

Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy &
Reserves – Quarter 1 2021/22

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Lancashire

County
Council



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1. Executive summary

At Full Council in February 2021 the updated medium term financial strategy (MTFS) set out a forecast aggregated funding gap of £37.495m in 2022/23 and £50.048m 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. As there is not currently any additional information available as to future levels of funding there have been assumptions made that generally reflect a similar funding position to 2021/22 in 2022/23 and future years with any positive or negative impact of future funding models not yet reflected.

This report provides an updated position covering the financial years 2022/23 – 2024/25. The forecast funding gap for 2022/23 is £34.826m, with an updated aggregated funding gap contained within the report of £63.958m by 2024/25 which is an increase of £13.910m from the previously reported position in February, but is largely due to the inclusion of an additional financial year within the forecast.

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 work to identify potential savings to reduce the funding gap.

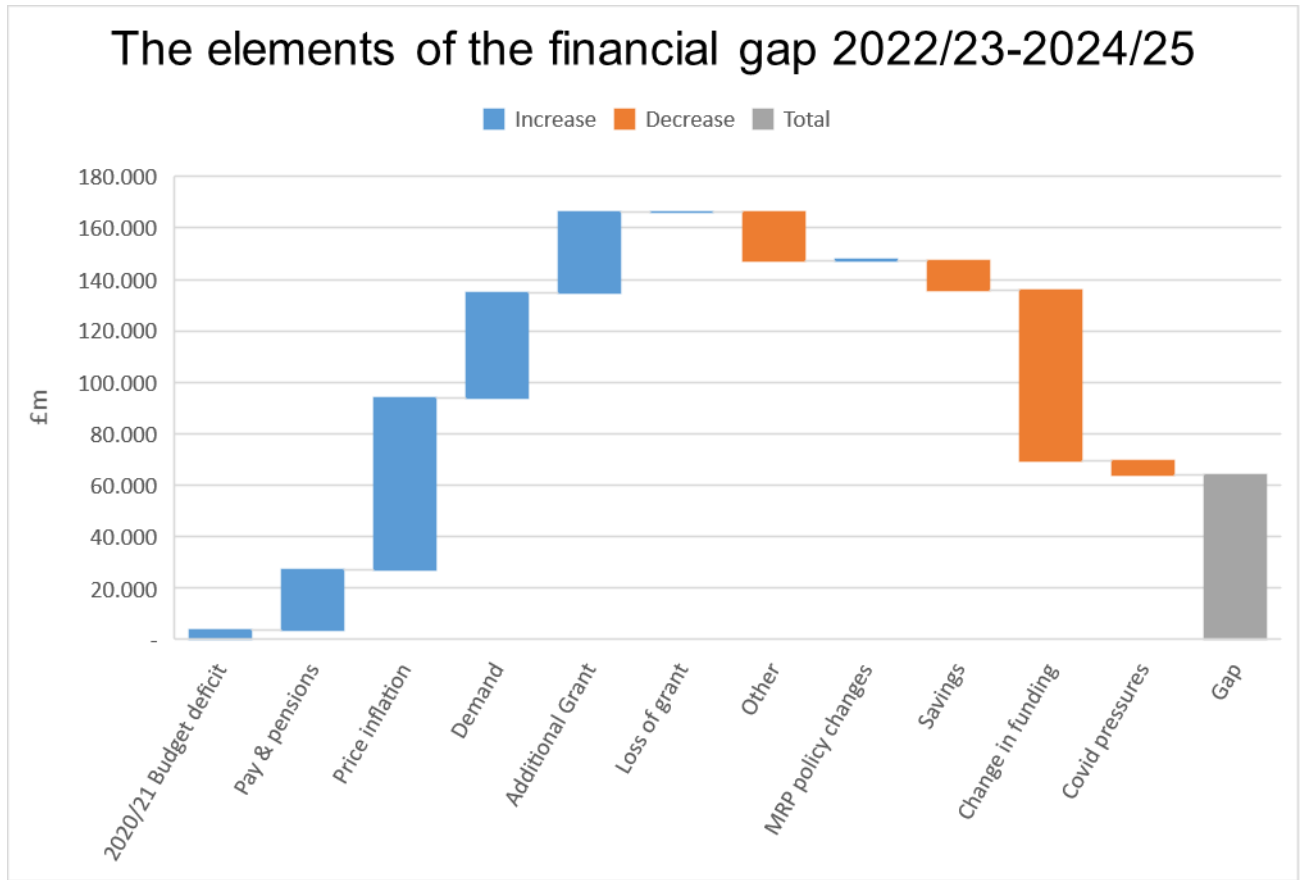
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

Table 1

		2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Spending Gap as reported in Full Council AMENDMENT		37.495	12.553	0.000	50.048
Add change to forecast of spending:					
Pay & Pensions		0.117	-0.066	8.640	8.691
Inflation and Cost Changes		0.476	-0.139	22.383	22.720
Service Demand and Volume Pressures		3.341	-1.636	12.348	14.053
Additional Grant		0.008	-0.126	0.964	0.846
Reprofiled Savings		0.732	1.696	-1.713	0.715
Total Change to Forecast of Spending		4.674	-0.271	42.622	47.025
Change to forecast of resources:					
Funding		-7.343	4.204	-29.976	-33.115
Total Change to Forecast of Resources		-7.343	4.204	-29.976	-33.115
Funding Gap		34.826	16.486	12.646	63.958

Aggregated Funding Gap	2022/23	2023/24	2024/25
2022/23 (£m)	34.826	34.826	34.826
2023/24 (£m)		16.486	16.486
2024/25 (£m)			12.646
Total	34.826	51.312	63.958
Previous position (£m)	37.495	50.048	
Variance (£m)	-2.669	1.264	63.958

The graph below demonstrates the drivers that make up the changes in the financial deficit of £3.860m carried forward from 2021/22 to the cumulative position of £63.958m in the financial year 2024/25 shown in the table above:



2. Funding

In November 2020 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.

It had been planned that a 3-year spending review would take place in Autumn 2021, in conjunction with the implementation of a new fair funding formula and the introduction of a new model in relation to business rates. However, due to the delays as a result of the pandemic we are not currently expecting the new funding models to be in place for 2022/23. This assumption is from intelligence we have gathered at networks and also from professional bodies that provide advice and guidance, but we await clarity and confirmation from the Government.

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.

Due to the financial uncertainty created by the pandemic, and that a one year settlement was provided for 2021/22 with no further information beyond this date, it has been necessary to make some assumptions around the future funding envelope, the most significant being:

- A 1% increase in council tax base has been assumed for 2021/22 and a return to pre-Covid levels of 1.7% per annum thereafter.
- Council tax increases of 2.99% will be applied to 2022/23 to include the remaining element of the adult social care precept from 2021/22. An increase of 1.99% is assumed in 2023/24 and 2024/25 with no further adult social care precept.
- Assumption that the new model for business rates is implemented in 2023/24, but currently assuming the impact is cost neutral.
- Growth of 0.5% assumed for business rates in all future years.
- Revenue support grant will be rolled over for the duration of this strategy.
- Council tax collection fund position is assumed to reflect a deficit, as reported in MTFS reports towards the end of 2020/21, however we still await the final collection fund position for 2020/21 from some district councils. In 2024/25 it has been assumed that the collection will return for almost pre-pandemic levels of £3.000m.
- 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 £6.000m for 2022/23 and £2.000m for 2023/24 and 2024/25 as a result of the extension to the flexibility in use of capital receipts.

Table 2 reflects the updated funding position.

Table 2

	2022/23 £m	2023/24 £m	2024/25 £m
Revenue Support Grant	34.354	35.076	35.777
Business Rates	206.629	210.245	214.199
Council Tax	561.872	582.795	604.497
New Homes Bonus	1.645	0.809	0.809
Improved Better Care Fund	45.532	45.532	45.532
Social Care Support Grant	41.943	41.943	41.943
Collection Fund	-0.619	-0.619	3.000
Capital Receipts	6.000	2.000	2.000
Total	897.356	917.781	947.757
Funding assumed - previous MTFS	890.013	914.642	914.642
Variance	7.343	3.139	33.115
Impact on financial gap	7.343	-4.204	29.976

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
2022/23	1.99%	1.00%	2.99%
2023/24	1.99%	0.00%	1.99%
2024/25	1.99%	0.00%	1.99%

We await confirmation from the Autumn Budget and provisional settlement the decision in relation to the maximum increase that we will be able to apply to council

tax, without a referendum. However, as part of the modelling for this MTFS we have assumed this will be 1.99%. In addition, those authorities with responsibility for adult social care had the ability to raise council tax by an additional 3% through an adult social care precept in 2021/22, with the County Council agreeing to include 2% of this available flexibility. It was confirmed that any of the 3% allowed increase not taken in 2021/22 can be carried forward and applied in 2022/23 and this is therefore included in the 2022/23 council tax projections. 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 £5.5m.

The calculation of the council tax base position for 2022/23 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. In 2021/22 the Government provided additional support to compensate a reduced tax base due to the impact of Covid-19, however this is not expected to continue into 2022/23. The County Council has very limited information about the tax base position so has used an assumption of an increase of 1% at this stage, and then a return to pre-pandemic levels of 1.7% from 2023/24 onwards. 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 settlement 2021/22 rates are effectively a 'rollover' of 2020/21 – a continuation of the 50% scheme, with the 75% scheme now forecast to be in place from 2023/24 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.

At quarter 1 it has been assumed the deficit position remains the same as reported to Full Council, as we still await final collection fund positions from some of our district colleagues. In addition, to offset the 2020/21 collection fund pressure (that can be spread over 3 years) we will need final funding allocations (75% of irrecoverable losses) from the Government, as we are yet to receive this, pending final figures from district councils.

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 2024/25 following a further extension announcement.

The MTFS includes £6.000m of capital receipts income in 2022/23 and £2.000m in 2023/24 and 2024/25. The rules will support the plan for achieving financial sustainability through funding transformation projects, including efficiency measures, invest to save projects and new income generation plans.

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 1 has not changed significantly since the last report to Full Council as part of the budget setting process. The additional budget requirement assumes a 2% increase in each future year. The forecast will be impacted by the final pay award that is agreed for 2021/22, but at this stage this has not been finalised.

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

Table 4

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Employee costs	6.979	6.848	8.600	22.427
Pensions costs	0.458	0.000	0.000	0.458
Other pay related costs	0.067	0.039	0.040	0.146
Revised pay and pension requirements	7.504	6.887	8.640	23.031
Pay and pensions - previous MTFS	7.387	6.953	0.000	14.340
Variance	0.117	-0.066	8.640	8.691

3.2 Price inflation and cost changes

Contractual price increases represent a significant cost pressure to the county council. The assumptions have been subject to regular review by services.

The largest part of the inflationary calculations relates to Adult Social Care and reflect the impact of the national living wage of the cost of services that are commissioned from external providers. The MTFS currently includes forecast values that were provided as part of the budget for 2021/22, but these will be updated as part of the Autumn budget announcement.

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

Table 5

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Adults Services	13.911	14.705	14.705	43.321
Children's Services	1.902	2.114	2.030	6.046
Waste Services	2.041	2.167	2.285	6.493
Transport Services	1.552	1.618	1.725	4.896
Other Services	2.676	1.917	1.638	6.231
Revised price inflation requirements	22.082	22.521	22.383	66.986
Price inflation – previous MTFS	21.606	22.660	0.000	44.266
Variance	0.476	-0.139	22.383	22.720

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

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Adults Services	14.579	9.540	9.540	33.659
Children's Services	-3.051	-0.816	1.554	-2.313
Waste Services	0.434	0.481	0.534	1.449
Transport Services	0.135	0.546	0.614	1.295
Other Services	1.421	0.131	0.106	1.658
Revised Demand Requirements	13.518	9.882	12.348	35.748
Demand – previous MTFS	10.177	11.518	0.000	
Variance	3.341	-1.636	12.348	

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 £33.659m. This will continue to be monitored and figures may be updated in future MTFS reports. An increase at quarter 1 has been included to reflect pressures across Learning Disabilities and Autism budgets that have not previously been addressed in the budget.

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. However, the implementation of the Lancashire 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 and should result in less children coming into care. The reduction in demand for Children's Social Care shown in Table 6 reflects additional budget set aside in 2021/22 for the impact of Covid-19 being removed from the budget in 2022/23 and 2023/24. This will however need to be closely monitored throughout 2021/22 to assess the impact of covid-19 on Childrens Services as restrictions are lifted.

3.4 Additional Grant

This section reflects adjustments made to the profiling of grant income for the family safeguarding project.

3.5 Re-profiled Savings

These adjustments are in respect of the revised savings profile for the family safeguarding project.

4. Reserves

Table 7

Reserve Name	Opening balance 2021/22	2021/22 Forecast Expenditure	2021/22 Forecast Closing Balance	2022-23 Forecast Exp	2023-24 Forecast Exp	2024-25 Forecast Exp	Forecast closing balance 31 March 2025
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	-23.437	0.000	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	-23.437	0.000	-23.437	0.000	0.000	0.000	-23.437
Strategic Investment Reserve	-4.810	1.139	-3.671	2.671	0.000	0.000	-1.000
COVID-19 Reserve	-11.914	6.542	-5.372	5.054	0.250	0.068	0.000
Downsizing Reserve	-5.642	1.410	-4.232	1.410	1.410	1.412	0.000
Risk Management Reserve	-6.290	3.392	-2.898	2.898	0.000	0.000	0.000
Transitional Reserve	-201.755	21.415	-180.340	6.775	5.417	1.235	-166.913
Business Rates Volatility Reserve	-5.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-72.154	46.172	-25.982	17.241	4.446	2.973	-1.322
Treasury Management Valuation Reserve	-13.778	0.000	-13.778	0.000	0.000	0.000	-13.778
Treasury Management Reserve	-15.403	0.000	-15.403	0.000	0.000	0.000	-15.403
SUB TOTAL - LCC RESERVES	-336.746	80.070	-256.676	36.049	11.523	5.688	-203.416
Non-LCC Service Reserves	-16.195	0.665	-15.530	1.604	0.373	0.000	-13.553
SUB TOTAL - NON LCC RESERVES	-16.195	0.665	-15.530	1.604	0.373	0.000	-13.553
GRAND TOTAL	-376.378	80.735	-295.643	37.653	11.896	5.688	-240.406

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 £180.340m by the end of March 2022.

The transitional reserve is forecast to be sufficient to meet the identified funding gaps for 2022/23 – 2024/25 as set out in table 8 below.

Table 8

	2022/23	2023/24	2024/25
Opening Balance	180.340	138.739	82.010
Gap funding	34.826	51.312	63.958
Commitments	6.775	5.417	1.235
Closing balance	138.739	82.010	16.818

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 £42.727m to be delivered in 2021/22. This is a combination of savings that were planned to be delivered in 2020/21 and were delayed due to the pandemic, and the budgeted savings agreed to be removed from the budget in 2021/22. As restrictions have largely been lifted and services return to providing services closer to the levels provided pre-pandemic there is renewed focus and activity in monitoring and delivering the savings that are built into the budget. There are further savings of £7.364m agreed to be delivered in 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. It is not expected that the new arrangements will come into place until 2023/24, a further delay to the previously extended delay, although we await final confirmation of this from the Government.

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. Some supporting professional bodies have indicated that there could be additional funding for Lancashire as part of the fair funding review, but at this stage have indicated their models should be treated with caution due to the lack of information so have not been included in the MTFS at quarter 1.

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.

The MTFS does not currently include an additional adult social care precept other than the 1% carried forward as permitted from 2021/22 into 2022/23. This could be a potential opportunity and reduce the financial gap as every 1% of additional council tax results in an additional c£5.5m of income.

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, but at a reduced rate to those previously reported. This is partially due to the impact of the pandemic, but also the work underway in relation to the family safeguarding model.

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%)	+/- 5.456
Pay (1%)	+/- 3.374
Price Inflation (1%)	+/- 6.950
Demand (1%)	+/- 5.225

This stress testing gives confidence that the council can continue to live within its means for the next two to three 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.