently £122.801m and whilst it is anticipated that further revenue savings for 2018/19 and beyond will be identified, the impact of utilising the Transitional Reserve to fund the £48.886m gap would leave £69.885m available for use in 2019/20 based on current forecasts. Table 2 within the report demonstrates the funds that are forecast to be available to support the budget gap in 2018/19 and 2019/20. However, in order to set a legal budget further savings will need to be made.

Table 2

	2018-19 £m	2019-20	2020-21 £m	
<i>MTFS Funding Gap</i>	48.886	69.885	118.532	
Available reserves to support financial gap	48.886	69.885	4.030	122.801

## **5. 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 known at this stage:

### **5.1 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 (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.

### **5.2 Identification of Further Savings Opportunities**

As detailed earlier in this report, additional potential savings options have been prepared for every area of the Council's expenditure. In the reports agreed by Cabinet throughout this financial year, c£70m of savings were agreed to be implemented with further savings proposals to be considered at future Cabinet meetings, reflecting that there still remains an estimated shortfall of £48.886m in 2018/19 even if the savings in this report are agreed and delivered in the timeframes identified.

### **5.3 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 although work is progressing nationally with a number of complete and planned consultations regarding the changes, there is currently insufficient information available to model what the financial impact of the changes will be and the financial impact on the County Council.

### **5.4 Children's Social Care**

Children's Social Care demand levels are currently forecast to continue to increase, particularly within agency residential placements, agency fostering placements and also Special Guardianship Orders. The establishment of the 0-25 Programme Board

(now renamed as the Improvement and Accountability Board) and 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.

Significant additional budget was allocated to Children's Social support improvements and demand pressures following the Ofsted inspection in both 2016/17 and 2017/18. An assumption is also made that demand will plateau in future years, with a reducing demand increase built into future year's budget. This MTFS is based on current demand levels and uses benchmarking information from other County Councils and national data in relation to Children Looked After budgets to project future funding requirements and will continue to be regularly reviewed.