

# Medium Term Financial Strategy and Reserves

November 2023



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## 1. Executive summary

At Full Council in February 2023 the updated medium term financial strategy set out with the forecast as follows:

	2024/25	2025/26	2026/27
	£m	£m	£m
<b>Spending Gap</b>	<b>-12.077</b>	<b>6.831</b>	<b>19.103</b>

As part of the Councils continued focus on effective financial management a detailed review of the medium-term financial strategy has been undertaken. The review has taken into account:

- A review of the 2022/23 outturn position and any ongoing impact on the Council's budget.
- A review of assumptions made on key drivers affecting the Council budget (eg pay award, inflation, interest rates)
- A review of the changes in demand for Council services (which is to a large extent difficult for the Council to directly control) – e.g. Adults and Childrens Social Care

As a consequence, the forecast funding gap for 2024/25 has increased to £14.505m, with an updated aggregated funding gap of £18.294m by 2026/27 which was an increase of £26.582m from the previously reported position in February for 2024/25. The movement is the result of a number of factors:

- Pay award – an additional "catch up" amount of c£6.6m has been included in 2024/25 to reflect the higher than budgeted pay award in 2023/24. In addition, to reflect inflation levels not falling as quickly as previously forecast the pay award assumptions have now been amended to 5% in 2024/25 and 3% in 2025/26 (previously forecast at 3% in 2024/25 and 2% in 2025/26) which has increased the forecast gap in 2024/25 by a further £15m.
- Inflation – Additional costs of c£8m are forecast in 2024/25, which reflects higher levels of inflation than were previously forecast across all areas (CPI +0.4% and RPI +0.9% in 2024/25) and also higher than anticipated energy costs as they have not fallen significantly as had been previously forecast.
- Demand – Increased costs of £9.5m are included for 2024/25, the majority relating to home to school transport which is a continuing financial pressure following the overspend in the 2022/23 outturn. In addition, there are increased values included for social care placements for children with disabilities and increasing costs in our digital services budget for Oracle licences. However, the highest levels of demand built into the MTFs continue to be across Adult and Children's Social Care.



- Capital Financing – increases are built into the capital financing budget over the next 3 years. However, as part of this revision of the MTFs a reduced increase in 2025/26 and 2026/27 to the capital financing budget is included in line with our Treasury Management advisors forecast reductions in interest rates over the medium term. The reduction in the forecasts is £5m by 2026/27.
- Savings Reprofile – In the last budget a significant 'Strategic Targets' challenge was included looking at areas to improve productivity within the organisation and delivering savings. This complex area is advancing but as with all significant change programmes some reprofiling of the planned delivery timescales will be necessary. A reprofiling of £5.6m of strategic target savings being delivered in 2025/26 rather than 2024/25 has therefore been included.
- Additional savings – A considerable level of savings have been identified by Directorates, through a detailed review and challenge of their budgets, as management actions rather than policy decisions and are not expected to have a negative impact on service delivery. The management actions include staffing efficiencies, changes to working practices and processes, increased income generation, disestablishing vacant posts identified as no longer required, improved demand management and removal of recurring underspends identified by services and confirmed through the revenue monitoring process. These savings are being actioned by officers and total do not require cabinet approval.
- Funding – Given the challenges facing Adult Social Care across the country an assumption has been made that the ability to levy an ASC precept of 2% in line with previous years has been included in 2025/26 and 2026/27.

In line with the Councils continued pro-active approach to financial management work was undertaken by Directorates to identify financial savings and efficiencies during the early part of this year in recognition of the ongoing financial challenge. This has resulted in "management action" savings totalling c£23m being included in the updated medium term financial strategy and work is continuing across Directorates to identify further savings to be considered at future Cabinet meetings targeted at achieving a balanced budget position.

A further updated medium term financial strategy will be reported to Cabinet in January 2024, as part of the budget report. This report will include the 'government settlement figures for 2024/25' and any revised assumptions for future years in light of the latest information available at that point.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap for the lifetime of the medium-term financial strategy. However, by identifying further savings and/or delivering savings earlier than currently planned the county council would seek to address the financial gap



sooner and ensure reserves are maintained for further service transformation and improvement.



Table 1 provides a detailed analysis of forecast additional budget required across key elements of the council's budget and Table 2 presents the movements between the previously reported financial gap and the revised financial gap:

***Table 1 – Cumulative Medium Term Financial Strategy***

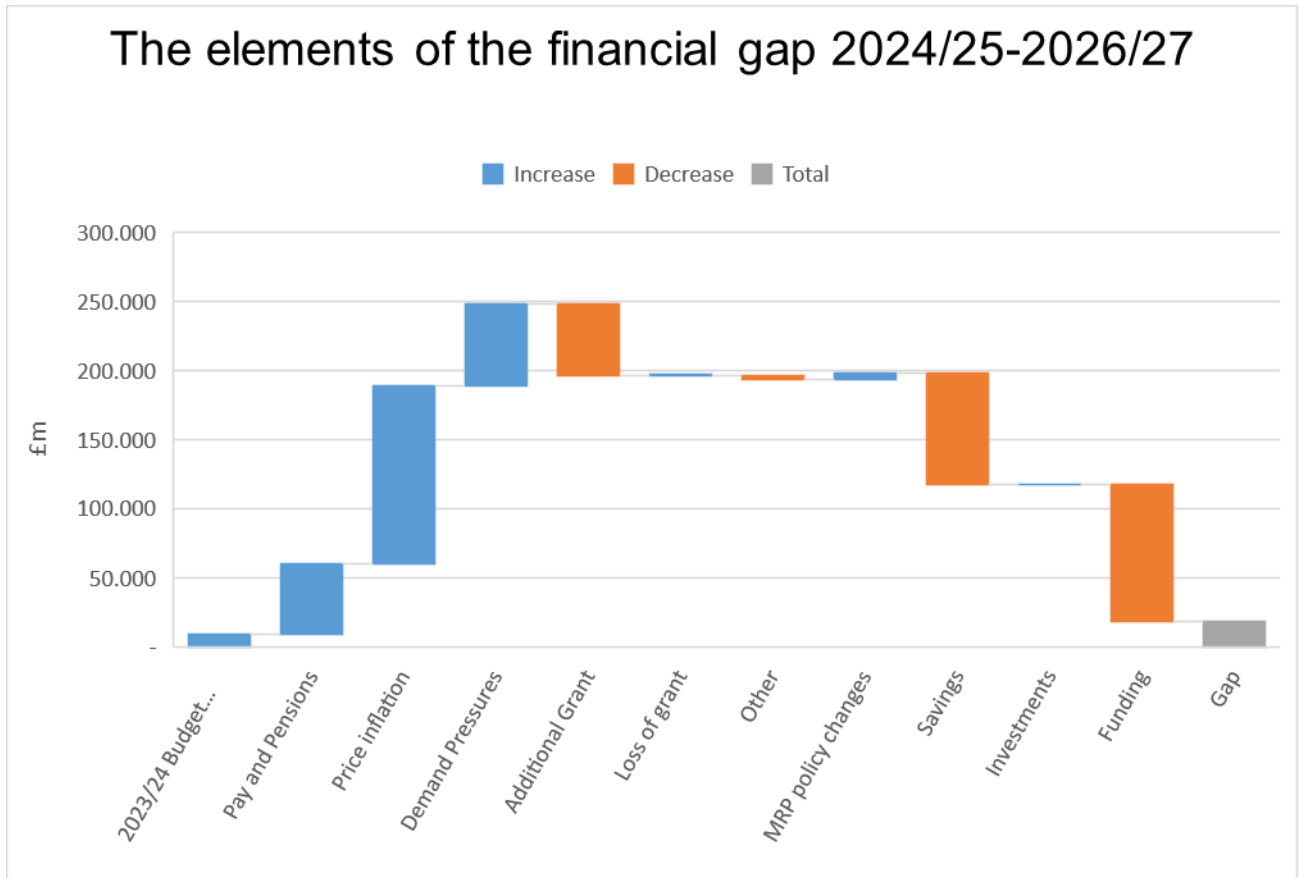
	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
<b>Baseline Expenditure</b>	1,047.981	1,108.921	1,111.894
Pay	27.621	13.380	10.280
Price	46.071	47.821	34.866
Demand	26.545	16.429	15.647
Additional Grant	-10.148	-41.333	0.000
Loss of Grant	0.000	0.000	0.000
Savings	-31.743	-34.536	-15.172
Capital financing	5.368	0.000	0.000
Other	-2.774	1.212	-1.503
<b>Budget Requirement</b>	1,108.921	1,111.894	1,156.012
Funding	1,094.416	1,094.017	1,137.717
<b>Updated Budget Gap</b>	<b>14.505</b>	<b>17.877</b>	<b>18.294</b>

***Table 2 – Adjustments to Medium Term Financial Strategy***

	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
<b>Spending Gap – Full Council February 2023</b>	<b>-12.077</b>	<b>6.831</b>	<b>19.103</b>
Pay & Pensions	15.283	20.247	22.122
Inflation and Cost Changes	7.451	5.825	4.216
Service Demand and Volume Pressures	10.393	13.308	14.790
Other	0.147	-2.853	-4.853
Proposed 2023/24 Savings	-6.692	-18.918	-23.268
<b>Total Change to Forecast of Spending</b>	<b>26.582</b>	<b>17.609</b>	<b>13.007</b>
Funding	0.000	-6.563	-13.816
<b>Total Change to Forecast of Resources</b>	<b>0.000</b>	<b>-6.563</b>	<b>-13.816</b>
<b>Funding Gap</b>	<b>14.505</b>	<b>17.877</b>	<b>18.294</b>



The graph below demonstrates the drivers that make up the changes in the financial deficit of £8.935m carried forward from 2023/24 to the cumulative position of £18.294m in the financial year 2026/27 shown in the table above:



## 2. Funding

As part of the Final Settlement for 2023/24, the government announced that details were provided for the next two years. Whilst this was the case for the additional flexibility on Council Tax increases, there was very little in terms of specific grant allocations for 2024/25, although estimates can be made of allocations using the same distribution formula being applied to funding streams in 2023/24. The key assumptions for funding levels are outlined below:

- Council tax increases of 4.99% for 2024/25, it has been assumed that the maximum level of council tax increase will be 3.99% with 1.99% normal increase and 2% adult social care precept. This is shown in the table below:

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2024/25	2.99%	2.00%	4.99%
2025/26	1.99%	2.00%	3.99%
2026/27	1.99%	2.00%	3.99%

As part of this revised medium term financial strategy an adjustment has been made that assumes that the adults social care precept will be held at 2% in 2025/26 and 2026/27. This has not yet been confirmed by the Chancellor, but at this stage in our forecasts it is reasonable to assume that this flexibility will remain given the ongoing adult social pressures with additional funding being able to be levied. However, the level of increase in council tax included as part of the budget for a financial year is ultimately a decision for Full Council to make each year when setting the budget. 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 £6m.

- A 1.7% increase in council tax base has been assumed for each of the 3 years in the strategy.
- Council tax collection fund position is assumed to return to surplus in 2024/25, with a £5m surplus built into each year of the strategy.
- Business Rates Funding continues at current levels with inflationary uplifts applied.
- Assumption that the new model for business rates is implemented in 2025/26, but currently assuming the impact is cost neutral, however this does include 0.5% growth in all future years.
- Revenue support grant assumed to continue for the duration of this strategy with further inflationary increases applied in future years.
- Social care grant will continue for the duration of this strategy, including additional grant announced as part of Spending Review 2021 and the 2022/23 final settlement.
- Additional grants received for Social Care, including repurposed Adult Social Care reforms funding and new monies to support various aspects of Adults Social Care such as discharges and working with providers. Whilst additional





funding is shown in the table below, there are offsetting costs included within the expenditure side of the medium-term financial strategy. It has been assumed that these grants are recurrent.

- Services Grant – It has been assumed that this grant continues over the remainder of the strategy at the reduced level.

Table 3 reflects the updated funding position.

**Table 3**

	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Revenue Support Grant	40.881	41.944	42.783
Business Rates	238.925	242.420	245.982
Council Tax	645.364	682.523	721.821
New Homes Bonus	0.782	0.000	0.000
Improved Better Care Fund	47.145	47.145	47.145
Social Care Support Grant	108.656	67.323	67.323
Collection Fund	5.000	5.000	5.000
Services Grant	7.663	7.663	7.663
<b>Total</b>	<b>1,094.416</b>	<b>1,094.018</b>	<b>1,137.717</b>
<b>Forecast – February 2023</b>	<b>1,094.416</b>	<b>1,087.454</b>	<b>1,123.901</b>
<b>Variance</b>	<b>0.000</b>	<b>6.563</b>	<b>7.253</b>

## 2.1 Additional Funding Information

### ***Council tax***

As noted above, assumptions have been made in the medium term financial strategy that take advantage of the additional level of council tax that the county council may have the ability to raise once confirmed by Government. It is assumed within the core spending power calculation undertaken by the Department for Levelling Up, Housing and Communities that councils will raise council tax by the maximum percentage permissible. However, the actual level of increase in council tax included as part of the budget for a financial year is ultimately a decision for Full Council to make each year when setting the budget.

The calculation of the council tax base position is particularly challenging as district councils need to assess the number of properties that can be taxed, the collection rate and the council tax support schemes that they offer. The county council has very limited information about the tax base position looking forward and so has assumed,



based on historical average increases, that the taxbase will increase by 1.7% per annum.

### ***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 it is anticipated will be received from the business rates collected in the area is less than the assessed need and therefore a top up grant is received. A small amount of growth continues to be built into the medium term financial strategy for the county council's local share at 0.5%.

As a result of the impact of COVID-19, the national review of business rates has been delayed and for 2023/24 rates will effectively 'rollover' from 2022/23 – a continuation of the 50% scheme, with the 75% scheme unlikely to be in place before 2025/26. The county council is part of the Lancashire Business Rates Pool, with additional income of £0.800m expected in 2024/25.

### ***New Homes Bonus***

The New Homes Bonus grant has been under review by the government for several years and consultations have taken place. The grant formally included legacy payments over 4 years, but these have previously been removed and the grant has gradually reduced.

As the future of this grant looks increasingly uncertain, the forecast reduces in 2024/25 and an assumption made that New Homes Bonus would no longer exist from 2025/26.

### ***Services Grant***

This grant was an additional grant provided in 2022/23, and was included in the 2023/24 settlement, but reduced to reflect a change in policy relating to national insurance contributions. The forecast assumes that this grant is recurrent.

### ***Social Care Grant***

In 2023/24 the Social Care Grant was expanded to include funding for the Independent Living Fund, and repurposed social care reforms funding (although the reforms were delayed the funding is still being paid to councils), In 2022/23, a social care grant of £57.095m was allocated to the county council. The Provisional Settlement has confirmed that this amount will be provided again, although no inflation will be applied. All aspects of this grant as assumed to be recurrent.



### 3. Net budget requirement

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

This section focuses on the areas where updates have been included as part of this iteration of the medium term financial strategy.

#### 3.1 Pay and Pensions

An adjustment has been included to reflect the most recent pay offer, which was rejected, which contained a pay award at an average rate of 6.28% across all employees. This has resulted in a significant "catch up" budget adjustment in 2024/25.

As part of reviewing the MTFS an increased % forecast for the pay award has included for both 2024/25 and 2025/26 to reflect inflation levels are not falling as quickly as anticipated and we have, in the previous 2 financial years, under forecast the pay award leading to in-year pressures. In the previous version of the MTFS an increase of 3% was included for 2024/25 and 2% for 2025/26.

The assumptions for increases in pay over the next 3 years included in the MTFS are as follows:

- 2024/25 5.00%
- 2025/26 3.00%
- 2026/27 2.00%
- 

The table below presents the amounts built into the medium-term financial strategy for pay and pensions:

**Table 4**

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Employee costs	30.368	15.149	12.058	57.575
Pay Income (Inflation)	-2.566	-1.539	-1.548	-5.653
Other pay related costs	-0.181	-0.230	-0.230	-0.641
<b>Total budget requirement</b>	<b>27.621</b>	<b>13.380</b>	<b>10.280</b>	<b>51.281</b>
Pay and pensions previous MTFS	12.338	8.416	8.405	29.159
<b>Variance</b>	<b>15.283</b>	<b>4.964</b>	<b>1.875</b>	<b>22.122</b>



### 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 largest part of the inflationary calculations relates to Adult Social Care with payments to 3<sup>rd</sup> parties being subject to increases each year to reflect cost increases and the impact of increases in the national living wage. Additional funding was allocated to Adult Social Care related to the delayed reforms; this was allocated to inflation as a significant element of the reforms is linked to fees paid to providers.

Although inflation has started to reduce, when comparing to the values that were used in the last medium term financial strategy, the inflation forecasts are slightly higher, therefore forecasts have increased across all services.

The most significant change in the forecast inflation levels, particularly for 2024/25, relates to energy costs. We have now purchased our energy for the next 12 months (advance purchase from October 2023 – September 2024) and therefore know what our cost per kilowatt of energy will be. In previous MTFs we had assumed that energy costs would have started to significantly reduce by 2024/25, however prices have not fallen by as much as our forecasts. A decrease of 2.9% has been incurred on electricity and a decrease of 7.7% on gas. However, in 2023/24 an increase of 224% for gas and 67% for electricity was built into the budget, therefore the reduction is very small in comparison to the previous rises for this financial year (which is already reflected within the medium-term financial strategy).

The modelled assumption in the revised MTFs is to use the information we have from our purchased energy for the 2024/25 forecast and then remove the additional budget over the next 2 years to reflect reducing levels of energy costs, although this assumption is subject to regular review given the inherent difficulties in forecasting the cost of energy over the medium term with any certainty in the current economic environment.



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

**Table 5**

	2024/25 £m	2025/26 £m	2026/27 £m	Total
Adults Services	33.185	45.038	26.890	<b>105.113</b>
Children's Services	5.302	3.090	3.155	<b>11.547</b>
Waste Services	4.952	-2.247	2.736	<b>5.441</b>
Highways Services	0.721	0.449	0.462	<b>1.632</b>
Transport Services	3.040	1.902	2.011	<b>6.953</b>
Property and Energy Costs	-2.452	-1.072	-1.052	<b>-4.576</b>
Other Services	1.323	0.661	0.664	<b>2.648</b>
	<b>46.071</b>	<b>47.821</b>	<b>34.866</b>	<b>128.758</b>
Demand – previous MTFS	38.620	49.447	36.475	124.542
<b>Variance</b>	<b>7.451</b>	<b>-1.626</b>	<b>-1.609</b>	<b>4.216</b>

### 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.

The most significant change relates to Home to School Transport, with an overspend of c£5m reported in 2022/23. Whilst detailed work is taking place to understand the growing costs in this service area, the increase in costs needs to be reflected within the medium-term financial strategy at this stage.

**Table 6**

	2024/25 £m	2025/26 £m	2026/27 £m	Total
Adults Services	11.320	11.320	11.850	34.490
Children's Services	6.647	2.320	0.905	9.872
Waste Services	0.000	0.000	0.000	0.000
Highways Services	0.028	0.180	0.031	0.239
Transport Services	7.310	2.602	2.859	12.771
Property Services	0.000	0.000	0.000	0.000
Other Services	1.240	0.007	0.002	1.249
<b>Revised Demand Requirements</b>	<b>26.545</b>	<b>16.429</b>	<b>15.647</b>	<b>58.621</b>
Demand – previous MTFS	16.152	13.514	14.165	43.831
<b>Variance</b>	<b>10.393</b>	<b>2.915</b>	<b>1.482</b>	<b>14.790</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 medium term financial strategy 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 2026/27 is c£35m. This will continue to be monitored and figures may be updated in future medium term financial strategy 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 and the type of service provision. Our assumptions follow a detailed review with the service and are based on the average increases over the past 6/12 months for different types of placements (in the current financial year), with the medium-term financial strategy reflecting half this demand in 2024/25 and no additional demand in future financial years.

### **3.4 Other**

Arlingclose, our Treasury Management advisors have revised their interest rate forecasts following the Monetary Policy Committee (MPC) deciding to hold the base rate at 5.25% in September. They are now forecasting that the base rate has reached its peak with the MPC cutting rates in the medium terms starting in Q3 2024 reaching a low of c3% by early 2026 with a forecast benefit on our future capital financing costs.

Capital financing costs are based on an agreed principle of an additional £50m of prudential borrowing to support the capital programme each financial year.

### **3.5 Savings**

As a county council we have a good track record in delivery of savings, however the impact of the pandemic has resulted in some savings being delayed and Directorates are working hard in conjunction with their Finance Monitoring Boards to ensure savings are delivered and offsetting cost reductions found to offset any delays in their planned delivery profile.

In the last budget a significant 'Strategic Targets' challenge was included looking at areas to improve productivity within the organisation and delivering savings. This complex area is advancing but as with all significant change programmes some reprofiling of the planned delivery timescales will be necessary. A reprofiling of £5.6m of strategic target savings being delivered in 2025/26 rather than 2024/25 has therefore been included.

In line with the Councils pro-active approach to financial management work was undertaken by Directorates to identify financial savings and efficiency during the early part of this year in recognition of the remaining budget gap. This has resulted in "management action" savings totalling c£23m being included in the updated medium term financial strategy. These savings cover aspects of the budget such as removal of budgets for vacant posts no longer required, more efficient ways of working,



recurring underspends (following a review of the 2022/23 outturn), improved demand management and increasing levels of income. Work is continuing across Directorates to identify further savings proposals to achieve a balanced budget position.



## 4. Reserves

**Table 7**

Reserve Name	Opening balance 2023/24	2023/24 Expenditure	2023/24 Closing Balance	2024/25 Forecast Exp	2025/26 Forecast Exp	2026/27 Forecast Exp	Forecast closing balance 31 March 2027
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	<b>-23.437</b>	0.000	0.000	0.000	-23.437
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.437</b>	<b>0.000</b>	<b>-23.437</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.437</b>
Strategic Investment Reserve	-0.453	0.000	<b>-0.453</b>	0.315	0.000	0.000	-0.138
OCE General Reserve	-6.826	4.167	<b>-2.659</b>	1.611	0.925	0.000	-0.123
Downsizing Reserve	-5.344	0.077	<b>-5.267</b>	1.054	1.054	1.054	-2.105
Risk Management Reserve	-3.183	0.244	<b>-2.939</b>	0.000	0.000	0.000	-2.939
Transitional Reserve	-166.731	3.206	<b>-163.525</b>	-0.941	-2.707	-3.680	-170.853
Business Rates Volatility Reserve	-5.000	0.000	<b>-5.000</b>	0.000	0.000	0.000	-5.000
LCC Service Reserves	-128.098	40.370	<b>-87.728</b>	26.871	17.506	9.613	-33.738
Treasury Management Valuation Reserve	-36.317	0.000	<b>-36.317</b>	0.000	0.000	0.000	-36.317
<b>SUB TOTAL - LCC RESERVES</b>	<b>-351.952</b>	<b>48.064</b>	<b>-303.888</b>	<b>28.910</b>	<b>16.778</b>	<b>6.987</b>	<b>-251.213</b>
Non LCC Service Reserves	-24.747	3.026	<b>-21.721</b>	7.650	0.430	0.025	-13.616
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-24.747</b>	<b>3.026</b>	<b>-21.721</b>	<b>7.650</b>	<b>0.430</b>	<b>0.025</b>	<b>-13.616</b>
<b>GRAND TOTAL</b>	<b>-400.136</b>	<b>51.090</b>	<b>-349.046</b>	<b>36.560</b>	<b>17.208</b>	<b>7.012</b>	<b>-288.266</b>

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 2.25% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £163.525m by the end of March 2024 but this will also be impacted directly by the value of any final over or underspend for the current financial year.





The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap for the lifetime of the medium-term financial strategy, as shown in Table 8. However, by identifying further savings and/or delivering savings earlier than currently planned the county council would seek to address the financial gap sooner and ensure reserves are maintained for further service transformation and improvement.

**Table 8**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Balance</b>	-163.525	-177.089	-192.258
<b>Gap funding</b>	14.505	17.877	18.294
<b>Commitments</b>	-0.941	-2.707	-3.680
<b>Closing balance</b>	<b>-177.089</b>	<b>-192.258</b>	<b>-206.872</b>



## 5. Future risks and opportunities

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

### 5.1 Funding

As previously explained, the future funding arrangements to be established by government pose a potential risk to the council. It is not expected that the new arrangements will come into place until 2025/26, a further delay to the previously extended delay, although final confirmation is awaited of this from the Government.

Changes to the funding formula for Local Government have been delayed for several years, with the earliest opportunity for implementation being 2025/26. The outcome from the review could increase or reduce funding compared to those values included in the medium-term financial strategy. At this stage no intelligence has been received from supporting professional bodies that would support different assumptions to those being used in the forecast.

The annual budget statement from the Chancellor of the Exchequer is scheduled for 22<sup>nd</sup> November, at which point announcements may be made relating to factors that could influence the medium-term financial strategy funding position. These are then usually reflected within the Provisional Settlement that will be published prior to Christmas. This presents a level of risk, as additional grants could be awarded, but offsetting could be higher than anticipated costs, or reduced levels of existing grants that differ to the levels assumed within our current forecast.

### 5.2 Savings delivery

The medium term financial strategy assumes that all previously agreed savings are fully delivered. The scale of savings previously agreed to be delivered over future financial years remains significant with c£80m budgeted to be delivered in 2023/24 and a further c£40m in later years. This is a combination of savings that were planned to be delivered in earlier years and were delayed due to the pandemic, and the budgeted savings that were reprofiled (but are still to be delivered) from the budget in 2023/24.

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, the county council has a strong track record of delivery of its saving plans and there are comprehensive arrangements in place to track delivery and take corrective actions where required. If any are not delivered or are delayed without mitigations this will cause a budget pressure. An opportunity could however present itself for inclusion in the MTFS if savings can be delivered any earlier than currently scheduled and/or at a higher value than originally forecast.

- Demand and Inflation – As detailed in this report assumptions have been made in relation to demand and inflation levels particularly across Adult and Children's Social Care. The main part of the assumptions are based on national statistics relating to population growth and age profiles. Through continued work with Directorates the assumptions could both increase or



decrease, with both services operating policies to manage demand levels. Uncertainty also remains with regard to future years pay awards.

### **5.3 Further savings identification and delivery**

Although c£23m of management actions have been identified, and are in the process of being implemented, a forecast funding gap remains and, in order to achieve a balanced budget position Directorates are working to identify further savings proposals for consideration by Cabinet.

As a county council, regular comparisons are made through benchmarking to other local authorities, particularly county councils. The data suggests that despite the savings proposals put forward in this report, in some service areas the county council remains high cost. Although there are always some limitations to benchmarking data, it is a good indicator of how the county council is performing in comparison to other county councils, therefore this data, along with other intelligence and evidence, will be used to focus savings activity in service areas that are furthest away from the median county council unit cost for that service area.

In addition, work is ongoing to explore the potential for additional income and all fees and charges are being reviewed and benchmarked to ensure that the county council remains aligned to its markets. All traded activities need to demonstrate appropriate returns and manage risk as set out in the commercial blueprint approved by Cabinet.

### **5.5 Children's social care**

Children's social care demand levels are forecast to continue to increase, albeit at a slower rate over the next 3 years to recent years, and are increasing nationally, particularly within agency residential placements, agency fostering placements and special guardianship orders. Our assumptions follow a detailed review with the service and are based on the average increases over the past 6/12 months for different types of placements (in the current financial year), with the medium-term financial strategy reflecting half this demand in 2024/25 and no additional demand in future financial years.

As has been reported in money matters reports over the past few years, there has always been an anticipation that the level of demand could increase due to the impact of latent demand that had not previously presented itself due to the pandemic.

### **5.6 High Needs Block**

The High Needs Block is forecast to have significant pressures over coming years, with the Education and Children's Directorate reviewing models and services covered by this funding. There are pressures nationally in this area and the county council is better placed than many other councils through the creation of the High Needs Block reserve which allows time for more strategic and sustainable mitigations to be put in place. Therefore, there are no additional pressures in relation to this area included within the current medium term financial strategy.



### 5.7 Adult Social Care

In Adult Social Care there are planned reforms relating to a cap on service user contributions and changes to contribution thresholds along with the fair cost of care exercise. The reforms have however been delayed until 2025/26, but the funding allocated will still be distributed to authorities as part of the Social Care Grant and is not ringfenced. From 2025/26 onwards, the core assumption within the medium-term financial strategy remains that the additional cost of these changes will be fully offset from additional government funding being provided.

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

	Potential Full - Year Impact of 1% movement (£m)
Funding - Council Tax	+/- 6.044
Pay	+/- 4.183
Price Inflation	+/- 8.161
Demand	+/- 5.175
Interest on borrowing	+/- 5.000

The position outlined in the report is based on a number of reasonable assumptions around the future changes to demand, inflation and interest rates along with assumed levels of funding available to us in the future. These assumptions have been subject to a much greater level of variation in recent years representing the uncertain economic environment. Assumptions necessarily rarely transpire exactly as forecast and significant changes could have a material impact on the funding gap both positively or negatively as illustrated in the table above.

