



Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy &
Reserves as at 30th September 2020

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Lancashire

County
Council



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1. Executive summary

At Cabinet in September 2020 the updated medium term financial strategy (MTFS) set out a forecast aggregated funding gap of £52.209m in 2021/22 and £79.306m by the end of the 3 year period (2021/22 – 2023/24). This reflected the ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency. Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister have now decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs. The exact date of the Spending Review has not been confirmed yet but will conclude in late November and this and the subsequent settlement may have a significant impact on the forecast gap in 2021/22 given the clear recognition now that financial pressures relating to Covid-19 will continue into 2021/22 and beyond.

This report provides an updated position covering the financial years 2021/22 – 2023/24 but the changes are relatively small pending the outcome of the Spending Review.

Following the recent announcement that Lancashire will be within Tier 3 of local restrictions, with further funding received, analysis over coming months will be required to fully assess the impact of these additional restrictions and the longer term impact on the county council's financial projections.

The updated aggregated funding gap contained within the report is £78.791m by 2023/24 which is a reduction of £0.515m from the previously reported position in September. The forecast includes our latest estimate of the funding and cost implications of the pandemic including collection fund impacts, along with other non-Covid-19 related adjustments. The main reasons for the changes to the position are as follows:

- A revised forecast collection fund deficit of £20.767m for 2020/21 which after the Local Government Secretary announcement on the 2nd July of a proposal for a phased repayment of council tax and business rates deficits over 3 years. This is an improvement of c£3m per annum.
- Capital receipts of £2.5m have been included in funding levels for 2021/22, as this is the final year of the flexibilities offered by the Government.
- Additional staffing pressures c£1.4m predominantly relating to additional posts in Economic Development which were approved by Cabinet in September 2020.
- Re-profiled savings due to delays as a result of the pandemic across the integrated transport service and children's services.

The overall position over the 3 year period indicates a structural deficit of £50.368m in 2021/22 rising to an aggregated deficit of £78.791m by 2023/24, assuming no additional government financial support in those years.

In arriving at the revised funding gap it has been necessary to make assumptions about future funding levels and there remains significant uncertainty about this going forward. With the changes to be made in respect of business rates retention, and the

overall funding formula which have been delayed for a further year, the anticipated green paper on adult social care and the aforementioned government spending review being significant for our future funding stream.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for the first two years of the MTFS, which provides time to address the structural deficit in a considered and sustainable way. We will look to maximise efficiencies across services and commence work to identify potential savings should a poor settlement arise.

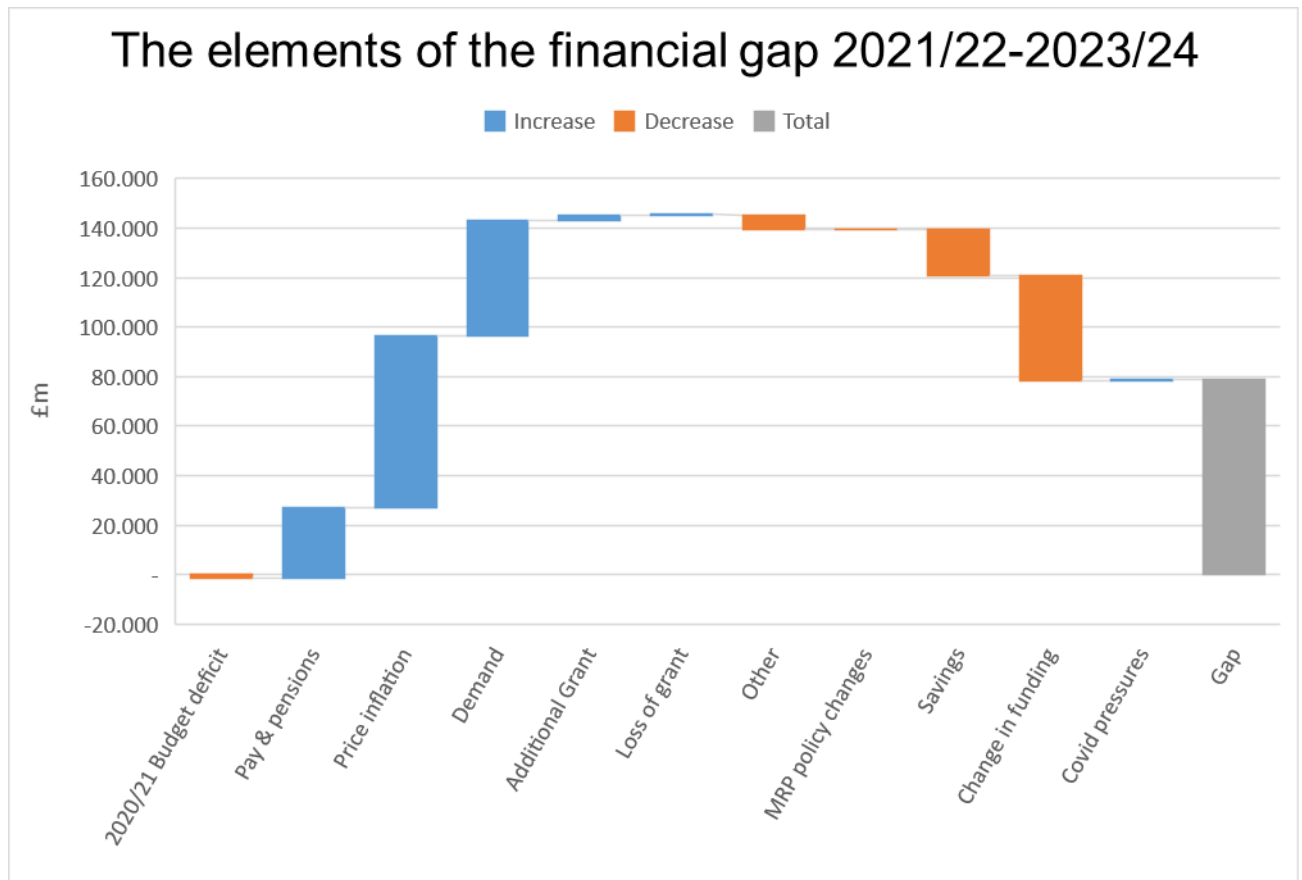
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

Table 1

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Spending Gap as reported to Cabinet quarter 1	52.209	11.055	16.042	79.306
Add change to forecast of spending:				
Pay & Pensions	1.599	0.657	-0.159	2.097
Inflation and Cost Changes	-0.014	-0.043	-0.018	-0.075
Service Demand and Volume Pressures	0.432	0.514	0.635	1.581
Additional Grant	-0.366	-0.525	0.118	-0.773
Re-profiled Savings	2.631	-0.361	-0.689	1.581
Total Change to Forecast of Spending	4.282	0.242	-0.113	4.411
Change to forecast of resources:				
Funding	-6.123	1.889	-0.692	-4.926
Total Change to Forecast of Resources	-6.123	1.889	-0.692	-4.926
Funding Gap	50.368	13.186	15.237	78.791

Aggregated Funding Gap	2021/22	2022/23	2023/24
2021/22 (£m)	50.368	50.368	50.368
2022/23 (£m)		13.186	13.186
2023/24 (£m)			15.237
2024/25 (£m)			
Total	50.368	63.554	78.791
Previous position (£m)	52.209	63.264	79.306
Variance (£m)	-1.841	0.290	-0.515

The graph below demonstrates the drivers that make up the changes in the financial surplus of £1.358m carried forward from 2020/21 to the cumulative position of £78.791m in the financial year 2023/24 shown in the table above:



2. Funding

The Chancellor launched the 2020 Comprehensive Spending Review in July 2020. This was due to be published in the autumn and would set out the Government's revenue spending plans for 2021/22 to 2023/24. Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister have now decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs. The exact date of the Spending Review has not been confirmed yet but will conclude in late November and this and the subsequent settlement may have a significant impact on the forecast gap in 2021/22 given the clear recognition now that financial pressures relating to Covid-19 will continue into 2021/22 and beyond.

Business Rates

A review of business rates was previously announced in the spring 2020 Budget. The effect of Covid-19 on the economy, has made fundamental change to business rates, which could even see them being replaced with a different business tax, much more likely.

The next business rates revaluation was due to take effect on 1 April 2022 (based on a valuation date of 1 April 2019). A postponement of revaluation was announced in May 2020. The Chancellor's statement confirmed that the next revaluation will take place on 1 April 2023, and will be based on property values as of 1 April 2021 in order to better reflect the impact of Covid-19.

Fair Funding Formula

The fair funding formula was due to be in place by April 2021. Following the Covid pandemic, this has been delayed until at least April 2022.

Due to the financial uncertainty created by the pandemic it has been necessary to make some assumptions around the future funding envelope, the most significant being:

- From the latest returns from districts, the council's share of a collection fund deficit of c£20.7m is forecast. In line with government guidance this is to be repaid over financial years 2021/22-2023/24.
- No increase in tax base has been forecast in 2021/22, with a return to pre-COVID levels of 1.7% per annum thereafter.
- Council tax increases of 1.99% will be applied each year.
- No growth or uplift on business rates has been built into 2021/22 with a return to growth of 0.5% per annum thereafter.
- No adult social care precept is assumed for the entirety of the forecast period.
- Revenue support grant will be rolled over for the duration of this strategy.
- Social care grant will be rolled over for the duration of this strategy.

The table below reflects the updated funding position.

Table 2

	2021/22 £m	2022/23 £m	2023/24 £m
Revenue Support Grant	33.965	34.576	35.268
Business Rates	200.573	205.120	208.985
Council Tax	529.989	549.725	570.196
New Homes Bonus	2.405	1.635	0.799
Improved Better Care Fund	45.532	45.532	45.532
Social Care Support Grant	33.417	33.417	33.417
Collection Fund	-6.912	-6.912	-6.912
Capital Receipts	2.500	0.000	0.000
Total	841.469	863.093	887.285
Funding assumed - previous MTFS	835.346	858.859	882.359
Variance	6.123	4.234	4.926
Impact on financial gap	-6.123	1.889	-0.692

2.1 Council tax and business rates

Council tax

The MTFS currently reflects the following assumptions in relation to the county council's council tax increases as previously reported to cabinet, however this is a decision for full council to make each year when setting the budget.

Table 3

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2021/22	1.99%	0.00%	1.99%
2022/23	1.99%	0.00%	1.99%
2023/24	1.99%	0.00%	1.99%
2024/25	1.99%	0.00%	1.99%

It is assumed the maximum increase that we will be able to apply to council tax, without a referendum, will be 1.99%. Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £5.000m.

For 2021/22, no tax base increase has been built in to the forecast, but returns to 1.7% increase in the years following. This has been assumed based on historical average increases.

There is no assumption of an Adult Social Care precept for the entirety of the forecast.

Business rates

Business rates 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 we anticipate to receive from the business rates collected in the area is less than our assessed need and therefore we receive a top up grant. Previously, we have also built in a small amount of growth into the MTFS for our local share at 0.5%.

As a result of the impact of Covid-19, the national review of business rates has been delayed and so it is assumed that 2021/22 will effectively be a 'rollover' of 2020/21 – a continuation of the 50% scheme, with the 75% scheme forecast to be in place from 2022/23 onwards.

No growth or uplift has been forecast for 2021/22. 0.5% growth has been built in to the local share forecast from 2022/23 onwards.

Collection Fund

One of the measures announced by the Government to try and mitigate the budget pressures on local authorities as a result of collection fund deficits was that any deficit for 2020/21 will be repaid over the following three years.

The latest information received from districts suggests that there will be a c£20.7m pressure for LCC as a result of the collection fund issue and thus a c£6.9m in year pressure for financial years 2021/22-2023/24. This position is based upon the latest information provided by district councils as part of regular returns to the Government. This will need to be closely monitored as changes in relation to restrictions, such as the movement to Tier 3 are implemented and have an impact on businesses.

The funding aspects for future years' collection fund deficits are yet to be revealed.

Capital Receipts

In April 2016 the government introduced the flexibility for capital receipts to be used to fund revenue expenditure that is designed to generate ongoing revenue savings or service improvements. This flexibility is currently available until 2021/22.

The MTFS includes £2.500m of capital receipts income in 2021/22. As part of the service challenge process additional resources were identified to support the transformation of services and delivery of the savings. The assumption within the MTFS is that capital receipts will be sufficient to meet these transformation costs in 2021/22 and therefore they will not be a draw on reserves or increase the funding gap.

3. Net budget requirement

The MTFS covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed and new savings measures.

3.1 Pay and pensions

The MTFS at quarter 2 has been updated to reflect the revised costs of the agreed pay settlement for 2020/21 of 2.75%. The previous MTFS was based on a 3% increase. We have therefore included the differential for 2020/21 into the 2021/22 MTFS and reverted to 2% annual increases thereafter both in relation to pay and pension contributions.

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

Table 4

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Employee costs	10.892	7.372	7.522	25.786
Pensions costs	1.251	0.831	0.374	2.456
Other pay related costs	0.200	0.038	0.039	0.277
Revised pay and pension requirements	12.343	8.241	7.935	28.519
Pay and pensions - previous MTFS	10.744	7.584	8.094	26.422
Variance	1.599	0.657	-0.159	2.097

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.

The updated inflationary pressures are analysed across the authority as per table 5:

Table 5

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	17.673	13.911	14.705	46.289
Children's Services	1.388	1.930	2.181	5.499
Waste Services	2.124	2.361	2.479	6.964
Transport Services	1.463	1.553	1.632	4.648
Other Services	-1.455	1.710	2.403	2.658
Revised price inflation requirements	21.193	21.465	23.400	66.058
Price inflation – previous MTFS	21.207	21.508	23.418	66.133
Variance	-0.014	-0.043	-0.018	-0.075

3.3 Demand pressures

All services have reviewed the demand pressures they face in future years and increasing demand still remains a significant element of the funding gap.

Table 6

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	10.014	9.079	9.540	28.633
Children's Services	4.342	3.777	4.494	12.613
Waste Services	0.734	0.202	0.212	1.148
Transport Services	0.907	0.606	0.690	2.203
Other Services	1.135	0.505	0.112	1.752
Revised Demand Requirements	17.132	14.169	15.048	46.349
Demand – previous MTFS	16.700	13.655	14.413	44.768
Variance	0.432	0.514	0.635	1.581

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 and also taking into account future population changes, particularly with regard to the ageing population. From a social care perspective demand covers both increasing numbers of people eligible for support and the increasing complexity of those cases. The level of demand included for this service area for the three years to

2023/24 is £28.633m. This will continue to be monitored and figures may be updated in future MTFS reports.

Children's social care continues to experience demand pressures across the service, particularly in relation to placement demand due to the number of looked after children in Lancashire. We are working towards the implementation of the Lancashire family safeguarding. The family safeguarding model is a way of keeping families together where it is safe to do so. This is achieved through a more collaborative way of working where we motivate parents to identify the changes needed within their own families. This helps achieve better outcomes for children.

3.4 Additional Grant

The small changes in additional grant relate to the re-profiling of the delivery of the Lancashire family safeguarding programme within Children's Services. This has been slightly delayed by the impact of Covid-19.

3.5 Re-profiled Savings

As part of the budget monitoring process a review of the delivery of savings is undertaken. Over recent months there are several savings that have been reviewed and challenged in relation to the delivery timescales for different elements of the agreed savings, with challenge given to the service as to whether this can be offset by savings/underspends elsewhere. Following this rigorous process savings across integrated transport and family safeguarding have been re-profiled at quarter 2.

4. Reserves

Table 7

Reserve Name	Opening balance 2020/21	2020/21 Forecast Exp	2020/21 Forecast transfers to/from other reserves	2020/21 Forecast Closing Balance	2021-22 Forecast Exp	2022-23 Forecast Exp	Forecast closing balance 31 March 2023
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
Strategic Investment Reserve	-5.819	-0.828	1.966	-4.681	2.894	0.773	-1.014
COVID-19 Reserve	-33.961	33.961	0.000	0.000	0.000	0.000	0.000
Downsizing Reserve	-5.642	1.802	0.000	-3.840	1.920	1.920	0.000
Risk Management Reserve	-1.935	0.817	0.000	-1.118	0.876	0.242	0.000
Transitional Reserve	-151.199	0.304	-0.346	-151.241	0.494	0.201	-150.546
Service Reserves	-18.201	10.522	-1.966	-9.645	8.011	0.580	-1.054
Treasury Management Reserve	-11.597	0.000	0.000	-11.597	0.000	0.000	-11.597
SUB TOTAL - LCC RESERVES	-228.354	46.578	-0.346	-182.122	14.195	3.716	-164.211
Non-LCC Service Reserves	-16.305	1.292	0.346	-14.667	1.669	0.246	-12.752
SUB TOTAL - NON LCC RESERVES	-16.305	1.292	0.346	-14.667	1.669	0.246	-12.752
GRAND TOTAL	-268.096	47.870	0.000	-220.226	15.864	3.962	-200.400

The County Fund shown at the top of Table 7 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 maintain its County Fund balance at £23.437m, equating to circa 3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £151.241m by the end of March 2021. This represents an improved position of

£0.946m from the £150.295m that was previously reported to cabinet in September 2020.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24 as set out in table 8 below.

Table 8

	2021/22	2022/23	2023/24
Opening Balance	151.241	100.379	36.624
Gap funding	50.368	63.554	78.791
Commitments	0.494	0.201	0.000
Closing balance	100.379	36.624	-42.167

5. Future risks and opportunities

The following are key future risks, the full impact of which is not known at this stage:

5.1 The financial impacts of the ongoing Covid-19 response

The longer term financial impacts of the response to the pandemic remain unclear. A protracted recovery period or a subsequent spike are likely to lead to further financial pressures to the authority.

The ongoing impacts and revision to service delivery and to service user demand for service and the way it is delivered post pandemic could lead to volatility of pressure on the budget.

We are assessing the ongoing need for additional and ceased services in response to the situation and will evaluate the revised budget requirement as a result.

Following the announcement that the multi-year spending review that was planned for the autumn has been replaced by a one year spending review there is continued uncertainty about the future funding envelope and significant assumptions have to be made as part of the development of the MTFS.

For the purposes of this MTFS we have assumed that there is no additional funding to meet any pressures included in relation to the virus beyond the current financial year.

5.2 Savings delivery

The scale of savings agreed to be delivered over future financial years remains significant with £25.099m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic. In addition there are forecast savings of £13.430m to be delivered over financial years 2021/22 – 2022/23.

Should the Covid emergency response continue for a protracted period it is likely that there will be further slippage.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

5.3 Business rates retention / changes to funding formula

As previously explained, the future funding arrangements to be established by government pose a risk to the council. New arrangements for business rates, will not be in force before financial year 2022/23.

As discussed earlier within this report, the changes to the funding formula have been delayed. The outcome from the review may reduce funding below what is assumed in the MTFS. Conversely there is equally an opportunity that additional resources are made available through this process. The successful outcome of the Lancashire business rates pilot bid in 2019/20 has enabled the county council, districts, unitaries and fire authority to be well prepared for the implementation of the business rates retention scheme although the final details are not known at this stage.

5.4 Children's social care

Children's social care demand levels are forecast to continue to increase, particularly within agency residential placements, agency fostering placements and also special guardianship orders. The rate of growth is quite volatile, and we will continue to monitor this as part of the monthly monitoring cycle.

The service has been looking at best practice sites across the country to explore opportunities to reduce demand in a way that delivers better outcomes for children, We are working on adopting the Lancashire family safeguarding model in the current financial year, which will drive better outcomes for children, by focussing on early family based support, whilst also forecasting the delivery a saving of c£12m per annum when the practice is fully embedded across the county.

In addition, the MTFS contains assumptions across services for funding growth, demand, inflation and pay levels. The table below shows the impact of and increase or decrease of 1% over these key elements of the projected budget requirement.

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.299
Pay (1%)	+/- 2.408
Price Inflation (1%)	+/- 6.214
Demand (1%)	+/- 5.869

This stress testing gives confidence that the council can continue to live within its means for the next two years in adverse circumstances. This does not however diminish or negate the need to make further savings but does demonstrate that the council continues to have sufficient resilience to deliver them in a measured and structured way.