Lincolnshire COUNTY COUNCIL
Working for a better future

Policy and Scrutiny

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	**Overview and Scrutiny Management Committee**
Date:	**30 July 2015**
Subject:	**The Financial Challenge Beyond 2015/16**

Summary:

This report summarises the financial challenge faced by the Council from April 2016 onwards in light of continung restraint in government funding. It outlines in broad terms the approach being taken to derive a balanced and sustainable budget over the medium term. It will be accompanied by a presentation outlining in more detail the matters covered in this summary report. The data used is a best estimate of the situation going forward. The Spending Review due to be published in Autumn 2015 and the subsequent Local Government Finance Settlement will provide greater clarity on the challenge ahead.

Actions Required:

That the report be noted and any comments to be passed onto the Executive for consideration when making the budget proposals for future years.

1. Background

1.1. This report is accompanied by a presentation which will provide more detailed information in relation to the points summarised in this paper.

1.2. The purpose of the paper and presentation is to set the scene in terms of the financial challenges over the next 3 to 4 years based on best estimates of future funding available and the financial pressures faced by this Council. It also summarises the approach presently being adopted by the Executive working in collaboration with the Corporate Management Board to address what is a significant budget shortfall.

1.3. During 2014 it was estimated that there would be a funding gap between the current levels of spending and funding available of around £90m by the end of 2018/19 (with much of the shortfall weighted in the first two years).

1.4. A fundamental review of the council priorities and their associated budgets (FBR) took place last summer and proposals were put forward that identified £48m of savings that could be delivered from the commissioning strategies over the 4 year period 2015/16 – 2018/19. There were also a number of corporate changes that could be made to add to these savings (e.g. reduction in capital programme, increase the council tax annually by

1.9%) which took the savings to around £65m. This left a shortfall of around £25m. The 2015/16 budget still required use of reserves of £22m to balance the budget as the £65m saving was spread over the 4 year period. The February 2015 County Council was only asked to approve a one year budget and thereby the measures necessary to make savings in that year. As there were no detailed Government spending plans beyond the end of 2015/16 that was the sensible approach at the time.

1.5. During the November 2014 round of budget setting meetings it was established that the gap between required spending and funding was more in the region of £120m due to increased cost pressures, particularly in care related services, and reducing funding streams. As mentioned, only a 2015/16 budget could be proposed as, in addition to uncertainty about future government funding, the Council had insufficient reserves to fully fund the 2016/17 deficit by that means. It was acknowledged that further action was required to move towards a balanced budget in 2016/17 onwards.

1.6. In June 2015 an exercise was undertaken to review the profiling of the FBR savings; to establish if any new cost pressures had arisen and to consider whether adequate provision had been made in the budget model for potential reductions in Government grant going forward. The outcome of that work was to increase the projected funding gap for the four years commencing April 2015 from £120m to £130m. Around £3.7m of the £10m increase related to known additional cost pressures (Children Looked After £1.3m; Dry Recyclates Contract £2.4m) with the balance relating to more pessimistic assumptions on grant reductions (RSG and Public Health). At £130m savings still to be identified total £65m.

1.7. At the time of writing this report the 8th July Summer Budget had just been published. The following are salient points from that Budget:

- The Government significantly reprofiled its future spending on services going forward to 2020/21. Indeed previous forecasts only went up to 2019/20. In particular, it scaled back reductions in departmental spending by £83.3bn in the 5 year period from April 2015. Spending on services will now decline by £18bn over this period, down from £42bn as announced in the March 2015 Budget.
- Taking into account tax and welfare spending changes there remains £20bn of spending reductions to be determined. The Spending Review to report sometime this Autumn will allocate those reductions between Government Departments including, of course, the DCLG. The DCLG will then allocate funding to local government informing each local authority of its grant in December 2015. It's not presently clear what period will be covered by the Spending Review or individual authority grant settlements. It needs noting that defence has now effectively been given protected status along with health, education and overseas development funding.
- Whilst there may be some optimism that funding reductions may not be as large as previously predicted – and included in our own

modelling work – that will not be known until the aforementioned announcements have taken place. In addition there are some new cost pressures emerging from other aspects of the Summer budget that will place a significant additional burden on our finances. The new national minimum wage will increase direct staffing costs modestly but will increase residential and domiciliary care contract process materially given the planned 11% rise in that wage from April 2016 for over 25's. Provisional estimates suggest an increased cost of £1m on direct staffing and around £15m on adult care contract by 2020.

DISCUSSION

1.8. As mentioned the budget set by Council in February for 2015/16 requires the use of £22m of the financial volatility reserve. This will leave a balance of around £31.5m in the volatility reserve to meet any future budget shortfall in 2016/17 and beyond.

1.9. The budget projections have been updated and the budget shortfall is now projected as shown below. As mentioned this does not take into account the impacts, positive and negative, that will flow from the Summer Budget. These cannot sensibly be modelled until, at least, the Spending Review is published.

Year	Additional In Year Shortfall	Annual shortfall
2015/16	£22.2m (funded by reserves)	£22.2m (funded by reserves)
2016/17	£27.4m	£49.6m
2017/18	£3.6m	£53.2m
2018/19	£12.9m	£66.1m
Total	**£66.1m**	**£191.1m**

Note: The £66.1m represents the additional savings that now have to be found in addition to the £65m already identified through the FBR.

The £191.1m would be the amount of reserves required to fund the budget deficit over the next 4 years without further savings initiatives being taken. Available reserves are only 16% of this sum.

1.10 The above illustrates that 2016/17 is a particular problem with a £49.6m shortfall in that year alone and only a maximum of £31.5m in reserves available.

1.11 These projections are based on the following assumptions:-

- Delivery of savings agreed as part of the summer FBR process
- Cost pressures identified in November for ASC (2015/16 – 2018/19) for demographic and inflationary increases but not the new national minimum wage announced in the Summer Budget.
- Assumed that all additional care costs initiated by the Care Act will be met by new burdens funding.

- The Better Care Fund continues to contribute £20m pa to the Council.
- Assumes a 1% p.a. increase for pay inflation
- Assumes a 0% p.a. increase for prices & income inflation
- Assumes a 1.9% p.a. increase in council tax
- Assumes 0.5% p.a. growth in tax base
- Assumes a 2.5% increase for employers NI contributions from 2016

1.12 For the purposes of this modelling work an assumption was made that some services will find it very difficult to make savings beyond those identified through the FBR process. These arise due to, for example, increasing cost pressures, demand increases or fixed costs. These areas include; Adult Social Care; Children's Social Care; Waste Disposal and Capital Financing Charges. This would mean all other services will have to find an average reduction of around 40% over the next 3 or 4 years.

1.13 However, it is clear some service areas which are theoretically targeted with a 40% reduction cannot realistically deliver such savings. For example, the statutory requirements of home to school transport. Further examples and more general detail on the modelling work are included in the presentation which will be delivered at the meeting.

1.14 The Executive, working collectively with the Corporate Management Board, has commenced a range of activity to develop balanced and sustainable budget proposals going forward. The methodology includes the following key aspects:

- Reviewing current FBR savings initiatives and timetables to ascertain whether further savings are possible and/or whether their delivery could be accelerated.

- Reviewing the potential for income generation from non-statutory services.

- Identifying the basic minimum service level for all key activities that comprise each commissioning strategy as a precursor to deciding whether to move towards that service level. A 'basic' service would include the professional view on what constitutes a statutory minimum service (where relevant) together with any essential non-statutory service or service elements.

- Reviewing the current affordability of the capital programme and consider the identification and acceleration income generation from the sale of surplus assets.

- Reviewing the range of reserves maintained by the Council to identify the potential to apply some of those resources to smooth in the cost reduction initiatives identified through the financial challenge activity.

- Consider the financial impact of moving to an alternative model for local government and/or wider public services within the local area.

- Compiling a range of material for lobbying government and other key stakeholders for a fairer deal for the county area going forward. To include suggestions as to helpful flexibilities that could be provided and not simply restricted to a request for additional funds.

1.15 In terms of taking the above matters forward it is planned to hold a series of joint Informal Executive/Corporate Management Board half day workshops over the next three months to work up more detailed proposals. With specific regard to the identification of the 'basic' service level described in the third bullet point above, a specific pro-forma has been developed to capture all essential information. This is attached as Appendix A to this paper. This includes the requirement to assess the impact of moving to a basic service level for each main service activity on both other parts of the County Council and on external partner organisations from all sectors. This Committee has previously expressed a desire to ensure that such issues are given early consideration within the budget setting process.

2. Conclusion

The County Council faces a significant budgetary shortfall going forward in the light of ongoing reductions in government grant reductions combined with increased demand for certain services. A process has commenced to identify a sustainable budget for the Council over the medium term within taking into account the service priorities set by the Council.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Financial Challenge - Template for Identification of Basic Service Level

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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