

**Money Matters**  
**Financial Outlook for the County Council**  
**Medium Term Financial Strategy &**  
**Reserves as at 30<sup>th</sup> September 2019**

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**Lancashire**

County  
Council



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## 1. Executive summary

At cabinet in September 2019 the medium term financial strategy (MTFS) set out a forecast funding gap of £64.755m by the end of the 3 year period (2020/21 – 2022/23). The report was delivered on the day following the September spending review announcement. The timing of the announcement precluded the impact of the review from being factored into the assumptions and resulting numbers.

Since then, the provisional finance settlement for 2020/21 has been announced which has helped to significantly firm up the numbers for the coming financial year.

This report provides an updated position covering the 2020/21 – 2023/24 financial years.

A review of assumptions, relating to both income and expenditure, has been undertaken to reflect the most current information available. Due to the ongoing and unprecedented uncertainty in relation to future local government funding there are a significant number of variables leading to a range of different funding scenarios. These have been considered by the Corporate Management Team and the most likely scenario selected as the basis for this MTFS. The selected scenario is supported by advice from leading experts in local government finance and funding.

The updated funding gap contained within the report is £28.438m by 2023/24 which is a decrease of £36.317m from the previously reported position. The worst case scenario that we modelled, although unlikely, indicated a budget gap of £85.915m by 2023/24. There is no forecast requirement for structural budget funding from reserves in 2020/21. This is after assuming that there is a revenue contribution of £800,000 to the commencement of the organisational development review commencing in January 2020. There is a small surplus forecast for 2021/22 which would be available to support organisational transformational activity as identified by the review work in 2020/21. The main reasons for the changes to the position are as follows:

- Increased funding expectations in the light of the provisional settlement announced on the 20<sup>th</sup> December 2019 with the retention of the revenue support grant, a new social care grant and a one year adult social care precept contributing to the addition of £63.256m of resources into the budget.
- Net additional savings of £6.812m (rising to £10.031m by 2025/26) forecast to be delivered by the adoption of the Lancashire family safeguarding model following a successful bid for funding from the Department for Education.
- Service demand and volume changes and inflation and cost changes have increased costs by a net sum of £5.034m. This is primarily the outcome of increases in the levels of demand across services such as children's social care and transport, offset by some service cost adjustments due to changes to service configuration, particularly in relation to support service delivery models.
- Service cost adjustments of £2.744m reflecting the investment needed to support service challenge savings and one off funding of c£2.200m to deliver the adult social care management information system reconfiguration.
- Undeliverable £8.928m, and re-profiled savings £3.025m across the council.

Although the forecast indicates a balanced budget in 2020/21 without recourse to reserves, the position over the 4 year period indicates a structural deficit of £28.438m by 2023/24, which varies over each of the 4 years shown in Table 1. Work is progressing on phase two of the service challenge process which will seek to address the ongoing deficit and is focusing on a number of cross-cutting work streams and areas for investigation identified in the initial phase, but where further work is needed to robustly evidence the scale and form of proposals. In particular, service challenge phase 2 is focused on the complex levers required to create an environment where service configuration and operational practice reflects best in class and supports demand management which is the single biggest driver on our costs. Further saving proposals will come forward for consideration at future cabinet meetings.

The revised funding gap also makes assumptions about future funding levels and there remains significant uncertainty about this post 2020/21 with changes to be made in respect of business rates retention, the overall funding formula, the anticipated green paper on adult social care and, of course, any government spending review.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps beyond the period of this MTFs, which provides time to address the structural deficit in a considered and sustainable way. The intention remains to identify continued savings and deliver a financially sustainable position for the council.

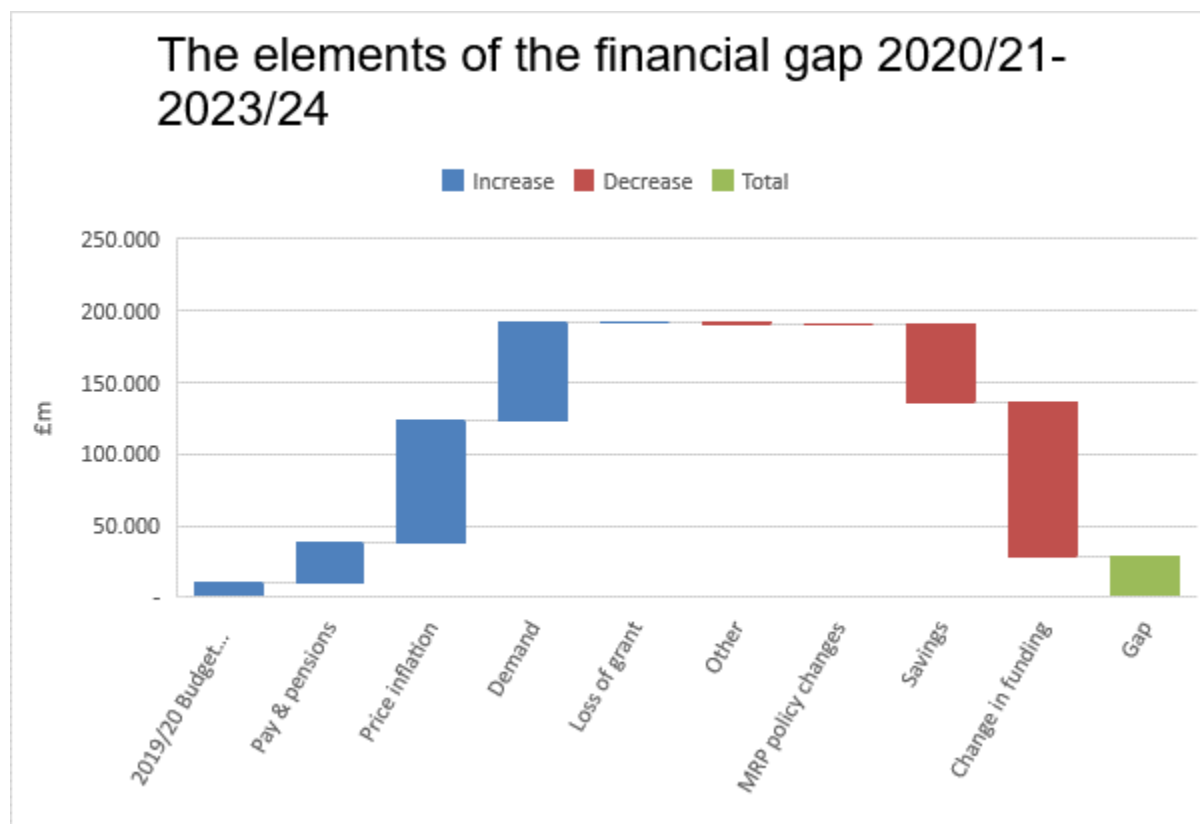
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

**Table 1**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
<b>Spending Gap as reported to Cabinet</b>	<b>5.895</b>	<b>39.034</b>	<b>19.826</b>	<b>20.064</b>	<b>84.819</b>
Add change to forecast of spending:					
Pay & Pensions	0.136	-0.007	-0.351	0.182	<b>-0.040</b>
Inflation and Cost Changes	1.214	-0.143	-0.254	0.098	<b>0.916</b>
Service Demand and Volume Pressures	3.560	0.960	-0.316	-0.086	<b>4.118</b>
Other	3.793	-0.549	0.000	-0.500	<b>2.744</b>
Undeliverable Savings	8.929	0.000	0.000	0.000	<b>8.929</b>
Additional Savings	-0.700	-4.313	-5.946	-1.857	<b>-12.816</b>
Re-profiled Savings	2.303	0.619	1.407	-1.304	<b>3.025</b>
<b>Total change to forecast of spending</b>	<b>19.235</b>	<b>-3.433</b>	<b>-5.460</b>	<b>-3.467</b>	<b>6.875</b>
Change to forecast of resources:					
Funding	-25.130	-40.789	-0.217	2.880	<b>-63.256</b>
<b>Total change to forecast of resources</b>	<b>-25.130</b>	<b>-40.789</b>	<b>-0.217</b>	<b>2.880</b>	<b>-63.256</b>
<b>Funding gap</b>	<b>0.000</b>	<b>-5.188</b>	<b>14.149</b>	<b>19.477</b>	<b>28.438</b>
<b>Forecast net budget requirement</b>	842.190	863.288	903.350	929.538	
<b>Funding</b>	842.190	868.476	889.201	910.061	

Aggregated funding gap	2020/21	2021/22	2022/23	2023/24
2020/21 (£m)	0.000	0.000	0.000	0.000
2021/22 (£m)		-5.188	-5.188	-5.188
2022/23 (£m)			14.149	14.149
2023/24 (£m)				19.477
<b>Total</b>	<b>0.000</b>	<b>-5.188</b>	<b>8.961</b>	<b>28.438</b>
<b>Previous position (£m)</b>	5.895	44.928	64.755	0.000
<b>Variance (£m)</b>	<b>-5.895</b>	<b>-50.116</b>	<b>-55.793</b>	<b>28.438</b>

The graph below demonstrates the drivers that make up the changes in the financial gap from £10.245m carried forward from 2019/20 to the cumulative position of £28.438m in the financial year 2023/24 as shown in the table above:



## 2. Funding

The funding included within this report reflects the provisional settlement for 2020 that was announced on 20th December 2019. The announcement confirmed that there would be a one year settlement in 2020/21 and that the fair funding review would be delayed until April 2021. There are no funding levels confirmed post 2019/20. Assumptions have therefore been made based on the provisional finance settlement for funding levels from 2020/21 – 2023/24 that are detailed within this report.

### Spending review, fair funding formula and 75% business rates retention

During 2020, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement confirmed that 2020/21 would effectively be 'rolled over' from 2019/20, giving councils the stability they need to set a budget.

In the provisional settlement, the Chancellor announced that councils will have access to new social care funding of £1.5bn in 2020/21. This consists of grant funding and up to a 2% adult social care precept.

The provisional settlement also confirmed that revenue support grant would continue at 2019/20 inflated amounts, and that the social care funding allocated in 2019/20

would continue into 2020/21. It was also confirmed that the 2019/20 75% business rates pilots would not continue into 2020/21

As a result of the uncertainty of future funding we have carried out some scenario analysis around possible funding profiles. In total 9 scenarios were modelled (this is not an exhaustive analysis of all funding options but consisted of the most obvious measures which could be taken) which resulted in forecast funding gaps between a surplus of £6m to a deficit of £85m. Following a review of these scenarios by the corporate management team, including the consideration of advice from external advisors, a core and most likely funding scenario on which to base this medium term financial strategy was agreed.

As a result of the above the assumptions around funding are that:

- Revenue support grant or funding at the equivalent value through any new fair funding formula will be ongoing for the currency of this plan
- An adult social care precept of 2% will be levied in 2020/21 only
- The social care grant announced in the provisional settlement will continue for the length of the parliament which covers the MTFS period and beyond.

The table below reflects the updated funding position.

**Table 2**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue Support Grant & New Homes Bonus	36.646	35.890	34.329	31.904
Business Rates	198.009	206.150	209.330	212.569
Council Tax	522.335	541.786	561.961	582.887
Better Care Fund	45.532	45.532	45.532	45.532
Social Care Grant	33.417	33.417	33.417	33.417
Collection Fund Surplus	3.750	3.750	3.750	3.750
Family Safeguarding	2.501	1.951	0.881	0.000
<b>Total</b>	<b>842.190</b>	<b>868.476</b>	<b>889.200</b>	<b>910.059</b>
<b>Funding assumed - previous MTFS</b>	<b>817.061</b>	<b>802.558</b>	<b>823.065</b>	<b>0.000</b>
<b>Variance</b>	<b>25.129</b>	<b>65.918</b>	<b>66.135</b>	<b>910.059</b>

The table above reflects a forecast reduction in new homes bonus and the inclusion of one off funding of £6.300m over the course of 3 years from the Department for Education to establish the Lancashire family safeguarding model. The adoption of this model is forecast to deliver net recurrent savings of £6.812m by the end of this forecast with circa £3.200m of additional recurrent savings to be delivered by 2025/26.

## 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
2020/21	1.99%	2.00%	3.99%
2021/22	1.99%	0.00%	1.99%
2022/23	1.99%	0.00%	1.99%
2023/24	1.99%	0.00%	1.99%

Following the spending round and technical consultation it is likely that the option to raise an adult social care precept of 2% will be available to authorities for 2020/21. From 2021/22 onwards, it is assumed the maximum increase that the county council is able to apply to council tax, without a referendum, is 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.

Within the current MTFS a tax base increase of 1.7% is included, which is the same position as in the previously reported MTFS based on historical average increases. However, in the most recent data available the tax base forecast position for 2019/20 for Lancashire was 1.4%. At this stage the average increase of 1.7% has been maintained within the MTFS, as we anticipate having an offsetting increase on the collection fund (which has also not been built into the MTFS at this stage) that could be increased due to prudent estimations of growth from district councils, based again on historical surplus positions.

### ***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 its assessed need and therefore we receive a top up grant. We also build in a small amount of growth into the MTFS for our local share at 0.5%.



It has now been confirmed that the 2019/20 75% business rates retention pilots will not continue in 2020/21. As a result we have sought guidance from sector experts and have modelled based on their guidance for a 50% scheme for 2020/21, then a 75% scheme for the remainder of the forecast period,

## **2.2 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.

In the light of current assumptions of increased funding being available, capital receipts of £7.000m and £2.500m which were previously included to support revenue expenditure within the MTFS have been removed.

## **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 salary pay pressure has been amended to reflect additional staffing in the education and children's services directorate to support the reduction in social worker caseloads and to deliver the changes required to deliver the Lancashire family safeguarding model and deliver a gross saving of circa £12.000m. In the previous MTFS there was an assumption representing a reversal of the discount on employer pension contributions due up to and including 2019/20. The current MTFS now includes a potential saving for a future pension prepayment which negates the previous reversal.

The pension cost line includes a reduction for the effects of the latest triennial valuation for the pension scheme which disclosed a significantly improved funding position and as a result a lower pensions contribution requirement of £6.400m per annum.

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

**Table 4**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Employee costs	11.351	7.461	7.195	7.209	<b>33.216</b>
Pensions costs	- 6.026	0.374	0.374	0.374	<b>-4.904</b>
Other pay related costs	0.068	0.051	0.052	0.050	<b>0.221</b>
<b>Revised pay and pension requirements</b>	<b>5.393</b>	<b>7.886</b>	<b>7.621</b>	<b>7.633</b>	<b>28.533</b>
<b>Pay and pensions - previous MTFS</b>	<b>5.257</b>	<b>7.893</b>	<b>7.972</b>	<b>-</b>	<b>21.122</b>
<b>Impact on financial gap</b>	<b>0.136</b>	<b>-0.007</b>	<b>-0.351</b>	<b>7.633</b>	<b>7.411</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.

**Table 5**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	17.580	12.380	13.147	15.435	<b>58.542</b>
Children's Services	1.704	1.545	1.420	1.990	<b>6.659</b>
Waste Services	1.870	2.347	2.578	2.578	<b>9.373</b>
Transport Services	1.397	1.463	1.553	1.632	<b>6.045</b>
Other Services	2.329	-1.644	1.567	2.220	<b>4.472</b>
<b>Revised price inflation requirements</b>	<b>24.880</b>	<b>16.091</b>	<b>20.265</b>	<b>23.855</b>	<b>85.091</b>
<b>Price inflation – previous MTFS</b>	<b>23.666</b>	<b>16.234</b>	<b>20.519</b>		<b>60.419</b>
<b>Impact on Financial Gap</b>	<b>1.214</b>	<b>-0.143</b>	<b>-0.254</b>	<b>23.855</b>	<b>24.672</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.

**Table 6**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	17.764	10.573	10.163	8.816	<b>47.316</b>
Children's Services	6.662	1.888	1.271	1.900	<b>11.721</b>
Waste Services	0.471	0.983	1.048	1.048	<b>3.550</b>
Transport Services	2.013	0.907	0.606	0.690	<b>4.216</b>
Other Services	-0.282	0.946	0.053	0.056	<b>0.773</b>
<b>Revised Demand Requirements</b>	<b>26.628</b>	<b>15.297</b>	<b>13.141</b>	<b>12.510</b>	<b>67.576</b>
<b>Demand – previous MTFS</b>	<b>23.068</b>	<b>14.337</b>	<b>13.457</b>		<b>50.862</b>
<b>Impact on Financial Gap</b>	<b>3.560</b>	<b>0.960</b>	<b>-0.316</b>	<b>12.510</b>	<b>16.714</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 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 four years to 2023/24 is £47.316m. 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. The funding requirement for children's social care has increased by £11.721m over the 4 year period to reflect increased demand across children looked after placements and family support for children with disabilities. We are looking at best practice sites across the country to explore opportunities to reduce demand in a way that delivers better outcomes for children. As a result of a successful bid to the Department for Education we have commenced planning to implement 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. This initiative is forecast to will ultimately deliver c£10m of recurrent savings by 2025/26 of which £6.812m are profiled to be delivered and built into the timeframes covered by this MTFS.

A number of other initiatives are being reviewed but as yet no formal conclusions have been reached and hence no impacts are included in the MTFS.

The public and integrated transport budget continues to see rising demand pressures. As part of this MTFS an additional £4.216m has been budgeted for across 2020/21 – 2023/24.

### 3.4 Undeliverable savings

There is a rigorous monitoring process of agreed savings in place and several savings have been classified as undeliverable due to changing circumstances and consultation feedback. Services are expected to find compensatory savings but in some cases it has not been possible to do this. The following savings are built back into the budget at quarter 2:

Acute Passport to Independence	£5.700m
Learning Excellence (Additional Income)	£789,000
Additional labour recharges	£40,000
Reduce repairs & maintenance budget	£1.750m
Apprenticeship levy	£440,000
Recharge additional staff time to capital	£209,000

These savings total £8.928m which represents a small proportion of overall savings. After the removal of these savings 94.2% of agreed savings are still being forecast for delivery by 2022/23.

### 3.5 Additional savings

The initial service challenge process necessarily focused on individual service reviews supported by benchmarking data which identified a number of areas where the council was high cost compared to a number of other county councils. The aim was to deliver the same or better outcomes at reduced cost wherever possible and phase 1 of the service challenge process identified £68.710m of savings proposals which were included both within the 2019/20 budget and the MTFS position. Financial benchmarking data of the cost of service position of the council relative to other county councils, reflects that some services are delivered at a relatively higher cost overall than the mean or median county council. This is largely driven by operational practice.

Phase 1 also identified a number of cross-cutting work streams and areas for investigation and review which is being taken forward as part of the service challenge phase 2 process. These work streams are more complex, requiring a fundamental challenge of, in many cases, longstanding organisational wide approaches, systems and processes to enable both service improvements and cost savings to be identified. Work is progressing on phase 2 with demand management, commissioning, organisational development, property management, commercialisation, schools traded services, transport and digital being key areas of focus. Projects on these areas and the savings options will be shared with cabinet as and when available and when timescales for their delivery are agreed. Relevant projects will be a focus for relevant finance monitoring boards as appropriate.

## 4. Reserves

**Table 7**

Reserve Name	Opening balance 2019/20	2019/20 Forecast Expenditure	Forecast Contribution to/from Reserves (Other Revenue e.g. Schools)	2019/20 forecast transfers to/from other reserves	Forecast Closing balance 2019/20	2020-21 Forecast Spend	2021-22 Forecast Spend	Forecast closing balance 31 March 2022
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	0.000	-23.437	0.000	0.000	-23.437
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.437</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.437</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.437</b>
Strategic Investment Reserve	-2.096	-1.056	0.000	0.000	-3.152	1.906	0.246	-1.000
Downsizing Reserve	-7.445	4.605	0.000	0.000	-2.840	2.840	0.000	0.000
Risk Management Reserve	-2.804	1.241	0.000	0.000	-1.563	0.763	0.800	0.000
Transitional Reserve	-164.254	13.909	0.000	-0.013	-150.358	2.460	0.304	-147.594
Service Reserves	-13.251	9.957	0.000	0.013	-3.281	1.518	1.082	-0.681
Treasury Management Reserve	-10.000	0.000	0.000	0.000	-10.000	0.000	0.000	-10.000
<b>SUB TOTAL - LCC RESERVES</b>	<b>-199.849</b>	<b>28.656</b>	<b>0.000</b>	<b>0.000</b>	<b>-171.193</b>	<b>9.487</b>	<b>2.432</b>	<b>-159.274</b>
Schools/Non-LCC Service Reserves	-17.528	1.721	0.000	0.000	-15.807	0.826	1.439	-13.542
<b>SUB TOTAL SCHOOLS/NON LCC RESERVES</b>	<b>-17.528</b>	<b>1.721</b>	<b>0.000</b>	<b>0.000</b>	<b>-15.807</b>	<b>0.826</b>	<b>1.439</b>	<b>-13.542</b>
<b>GRAND TOTAL</b>	<b>-240.814</b>	<b>30.377</b>	<b>0.000</b>	<b>0.000</b>	<b>-210.437</b>	<b>10.313</b>	<b>3.871</b>	<b>-196.253</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 3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £150.358m by the end of March 2020. This represents a marginally improved position of £108,000 from the £150.250m that was previously reported to full council for quarter 1 in September 2019.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps beyond the period of the MTFs as set out in table 8 below. Regardless, the intention remains to identify further savings to reduce the gap, and hence the call on reserves, in the future.

**Table 8**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
<b>Opening Balance</b>	150.358	147.898	152.783	143.821
<b>Gap funding</b>	0.000	-5.188	8.961	28.438
<b>Commitments</b>	2.460	0.304	0.000	0.000
<b>Closing balance</b>	<b>147.898</b>	<b>152.782</b>	<b>143.821</b>	<b>115.383</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 Savings delivery**

The scale of savings agreed to be delivered over future financial years remains significant with £58.370m to be delivered over the period 2020/21 – 2022/23.

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.

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.

However, there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

### **5.2 Further savings opportunities**

As noted in the body of the report, phase 1 of the service challenge process also identified a number of cross-cutting work streams and areas for investigation and review which are being taken forward as part of the service challenge phase 2 process. These work streams are necessarily complex, requiring a fundamental challenge of, in many cases, longstanding organisational approaches, systems and processes to enable both service improvements and cost savings to be identified. Whilst financial benchmarking data, has identified that some services are delivered at a relatively significant higher cost overall than the mean or median county council.

Work is progressing on phase two of the service challenge process which will seek to address the ongoing deficit and is focusing on a number of cross-cutting work streams and areas for investigation and review identified in the initial phase, but where further work is needed to robustly evidence the scale and form of proposals. In particular, service challenge phase 2 is focused on the complex levers required to create an environment where service configuration and operational practice reflects best in class and supports demand management which is the single biggest driver on our costs.

Cabinet members will be kept informed of the progress on each of initiatives as and when savings proposals are evaluated and timescales for their delivery are agreed.

### **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 2021/22 at the earliest following a multi-year spending review and consultation during the course of 2020.

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.

Significant additional budget was allocated to children's social support improvements and demand pressures over the past 3 years. An assumption within this MTFS is made that demand will plateau in future years, and a reducing demand increase has been built into future year's budget. 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 will be adopting the Lancashire family safeguarding model in 2020, which will drive better outcomes for children, by focussing on early family based support, whilst also delivering an efficiency of c£10.000m per annum when the practice is fully embedded across the county.

### **5.5 Troubled families funding**

The county council currently receives funding towards working with troubled families. Where we have received written confirmation of troubled families funding this has been included in the MTFS. The spending review in September 2019 confirmed that that funding would continue post 2019/20 however there was no confirmation of the likely sums available. It is assumed that funding levels will remain at 2019/20 levels. While we understand that alternative funding will be available for this work, at the moment there have been no details announced as to how this will arise. If the funding does cease this will result in a pressure on the budget of £2.100m. Given the lack of clarity we have discussed this with other local authorities in a similar position, as to the approach they are taking, and they have confirmed that they are also forecasting the funding to continue, but this will be closely monitored as announcements relating to funding are to be made imminently and outcomes will be reflected in future MTFS reports.

## 5.6 MTFS assumptions and scenario analysis

Given the uncertainty surrounding the future funding for local government we have tested a range of assumptions of funding scenarios to assess the level of risk that could result should alternative funding models be implemented. In producing this MTFS the Corporate Management Team has selected the most likely funding scenario.

The key assumptions that have been analysed and tested relate to the additional social care funding announced by the Chancellor and also the impact of changes to baseline funding (particularly the inclusion of revenue support grant). We have also tested the impact of possible flexibilities in council tax and in particular the levying of an adult social care precept.

The scenarios tested are as per Table 9 below.

The worst case (scenario 1) forecasts a cumulative budget gap of £85.915m by 2023/24. In this scenario there would only be sufficient reserve funding to support the structural deficit during 2022/23 but only partway through 2023/24.

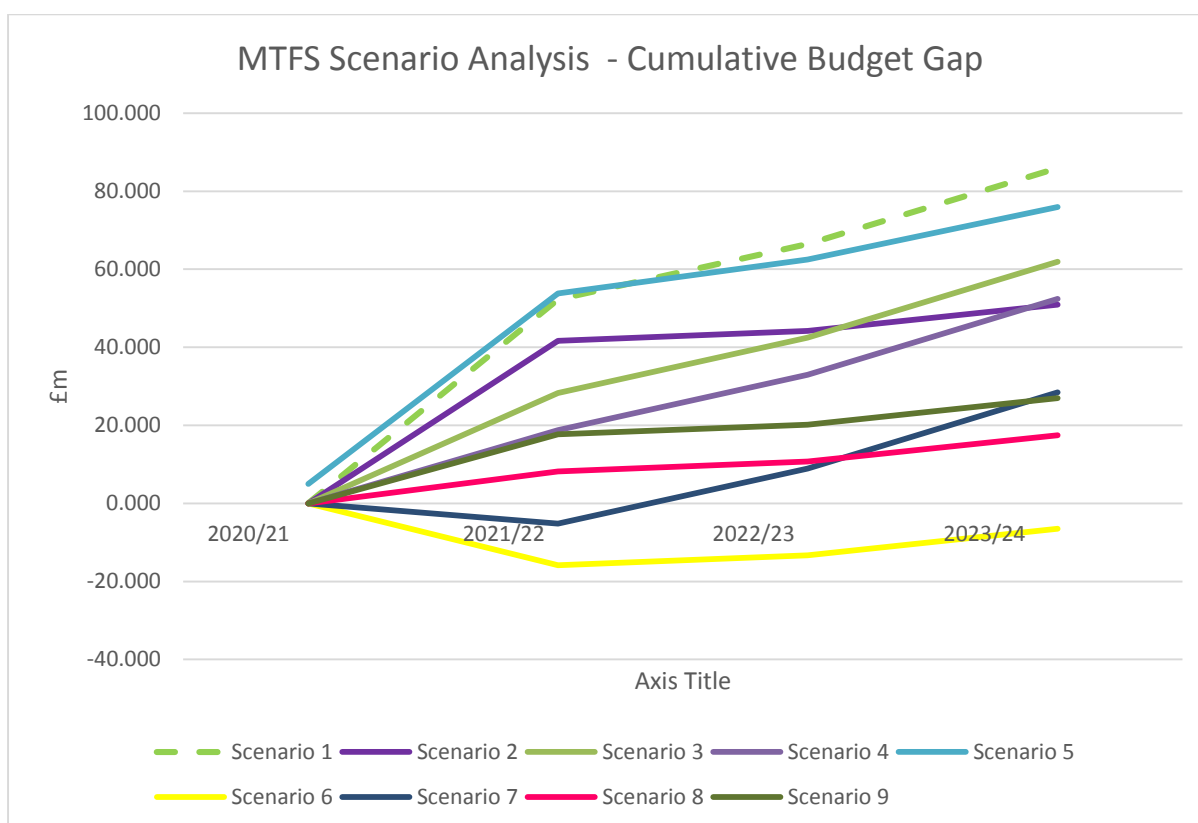
In the best case (Scenario 6) showing a forecast cumulative "surplus" for the period of £6.530m, there would be no overall call on reserves.

The most likely scenario which has been adopted for this MTFS is scenario 7, with a forecast budget gap of £28.438m by 2023/24. In this scenario there would be a net call on reserves of £34.975m over the forecast period, but this would leave retained reserves to support the organisation beyond 2023/24 of £115.383m



**Table 9**

Scenario	Revenue Support Grant	Adult Social Care Precept	Social Care Grant announced in SR2019
Scenario 1 (Worst Case)	Included for 2020-21 only	2% for 2020-21 only	Included for 2020-21 only
Scenario 2	Included for 2020-21 only	2% ongoing	Included for 2020-21 only
Scenario 3	Included for 2020-21 only	2% for 2020-21 only	Included for the entire MTFS period
Scenario 4	Included for the entire MTFS period	2% for 2020-21 only	Included for 2020-21 only
Scenario 5	Included for 2020-21 only	1% Ongoing	Included for 2020-21 only
Scenario 6 (Best Case)	Included for the entire MTFS period	2% ongoing	Included for the entire MTFS period
Scenario 7 (Most Likely Case)	Included for the entire MTFS period	2% for 2020-21 only	Included for the entire MTFS period
Scenario 8	Included for the entire MTFS period	2% ongoing	Included for 2020-21 only
Scenario 9	Included for 2020-21 only	2% ongoing	Included for the entire MTFS period



The scenarios presented clearly demonstrate the significant financial impact resulting from changes to the assumptions included within the MTFS. In all cases however, the council has sufficient reserves to support the gap through 2022/23 but only partway into 2023/24. The most likely scenario assumed within the MTFS shows that a structural deficit would still remain and reinforces the importance of addressing the underlying cost drivers within the council to secure financial sustainability moving forward.

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

	Potential Full-Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.223
Pay (1%)	+/- 2.758
Price Inflation (1%)	+/- 4.974
Demand (1%)	+/- 6.030

This stress testing gives confidence that the council can continue to live within its means for a number of years even 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.