

Report to the Cabinet

Meeting to be held on Monday, 3 December 2018

Report of the Chief Executive and Director of Resources

Part I

Electoral Divisions affected:
All

Money Matters 2018/19 Position - Quarter 2

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

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Executive Summary

This report provides an update to Cabinet on the county council's 2018/19 revenue financial position as at the end of September 2018 and an updated Medium Term Financial Strategy covering the period 2019/20 to 2022/23. The Medium Term Financial Strategy includes £77.171m of savings proposals and management actions, identified through the service challenge process and aimed at delivering better and sustainable services at a lower cost.

The reduction in the forecast funding gap represents a significant improvement, however a structural funding gap remains and work continues on phase two of the service challenge process to identify further proposals to enable the council to achieve a financially sustainable position over the strategy period.

In summary:

- (i) The 2018/19 revenue forecast outturn is £763.260m, representing a projected underspend of £1.379m (0.18%) of the agreed budget.
- (ii) The Medium Term Financial Strategy has been updated and revised downward and now indicates a financial deficit of £46.090m in 2022/23.
- (iii) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing c3% of net budget.
- (iv) The council is forecast to hold £127.755m of uncommitted transitional reserve which is sufficient to meet the deficit in 2019/20.

Recommendations

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £1.379m on the revenue budget in 2018/19.
- (ii) **Note** the reduced funding gap of £46.090m covering the period 2019/20 to 2022/23 as set out in the revised financial outlook forecast for the council.
- (iii) **Approve** the budget adjustments for 2019/20, and following years' changes, included in the revised Medium Term Financial Strategy.
- (iv) **Note** the contents of the county council's reserves position and approve the transfers between reserves contained within the report.
- (v) **Note** the management actions identified totalling £26.841m with officers to proceed with their implementation.
- (vi) **Approve**, for purposes of consultation, the budget proposals set out in Appendix 'C', the outcomes of the consultation to be reported back to Cabinet for consideration in due course.
- (vii) **Approve** the budget proposals set out in Appendices 'C' and 'D', authorise officers to proceed with their implementation and agree that the 2019/20 budget is based upon these revenue decisions.

Background and Advice

The detailed reports at Appendices 'A' to 'D' present the following:

- County council's 2018/19 forecast revenue position as at Quarter 2 (Appendix 'A').
- Revised Medium Term Financial Strategy for the period 2019/20 to 2022/23 as at Quarter 2, including reserves position (Appendix 'B').
- Service Challenge Savings Proposals (requiring consultation) (Appendix 'C')
- Service Challenge Savings Proposals (not requiring consultation) (Appendix 'D')

Financial Position as at 30 September 2018 (Appendix 'A')

A revenue underspend is currently forecast for the county council of £1.379m and represents a variance of 0.18% against the overall revenue budget of £764.639m. The forecast outturn position 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, but also a number of underspending service areas and where these have been validated as reflecting a level of recurrent

underspend these have been picked up as management action savings within the Medium Term Financial Strategy. The focus will remain on continuing to tightly control and drive down costs wherever possible.

As part of monthly monitoring the savings that have been agreed to date are monitored by finance monitoring boards. The position at the end of Quarter 2 was that 93% of the financial value of savings were rated as on track, albeit some potentially having to undertake work to avoid any potential delays. The remaining 7% are the most challenging to deliver currently, but services are working hard to deliver those savings and are regularly reporting progress to finance monitoring boards.

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

At Cabinet in September 2018 the medium term financial strategy set out a forecast funding gap of £135.300m by the end of the 4 year period (2019/20 – 2022/23). The updated funding gap has reduced to £46.090m by 2022/23 with a gap of £14.610m in 2019/20. The improved position primarily reflects £77.171m of savings proposals and management actions identified through the service challenge process along with the impact of increased funding provided within the autumn budget for adults and children's social care. The service challenges process is one of the four key priorities of the operational plan and has covered all service areas with 42 separate service challenges having been undertaken aimed at delivering better and sustainable services at a lower cost, particularly for services that have been identified as high cost in comparison to other county councils.

The value of the uncommitted Transitional Reserve is currently forecast to be £127.755m by the end of 31 March 2021 if there was no requirement for structural funding support from reserves to the 2019/20 or 2020/21 budgets. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps through to 2022/23, but the intention is to identify further savings and thereby reducing the gap and call on the transitional reserve, for 2020/21 and beyond.

Service Challenge Savings (Appendices 'C' and 'D')

All services have undertaken a service challenge and this has resulted in savings identified that total £77.171m over the period 2019/20 to 2022/23. £26.841m of these relate to management actions rather than policy decisions with the most significant element relating to adult social care at £18.9m which includes additional savings opportunities being identified from the existing passport to independence programme savings programme. Management actions also include the continuation and extension of other existing savings programmes, staffing efficiencies, changes to working practices and processes, increased income generation and removal of recurring underspends identified by services and confirmed through the revenue monitoring process. These savings total £26.841m and they do not require cabinet approval.

£50.330m of the £77.171m savings (over the next 4 years) relate to policy decisions that are set out in Appendices 'C' and 'D'. The figures presented within the revised medium term financial strategy from 2019/20 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 the outcome of appropriate consultation which will be reported back to Cabinet for a final decision in due course.

Consultations

Proposals will be subject to appropriate consultation where required.

Implications

This item has the following implications, as indicated:

Equality and Cohesion

Cabinet must ensure that they comply with the requirements of the Public Sector Equality Duty as set out in s.149 of the Equality Act 2010. Where equality analyses have been required, they can be viewed at [http://council.lancashire.gov.uk/ecCatDisplayClassic.aspx?sch=doc&cat=14562&path=14252&\\$LO\\$=1](http://council.lancashire.gov.uk/ecCatDisplayClassic.aspx?sch=doc&cat=14562&path=14252&LO=1).

The budget proposals are set out in this report. In some cases they may have a negative impact on persons with protected characteristics and initial Equality Analysis reports are included where required. These must be taken into account as part of the decision making process.

Risk management and Financial Implications

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, business rates and the fairer funding settlement yet to be announced. At this point in time there is insufficient detailed information regarding the changes to amend the funding assumptions within the medium term financial strategy and they have been maintained at a prudent level. Future funding levels could therefore be higher or lower than currently forecast.
- *Demand*
There is continued pressure on the council's budget, particularly around Adults and Children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.

- *Inflation*
A significant level of additional resource has been included in the medium term financial strategy, 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 medium term financial strategy includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the new national living wage.
- *Delivery*
The medium term financial strategy assumes that agreed savings will be delivered in the period 2019/20 to 2022/23. There are also a significant number of other factors, both internal and external which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

Legal

A number of the proposals set out in Appendix 'C' will require the council to carry out a consultation exercise in accordance with general public law principles. The form of such consultation is not prescribed and the nature and scope of consultation will be determined on a case by case basis.

The county council will consult with staff and the recognised trade unions, as appropriate, and where proposals require statutory consultation, this will be conducted in accordance with legal requirements.

List of Background Papers

Paper	Date	Contact/Tel
Revenue Budget 2018/19 and Financial Strategy 2018/19 to 2021/22 Council Tax and Precept 2018/19	8 February 2018	Angie Ridgwell/ 01772 536260

Reason for inclusion in Part II, if appropriate

N/A