Appendix B

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

Lancashire County Council

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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.