

**Money Matters**  
**Financial Outlook for the County Council**  
**Medium Term Financial Strategy &**  
**Reserves – Quarter 3**

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**Lancashire**

County  
Council



	<b>Contents</b>	<b>Page</b>
<b>1</b>	<b>Executive Summary</b>	<b>3</b>
<b>2</b>	<b>Funding</b>	<b>7</b>
<b>3</b>	<b>Net Budget Requirement</b>	<b>11</b>
<b>4</b>	<b>Reserves</b>	<b>15</b>
<b>5</b>	<b>Future Risks and Opportunities</b>	<b>16</b>

## 1. Executive summary

At Cabinet in November 2020 the updated medium term financial strategy (MTFS) set out a forecast aggregated funding gap of £50.368m in 2021/22 and £78.791m by the end of the 3 year period (2021/22 – 2023/24). This reflected the ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency.

Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs. The MTFS at quarter 3 reflects the provisional financial settlement which was announced on 17<sup>th</sup> December 2020. This provided confirmation of funding announcements made by the Chancellor as part of the Spending Review 2020, however these are subject to consultation and could change as part of the final financial settlement. This included the ability to raise additional council tax through a social care precept and additional funding to support the costs of the Covid-19 pandemic. These changes have had a significant impact on the forecast gap in 2021/22, however it must be noted that many of these changes are non-recurrent and it is likely that there will be longer term pressures within the budget due to the impact of Covid-19 which are difficult to quantify at this stage in the pandemic.

The information in relation to council tax is heavily dependent upon calculations undertaken by district councils. This report contains the best estimates of tax base for 2021/22 and the estimated irrecoverable income in 2020/21, which the Government has agreed can be spread over 3 years and have now indicated they will provide funding for 75% of the cost. This is an area that we expect to change prior to the budget Full Council in February, as districts are working through tax base projections (including the impact of council tax support schemes and collection rates), with the information not needing to be provided until the statutory deadline of 31<sup>st</sup> January.

This report provides an updated position covering the financial years 2021/22 – 2023/24. The forecast funding gap for 2021/22 is £2.319m, with an updated aggregated funding gap contained within the report of £53.956m by 2023/24 which is a reduction of £24.835m from the previously reported position in November. The main reasons for the changes to the position are as follows:

- Increase in council tax of 4.99% including the ability to raise an additional 3% as an adult social care precept.
- Additional business rates income s31 grants confirmed in the provisional settlement.
- An estimated reduction in council tax base of 1% which is offset by additional funding provided as part of the Covid-19 support package.
- Additional capital receipts forecast for 2021/22.
- Additional costs in relation to ICT infrastructure, legal fees, and capital financing.
- Reduced income within education services.
- Additional savings identified mainly relating to the extension of current activity to identify and collect all income due to the council particularly across adult social care, along with a move, in common with many authorities, to self-insurance of

the waste facilities reflecting the increasing challenge of accessing cost-effective insurance provision in this sector.

The Tier system across England is being regularly reviewed and announcements and decisions made dependent upon a number of factors. Currently, Lancashire is within Tier 4 of local restrictions, with further funding received, analysis over coming months will be required to fully assess the impact of these restrictions (and any future further or reduced restrictions) and the longer term impact on the county council's financial projections.

In arriving at the revised funding gap it has been necessary to make assumptions about future funding levels and there remains significant uncertainty about this going forward. With the changes to be made in respect of business rates retention, and the overall funding formula which have been delayed for a further year and the anticipated green paper on adult social care could all impact on our future funding in the later years of the MTFS.

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

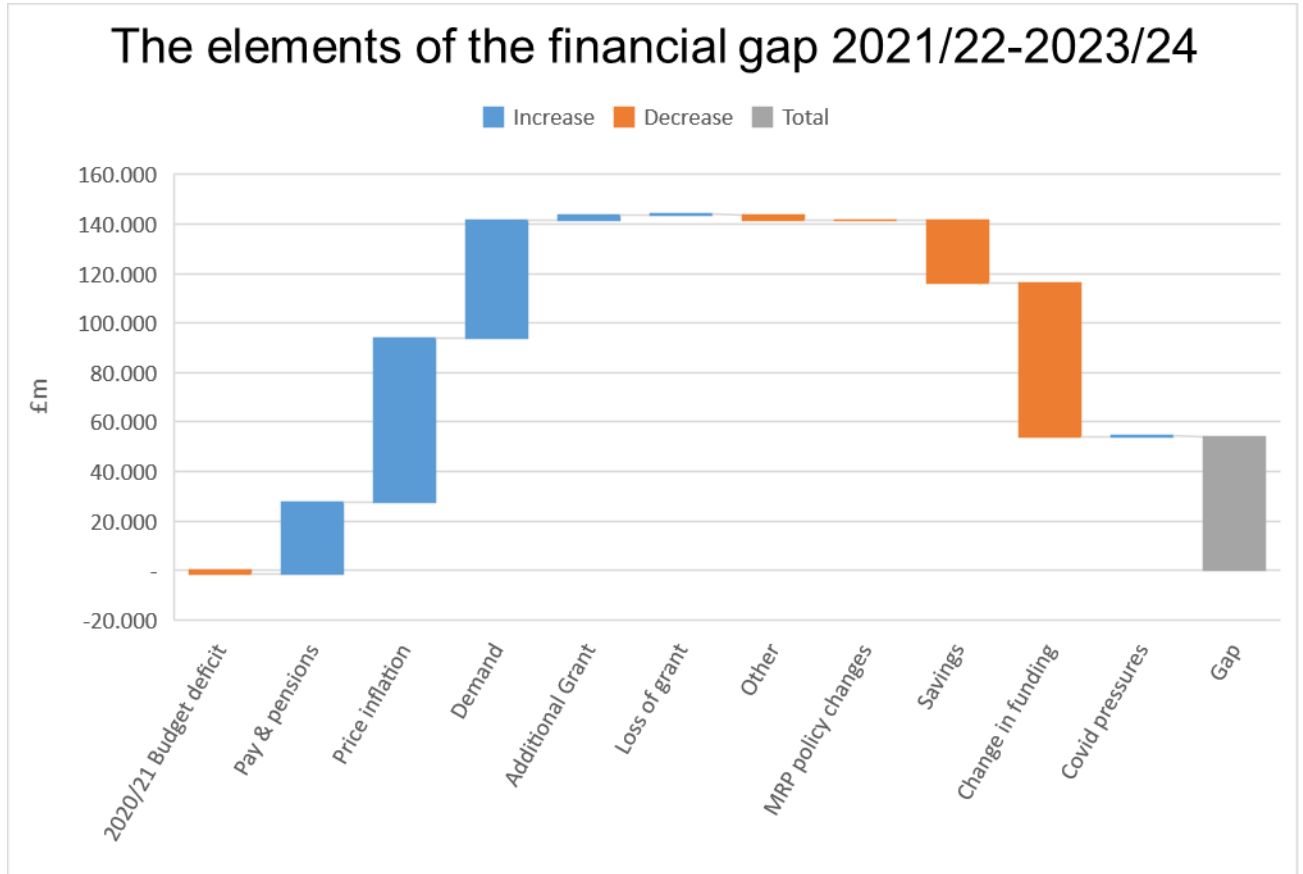
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

**Table 1**

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
<b>Spending Gap as reported to Cabinet quarter 2</b>	<b>50.368</b>	<b>13.186</b>	<b>15.237</b>	<b>78.791</b>
Add change to forecast of spending:				
Pay & Pensions	2.058	-0.854	-0.982	<b>0.222</b>
Inflation and Cost Changes	-2.538	0.141	-0.739	<b>-3.136</b>
Service Demand and Volume Pressures	3.521	-1.313	-0.851	<b>1.357</b>
Other	22.252	-18.690	0.000	<b>3.562</b>
Additional Grant	-28.694	28.621	0.000	<b>-0.073</b>
Undeliverable Savings	0.370	0.000	0.000	<b>0.370</b>
Additional Savings	-6.065	-0.288	0.000	<b>-6.353</b>
Reprofiled Savings	0.247	-0.507	-0.299	<b>-0.559</b>
Covid Impact/Pressures	-1.343	0.388	0.624	<b>-0.331</b>
<b>Total Change to Forecast of Spending</b>	<b>-10.192</b>	<b>7.498</b>	<b>-2.247</b>	<b>-4.941</b>
Change to forecast of resources:				
Funding	-37.857	18.195	-0.232	<b>-19.894</b>
<b>Total Change to Forecast of Resources</b>	<b>-37.857</b>	<b>18.195</b>	<b>-0.232</b>	<b>-19.894</b>
<b>Funding Gap</b>	<b>2.319</b>	<b>38.879</b>	<b>12.758</b>	<b>53.956</b>

Aggregated Funding Gap	2021/22	2022/23	2023/24
<b>2021/22 (£m)</b>	2.319	2.319	2.319
<b>2022/23 (£m)</b>		38.879	38.879
<b>2023/24 (£m)</b>			12.758
<b>Total</b>	<b>2.319</b>	<b>41.198</b>	<b>53.956</b>
<b>Previous position (£m)</b>	<b>50.368</b>	<b>63.554</b>	<b>78.791</b>
<b>Variance (£m)</b>	<b>-48.049</b>	<b>-22.356</b>	<b>-24.835</b>

The graph below demonstrates the drivers that make up the changes in the financial surplus of £1.358m carried forward from 2020/21 to the cumulative position of £53.956m in the financial year 2023/24 shown in the table above:



## **2. Funding**

On 25<sup>th</sup> November the Chancellor announced the Spending Review 2020 (SR20). Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to Covid-19 and focus on supporting jobs.

The Provisional Settlement was announced on 17<sup>th</sup> December 2020 and confirmed the funding streams that were included within SR20 and provided more detailed information and allocations for councils.

### **Business Rates**

A review of the business rates system has been pending for a number of years, with early development of a new system taking place with pilots and elements of the system being consulted on. This has however been paused due to the pandemic and the effect of Covid-19 on the economy, has made fundamental change to business rates, which could even see them being replaced with a different business tax, much more likely.

### **Fair Funding Formula**

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

As part of the announcement of the provisional settlement the secretary of state could not provide certainty at this stage of the revised date that the fair funding formula and changes to the business rates system will take place due to the ongoing impact of the pandemic.

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

- From the latest returns from districts, the council's share of a collection fund deficit of c£20.7m is forecast. In line with government guidance this is to be repaid over financial years 2021/22 - 2023/24. This has been reduced by 75% to reflect the additional support to be provided to councils.
- A reduction in tax base has been forecast for 2021/22 due to early indicative information we have received from district councils. With a 1% increase included in 2022/23 and a return to pre-Covid levels of 1.7% per annum thereafter.
- Council tax increases of 4.99% will be applied to 2021/22 to include the additional adult social care precept that is permitted. An increase of 1.99% is assumed in 2022/23 and 2023/24.
- No growth or uplift on business rates has been built into 2021/22 with a return to growth of 0.5% per annum thereafter.
- Revenue support grant will be rolled over for the duration of this strategy.
- Social care grant will be rolled over for the duration of this strategy, including additional grant announced as part of SR20 and the provisional settlement.
- Capital receipts increased to £4.000m for 2021/22 and assumed that the flexibility to use within the revenue budget is not extended into later years.

The table below reflects the updated funding position.

**Table 2**

	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Revenue Support Grant	33.615	34.220	34.904
Business Rates	201.997	204.773	208.631
Council Tax	540.122	556.380	577.098
New Homes Bonus	2.416	1.635	0.799
Improved Better Care Fund	45.532	45.532	45.532
Social Care Support Grant	41.943	41.943	41.943
Collection Fund	-1.728	-1.728	-1.728
Capital Receipts	4.000	0.000	0.000
Local Council Tax Support Grant	11.429	0.000	0.000
<b>Total</b>	<b>879.326</b>	<b>882.755</b>	<b>907.179</b>
<b>Funding assumed - previous MTFS</b>	<b>841.469</b>	<b>863.093</b>	<b>887.285</b>
<b>Variance</b>	<b>37.857</b>	<b>19.662</b>	<b>19.894</b>
<b>Impact on financial gap</b>	<b>-37.857</b>	<b>18.195</b>	<b>-0.232</b>



## 2.1 Council tax and business rates

### **Council tax**

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

**Table 3**

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2021/22	1.99%	3.00%	4.99%
2022/23	1.99%	0.00%	1.99%
2023/24	1.99%	0.00%	1.99%
2024/25	1.99%	0.00%	1.99%

As part of the provisional settlement it was confirmed that the maximum increase that we will be able to apply to council tax, without a referendum, will be 1.99%. In addition those authorities with responsibility for adult social care have the ability to raise council tax by an additional 3% through an adult social care precept. It has also been confirmed that any of the 3% allowed increase not taken in 2021/22 can be carried forward and applied in 2022/23. 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 £5.145m.

The calculation of the council tax base position in 2021/22 is particularly challenging as district councils need to assess the number of properties that can be taxed, the collection rate and also the council tax support schemes that they offer. The Government has provided additional support to compensate a reduced tax base due to the impact of Covid-19. Early indications from district councils are that there will be a reduction in tax base, but they are working through their position in order to provide their tax base for 2021/22 by the statutory deadline of 31<sup>st</sup> January 2021. Within the MTFS at quarter 3 we have assumed a reduction in tax base of 1%, however this is subject to change as further information becomes available from district colleagues. The county council has been allocated £11.429m of additional funding to compensate for losses due to the council tax support schemes and this has been included in the MTFS at quarter 3.

For 2022/23 a 1% increase in tax base has been built in to the forecast, and in 2023/24 returns to 1.7% increase. This has been assumed based on historical average increases. This position will be impacted dependent upon the duration of the pandemic.

### **Business rates**

Business rates income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the county council, the amount we anticipate to receive from the business rates collected in the area is less than our assessed need and therefore we receive a

top up grant. Previously, we have also built in a small amount of growth into the MTFS for our local share at 0.5%.

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

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

### ***Collection Fund***

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

The latest information received from districts suggests that there will be a c£20.7m pressure for LCC as a result of the collection fund issue and thus a c£6.9m in year pressure for financial years 2021/22 - 2023/24. This position is based upon the latest information provided by district councils as part of regular returns to the Government. This will need to be closely monitored as changes in relation to restrictions, such as the movement to Tier 3 and 4 are implemented and have an impact on businesses.

As part of the provisional settlement it was announced that the Government will provide funding to support 75% of irrecoverable losses. Therefore as part of the MTFS at quarter 3 we have reduced the impact in each of the next 3 years. This may be an overly simplistic way of undertaking the calculation, but at this stage our district colleagues are working through the additional guidance and calculation templates provided by MHCLG and we await confirmation of their deficit position.

### ***Capital Receipts***

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

The MTFS includes £4.000m of capital receipts income in 2021/22. As part of the service challenge process additional resources were identified to support the transformation of services and delivery of the savings. The assumption within the MTFS is that capital receipts will be sufficient to meet these transformation costs in 2021/22 and therefore they will not be a draw on reserves or increase the funding gap.

### 3. Net budget requirement

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

#### 3.1 Pay and pensions

The MTFS at quarter 3 has not changed significantly and reflects the agreed pay settlement for 2020/21 of 2.75% and assumes a 2% increase in subsequent years.

As part of the Spending Review it was announced that funding for public sector pay would not be increased in 2021/22, however the pay award will be determined following negotiations between the employer and trade union sides of the National Joint Council (NJC) for Local Government Services and a pay freeze has not been reflected at this stage.

The main change to the pay forecast relates to additional staffing agreed across various services to respond to Covid-19 where only the first quarter of the year will be funded by additional grant from MHCLG. As these costs are generally fixed term for 12 – 24 months the costs drop out in later years across the MTFS.

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

**Table 4**

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Employee costs	13.057	6.289	6.914	<b>26.260</b>
Pensions costs	1.144	1.060	0.000	<b>2.204</b>
Other pay related costs	0.200	0.038	0.039	<b>0.277</b>
<b>Revised pay and pension requirements</b>	<b>14.401</b>	<b>7.387</b>	<b>6.953</b>	<b>28.741</b>
<b>Pay and pensions - previous MTFS</b>	<b>12.343</b>	<b>8.241</b>	<b>7.935</b>	<b>28.519</b>
<b>Variance</b>	<b>2.058</b>	<b>-0.854</b>	<b>-0.982</b>	<b>0.222</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.

As part of the Spending Review 2020 an update was provided as to the level of the national living wage for 2021 which is a key factor in determining fee levels for our commissioned services within adult social care and is reflected in this updated position. Actual proposed fee levels for Adult Social Care in 2021/22 will be considered by Cabinet in February following engagement with a number of providers to consider overall cost pressures.

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

**Table 5**

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	15.011	13.911	14.706	<b>43.628</b>
Children's Services	1.364	1.893	2.121	<b>5.378</b>
Waste Services	2.460	2.041	2.167	<b>6.668</b>
Transport Services	1.463	1.553	1.632	<b>4.648</b>
Other Services	-1.643	2.208	2.035	<b>2.600</b>
<b>Revised price inflation requirements</b>	<b>18.655</b>	<b>21.606</b>	<b>22.661</b>	<b>62.922</b>
<b>Price inflation – previous MTFS</b>	<b>21.193</b>	<b>21.465</b>	<b>23.400</b>	<b>66.058</b>
<b>Variance</b>	<b>-2.538</b>	<b>0.141</b>	<b>-0.739</b>	<b>-3.136</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**

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adults Services	10.014	9.079	9.540	<b>28.633</b>
Children's Services	2.880	2.615	3.364	<b>8.859</b>
Waste Services	1.717	0.434	0.481	<b>2.632</b>
Transport Services	0.907	0.606	0.690	<b>2.203</b>
Other Services	5.135	0.122	0.122	<b>5.379</b>
<b>Revised Demand Requirements</b>	<b>20.653</b>	<b>12.856</b>	<b>14.197</b>	<b>47.706</b>
<b>Demand – previous MTFS</b>	<b>17.132</b>	<b>14.169</b>	<b>15.048</b>	<b>46.349</b>
<b>Variance</b>	<b>3.521</b>	<b>-1.313</b>	<b>-0.851</b>	<b>1.357</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 three years to 2023/24 is £28.633m. This will continue to be monitored and figures may be updated in future MTFs reports.

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

Additional demand has been included at quarter 3 to reflect ongoing pressures across legal services due to pre-proceedings cases in children's social care. This is reported as a pressure within budget monitoring for 2020/21 and as we expect this to be a recurrent pressure it has been included in the MTFs.

A review has been undertaken of the ICT infrastructure budget to support the county council over coming years, particularly following the change in working arrangements due to Covid-19. An additional estimated budget shortfall of £2.700m has been included at this stage, however work will continue to refine this figure as the pandemic and our new ways of working develop over the next few months.

### **3.4 Other Adjustments**

As part of the spending review 2020 additional funding was announced to support budgetary pressures in 2021/22 as a result of the pandemic. This section of the MTFs therefore includes the additional expenditure related to this funding. This is one-off funding and is therefore removed from the MTFs in 2022/23.

In addition, a pressure has been identified across the capital financing budget and additional costs are expected to be incurred. An additional £2.000m has been included recurrently to support this budget pressure.

A review of the schools advisory service and the delivery model that the service operates with, particularly in relation to income generation, has resulted in agreement that the income target should be reduced. The pressure of £0.975m has been included within the MTFs at quarter 3.

Finally, to ensure that the insurance provision is maintained at a level that will provide coverage of the estimated level of risk for the county council, a recurrent additional contribution to the insurance provision of £0.500m per annum has been included.

### **3.5 Additional Grant**

This section includes additional Covid support grant of £25.994m and estimated sales fees and charges compensatory support of £2.300m. In addition a small adjustment has been made to the profiling of grant income for the family safeguarding project.

### **3.6 Undeliverable Savings**

Following a review of savings it has been identified that a saving within Adult Services that related to the transfer of a service to the county council (SC513) is partially undeliverable, with £370,000 built back into the budget from 2021/22.

### **3.7 Re-profiled Savings**

As part of the budget monitoring process a review of the delivery of savings is undertaken. Over recent months there are several savings that have been reviewed and challenged in relation to the delivery timescales for different elements of the agreed savings, with challenge given to the service as to whether this can be offset by savings/underspends elsewhere. Following this rigorous process savings across integrated transport and family safeguarding have been re-profiled at quarter 3.

### **3.8 Covid Impact/Pressures**

An adjustment has been made to reflect a revised estimate of the pressure that could be incurred across children' social care due to Covid-19. This is following a review of the base demand requirements for the service and the in-year position as part of budget monitoring.

## 4. Reserves

**Table 7**

Reserve Name	Opening balance 2020/21	2020/21 Forecast Exp	2020/21 Forecast transfers to/from other reserves	2020/21 Forecast Closing Balance	2021-22 Forecast Exp	2022-23 Forecast Exp	Forecast closing balance 31 March 2023
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.437</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	-5.819	-1.292	1.979	-5.132	3.319	0.812	-1.001
COVID-19 Reserve	-33.961	33.961	0.000	0.000	0.000	0.000	0.000
Downsizing Reserve	-5.642	0.000	0.000	-5.642	2.821	2.821	0.000
Risk Management Reserve	-1.935	0.000	0.000	-1.935	0.876	1.059	0.000
Transitional Reserve	-151.199	-7.862	-0.359	-159.420	0.494	0.199	-158.727
Service Reserves	-18.201	1.391	-1.966	-18.776	17.042	0.459	-1.275
Treasury Management Reserve	-11.597	-5.403	0.000	-17.000	0.000	0.000	-17.000
<b>SUB TOTAL - LCC RESERVES</b>	<b>-228.354</b>	<b>20.795</b>	<b>-0.346</b>	<b>-207.905</b>	<b>24.552</b>	<b>5.350</b>	<b>-178.003</b>
Non-LCC Service Reserves	-16.305	1.258	0.346	-14.701	1.677	0.257	-12.767
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-16.305</b>	<b>1.258</b>	<b>0.346</b>	<b>-14.701</b>	<b>1.677</b>	<b>0.257</b>	<b>-12.767</b>
<b>GRAND TOTAL</b>	<b>-268.096</b>	<b>22.053</b>	<b>0.000</b>	<b>-246.043</b>	<b>26.229</b>	<b>5.607</b>	<b>-214.207</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 £159.420m by the end of March 2021. This represents an improved position of

£8.179m from the £151.241m that was previously reported to cabinet in November 2020. This is mainly due to the inclusion of the forecast underspend for 2020/21 that will be a contribution to the transitional reserve.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps for 2021/22 – 2023-24 as set out in table 8 below.

**Table 8**

	2021/22	2022/23	2023/24
<b>Opening Balance</b>	159.420	156.607	115.210
<b>Gap funding</b>	2.319	41.198	53.956
<b>Commitments</b>	0.494	0.199	0.000
<b>Closing balance</b>	<b>156.607</b>	<b>115.210</b>	<b>61.254</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 The financial impacts of the ongoing Covid-19 response**

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

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

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

Following a one year spending review for 2021/22 there is continued uncertainty about the future funding envelope and significant assumptions have to be made as part of the development of the MTFS.

For the purposes of this MTFS we have assumed that there is no additional funding to meet any pressures included in relation to the virus beyond the first quarter of 2021/22 as announced within the Spending Review 2020 and Provisional Settlement.

### **5.2 Savings delivery**

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic. In addition there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23.

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



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

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

### **5.3 Business rates retention / changes to funding formula**

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

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

### **5.4 Children's social care**

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

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

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

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.145
Pay (1%)	+/- 2.945
Price Inflation (1%)	+/- 6.197
Demand (1%)	+/- 5.931

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