

Lancashire County Council

Scrutiny Management Board

**Wednesday, 13th November, 2024 at 10.30 am in Committee Room 'B' - The
Diamond Jubilee Room, County Hall, Preston**

Supplementary Agenda

We are now able to enclose, for consideration at the next meeting of the Scrutiny Management Board to be held on Wednesday, 13th November, 2024, the following information which was unavailable when the agenda was despatched

Part I (Open to Press and Public)

No. Item

- 5. Medium Term Financial Strategy Update 2025/26 - (Pages 1 - 26)
2026/27**

H MacAndrew
Director of Law and Governance

County Hall
Preston



Report to the Cabinet

Meeting to be held on Thursday, 14 November 2024

Report of the Director of Finance and Commercialisation

Part I

Electoral Division affected:
 (All Divisions);

Corporate Priorities:
 Delivering better services;

Medium Term Financial Strategy 2025/26 to 2026/27

(Appendix 'A' refers)

Contact for further information:

Noel O'Neill, Tel: 07955 321732, Director of Finance and Commercialisation,
 noel.oneill@lancashire.gov.uk

Brief Summary

This report seeks approval of the Medium-Term Financial Strategy for 2025/26 to 2026/27. The objective is to deliver a balanced budget over the period and the Medium-Term Financial Strategy identifies the actions required to achieve this position and the assumptions made. It has been prepared alongside the emerging Council Plan to reflect the ambitions of the Council withing the financial constraints of the sector. The detail is included in Appendix 'A'.

As part of this process underlying demand pressures and inflation assumptions have been challenged and reassessed. A rigorous review of the current 2024/25 budget has been undertaken to identify further efficiencies and opportunities to reduce expenditure. A review of savings already in the budget has also been examined to confirm the deliverability.

The report before Cabinet identifies a shortfall of £9.095m in 2025/26 but achieves a balanced position by 2026/27. It is summarised in the table below.

	2025/26 (£m)	2026/27 (£m)
Budget Requirement	1,167.878	1,198.919
Funding	1,158.783	1,198.919
Updated Budget Gap	9.095	0

To achieve this position based upon the demand and inflation assessments within the strategy, additional new savings of £24m in 2025/26 and £20.6m in 2026/27 are required. This is a challenge on top of the already planned service savings of £80m within the budget. Clear plans are being developed to deliver this position.

Recommendation

Cabinet is asked to:

- (i) **Approve** the Medium-Term Financial Strategy as set out within this report.
- (ii) **Agree** the assumptions around council tax levels and savings.
- (iii) **Approve** this as a basis of budget consultation with key stakeholders.

Detail

1. Background

At Budget Full Council in February 2024 the report set out the forecast funding gap of £10.488m in 2025/26, with this decreasing to £3.351m in 2026/27. This report presents a Medium-Term Financial Strategy (MTFS) for the next 2 years looking to deliver a balanced budget within that period. The starting point for the updated position presented is the Council approved budget for 2024/25, which includes many decisions on policy options and savings. These had an influence in future years and also set out a funding gap for 2025/26 and 2026/27.

The assumptions contained across the MTFS have been refreshed, with various scenarios tested in advance of presenting the most likely and robust position in this report. These included:

- A review of existing assumptions made on key drivers affecting the Council's budget which include pay awards, a range of inflation indices and interest rates.
- A review of the changes in demand for council services which include adult and children's social care placements, home to school transport, waste management and the delivery of SEND (Special Educational Needs and Disabilities) assessments.
- National challenges on demand, funding and inflation.
- Opportunities for further efficiencies in service delivery, use of technology and savings.

Assumptions had been made within the updated MTFS as to the funding levels that the county council would receive ahead of the Chancellor's Autumn Budget Statement on 30 October 2024. Following the announcement the funding included would appear to be in line with values included in the MTFS, although the detail of funding levels and



associated grant conditions will not be known until December 2024, when the Provisional Local Government financial settlement will be received. However, there are some potential implications that are covered in a separate section later in this report.

2. MTFS and Key Changes

The MTFS has lots of issues built into it. The largest items include inflation for pay (£12m), services inflation (£40m) and demand challenges (£19m) on the cost side. On the income side the major factors are council tax increase at 5% (£42m), and business rates of £5m.

The proposed MTFS is summarised in the table below identifying a budget gap of £9.095m in 2025/26 but balances in 2026/27. The table below shows the changes made as part of the updated MTFS. Appendix 'A' shows the detail and how this reflects in service budgets.

	2025/26	2026/27
	£m	£m
Budget Council Funding Gap	10.448	3.351
Pay Inflation	4.500	4.500
Inflation	-9.000	-9.000
Demand	19.000	19.000
Existing Savings	16.364	30.195
New Savings	-24.217	-44.264
Additional Funding	-8.000	-3.782
New MTFS Gap	9.095	0.000

If Cabinet agrees to this as the basis of moving forward, it is suggested that the deficit in 2025/26 will be funded from transitional reserve.

This section summarises the key changes in the MTFS (and included in the table above) from those assumptions and the implications.

Inflation

Pay award for 2024/25 has been settled and this adds an additional £4.5m to the budget over existing assumptions. Other inflation totals £40m, this is a revised total following a review of our inflation assumptions and a reduction of £9m can be taken from inflation increases that were built into the MTFS previously.

Demand

£19m was already included in the budget assumptions for increases in service demand. Further additional demand pressures of £19m have been included for 2025/26 and commitments on-going to reflect emerging issues in the current year.

- £9.1m Children's Social Care - increased placement and allowances budgets.
- £3.8m Home to School Transport - 2024/25 data shows that demand levels and costs are not reducing as quickly as previously anticipated.



- £1.6m Waste Disposal - The level of tonnages has increased from 400,000 tonnes to 417,000 tonnes. There is also an inflation pressure on price.
- £5m SEND - Service investment is required to deliver significant improvements to the current service. A business case is being finalised outlining the performance improvements to be delivered which will generate better care for this significant group. Part of the plan will strive to mitigate the rising deficit on high needs Direct Schools Grant.

Existing Savings

£121m of savings had been included in the MTFS that was agreed at Council in February 2024. A forensic review of the deliverability and timing of these savings has been undertaken as part of developing a more robust Change Programme. Some have now been removed with others reprofiled. In addition, some challenges around funding of social care between the Council and the NHS have been identified. Consequently, following a prudent course of financial planning, £30m of these previously identified savings have been removed over the next two years. However, there is a higher degree of confidence that there is a more robust plan to deliver.

3. New Savings

As part of the MTFS process, existing budgets have been robustly examined to find further efficiencies and savings. This process has been supported with external challenge and comparing relative performance against similar authorities and best in class. This process has identified savings that include:

- Maximising Independence – working age adults
- Maximising Independence – adults over 65
- Children Social Care – reducing children in residential care.
- Waste disposal.
- More efficient Home to School Transport
- Service efficiencies.
- Back-office efficiencies.

The savings are summarised below with the detail in Appendix 'A'.

	2025/26 (£m)	2026/27 (£m)
Adult Services	-6.860	-21.660
Education and Children's Services	-2.979	-3.919
Growth, Environment, Transport and Health	-5.612	-10.607
Resources and Chief Executive	-8.766	-8.078
Total	-24.217	-44.264

Identifying additional savings has been challenging within the context of already delivering £121m over a three-year period. Directors recognise the need to find additional savings and they have been integrated into the evolving Change Programme and clear deliverables are being identified.



4. Reserves

A statement on the reserves position of the Council is included as part of the MTFS. The Council has a large transitional reserve. As we are moving towards a balanced budget there is a need to review reserves. County Fund is established to act as a buffer to the everyday fluctuations in Council spending. Good practice would suggest that this figure should be around 5% of a council's net budget at £56m. To achieve this, it is proposed to switch £32.6m from Transitional Reserve to County Fund.

Deficits on High Need Direct Schools Grant has been a major issue in local government for some years with the demand exceeding funding. Many local authorities are in deficit and this has been protected by some temporary Government intervention. Lancashire is forecast to move into deficit by the end of this financial year. Whilst funds have been allocated in the Autumn Statement to start to address this position, there is still a risk of some deficit requiring local funding. It is therefore suggested that a specific reserve of £20m be set up for this from the Transitional Reserve whilst we await clarity on the position post statutory override.

The table below shows the impact of the changes on the configuration of reserves.

	2025/26	2026/27
	£m	£m
Opening Balance Transitional Reserve	127.6	105.1
Opening Balance County Fund	56.0	56.0
Statutory Override Reserve Balance	10.0	20.0
Gap funding	(9.09)	0.0
Commitments	(13.4)	(6.1)
Reserves Position	171.1	175.0

+ Commitments in 2025/26 are £3.4m previously planned use of reserves and £10m movement to the override reserve.

5. Autumn Statement

The Chancellor of the Exchequer presented her Autumn Statement on 30 October 2024 which set out expenditure and taxation plans. In developing the MTFS assumptions have been made on expected grants increases/reductions and the implications of other changes to funding regimes. This section highlights key changes announced and how they are currently represented in the MTFS:

Employers National Insurance Rates

The rate was increased by 1.2% which increases our employment cost by c£3m. The other change was to reduce the threshold from £9,100 to £5,000 at which employers need to pay national insurance. The cost implication of this change is even more significant with a potential additional cost of £8.5m. This would have a dramatic impact on the savings required within our budget. However, discussions continue with Government around how this will be met by grant allocation and protect public sector budgets.



Minimum Living Wage

Another key announcement is the raising of the Minimum Living Wage by 6.7%. This has limited impact upon the council's direct wage costs. It does impact upon the cost of care provision and the potential increase in costs.

Social Care Grant

£600m additional funding was announced nationally. The detailed allocation will not be known until December with the Local Government Provisional Settlement and has not been included. This additional funding is welcome and required to meet the additional demand pressures. However, it has not been included in the MTFs.

Local Government Grant

£750m was announced for the rest of local government. The distribution of this is unknown until December. It may produce some additional funding that could mitigate the savings challenge of the budget shortfall identified. However, the national insurance changes will have an impact on the direct costs of our suppliers. Any benefit may be eroded by unexpected price rises.

Additional Highways Funding

An additional £500m was identified for highways investment. Whatever is received will be specific grant to address the need.

SEND

An additional £1bn was announced to address special education. This is a significant sum and goes some way to addressing the current large shortfall against need. This will slow down significantly the pressure on deficits if it does not mitigate the situation.

The detail of the Autumn Budget Statement will be included in the Provisional Local Government Financial Settlement which is usually announced in mid-December. This will contain specific funding allocations and also conditions for grants/additional funding that may be provided.

6. Conclusions

The MTFs before Cabinet is based upon our best assumptions on pay and prices, emerging demand, delivery of efficiencies and future income from government grants, council tax and business rates. The plan over two years moves the Council to a balanced budget by adding planned savings to our Change Programme and utilising some reserves to balance in 2025/26. It sets out a basis for progressing the detailed budget for Council and sharing with our key stakeholders. None of the options are easy but they need to be taken to achieve the objective of a balanced fiscal position.

Appendices

Appendix 'A' is attached to this report. For clarification it is summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix 'A'	Medium-Term Financial Strategy 2025/26 to 2026/27 and Reserves



Implications:

This item has the following implications, as indicated:

Risk management

The report itself highlights specific risks relating to the delivery of a balanced forecast position in the current year. It is setting the strategy to develop a robust detailed budget.

Legal

The Council is responsible for setting the budget each year. Once agreed Cabinet will then implement the policy framework and keep within the budget, subject to the limits set by Financial Regulations. The Council is required to deliver a balanced budget and the monitoring of the Council's financial position contributes to the effective management of this responsibility. This report is setting out a framework to deliver that responsibility.

List of Background Papers

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		



Medium Term Financial Strategy 2025/26 – 2026/27 and Reserves

November 2024



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1. Executive Summary

The Medium-Term Financial Strategy (MTFS) is developed and presented to Cabinet in November each financial year. It sets out the budget assumptions, known policy implications, specific financial challenges and opportunities that the Council is facing over the coming period and actions that could be taken to deliver a balanced budget over that period. The county council is currently developing its next Council Plan. The proposed MTFS has considered the emerging priorities to ensure the necessary resources are in place to meet the organisation's ambitions.

This report presents a MTFS for the next 2 years looking to deliver a balanced budget within that period. Its starting point is the Council approved budget for 2024/25. As part of that approval many decisions on policy options and savings were taken. These had an influence in future years and also set out a funding gap for 2025/26 and 2026/27. The assumptions contained across the MTFS have been refreshed, with various scenarios tested in advance of presenting the most likely and robust position in this report.

At Budget Full Council in February 2024 the report set out the forecast funding gap of £10.488m in 2025/26, with this decreasing to £3.351m in 2026/27. A further detailed review of the MTFS has been undertaken. The review has taken into account:

- A review of existing assumptions made on key drivers affecting the Council budget which include pay awards, a range of inflation indices and interest rates.
- A review of the changes in demand for Council services which include Adults and Childrens Social Care placements, home to school transport, delivery of SEND assessments.
- Mitigations for consideration by Cabinet.

The Autumn Budget was announced by the Chancellor on 30 October 2024, with some areas of change that will impact on the 2025/26 budget. The main areas that could impact on the MTFS relate to grant funding (notably Social Care, Highways and Transport and SEND), changes to employers national insurance levels and the confirmed increase to the national living wage. At this stage the finer detail of the funding and impact are not known but we currently anticipate this will be broadly in line with the current MTFS. The detail is provided in the Local Government Provisional Settlement which will be received in December 2024.

This report provides an updated position that forecasts a funding gap of £9.095m in 2025/26 and in balance in 2026/27, therefore achieving a balanced budget position over the next 2 years.



2. Background

The council has a history of strong financial management, with a proven track record of delivering savings and robustly managing the in-year position once a budget has been set. This is proven by the outturn position reported to Cabinet each year and the level of reserves that are held.

The budget contains a significant savings programme that has been developed year on year and agreed by Cabinet. The savings total £121m over the period 2024/25 - 2026/27 and are a critical part of the budget position. The savings programme is robustly monitored across the Council through Finance Boards and Executive Management Team.

In developing the updated MTFS, reviews have been undertaken of both the 2023/24 outturn position and the 2024/25 current forecast position. Consideration has been given to both under and overspends, with some of those that are deemed recurrent included in the updated forecast. These cover areas such as Children's Social Care (£9.1m) and waste management recycle income (£1.5m) and tonnages of waste (£1.6m).

Resource allocation in the MTFS is linked to the priorities within the emerging new Council Plan to ensure resources are aligned to Council ambitions. This theme will continue into the final budget setting report at Full Council in February 2025.

3. National Pressures and Opportunities facing Local Authorities

Demand and cost levels across Adult and Children's social care continue to present pressures. This is in line with national trends, with many authorities highlighting social care as the reasoning behind their financial challenges.

Inflation levels have continued to reduce over the last 12 months and our assumptions reflect this. However, the national living wage increases directly impact on the inflation rate applied to our care packages as this is reflected in those contracts and the fees we pay. This has caused additional pressure over the past 2 years. The Autumn Budget confirmed an increase of 6.7% for 2025/26, which is covered within the updated inflation values included in the MTFS but adds to our cost pressures.

The pay award for staff across the council has just been finalised. This is 1% above the assumptions within 2024/25 budget so is a £4.5m pressure in this MTFS. Future years increase is agreed at a national level and is not something that we as a county council can influence. At this stage we are assuming 3% for 2025/26 and 2% for 2026/27 and that if the pay award is agreed at a level higher than our assumptions that this will be supported with additional funding.

High needs block (SEND) is widely reported as a national pressure, with some councils reporting that this pressure could result in them having to issue a s114 notice. Whilst in Lancashire there is a deficit building up on this block which based on current trends will only increase, we are not going to reach the position some other authorities are reporting as quickly, but we will reach a point where this has a significant impact. This is a national position and one which is being actively reviewed. At present there



is a statutory override which means the Council does not have to fund the deficit. The Chancellor announced an additional £1bn for SEND in the Autumn statement. This will alleviate the immediate pressures and there is an indication of further announcements in Spring 2025.

Funding uncertainty is a high-profile national issue and could present different outcomes for authorities across the various tiers of Local Government. This could present risk and opportunity for the Council depending on the approach adopted by the Government. The Autumn Budget confirmed that the next phase of the Spending Review will conclude in Spring 2025, and a multi-year settlement will be provided from 2026/27. A review of the business rates system has also commenced. There is significant uncertainty within the modelling used in the MTFS but is our most robust assumption, based on advice from professional partners and benchmarking with other councils.

4. Updated Medium-Term Financial Strategy

The forecast funding gap presented to Budget Full Council in February 2024 was:

	2025/26	2026/27
Forecast Funding Gap	£10.488m	£3.351m

A further detailed review of the MTFS has been undertaken. The review has taken into account:

- A review of existing assumptions made on key drivers affecting the Council budget (e.g. 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 and increasing demand often reflects pressures common to local government as a whole) – e.g. Adults and Childrens Social Care including home to school transport.
- Mitigations for consideration by Cabinet.

A summary of the planning assumptions made within the MTFS is attached as Appendix 'A' and 'B'.

The detailed settlement will be announced in December 2024 within the Provisional Local Government Settlement. The detailed impact of any changes will be part of the detailed budget report to be presented to Cabinet and on to Full Council in February 2025 for formal approval.



The updated MTFS and subsequent forecast funding gap is shown in Table 1.

Table 1

	2025/26 (£m)	2026/27 (£m)
Baseline Expenditure	1,112.611	1,167.878
Pay	16.997	10.603
Price	39.536	37.221
Demand	38.379	16.402
Other	-1.463	6.718
Savings	-38.182	-39.903
Budget Requirement	1,167.878	1,198.919
Funding	1,158.783	1,198.919
Updated Budget Gap	9.095	0.000

The forecast funding gap for 2025/26 had reduced to £9.095m, with a further improvement in 2026/27 to a balanced budget position. The movement is the result of a number of factors:

- Increase to **pay** assumptions of 1% to reflect the pay award in 2024/25 (£4.5m), resulting in an increased cost of £16.997m in 2025/26 across pay budgets. Assumptions in the following years (2025/26 and 2026/27) remain the same.
- **Inflation** - Reviews of inflationary assumptions have taken place across all services, with variations seen across a number of services. This has resulted in a net decrease of £9m in 2025/26 and £7m in 2026/27, meaning the additional budget requirement is £40m in 2025/26. Whilst overall we have found we can reduce our inflationary forecasts, we can see a pressure that requires funding across waste management. This relates to the cost of disposing our waste, some of which is as a result of a higher than inflationary increase in landfill tax which is set nationally.
- **Demand** - Total additional costs of demand pressures are £39m (2025/26), which is an increase of £19m compared to the previous MTFS. This reflects the demand pressure in the current year that will continue. Items included for 2025/26, which is as a result of the following areas of growth:
 - £9.1m Children's Social Care - rightsizing areas have recurring pressures such as placement and allowances budgets.
 - £3.8m Home to School Transport - 2024/25 data shows that demand levels and costs are not reducing as quickly as previously anticipated.



- £1.6m Waste Disposal - The level of tonnages has increased from 400,000 tonnes to 417,000 tonnes.
- £5m SEND - Service investment is required to deliver significant improvements to the current service. A business case is being finalised outlining the performance improvements to be delivered which will generate better care for this significant group. Part of the plan will strive to mitigate the rising deficit on high needs Direct Schools Grant.
- **Other** - This section contains those costs that by default do not fall into the other categories, such as capital financing and funding from reserves. This shows as a reduction in budget in 2025/26 of £1.463m, as there are additional costs of capital financial offset by an additional £4m of reserves funding to support the budget in 2025/26.
- **Savings** - The 2025/26 budget includes a net £38m of savings, with a further £40m in 2026/27. As part of this updated MTFS, £44m of new savings proposals over the next 2 years are included. These cover a range of services and are discussed in further detail in Section 5 of this report.
- **Funding** - The updated MTFS includes minimal adjustments. An increased level of business rates has been assumed (£3.5m) in relation to s31 grants we expect to receive. In addition, it has been assumed that an additional £5m of capital receipts will be generated and included to support the revenue budget in 2025/26. Whilst the Autumn Budget Statement did make reference to some changes in funding levels, these are not confirmed until the Local Government Provisional Settlement in December, therefore updated values will be included in the next MTFS update to Cabinet in January 2025.

These changes result in forecast net budgets for services in 2025/26 as shown in Table 2.



Table 2

	2025/26	2026/27
	£m	£m
Adult Services	502.482	524.243
Total Adult Services	502.482	524.243
Children's Social Care	211.555	213.973
Education, Culture and Skills	46.490	48.269
Education and Children's Services	12.168	12.540
Policy Commissioning and Children's Health	1.929	2.012
Total Education & Children's Services	272.143	276.795
Growth and Regeneration	3.132	2.480
Environment and Planning	95.923	88.839
Highways and Transport	107.208	111.171
Public Health	5.973	6.280
Total Growth, Environment, Transport & Health	212.237	208.770
Resources	52.025	60.076
Law and Governance	21.928	22.487
Finance and Commerce	48.718	46.214
People Services	5.884	6.042
Digital Service	39.119	40.831
Strategy and Transformation	12.646	12.760
Chief Executive Services	0.695	0.700
Total Resources & Chief Executive Services	181.016	189.111
Total Provisional 2025/26 Budget	1,167.878	1,198.919

5. Savings

A forensic review of all council services has been undertaken over the summer period supported by external challenge to identify further service efficiencies to be included within the MTFS. This was against a challenging backdrop with the current budget already having a target of £121m of savings over three years.

As part of previous budgets, £19m of savings were agreed to be delivered in 2025/26.

Following a review of previously agreed savings, there are some specific savings that are now deemed undeliverable for a variety of reasons, mainly due to changing environments compared to when the savings were agreed. The savings that are to be built back into the budget are as follows:

- W001 - Recylate Income - £1.500m
- ECS005 - ECS Management Action (funding of MIT Advisers) - £0.425m
- GET007 - On street Pay and Display - £0.397m



Also, a saving of £13.3m related to business processes was identified for 2025/26. After strengthening the delivery plan, £2.5m of this saving will now be 2026/27 rather than 2025/26.

Growing contributions from NHS had been built into the previous MTFS. There is ongoing dialogue with the Integrated Care Board in relation to the level contribution to the Better Care Fund to support relevant expenditure plans with Adult Social Care, but the increases are challenging. Savings for some of this are built into the MTFS.

Additional savings totalling £44.6m over the next 2 years have been identified in addition to the already embedded £80m over the next three years. Whilst challenging and stretching, these have been included in the MTFS (£24m 2025/26 and £44.6m 2026/27). These have been proposed following a rigorous and robust review of budgets, these are not deemed to be policy decisions, as the nature of the savings mainly relates to process efficiencies, operational cost savings and a small amount of additional income.

Table 3

	2025/26 (£m)	2026/27 (£m)
Adult Services	-6.860	-21.660
Education and Children's Services	-2.979	-3.919
Growth, Environment, Transport and Health	-5.612	-10.607
Resources and Chief Executive	-8.766	-8.078
Total	-24.217	-44.264

Further details relating to savings are shown in Appendix 'C'.

Following all the adjustments for savings outlined in Section 5 the net savings removed from the budget total £38m in 2025/26.

6. Reserves

The Council has a reasonable level of reserves. It has established a transitional reserve to support the strategic delivery of a sustainable balanced budget position, including facilitating modernisation and transformation so that services can remain the best in class. The phasing of the introduction of the savings needed allows the Council to minimise the impact on residents and service users through the development of fully thought through proposals, with the transitional reserve supporting the budget whilst these are implemented. This reserve is at £160m and as part of this MTFS process, all reserves need to be reviewed in the light of a sustainable position moving forward.

With a sustainable budget, good practice identifies that a council should hold a County Fund to weather unexpected variances within the year. It is recommended that this should be around 5% of the net budget which would be £56m from next year onwards.



There is a national crisis on high needs Direct Schools Grant where demand far outstrips funding provided. It is predicted that by the end of 2026/27 the national picture would amount to £4bn. Lancashire's position is estimated to be £8m by the end of this financial year rising to £67m by March 2027. Significant additional resources of £1bn have been allocated to SEND within the Autumn Statement. This will immediately stem the increase in deficit if that funding is reflected locally. Local authorities have been protected by something referred to as the statutory override, where these deficits are held outside of normal accounts, but this is due to end in March 2027. Therefore, it might be prudent to set aside a specific reserve of £20m should the solution not progress as quickly as hoped.

Even with this shift in balances, the uncommitted transitional reserve is more than sufficient to meet the forecast funding gap for the lifetime of the MTFs, based on current assumptions.

Table 4

	2025/26	2026/27
	£m	£m
Opening Balance Transitional Reserve	127.6	105.1
Opening Balance County Fund	56.0	56.0
Statutory Override Reserve Balance	10.0	20.0
Gap funding	(9.09)	0.0
Commitments	(13.4)	(6.1)
Reserves Position	171.1	175.0

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.

Appendix 'D' contains details of forecast reserve balances.

7. Future risks and opportunities

The MTFs is based on a number of key assumptions affecting the Council over a period of years into the future. They are also set against a considerable level of external uncertainty and high levels of demand for Council services.

There are therefore inevitably some inherent risks and opportunities associated with these assumptions.

The following are areas of future risk/uncertainty, the full impact of which is not known at this stage. The impact of changes could be both positive or negative on the current forecast:



Table 5

Savings Delivery	Savings programme of £121m in place prior to additional savings seeking approval in this report. Whilst the county council has a good track record of delivering savings there will inevitably be delivery challenges with a programme of that size.
Demand and Inflation	Demand and Inflation assumptions could fluctuate from the forecast included within the report.
Further Savings Identification and Delivery	Further savings will need to be found to set a balanced budget in future years.
Children's Social Care	Demand pressure and challenges in predicting future demand.
High Needs Block	Forecast to have pressures in future years, although Lancashire is better placed than many other councils nationally.
Adult Social Care	Delayed reforms could present future financial pressure, additional funding will be required to support implementation.
Health Income	The Integrated Care Board has a very challenging financial position with the potential risk to their aspirations to work in partnership and their ability to meet their funding commitments.
SEND & Home to School Transport	Assumptions made could fluctuate as this area is volatile and difficult to forecast. Every 1% change equates to £350,000.

In addition, the MTFS 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.

Table 6

	Potential Full - Year Impact of 1% movement (£m)
Funding - Council Tax	+/- 6.823
Pay	+/- 5.123
Price Inflation	+/- 8.161
Demand	+/- 5.175
Interest on borrowing	+/- 5.000



Appendix A - Funding Assumptions

Table A1 below reflects the updated assumed funding position.

Table A1

	2025/26 £m	2026/27 £m
Revenue Support Grant	40.836	41.675
Business Rates	254.581	259.052
Council Tax	682.345	724.991
New Homes Bonus	1.497	0.000
Improved Better Care Fund	47.145	47.145
Social Care Support Grant	123.056	123.056
Collection Fund	3.000	3.000
Services Grant	1.323	0.000
Capital Receipts	5.000	0.000
Total	1,158.783	1,198.919



Table A2

	2025/26	£m	2026/27	£m	Description
Funding					
Council Tax - increase	4.99%		4.99%		This is in line with Government assumptions including 2% adult social care precept. Decision to increase Council Tax is a decision taken by Full Council each year. The council tax increase is inflated after the tax base increase below has been applied, therefore they are interdependent.
Council Tax - tax base	1.20%		1.20%		Tax base increase is based on current District forecasts. Confirmed figures are provided by District Councils at the end of January each year.
Business Rates - growth	0.50%		0.50%		Business rates growth is confirmed by District Councils at the end of January each year. 0.5% is an estimate at this stage in the budget setting process and is based on historical trends.



Appendix B - Expenditure Assumptions

	2025/26	£m	2026/27	£m	Description
Inflation					
Pay	3.00%	12.7	2.00%	13.0	Based on reducing inflation levels and benchmarking information from other county councils.
Children's Social Care	Various	3.9	Various	3.5	CPI across contracts and type of expenditure varies with some areas using an average inflation figure and other having a very specific month's inflation as part of their contractual uplifts.
Adult Social Care	8% NLW and 2.2% CPI	29.0	7.5% NLW and 2.0% CPI	26.9	Driven largely by National Living Wage increases and CPI which form the basis of the uplifts agreed annually to provider fees. Increases vary across each type of care provision.
Waste	3%	6.2	2.80%	2.8	Contractual costs increased at RPI. Landfill tax increased by £22.45 (21.6%) in 25/26. Increases included as part of this updated MTFS.
Highways	2.80%	0.5	2.80%	0.5	Contractual costs increased at RPI.
Transport	2.80%	2.0	2.80%	2.1	Contractual costs increased at RPI.
Electricity	-27%	-1.5	2.8	0.6	Electricity purchased in advance for October 2024 – September 2025. Later increases assume RPI increase
Gas	-43%	-1.4	2.80%	0.1	Gas purchased in advance for October 2024 – September 2025. Later increases assume RPI increase.
Other Premises Costs	2.80%	0.5	2.80%	0.5	Running costs of building assumed increase at RPI.
Digital	2.80%	0.4	2.80%	0.6	Contractual costs increased at RPI.



	2025/26	£m	2026/27	£m	Description
Demand					
CSC Placements	N/A	5.8	0%	0.00	Backlog demand plus full year effect of growth in current year in 2025/26 based on historical trends (0.39% per month assumed in 2024/25) with no further growth in 2025/26.
CWD Placements	N/A	2.6	N/A	0.00	Backlog demand to reflect growth in latter half of 2023/24 and early half of 2024/25 with assumption that demand will remain stable thereafter.
CSC Special Guardianship Orders	7.00%	1.1	7.00%	1.2	SGOs have continued to rise over recent years, therefore a historical average has been used to project demand.
ASC	2.90%	12.3	2.90%	11.8	Based on older people population increases, with variations applied across different types of service provision.
Waste	4%	1.6	1%	0.5	Increase in waste tonnage from 400,000 to 417,000 tonnes in 2025/26.
SEND Transport	12.5%	8.0	8%	3.8	Projected growth across Special Educational Needs and Disability service is 14%, which is currently forecast to be the peak of demand post-pandemic. It is then forecast that growth gradually reduces over later years.



Appendix C - Savings

	2025/26	2026/27
	£m	£m
Adult Services		
Review of intervention levels and ways to meet residents needs	-6.860	-21.660
Total Adult Services	-6.860	-21.660
Education and Children's Services		
Reducing placement costs through "right home, first time", reviewing step downs and reducing placement costs	-2.480	-3.620
Service Challenge - Management Actions	-0.499	-0.299
Total Education and Children's Services	-2.979	-3.919
Growth, Environment, Transport and Health		
Home to school transport - promoting independent travel and increasing the number of pupils receiving support in mainstream provision	-0.840	-3.520
Public Health - redistribution of grant funding	-2.500	-2.500
Waste Management - Reduce residual waste		-2.030
Service Challenge - Management Actions	-2.272	-2.557
Total Growth, Environment, Transport and Health	-5.612	-10.607
Resources		
Service Challenge - Management Actions	-8.766	-8.078
Total Resources	-8.766	-8.078
Total Savings	-24.217	-44.264



Appendix D - Reserves

	Opening balance 2024/25	2024/25 Expenditure	2024/25 Closing Balance	2025-26 Forecast Exp	2025/26 Closing Balance	2026-27 Forecast Exp	2026/27 Closing Balance
	£m	£m	£m	£m	£m	£m	£m
County Fund	23.437	32.563	56.000		56.000		56.000
SUB TOTAL - COUNTY FUND	23.437	32.563	56.000	0.000	56.000	0.000	56.000
Strategic Investment Reserve	0.391	-0.133	0.258	-0.130	0.128		0.128
Downsizing Reserve	4.031	-1.756	2.275	-1.344	0.931		0.931
Statutory Override	0.000	10.000	10.000	10.000	20.000		20.000
Risk Management Reserve	2.940	0.000	2.940	0.000	2.940		2.940
Transitional Reserve	181.093	-53.477	127.616	-22.502	105.114	-6.040	99.074
Business Rates Volatility Reserve	5.000	0.000	5.000	0.000	5.000		5.000
LCC Service Reserves	107.664	-28.626	79.038	-29.205	49.833		49.833
OCE General Reserve	5.143	-3.570	1.574	-1.182	0.392		0.392
Treasury Management Valuation Reserve	20.571	-7.200	13.371	-6.000	7.371		7.371
SUB TOTAL - LCC RESERVES	326.833	-84.762	242.072	-50.364	191.708	-6.040	185.668
Non LCC Service Reserves	29.614	-12.047	17.567	-1.228	16.339		16.339
SUB TOTAL - NON LCC RESERVES	29.614	-12.047	17.567	-1.228	16.339	0.000	16.339
Schools Reserves	97.744	0.000	97.744		97.744		97.744
Schools Property Reserve	8.383	0.000	8.383		8.383		8.383
SUB TOTAL - SCHOOLS RESERVES	106.126	0.000	106.126	0.000	106.126	0.000	106.126
GRAND TOTAL	486.011	-64.246	421.765	-51.591	370.174	6.040	364.134



